Chapter- 8
SUMMARY, FINDINGS & SUGGESTIONS

SUMMARY

CO-OPERATIVE MOVEMENT IN INDIA

Twentieth century was a century of revolutions. Capitalism was spreading its wings over feudal economies; and on the other hand, socialists had established their rule in U.S.S.R. China and some other countries. After Second World War most of the colonies got liberated and determination of their economic and political life was a question on the forefront. Socio- economic needs of newly liberated countries were totally different from developed countries. Mass production on all economic fronts was required in these countries for overall development of the state. However, to achieve this, a huge capital was required which was possible in only capitalistic mode of production. On the other hand, satisfaction of the aspirations of poor millions was possible only in a socialistic mode of economic development. Therefore, to ensure mass production and mass participation in economic activity, most of the countries adopted mixed economy model.

India also adopted the path of planned economy to provide a new environment for socio-economic development of the country. To put the economy on optimum path of growth and re-orient the social structure for maximum social welfare have been the main objective of our planners. Therefore, they adopted mixed economy model in which co-operatives have been given important role.

CO-OPERATIVE BANKING IN INDIA

Co-operative Banking System is an important segment of the Indian Banking set up. At the advent of last century, these banks were established as a tool of state
policy to provide adequate, timely and cheap credit to peasants, to save them from the clutches of money-lenders. These banks have played a crucial role in the Indian financial system; and credit co-operative system of India is one of the largest in world. Co-operatives are the most effective institution source to serve rural sector of economy.

The rural credit co-operatives may be divided into long-term credit co-operatives and short-term credit co-operatives. Long-term co-operative credit structure provides loan to farmers for infrastructure development in agriculture sector. Short-term co-operative credit structure provides working capital to farmers. Credit facility is granted for purchase of agriculture inputs such as seeds, fertilizers, pesticides, etc. Short-term credit co-operatives (a three-tier structure) have Primary Agricultural Credit Societies (PACSs) at the grass root level which are dealing directly with the individual borrowers. Individual villagers are members of these co-operatives.

Most important players in this co-operative edifice are District Central Co-operative Banks. Members of these banks are primary co-operative societies. No individual may be member of these banks. These banks function as a balancing centre for primary co-operative societies and also as a link between primaries and Apex Bank. It is only DCCBs which undertake banking business, in the true sense.

State Co-operative Banks are known as roof of the short-term co-operative credit structure in each state. Only district or central co-operatives may be the members of these co-operatives. They are policy-making body for short-term credit co-operatives in the state. They also act as coordinators with government, NABARD, RBI, and other agencies.
Interestingly, under the Banking Regulation Act 1949, only State Co-operative Apex Banks and District Central Co-operative Banks are qualified to be called as banks in the co-operative sector. In other words, only these banks can conduct full-fledged banking business.

**IMPORTANCE OF CO-OPERATIVE BANKS**

Indian economy is basically an agrarian economy. Credit is known as key element in modernization of agriculture. Not only can credit remove financial constraints, but also it may accelerate the adoption of new technology. Co-operative banks are the most important source of rural financing. Through their specialized knowledge Co-operative Banks are able to offer adequate products for farmers, landless labourers and small and marginal entrepreneurs to whom they are major credit providers.

These days among all forms of economic enterprises, the co-operatives are the only one that has a strong social content. Co-operatives have undertaken numerous initiatives for economic and social development of the society. Co-operatives have a specific role to play for lower middle class, and small and marginal income group of India, which constitute a major portion of Indian population. Social responsibility is a concept whereby co-operatives integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

The new economic environment has compelled the co-operative banks to reposition themselves, to become market-oriented for their survival, growth and development. Co-operatives in a way in anticipation of such changes are already busy,
at the international level, in redefining themselves to retain social relevance and ensure efficiency and effectiveness in serving their members. Co-operative leadership and co-operative thinkers of India are well aware of the needs of the time to come and are constantly struggling to change the 'co-operative map' of India.

A comprehensive performance evaluation of a bank is desperately required by the management of the bank, its depositors, investors, government, regulators and other stakeholders. It can guide the bank to rectify the weak points. Therefore, the present research study titled, “Performance Evaluation of Central Co-operative Banks: A Comparative Study of Punjab and Haryana” has been undertaken with the following objectives in view.

**OBJECTIVES OF THE STUDY**

1. To analyse the resources composition in selected co-operative banks.
2. To evaluate the loan portfolios in selected co-operative banks.
3. To assess the recovery and NPAs position in selected co-operative banks.
4. To analyse and compare the profitability in selected co-operative banks.
5. To examine productivity in selected co-operative banks.

**FINDINGS**

(A) **RESOURCES COMPOSITION:**

Sources of funds and their components had registered a significant growth in all the categories of DCCBs in Punjab during the period under study. On an average, share of Share Capital was less than 2% in each category of selected banks. Average share of Deposits was 62.34% in high profitability DCCBs, 56.46% in low profitability DCCBs and 76.97% average profitability category. Similarly, share of
Borrowings was 28.28%, 15.47% and 38.03% in high profitability, average profitability and low profitability DCCBs respectively. Therefore, no relationship could be established between composition of resources and profitability of DCCBs in Punjab.

Percentage share of Share Capital and Deposits in total resources had decreased in high profitability and average profitability DCCBs resulting an increase in share of Reserves and Borrowings during the period of study. But in low profitability DCCBs, percentage share of Reserves fluctuated throughout the period of study; while share of Share Capital declined and share of Borrowings and Deposits remained stagnant.

Sources of funds and their components in Haryana DCCBs had increased significantly in all DCCBs under study. Like Punjab, in Haryana DCCBs also no relationship could be inferred between resources mix and profitability of these banks. Average proportionate share of Share Capital and Reserves is almost the same in all the selected banks. Average proportionate share of Deposits was 49.20, 38.74 and 43.95 per cent respectively in high, average and low profitability DCCBs. Similarly, proportionate average share of Borrowings was 41.64, 51.71 and 47.60 per cent respectively.

Proportionate share of all components in total funds remained stagnant in average profitability and low profitability DCCBs in Haryana. However, in high profitability zone DCCBs average proportionate share of Reserves and Deposits had increased during the study period, registering a decrease in share of Share Capital and Borrowings.
Proportionate share of share capital was significantly higher in DCCBs in Haryana than that in DCCBs of Punjab. Higher rate of share capital linkage with loan to be availed by a customer in Haryana (5%) as compared to Punjab (2.5%) is the main factor for this.

Reserves and Deposits are known to be the best source of funds in banking industry. In this regard, DCCBs of Punjab are better managed.

(B) LOAN PORTFOLIO

Total loans outstanding had increased significantly in all the categories of selected DCCBs in Punjab during the period of study. Short-term agricultural loan, which is the core area of their operations, had also shown a similar trend. Average proportionate share of agriculture loans outstanding (both short-term & medium-term) were 54.55 per cent, 38.56 per cent and 59.54 per cent respectively in high, medium and low profit DCCBs in Punjab. It shows that profitability in these banks of Punjab had no relationship with their loan mix.

The proportionate share of outstanding against short term non-agricultural loans declined significantly in high and average profitability DCCBs of Punjab. The share of all other type of loans outstanding could not depict any definite trend in these DCCBs. In low profitability DCCBs of the state, proportionate share of all types of loans experienced heavy fluctuations.

As in Punjab, in Haryana DCCBs also total loans outstanding and short-term agriculture loans outstanding had shown significant growth during the period of study. Average proportionate share of outstanding agricultural loans (both short-term + medium-term) was 77.75, 81.79 and 76.07 respectively in high, medium and low
profitability DCCBs in Haryana. Therefore, no relation of loan mix and profitability could be established in DCCBs of Haryana.

The proportionate share of loans outstanding remained fluctuating in all types of loans in high and average profitability DCCBs of Haryana. However, in low profitability DCCBs, proportionate share of medium term non-agriculture loans outstanding registered an increasing trend whereas in all other types of loans it could not show any definite trend.

Overall, it has been found that loan portfolio was well managed in DCCBs in Punjab as compared to Haryana. Low proportionate share of outstanding against short-term agricultural loans in DCCBs Punjab (45.16 per cent) as compared to DCCBs Haryana (71.89 per cent) shows that
(a) DCCBs of Punjab had succeeded in diversifying their business in non-farm/commercial loans.
(b) They were more efficient in recovery management of short-term agricultural loans.

(C) RECOVERY POSITION

Total recovery had registered a significant growth rate in all the categories of selected DCCBs in Punjab during the period of study. Average recovery percentage to demand in total loans during the period of study was 96.23, 90.69 and 83.05 per cent respectively in the high, average and low profitability DCCBs. It may be inferred that recovery position of the DCCBs had directly affected the profitability of the banks.

Short-term agricultural loans have recorded highest percentage of recovery in all types of the selected DCCBs in Punjab. It was 100.74 per cent, 92.94 per cent and
85.18 per cent in high, average and low profitability DCCBs. Expertise of DCCBs staff in handling agricultural customers and immediate re-availability of the loan may be important factor for this.

Absolute recovery in all DCCBs in Haryana had also registered a significant growth during the period of study. Average percentage of total recovery to demand during the period of study was 80.64, 77.95 and 72.21 respectively in high, average and low profitability DCCBs. Hence, it may be inferred that profitability had direct correlation with recovery position of DCCBs.

Proportionate recovery of short-term agricultural loans on an average was 79.96, 77.54 and 71.08 per cent respectively in high, average and low profitability DCCBs. In high profitability DCCBs it was highest. However in case of average and low profitability DCCBs short term non-agriculture loans and medium term agriculture loans registered high proportionate recovery.

Recovery position of short-term agricultural loans is good in both the states. However, Punjab is better placed in this respect. Immediate re-availability of loan and expertise of manpower in handling rural credit is the main reason for it.

Overall, it may be said that the proportion of recovery out of demand for loan was more encouraging in Punjab as compared to the fluctuating and instable trends in DCCBs in Haryana. Therefore, the recovery management of loans ought to be made efficient in Haryana.

(D) NPAs MANAGEMENT

Absolute NPAs had increased significantly in all the selected DCCBs in Punjab during the period of study. NPAs as proportion of outstanding loans remained
constant in the selected DCCBs in Punjab. This shows that banks were unable to recover old NPA and/or some percentage of new loans advanced also became NPAs. NPAs as a percentage of total loans outstanding on the average were 7.65 per cent, 3.60 per cent and 12.10 per cent respectively in high, average and low profitability DCCBs.

In Haryana DCCBs also, NPAs in absolute terms had registered a significant growth rate. NPAs as proportion of outstanding loans remained constant despite increase in loan outstanding. It shows that new loans advanced had also become NPAs, at already prevailing rate of NPAs which need to be checked.

In DCCBs of both the states, the position of NPAs was not satisfactory. CGR was abnormally high in all the selected DCCBs in Punjab and high profitability DCCBs in Haryana. NPAs as proportion of outstanding loans, by and large, remained stagnant (except in high profitability DCCBs in Haryana) despite an increase in loans outstanding. This shows that pace of recovery efforts had not yielded desired results and some percentage of new loans had also become NPAs in both the states.

(E) PROFITABILITY AND PRODUCTIVITY

Profitability had shown negative trend in all the DCCBs in Punjab while productivity improved significantly over the period of study. Productivity per employee had improved considerably as compared to productivity per branch. Declining number of employees (as there is no fresh recruitment for quite a long time) was the main factor for this.

Profitability of the DCCBs in Haryana also had shown a negative trend but productivity had improved during the period of study. Profitability and productivity performance of DCCBs Punjab is far better than that of DCCBs in Haryana.
(F) GENERAL

Though it was not a part of this study, yet some peculiar conditions detailed below have been observed while having an interaction with management of these banks: These are as follows:

1) The Punjab State Co-operative Societies Act, 1961 and Haryana Co-operative Societies Act, 1984 are acts of general nature and are applicable to all kinds of co-operative societies such as Agro-processing, Housing, Labour, Services, PACSs, etc. As banking is a special kind of industry and the present Act, to some extent, is not in consonance of banking operations and management.

2) The Directors forming the Boards of the DCCBs are not professionals.

3) There is acute shortage of staff in most of DCCBs in both the states. A minimum staff of three functionaries is required in every branch to maintain internal control system. But most of the branches, especially in Punjab, are single handedly governed.

4) Internal control systems of the DCCBs and their branches are not up to the mark. This may have been due to shortage of man power.

5) Multi-agency administrative control of DCCBs has been observed. Each DCCB has its own Board of Directors. Apart from it, their operations are directed by State Co-operative Bank, RCS, NABARD and RBI. Sometimes directions of these agencies are contradictory to each other.

6) Technology has played an important role in development of commercial banking system in India, especially in funds transfer and internal control. DCCBs of both the states are far behind in adoption of technology.
7) Due to their grooming in agriculture credit management, the approach, thinking and behaviour of the manpower employed is still traditional rural banking-oriented. They hesitate to take new initiatives and to venture in new product lines.

8) Due to limited area of operations, i.e., mostly a district, banks are lacking the business of national level funds transfer which affect their non-fund income generation.

9) Each DCCB follows different accounts practices and standards.

10) Financial/accounting terminology used by the DCCB is not as per corporate/commercial banking accounting norms.

11) Funds transfer from one DCCB to another within the state is routed through State co-operative Bank. SLR and CRR are to be maintained at each step which increases cost of funds.

**SUGGESTIONS**

The following suggestions emerge out of the present study which, if implemented, would go a long way to improve the working of DCCBs in both the states:

1. DCCBs in both the states have sufficient resource base. Still they need to strive for low cost funds. They should concentrate to enhance their deposit (low cost) base.

2. These banks are losing their traditional stronghold, i.e., agricultural customer to commercial banks. Moreover, being ‘mass loan activity’ with ‘administered interest rates’ agricultural financing is now a low earning area for banks.
Therefore, DCCBs should concentrate to diversify their operations to high yielding loan portfolios.

3. Recovery position in traditional area, i.e., crop loan system is good in both the states but in new area (non-farm sector) banks should make more efforts to recover their dues as per their demand.

4. NPAs, especially in NFS loans, should be effectively recovered. Special recovery teams should be constituted for the purpose. Core strength of these banks is legal backing for recovery. It should be used more effectively.

5. Banks need to concentrate on recovery of old NPAs, so that their ageing may not become a problem.

6. Proper documentation for loan cases must be ensured. It will lead to curtail the default cases in the recovery of loans.

7. Banks should manage their increased business professionally with utmost care, so that profitability of these banks should increase in consonance with their productivity.

8. Keeping in view the special nature of banking business, developments in financial products and markets, changing economic environment and technology intrusion in banking industry, a separate Act called, “The Punjab Co-operative Credit Societies Act” may be enacted.

9. Representation of some professionals on BODs of DCCBs may be made mandatory. All BOD members should be properly educated about their role, responsibilities and duties, so that they may be actively associated with bank management.
10. Minimum required staff needs to be recruited immediately, especially in Punjab. Otherwise, the whole system will collapse.

11. Internal control systems, inspection and internal audit systems should be strengthened and strongly implemented.

12. Need based computerization should be immediately introduced.

13. To equip the employees with the latest technical skills, up gradation of their knowledge and to change their attitude to accept new challenges, states should strengthen their training establishments and every employee should be exposed to intensive and extensive training.

14. Accounting standards need to be developed and make mandatory for these banks. In the absence of such standards, for the time being, Accounting Standards issued by Institute of Chartered Accountants of India should be followed. Similarly, accounting/financial/banking terminology used in DCCBs should be standardized in consonance with banking industry.

15. A three-tier structure should be revamped. There should be only one State Co-operative Bank in each state, covering whole of the state with its branches. It will reduce the cost of funds transfer and cost of operations. It will also help to generate non-fund income.

**SCOPE FOR FURTHER RESEARCH**

Further research can be undertaken in the areas mentioned below:

1. A comprehensive study of deposit behaviour in DCCBs vis-à-vis commercial banking system.
2. Financing for socio-economic development including financing to women, self-help groups, etc.

3. Retail Banking by DCCBs.

4. Risk management practices in DCCBs in the new economic regime.

5. HRM practices followed by Central Co-operative Banks.