

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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PERFORMANCE AND STRUCTURE OF CO-OPERATIVE BANKS IN AGRICULTURE CREDIT IN HARYANA

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ABSTRACT

Co-operative banking has been playing a crucial role in the development of rural economy and work as a backbone of Indian financial system. The origination of co-operative credit institution in India was made nearly 120 years back with the finding principles of self-help and mutual help. With the passing of co-operative credit societies Act 1904, the official efforts were started to eradicate the peculiar peasantry problems and other financing problems of common public and that is continuing even today through various committees and legislations. The co-operative banks are playing a main role in the achievement of the goal of financial inclusion. These banks are the best substitutes for money lenders. However these banks have played vital role in making available short and long term financing in both rural and urban area in India, yet their performance in the last few decades has been questionable. So an attempt has been made in this paper to examine the performance and structure of co-operative banks in the state of Haryana.

KEYWORDS

agriculture credit, co-operative banking.

INTRODUCTION

Agriculture is the mainstay of the Indian economy. Agriculture and allied sectors contribute nearly 14 percent in GDP and 10.23 percent in total export of India in 2011-12. Gross Capital formation (GCF) in agriculture sector (at 2004-05 prices) has increased from Rs 69,148 crore in 2004-05 to Rs 1,30,907 crore in 2010-11. The agriculture sector has shown an average growth rate of 3.3% annually in the eleventh five year plan compared to 2.4% per annum during the tenth plan. Agriculture is an important sector of the Indian economy from the perspective of poverty alleviation and employment generation. At present, agriculture is facing many difficulties such as, irrigation, marketing, techniques, credit and other capital equipment etc. Credit is the major factor all of them that affecting the agriculture development.

There are two sources of agriculture credit first is non-institutional i.e. professionals minor lenders, friends, relative etc. and second is institutional sources i.e. co-operative banks, RRBs and commercial Banks. The institutional source of agriculture credit aim is providing high quality loans with low cost. The share of institutional agencies in the total agriculture supply was 7 percent in 1951 which increased to 64.5 percent in 2007-08.

Among these institutional sources of credit co-operative banks play an important role in the agriculture sector. The organization of co-operative credit institution in India was made nearly 120 years back with the founding principles of self-help and mutual help. With the passing of co-operative credit societies Act 1904, the official efforts were started to eradicate the peculiar peasantry problems and other financing problems of common public and that is continuing even today through various committees and legislation. Based on the report of the MacLagan committee on co-operative in 1915 by the end of 1930 a 3 tier cooperative credit structure has been established in all provinces.

In India, the share of co-operative banks in agriculture credit was 23.6% in 1991 which increased to 30% in 2010-11. The short term credit structure consist of 31 state co-operative banks, 370 District central co-operative banks (DCCBs) and 94,647 primary agriculture credit societies (PACS). The long term co-operative credit structure consist of 20 state co-operative agriculture and Rural development banks (SCARDBs) with 697 primary co-operative agriculture and Rural Development Banks (PCARDBs) as on 2012. The numbers of branches of SCARDBs and PCARDBs were 844 and 1255 respectively.

OBJECTIVES OF THE STUDY

1. To study the co-operative banks credit structure in Haryana.
2. To study the role of co-operative banks in agriculture credit in Haryana.
3. To examine the financial position of the co-operative banks in Haryana.
4. To study the performance of co-operative banks in Haryana.

RESEARCH METHODOLOGY

The present study is based on the secondary data. The required data is accessed from the annual reports of HARCO bank, journals and websites. The paper covers the period from 2002-03 to 2009-10. Ratio analysis is also done to figure out some more facts about the co-operative banks. As statistical weapons average, percentage and coefficient of variation have been applied.

REVIEW OF LITERATURE

Various studies have been made regarding the co-operative banks. Some important reviewed here:-

Singh (1977) study entitled, "Organization and management of co-operative agro-industries in Haryana" examined the working results, financial position, organization and management of co-operative, agro-processing industries in Haryana. Lack of co-operative education and too much interference by the state Govt. were most important findings of the study.

Desai and Narayana Rao (1978), are of the view that the default rate in co-operative credit is very high. It is relatively high for short term loan than for long term loans. Excepting a few states like Tamil Nadu, Andhra Pradesh, Kerala, Punjab and Haryana all the other states have than 30 to 35 percent default rate. The analysis revealed that inappropriate loan term and administration were the most important reasons. It also revealed that these factors were interrelated. For solving these problems, the study emphasized the need for reorientation of the credit projects with better economic analysis.

Krishna (1978) opened that the co-operative societies which reach the remote areas and where government machinery and democratic management in inter-linked can serve the nation in the area of production, processing, consumer distribution, rural industry and transport. He further advocated that the planning commission, while drafting a plan paper should take a hard look at the co-operative sector.

Jain (1980) revealed that for providing a total and comprehensive rural development, the building and strengthening of the co-operative credit system is a must for the success in the sphere of agricultural credit.

Goel (1983) advocated that the objectives of co-operative organization cannot be achieved by sheer multiplication and appointing officials only. Something more is required on the part of policy makers, decision makers and administrators to enhance the image of co-operatives in national building and reconstruction. He concluded that though co-operative cannot provide advances against the produce or loan to produce in terms of harness as it is against the basic principles of co-operatives they ought to be polite and ensure all the comforts that can be provided to their members.

Salim Uddin (1990) evaluated the working and impact of various co-operative financing institutions in Haryana State. He suggested that the professionalization of co-operative management is the need of the hour and a well-defined code of conduct for managers is also need. The author also recommended that for the

success of the movement, the Central co-operative banks should have a balanced board of directors with diverse talent, sound policies and commitment for proper implementation. He also suggested that the cost of administration should be reduced and various new practices be introduced for the sound functioning of the banks.

Bhaskaran and Josh (2000) conclude that recovery performance of co-operative credit institution continues to unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable organizations in tune with competitive commercial banking.

Prasuna (2001) found that some of the major problems that are immediately identified with the co-operate banks. These are inadequate enter norms, absence of banking, lack of professional management, politicizing of management absence of proper supervision mechanism that damage. He also made several suggestions to control on the above said problems likewise less political interference and strictly follow the prudential norms of banking by co-operative credit institutions.

Dutta and Bhasak (2008) suggested that co-operative banks should improve their recovery performance, adopt new system of computerization monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment.

Chandel and Chander (2010) found the financial position the HARCO Bank Ltd. in term of capital adequacy, liquidity, earning quality and management efficiency parameters was very lackadaisical necessitating immediate intervention.

CO-OPERATIVE CREDIT STRUCTURE IN HARYANA

The co-operative sector is playing a crucial role in sustaining agricultural growth in Haryana. The co-operative credit structure in Haryana caters the need of two categories:-

1. Short term and medium term credit
2. Long term credit

The short term and medium term credit is provided by a three tier structure of 646 primary co-operative credit and service societies (mini bank) at patwar circle, 19 central cooperative Banks at district level and Apex Bank (HARCO Bank) at the state level. The long term credit is provided by the two tier structure having 19 district primary agriculture and rural development bank at district level and Haryana State co-operative agriculture and rural

1. SHORT TERM AND MEDIUM TERM CO-OPERATIVE CREDIT INSTITUTIONS

These institutions provide short term credit does not exceed 15 month and in case of medium term credit range between 15 month and 5 years. The three tier structure is as under:-

(A). HARCO BANK (Haryana state co-operative bank): HARCO BANK works as controller of the state co-operative credit movement and as a balancing center of central finance agency in the state. It lends money of central bank and primary society not directly to farmers. It provides agriculture and non-agriculture loan under which it provide crop loan, credit card, cash credit under various loan schemes. The process of computerization of its head office operation was started in 1990. As per policy of govt. of India kisan credit card schemes has been implemented since July 1999 for providing credit facilities to the members of PACS for meeting cost of crop production. In 2010-11, 15190 credit card were issued and 2911.24 crore loan sanctioned by KCC.

(B). District central co-operative bank (DCCBs): Central co-operative works like a middle man between a apex Bank at the top and Primary co-operative credit and service societies at the bottom. At present, 19 central co-operative banks work at district level with their head quarter 586 branches working in the length and breadth of the state. Membership is confined both to individual and the societies.

(C) Primary Agriculture Co-operative Credit and Service Societies (PACS): These types of co-operative credit societies are essential for ensuring adequate financial facilities to the village farmers including small and marginal ones. The first Primary Agriculture Co-operative Societies was organized in India in 1904. Today PACS are also known as "Rural Credit Banks" or "Mini Banks". Each society is an association of persons residing in a particular locality it can be started with ten or more persons. The members generally belong to a village if any member needs money, he applies to his society. If the society has no funds at its disposal, it applies to the central bank, and if the CCB is in need of fund. It applies to the apex bank.

PERFORMANCE OF HARCO BANK, DCCBS AND PACS

TABLE 1.1: DEBT EQUITY RATIO

S. NO.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Average	C.V
1	HARCO BANK	3.72	3.26	4.13	3.95	4.96	5.45	4.03	4.40	4.23	4.40
2	DCCBS	5.41	4.75	4.41	4.14	4.46	4.55	4.24	3.86	4.51	9.68
3	PACS	9.59	10.00	11.21	11.47	11.42	9.52	7.59	10.02	10.10	12.00

Source: calculated from the annual reports of HARCO BANKS

C.V.:- Coefficient of Variations.

The table 1.1 shows that the average of DER (debt equity Ratio) is the highest for PACS (10.10) and lowest for HARCO (4.23). The C.V. (coefficient of variations) is the highest for HARCO (15.33) and the lowest for DCCBS (9.68). The reason for higher the average of DER of PACS is that Debt of PACS is greater than equity. The DER of HARCO shows the more variations and the DER of DCCBS shows the less variations as compared to PACS. It means that on the basis of DER, PACS is in worse condition as compared to HARCO and DCCBS.

TABLE 1.2 DEPOSIT TO BORROWING RATIO

S. NO.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Average	C.V
1	HARCO BANK	0.95	1.11	0.8	0.79	0.59	0.98	0.98	0.98	0.89	16.89
2	DCCBS	1.09	1.23	1.18	1.26	1.14	1.1	1.38	1.61	1.24	13.03
3	PACS	0.07	0.07	0.08	0.08	0.07	0.07	0.07	0.06	0.07	8.41

Source: calculated from the annual reports of HARCO BANKS

The table 1.2 shows that the average of Deposit to Borrowing Ratio (DBR) is the highest for DCCBS (1.24) and lowest for PACS (0.07). The C.V. of DBR is the highest for HARCO (16.89) and lowest for PACS (8.41) It means that Deposit of DCCBS are more than Borrowing and the Borrowings of PACS are more than Deposits. The HARCO Bank shows the more variations of DBR as compared to PACS and DCCBS. It reveals that on the basis of Deposit to Borrowing Ratio PACS is in bad condition as compared to HARCO and DCCBS.

TABLE 1.3: AGRICULTURE LOAN TO TOTAL LOAN ISSUED

S. NO.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Average	C.V
1	HARCO BANK	0.75	0.83	0.95	0.84	0.77	0.74	0.69	0.74	0.78	9.68
2	DCCBS	0.72	0.94	0.78	0.82	0.81	0.75	0.73	0.77	0.79	8.3
3	PACS	0.93	0.94	0.89	0.95	0.95	0.95	0.95	0.97	0.94	2.34

Source: calculated from the annual reports of HARCO BANKS

The Table 1.3 shows that the average of agriculture loan to total loan issued for PACS is the highest (0.94) and lowest for HARCO (0.78). The C.V. of Agriculture loan to total loan issued is the highest for HARCO (9.68) and lowest for PACS (2.34). It reveals that Agriculture loans are more issued by PACS with more stability as compared to HARCO and DCCBS.

TABLE 1.4: NON-AGRICULTURE LOAN TO TOTAL LOAN ISSUED

S. NO.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Average	C.V
1	HARCO BANK	0.23	0.16	0.13	0.14	0.22	0.22	0.28	0.25	0.2	24.89
2	DCCBS	0.13	0.1	0.11	0.1	0.11	0.04	0.19	0.13	0.11	34.31
3	PACS	0.06	0.05	0.1	0.04	0.04	0.04	0.04	0.02	0.04	45.21

Source: calculated from the annual reports of HARCO BANKS

The table 1.4 shows that the average of non-Agriculture loan to total loan issued for HARCO Bank (0.20) is the highest and lowest for PACS (0.04). The C.V. of non-agriculture to total loan issued for PACS is the highest (45.20) and lowest for HARCO (24.89). It reveals that non-agriculture loans are more issued by HARCO with more stability as compared to DCCBS and PACS.

TABLE 1.5: AGRICULTURE LOAN TO TOTAL LOAN OUTSTANDING

S. NO.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Average	C.V
1	HARCO BANK	0.93	0.77	0.79	0.81	0.43	0.77	0.92	0.82	0.78	18.54
2	DCCBS	0.72	0.65	0.78	0.83	0.79	0.75	0.78	0.79	0.76	6.77
3	PACS	0.87	0.87	0.92	0.92	0.93	0.92	0.92	0.91	0.9	2.44

Source: calculated from the annual reports of HARCO BANKS

The table 1.5 shows that the average of agriculture loan to total loan outstanding is the highest for PACS (0.90) and the lowest for DCCBS (0.76). The C.V. of agriculture loan to total loan outstanding is the highest for HARCO (18.54) and lowest for PACS (2.44). It reveals that agriculture loan outstanding of PACS is higher with more stability as compared to HARCO and DCCBS.

TABLE 1.6: NON AGRICULTURE LOAN TO TOTAL LOAN OUTSTANDING

S. NO.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Average	C.V
1	HARCO BANK	0.03	0.2	0.19	0.17	0.18	0.17	0.23	0.15	0.16	33.74
2	DCCBS	0.14	0.1	0.12	0.1	0.13	0.14	0.15	0.14	0.12	14
3	PACS	0.12	0.12	0.07	0.07	0.06	0.07	0.07	0.08	0.08	26.93

Source: calculated from the annual reports of HARCO BANKS

The table 1.6 shows that the average of non-agriculture loan to total loan outstanding is the highest for HARCO (0.16) and lowest for PACS (0.08). The C.V. of non-agriculture loan to total loan outstanding is the highest for HARCO (33.74) and lowest for DCCBS (14). It reveals that non-agriculture loan outstanding of HARCO is more with more variations as compared to PACS and DCCBS.

TABLE 1.7: TOTAL COLLECTION TO TOTAL DUES

S. NO.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Average	C.V
1	HARCO BANK	0.99	0.99	0.99	0.99	0.99	0.99	0.97	0.99	0.98	0.66
2	DCCBS	0.76	0.45	0.82	0.82	0.76	0.78	0.67	0.68	0.71	15.87
3	PACS	0.7	0.75	0.77	0.71	0.71	0.68	0.56	0.61	0.68	9.52

Source: calculated from the annual reports of HARCO BANKS

The table 1.7 shows that the average of total collection to total dues is the highest for HARCO (0.98) and lowest for PACS (0.68). The C.V. of total collection to total due is the highest for DCCBS (15.87) and lowest for HARCO (0.66). It reveals that HARCO Bank total collection is more than dues with greater stability as compare to PACS and DCCBS. But PACS is in bad condition because it dues are more than collection.

TABLE 1.8: RETURN ON CAPITAL EMPLOYED

S. NO.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Average	
1	HARCO BANK	0.067	0.59	0.61	0.6	0.34	0.13	0.11	-0.16	0.28	
2	DCCBS	0.26	0.62	0.62	0.34	-0.1	-0.09	0.13	-0.11	0.2	
3	PACS	-0.78	0.3	0.75	-0.02	-0.34	0.02	-0.02	-0.23	-0.04	

Source: calculated from the annual reports of HARCO BANKS

The table 1.8 shows that the average of return on capital employed is the highest for HARCO (0.28) and the lowest for PACS (0.04). On the basis of the return on capital employed it can be said that HARCO, DCCBS and PACS are not in a good condition. But among these PACS is in a worse condition as compared to others.

LONG TERM CO-OPERATIVE CREDIT INSTITUTIONS

These institutions provide loans for long term needs of borrowers, a period of 5 to 20 years. The long term credit institutions comprise a two tier system as follows-

A. The Haryana State Co-operative Agriculture and Rural Development Bank (HSCARDB)

B. The Primary Co-operative Agriculture and Rural Development Banks (PCARDBs).

HSCARDB was set up on First Nov., 1966 under the Punjab co-operative societies act, 1965(replaced by Haryana coop. societies act, 1984). At the time of establishment of the bank, there were only 7 PCARDBs in the state, but now this has raised to 87 PCARDBs. These PCARDBs have now been amalgamated into 19 DCARDBs and the existing PCARDBs at tehsil and sub-tehsil level act as branches of these district PCARDBs. The main objective of the bank is purveyance of long term credit to the agriculturist through DPCARDBs and their branches. HSCARDB act as an apex institution both for providing long term finance and for coordinating the functions of DCARDBs and their branches. NABARD is the main sources of providing funds and its share in the total borrowing of the comes to 90%.The balance of 10% comes from the central and state govt.. The bank is advancing loan for the minor irrigation, farm mechanization, horticulture, land development, animal husbandry and non-farm sector –cottage small scale industries etc. The bank has advanced loan worth Rs. 6258.45 crore to 11.35 lacs beneficiaries from 1966 to 2012 in the state.

SCHEME WISE ACHIEVEMENT OF LOANS

TABLE 1.9 (% of total)

Sr. no	Sector/Schematic	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1	Minor Irrigation	23.75	17.11	16.81	19.78	25.98	33.68	42.79
2	Farm Mechanization	8.24	9.86	14.73	13.36	13.1	9.49	4.85
3	Land Development	1.13	1.46	3.35	4.31	5.2	7.99	12.56
4	Dairy Development	7.27	12.58	11.45	7.62	6.33	7.07	5.99
5	Farm Forestry	9.45	5.49	3.99	6.8	8.72	11.81	11.58
6	Non- Farm Sector	2.86	6.08	10.6	12.06	12.46	7.48	6.51
7	Purchase	6.49	7.08	9.99	9.53	4.16	3.01	24.41
8	Rural Housing	12.5	22.31	18.82	13.61	0.92	7.93	4.63
9	Cattle Shed	6.22	4.51	0.21	0.82	2	1.87	0.96
10	Rural Go downs	0.75	0.24	0.68	0.32	0.15	0.11	0.11
11	Others	21.26	13.05	9.29	11.73	10.63	9.51	7.64

Source: calculated from the annual reports of HARCO BANKS

The table 1.9 shows that the percentage of different loans schemes to total loan issued. The loan issued for minor irrigation show the highest percentage which is 23.75 in 2004-05 and increased to 42.79 in 2010-11. The lowest percentage is rural go downs which is 0.15 in 2004-05 and then decreased to 0.11 in 2010-11. It means that in the long term loans, minor irrigation loans are more issued by the long term credit institutions and the lowest loan issued for Rural go downs. These institutions aim to given 450 crore loans for different schemes in 2012-13.

CONCLUSION

The co-operative sector is playing a crucial role in sustaining agricultural growth in Haryana. . The co-operative credit structure in Haryana caters the need of two purposes: - Agriculture and non-agriculture credit for Short term, medium term and Long term credit. The short term and medium term credit is provided by a three tier structure of 646 primary co-operative credit and service societies (mini bank) at patwar circle, 19 central cooperative Banks at district level and Apex Bank (HARCO Bank) at the state level. The long term credit is provided by the two tier structure having 19 district primary agriculture and rural development bank at district level and Haryana State co-operative agriculture and rural term. The agriculture loan for short term and medium term are more preferred as compared to long term. In long term credit institutions minor irrigations loans are more preferred as compared to another loans. On the basis of the Debt Equity Ratio, deposit to borrowing ratio, loan outstanding, total collection to total dues and return on capital employed it can be said that performance of co-operative bank are not so good in Haryana. But among these PACS is in a very bad condition and the mostly agriculture loans are provided by PACS. The co-operative banks suffered losses during the study period. It can be suggested that there is need to improve the profitability positions of these banks.

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