

EXAMINING THE PERFORMANCE OF STATE CO-OPERATIVE BANKS IN INDIA: A REVIEW

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ABSTRACT

The present study attempts to review the existing studies with the objectives to develop conceptual frameworks to reconcile and extend the past research studies in the working of State Cooperatives Banks in India to explore the areas for performance improvement and reduction in NPA. The study concludes that Co-operative banks are mostly dependent on central bank and hence borrow from RBI and NABARD, government & commercial banks. Similarly, DCCBs are heavily dependent on refinancing from SCBs, NABARD, Govt., and Commercial banks. Further the study concludes that PACS depend on refinancing from DCCBs and government and reported as not independent entity for resources. Hence SCBs should take measures to reduce the cost of management so that the extent of profits could be increased. Higher profits earn the confidence and attention of customers. Additionally, SCBs may highlight those financial as well as non-financial facts on their websites or through any other medium of information sharing to create good image in the eyes of all stakeholders including customers. Co-operative training and education will also play meaningful role towards capacity building and professionalism of all stakeholders of cooperative credit institutions in India. More loan approvals for SCBs, Pre-sanctioning of loan, proper borrower appraisal to protect the interest of depositors and differentiation between credit and charity required to be in place of banking system. Lastly, post-disbursement check is also required to reduce NPA.

Keywords: SCBs, NPA, Deposits, Overdue, DCCB, PACS, Himachal Pradesh Co operative Bank Ltd.

INTRODUCTION

India has a vibrant banking system mainly consisting of commercial banks, regional rural banks and cooperative banks. These banks play an important role in mobilizing and allocating financial resources. Apart from performing conventional banking functions these institutions act as medium of social and inclusive banking [See Anjum, 2011]. At the beginning of nineteenth century cooperative banks were established as a tool of state policy to provide adequate, timely and cheap credit to farmers and save them from the clutches of money lenders. Over the years these become an integral part of the multi-agency framework for credit delivery spread across the breadth and length of rural India. Economic development of a country or a state depends on the efficiency of its financial system. Cooperative banks have come to constitute an important segment of the financial system and occupy a unique position as they are organized on co-operative principles. A co-operative bank promotes economic activity and provides banking facilities and services to the weaker section of the society. The State co-operative bank is the leader of the co-operatives in a state and acts as a supervisory body at the top and arranges to spread the co-operative movement. The main objective of a State Co-operative Bank is to mobilize financial resources and make it available for provision of short and medium-term loans to agriculturists and small entrepreneurs through the mechanism of Central Co-operative banks at the district level and PACS at the village level in order to provide the banking facilities in the rural and remote area.

State cooperative banks are the apex institutions in the three-tier cooperative credit structure, operating at the state level. Every state has a state cooperative bank.

State cooperative banks occupy a unique position in the cooperative credit structure because of their three important functions:

- (a) They provide a link, through which the Reserve Bank of India provides credit to the cooperatives and thus participates in the rural finance,
- (b) They function as balancing centers for the central cooperative banks by making available the surplus funds of some central cooperative banks. The central cooperative banks are not permitted to borrow or lend among themselves,
- (c) They finance, control and supervise the central cooperative banks, and, through them, the primary credit societies.

State cooperative banks obtain their working capital from own funds, deposits, borrowings and other sources:

- (i) Own funds include share capital and various types of reserves. Major portion of the share capital is raised from member cooperative societies and the central cooperative banks, and the rest is contributed by the state government.

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Individual contribution to the share capital is very small;

(ii) The main source of deposits is also the cooperative societies and central cooperative banks. The remaining deposits come from individuals, local bodies and others.

(iii) Borrowings of the state cooperative banks are mainly from the Reserve Bank and the remaining from state governments and others.

Loans and Advances:

State cooperative banks are mainly interested in providing loans and advances to the cooperative societies. More than 98 per cent loans are granted to these societies of which about 75 per cent are for the short-period. Mostly the loans are given for agricultural purposes.

REVIEW OF LITERATURE

The review of literature helps to understand the importance, background and present situation related to the subject selected for the research work. Therefore it is necessary to review relevant and latest literature related to the subject. State co-operative bank is the apex bank in each state. They operate at the state level. They coordinate the activities of DCCBs, control them and give required guidance. There are 32 State Co-operative banks in India. SCB obtained finance from Share capital, Deposit collection from co-operative institution, public & business, and loan from RBI. The state co-operative banks provide credit to primary agricultural Co-operative societies through DCCBs for lend money to farmers. They coordinate the activities of DCCBs, They control them and create proper environment for growth of co-operative activity in the state.

Nivedita et. al. 2018 in their study stated that, NPA is burning issue these days, which has drawn the attention of our regulators, Government and common man. The financial soundness of any bank is negatively affected by Non Performing Assets. On the one hand, it adversely affects the profits and on the on other hand, it has negative impact on goodwill of bank. Higher NPA breaks the trust of depositors in the bank. NPA recognition and provisioning are parts of prudential norms. Prudential norms are made applicable to cooperative banks in 1996-97. The motive of the present study is to access the non performing assets of state cooperative banks all over India. Cooperative banks are accepting deposits from members and non-members; therefore, it is required to find out the NPA status of these banks. The study has found that NPA status is different in each region of our country. This paper also focuses on the impact of NPA on cooperative banks.

Dinesh Kumar Sharma et. al. 2015 stated that, The Himachal Pradesh lit the bonfire of co-operative movement in the country, when first co-operative society was established in Panjavar village of Una District in 1892 twelve years before the enactment of Co-operative Societies Act in 1904. In 1948 the Pradesh inherited 663 cooperative societies, but the number of cooperative societies has increased from 3677 in 1975 to 4426 in 2007-08 which shows an increase of 20.36%. The co-operative movement in Himachal Pradesh has assumed pivotal and additional role particularly after the fifth plan when the emphasis has shifted towards betterment of weaker sections of the society. In the modern concept, cooperative are established to perform specific functions, cooperative societies may be found at local, regional, national and international level where a distinction is made among them on the basis of the extent of area they cover. We come across co-operative societies in the primary, secondary and tertiary sectors. Within the primary sectors, there are co-operatives for farming, marketing, processing, fishing, dairying etc. Co-operative in the secondary sector contains industrial co-operative and in the tertiary sector, we have co-operative banking. Apart from these, there are consumers cooperative, housing cooperatives, co-operative societies for displaced persons etc. But though these co-operatives have diversified goals, they all work in a similar manner. The co-operative enterprise follows the following principles of co-operation i.e. open and voluntary membership, democratic set-up, limited interest on capital, equal distribution of profit, co-operative education and co-operation among the cooperatives.

Nivedita et. al. 2019 reported that, Performance analysis of any banks is the key element of a country's financial condition. Cooperative banks in India are playing various roles in both rural as well as urban areas. This paper explores the financial growth and performance of apex bank of Himachal Pradesh which is the largest co-operative bank in the state. Performance analysis is done by using different variables like share capital, deposits, loans and advances, borrowing, profit and others. This analytical study demonstrates that there is continuous growth in the business of the HPSCB. For improving its performance, it must concentrate on loan portfolio because interest income from advances is less than income from investment.

Jyoti Gupta et. al. 2012 concluded that, Banking business has done wonders for the world economy. The simple looking method of accepting money deposits from savers and then lending the same money to borrowers, banking activity encourages the flow of money to productive use and investments. This in turn allows the economy to grow. In the absence of banking business, savings would sit idle in our homes, the entrepreneurs would not be in a position to raise the money, ordinary people dreaming for a new car or house would not be able to purchase cars or houses. The government of India started the cooperative movement of India in 1904. Then the government therefore decided to develop the cooperatives as the institutional agency to tackle the problem of usury and rural indebtedness, which has become a curse for population. In such a situation cooperative banks operate as a balancing centre. At present there are several cooperative banks which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system. In brief, the cooperative banks have to act as a friend, philosopher and guide to entire cooperative structure. The study is based on some successful co-op banks in Delhi (India). The study of the bank's performance along with the lending practices provided to the customers

is herewith undertaken. The customer has taken more than one type of loan from the banks. Moreover, they suggested that the bank should adopt the latest technology of the banking like ATMs, internet / online banking, credit cards etc. so as to bring the bank at par with the private sector banks.

Nivedita et. al. 2018 reported that, The Himachal Pradesh State Cooperative Bank Ltd. was awarded best performing bank for the year 2015-2016 by National Federation of State Cooperative Banks. The bank has been adjudged as first prize winner for overall performance. This study is an effort to find out trend of various variables related to the bank. Main function of a bank is accepting deposits for the purpose of lending. Therefore, data of deposits, loans and profit are taken for this study. It is found that bank is growing in each sphere.

Dr. Sunil Bhaskar Chandanshive in his study stated that, Co-operative banks play a vital role as it established to provide financial service to rural masses in India. They have established with the motive of financial inclusion and upliftment of rural economy. They play significant role in the social and economic development of India. This paper focused on structure, growth and performance co-operative banks, to identify the problems faced by them and to give suggestion to improve financial position of co-operative banks. The data has been collected from various annual reports of SCB, DCCB and PACS. The statistical tools have been used are for the data analysis are percentage, percentage change, coefficient of variance, Compound annual growth rate and graphs etc. The study will help to the policy makers in their efforts to improve the working performance of Co-operative banks. To evaluate the performance of Co-operative banks some variables have been studied like numbers of branches, total deposit, productivity per staff and branch, percentage of overdue to demand, NPA and profitability etc. The result shows that they are facing the problems of high overdues more NPA, productivity per staff and branch is less due to which profitability of them is weak especially PACS are in losses. The problem faced by co-operative banks are numerous but certain efforts need to take by these bank like focus need to give on recovery, training to staff to improve productivity and the government should give support them because they have potential to solve these problems.

Sikandar Ali et. al. 2019 in their study reported that, Co-operative banks play very fateful role in the economy of India especially for people engaged in agricultural and agriculture-based operations. Despite efforts being made by RBI to transform this all-important sector of the Indian financial system, the call for change needs to come from the cooperative banks themselves. With the young generation increasingly becoming dependant on the virtual ease of working, the brick-and-mortar system of banking by co-operatives need to take a positive turn. While it is a supporting hand in the financial economy, commercial banks have been increasing their presence by providing a complete support. It can be easily inferred that although the business of these commercial bank is flourishing, the consumers cannot be totally relieved of the pain that they have been facing for so long. Co-operative banks, with their improved attitude relevant to the present scenarios, can be seen as a hope like the mirage of an oasis in the desert. The Indian Rural Sector has an agricultural dominance. The engagement of majority population in farming and related activities that are seasonal in nature, leads to their occupation giving them far less returns to complete their future requirements. These banks also contribute the major part in the India's banking and financial system. This paper will be present benefits and challenges of cooperative banks in India got much important in the Indian Economy growth and betterment of farmers and middle-class families.

Relative inefficiency and poor financial health of co-operative banks of our nation is an accepted and well evaluated fact. But, if "you can't co-operate, you can definitely not sustain and survive in an effective and efficient way." This statement holds true for the role and importance of co-operative banks in the overall banking industry and also for economic development of our nation. Fault is not only on supply side i.e. services and performance of co-operative banks but demanding side is also not so aware about the schemes, facilities and benefits of accessing the services of co-operative banking. Further, it is well recognized today those co-operatives have shown rapid growth in developing countries and also have been to be proved effective instruments of economic growth for improving the living standard of our people (Lakshmanan & Gowthaman, 2008). They have been seen as an integral part of our national economy. (Rajkumar, 2008). Co-operative banks with their more than a century old existence have been playing a significant role in enlarging the ambit of institutional credit. The extensive network of co-operative credit institutions makes these required instruments for greater financial inclusion (Singh & Singh, 2010) despite the wide expansion of banking network (commercial banks plus co-operative banks) in the country, a significant section of our population still is out of the ambit of formal banking system. To include the excluded people, co-operative credit institutions have played and will play significant role. They have very rich network of outlets. Everyone can easily access the facilities of these institutions. On 31st March, 2011, there were 31 State Co-operative Banks (StCBs)(with 1028 branches), 371 District Central Co-operative Banks (DCCBs), 93413 Primary Agricultural Credit Societies (PACSs) under short term rural co-operative structure in India.

State Co-operative Banks (SCBs) have not been studied much so far. There is limited work on the performance of SCBs. Singh (1978) evaluated the performance of Gujarat State Co-operative Land Development Bank. The performance of the bank under study was evaluated in terms of loan disbursement, district wise membership, share capital, total advances, total overdues, recovery performance, and loans advanced for different purposes. Govindarajan and Robindero Singh (2006) analysed the profitability of the Tamilnadu State Apex Co-operative Bank Ltd. (TNSC Bank Ltd.). He found that the bank had not properly maintained the balance between procurement of funds and utilization of available resources. He also concluded that the profitability position of the TNSCB Ltd. was poor and declining year by year. Ganesan (2006) examined the operational efficiency of 30 state co-operative banks in India for the year 2002-03 and 2003-04 by using Data Envelopment Analysis technique. He observed that 5 SCBs (Gujarat, Himachal Pradesh,

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Maharashtra, Tamil Nadu and West Bengal) were found to be efficiency during 2002-03 and 6 StCBs (Andhra Pradesh, Delhi, Gujarat Himachal Pradesh, Maharashtra and West Bengal) were found to be efficient during the year 2003-04. Pandey (2009) highlighted the role of Nagaland State Co-operative Bank Ltd. (NSCB). He found that NSCB was playing an important role in the overall development of the state with more emphasis on rural areas by providing credit facilities to various agencies. Hooda (2011) compared the performance of State Co-operative Banks and Scheduled Commercial Banks in India by using three financial ratios viz. cash-deposit ratio, investment-deposit ratio and credit-deposit ratio. Hence, it may be said that there is very little research work on SCBs. The present study is an attempt to bridge this gap.

OBJECTIVES OF THE STUDY

- To review the existing studies in working of Cooperative Banks in India
- To examine the performance of State Cooperative Banks in India
- To explore the areas for further research and improvement in the working of cooperative banks in India.

PERFORMANCE OF CO-OPERATIVE BANKS IN INDIA

The performance of Co-operative banks in India has been reviewed with the help of some variables namely, numbers of braches, total deposit, productivity per staff and branch, percentage of overdue to demand, NPA and profitability as given below:

Table 1: Progress of number of branches of state Co-operative banks in India

Year	SCB	% Change
2009-10	1015	
2010-11	1028	1.28%
2011-12	1047	1.85%
2012-13	1081	3.25%
2013-14	1096	1.39%
2014-15	1131	3.19%
2015-16	1168	3.27%
2016-17	1197	2.48%
Average	1095.37	
CV	6.02%	
CAGR	2%	

(Source: NAFSCOB)

The above table No. 1 refers to the progress of SCB, in number of branches. The number of branches SCB has increased from 1015 in 2009-10 to 1197 in 2016-17.

The deposits are the greatest liability of the bank. The deposit is the life blood in the banking institution. It determines the working and viability of the bank. The status of deposit of co-operative banks given below in Table No 2.

Table 2: Total Deposits of State Co-operative Banks in India

Year	SCB (Amt. in Crore)	Growth
2009-10	84838	
2010-11	81664	-4%
2011-12	86653	6%
2012-13	89905	4%
2013-14	101970	13%
2014-15	100791	-1%
2015-16	104922	4%
2016-17	121689	16%
Average	96554	
CV	12.90%	
CAGR	5%	

(Source: NAFSCOB)

It is stated from the Table No 2 above that, total deposit of SCBs has increased from 84838 Crore to 121689 Crore from 2009-10- to 2016-17. Total deposit of SCB shown upward trend by 5% from 2009-10- to 2016-17.

Table 3: Percentage of Overdue to Demand of Co-operative Banks in India

Year	SCB
2009-10	8.2

2010-11	7.69
2011-12	3.86
2012-13	5.18
2013-14	4.35
2014-15	4.48
2015-16	4.42
2016-17	3.56

(Source: NAFSCOB)

The data in Table No. 3 indicates that overdue problem is not good for the any bank. If the outstanding loan increases, it becomes overdue. Percentage of Overdue to Demand ratio shows that part of outstanding receivable amount that is in late payment. In above table it is noticed that ratio of percentage of overdue to demand of SCBs has decline from 8.2 percent to 3.56 percent during study period. It indicates the good recovery of SCBs in recent years.

Table 4: Gross NPA of SCB in India (%)

Year	SCBs
2009-10	11.06
2010-11	9.12
2011-12	7.84
2012-13	9.12
2013-14	3.30
2014-15	4.62
2015-16	4.35
2016-17	2.85

(Source: NAFSCOB)

Non-performing asset during the eight years is shown in Table No 4, percentage of NPA of SCB which was high with 11.06 %, 9.12 %, 7.84 % and 9.12 % in the year 2009-10, 2010-11, 2011-12 and 2012-13. But after that it continuously reduced to 2.85 % in 2016-17.

CONCLUSION AND RECOMMENDATIONS

The study concludes that Co-operative banks are mostly dependent on central bank and hence borrow from RBI and NABARD, government & commercial banks. Similarly, DCCBs are heavily dependent on refinancing from SCBs, NABARD, Govt., and Commercial banks. Further the study concludes that PACS depend on refinancing from DCCBs and government and reported as not independent entity for resources. Hence SCBs should take measures to reduce the cost of management so that the extent of profits could be increased. Higher profits earn the confidence and attention of customers. Additionally, SCBs may highlight those financial as well as non-financial facts on their websites or through any other medium of information sharing to create good image in the eyes of all stakeholders including customers. Co-operative training and education will also play meaningful role towards capacity building and professionalism of all stakeholders of cooperative credit institutions in India. More loan approvals for SCBs, Pre-sanctioning of loan, proper borrower appraisal to protect the interest of depositors and differentiation between credit and charity required to be in place of banking system. Lastly, post-disbursement check is also required to reduce NPA.

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