



## INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION AND MANAGEMENT

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## PERFORMANCE APPRAISAL OF CENTRAL COOPERATIVE BANKS IN INDIA IN LIBERAL ECONOMIC SCENARIO

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### ABSTRACT

Cooperative is the panacea for poverty. The cooperative movement in the country originated as a measure against rural poverty, aggravated by chronic indebtedness of the farmers and they were at the mercy of the money lenders. No other credit institutions can be compared with the huge existing potential of the cooperative structure in delivering micro credit for the socio economic growth of the country. There are 371 District Central Cooperative Banks (DCCBs) operating in India and 17 in the state of West Bengal. We have assessed the performance of DCCBs both in India and in West Bengal using trend equations and ratio analysis during the period 1990-1991 to 2006-2007 on the basis of the statistical data published from NABARD and NAFSCOB. The growth rates of different deposits including total deposits of DCCBs in West Bengal were higher than growth rates of different deposits in India. This indicates West Bengal DCCBs collected more deposits than national average. The analysis of advances shows that the amount of advances decreased for the banks in India over the period and in West Bengal there has been increase in the growth rates in the post financial reform period which is also reflected in the CD ratio. The average CD ratio in the post financial reform period for banks in India and in West Bengal are 90.05 and 42.67 respectively which signifies that the banks are having surplus amount of cash. The bank has to pay interest on the borrowings. So, the management has to consider the amount of borrowings so that the spread margin can be increased. Consequently the profit of the bank can also increase. The main source of income of bank is the interest received on the loans and advances and investment made by the bank. The management has to make a separate investment cell to manage the investment professionally and not restrict itself in the traditional ways of managing the investments so that the income of the bank can be increased with minimum risk of investment. For improving the performance of the Central Cooperative Banks suggestions have been made in the area of governance, managerial and financial fronts including endowing functional autonomy and operational freedom to cooperatives, diversification of business, improving the service conditions of the employees and measures for improving the collection of principal and interest components of loans advanced by the banks.

### KEYWORDS

Cooperative, Economy, Bank, Rural, Finance.

### HISTORY OF ORIGIN OF COOPERATIVE CREDIT MOVEMENT IN INDIA

Cooperative is the Panacea to Poverty. Every group of individual, associated to secure a common end by joint effort, may be said to cooperate. Cooperation indicates the association of individuals to secure a common economic goal by honest means. The three pillars on which the cooperative stands upon are honesty, democracy and trust. The basis of the association is voluntary and democratic. The co-operative movement in the country originated as a measure against rural poverty, aggravated by chronic indebtedness of the farmers and they were at the mercy of the money lenders. Agrarian disturbances in 1875 in the Deccan against the money lenders necessitated the enactment of *Taccavi* legislation by the government and also led to the concept of the co-operative approach in India. The Northern India *Taccavi* Loan Act, 1875, the Land Improvement Loans Act, 1883, the Agriculturist Loans Act, 1884 etc were all enacted to facilitate the availability of credit to farmers. In 1892, Sir Frederick Nicholson recommended the establishment of rural co-operative credit societies on German pattern. The Famine commission (1901) recommended introduction of co-operatives in the country. In 1904, the Co-operative Credit Societies Act was enacted by the imperial government to facilitate organisation of credit co-operatives and confer upon them special privileges and facilities, the scope of which was subsequently enlarged by the more comprehensive Co-operative Societies Act of 1912. Under the Government of India Act, 1919 the subject of co-operation was transferred to the provinces which were authorized to enact their own co-operative laws. Under the Government of India Act, 1935, co-operatives remained a provincial subject. Presently, the item "Co-Operative Societies" is a state subject under entry 32 of the state list of the constitution of India. Co-Operative Societies Act, enacted by State Government is now in place in the respective states. In order to administer the operation of co-operative societies where membership was from more than one province, The Government of India enacted the Multi – Unit Co-operative Societies Act, 1942, which was subsequently replaced by the Multi State Co-operative societies act, 1984 under entry 44 of the union list.

### NEED OF COOPERATIVE BANKS IN INDIA

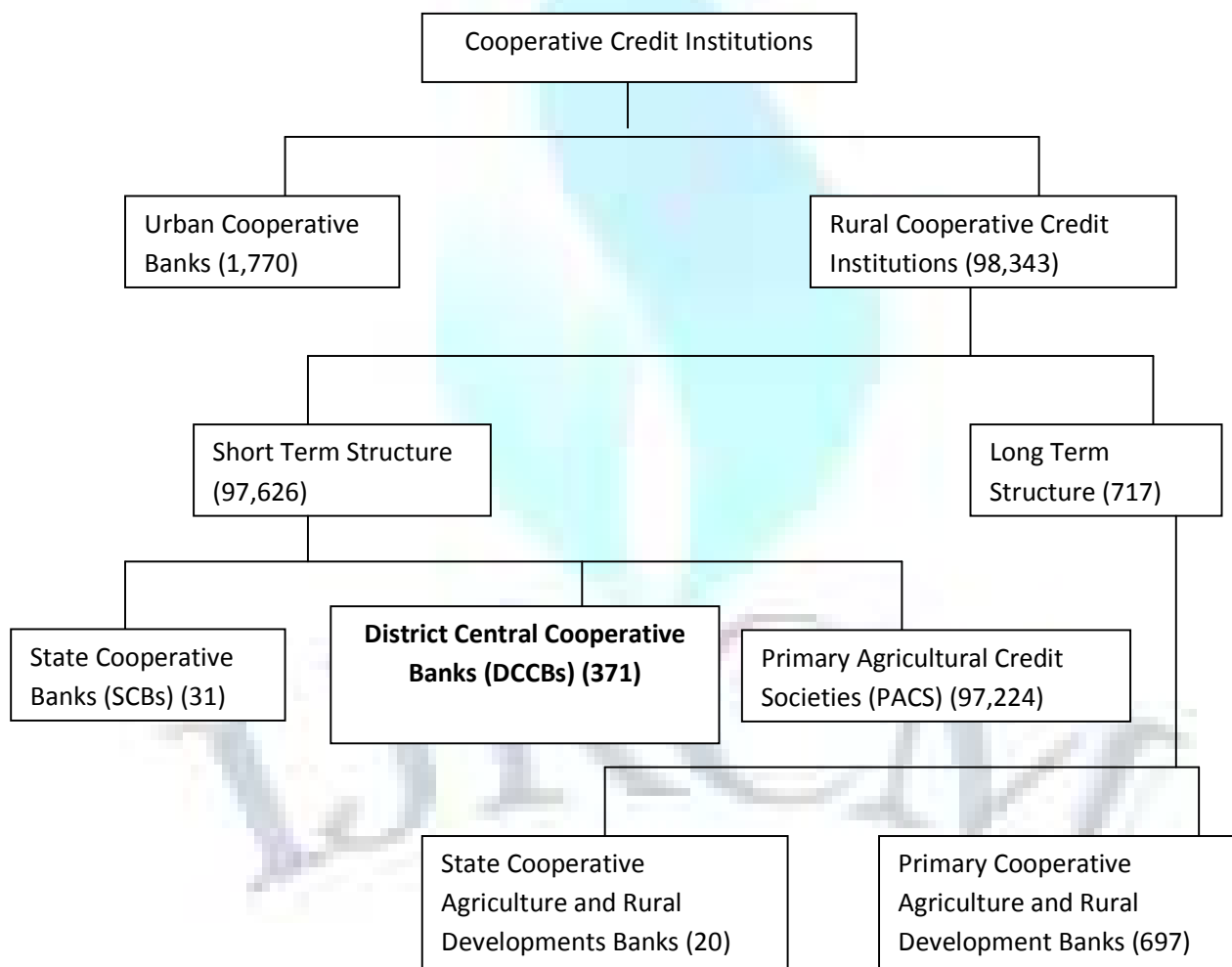
Co-Operative Banking structure has a unique position in the rural credit delivery system of India. The co-operative banking sector especially with their existence of about a century has made significant strides in the field of rural credit. Since then the co-operative credit institutions both in the short and the long term structures continued to play their crucial role in dispensation of credit for agriculture and rural

development. Over the years, they have remained the prime institutional agencies with their vast network, wider coverage and outreach extending to remotest part of the country. Both the short term and long term co-operative credit institutions are basically farmers' organisation primarily meant to meet their credit related requirements, although Commercial Banks and Regional Rural Banks has spread rapidly and they now have more than 50,000 branches their reach in the countryside both in terms of the number of clients and accessibility to the small and marginal farmers and other poorer segments is far less than that of cooperatives. This is a compelling need to find ways for strengthening the cooperative movement and making it a well managed and vibrant medium to serve the credit needs of rural India, especially the small and marginal farmers. Two trends emerge from the overall flow of credit to agriculture from the commercial banking sector. The number of rural branches of commercial banks has gone down marginally as part of the branch rationalization programme. The second trend is that even though the commercial banks almost meet their targets for lending to the priority sector, they have moved more towards larger customers. The average size of direct loans to agriculture in the portfolio of commercial banks was Rs 13,500 in 1997 and Rs 31,585 in 2003. The average size of loans of the Primary Agricultural Credit Societies, in comparison is only Rs 6,637 in 2003. Cooperatives continue to enjoy a place of crucial importance in the rural credit scenario. Some of the niche areas where co-operatives have no competitors and cannot be replaced. The reasons for their existence are as under:

1. These institutions are primarily owned by the farmers, rural artisans etc.
2. They have been set up with the objective of promoting thrift and mutual help.

Co-Operative credit societies at the grass root level are intended not only to cater to credit requirement of the members but also to provide several other credit linked services like input supply, storage and marketing of produce etc. Keeping in view these special features of co-operatives time and again, their role in dispensation of credit and allied services in the rural areas has been emphasized and their relevance underlined by several committees right from the All India Rural Credit Survey Committee in the early 50s to Task Force on Revival of Rural Cooperative Credit Institutions (Vaidyanathan Committee), 2004.

#### STRUCTURE OF COOPERATIVE CREDIT INSTITUTIONS



Source: Trends and Progress of Banking in India 2007-08

**NOTE:** Figures in parenthesis indicate the number of institutions at end March'2008 for Urban Cooperative Banks and at end March'2007 for Rural Cooperative Credit Institutions.

#### OBJECTIVES OF THE STUDY



1. To examine the needs of Cooperative Banks in the present liberal economic scenario in India.
2. To evaluate the progress made by the Cooperative Banks in India and in the State of West Bengal.
3. To recommend appropriate measures for better functioning of the Cooperative Banks operating in India.

### DATABASE

The basic data that are required for the assessment of performance of Central Cooperative Banks are income, expenditure, assets, liabilities, recovery position, staff strength etc. For the purpose of analyzing the performance of Central Cooperative Banks at macro level i.e., in the State of West Bengal and in India we have collected "Statistical Statements Relating to The Cooperative Movements in India- Part I" from NABARD (National Bank for Agriculture and Rural Development) for the period 1990-1991 to 1998-1999 and "Basic Data on Performance of District Central Cooperative Banks" for the period 1999-2000 to 2006-2007 from NAFSCOB (National Federation of State Cooperative Banks Ltd).

### METHODOLOGY

To assess the growth rates of different performance parameters we have fitted two trend equations namely exponential and log quadratic for estimating their nominal growth rates overtime (1990-1991 to 2006-2007). The kinked exponential trend equations have been fitted to the relevant data sets for estimating nominal growth rates of performance parameters / indicators during two sub-periods of 1990-1991 to 1996-1997 and 1997-1998 to 2006-2007. In 1997-1998 the prudential norms were implemented in Central Cooperative Banks. Financial ratio analysis has been used to assess the liquidity, profitability and efficiency position of the Central Cooperative Banks. The regression equations considered in our study are of linear forms. The least square method or their variances are used to estimate the parameters and the statistical significance of the parameters is tested by applying appropriate tests.

### ASSESSMENT OF PERFORMANCE OF DISTRICT CENTRAL COOPERATIVE BANKS (DCCBs) IN INDIA AND IN WEST BENGAL FROM ECONOMIST'S POINT OF VIEW.

There are 371 DCCBs operating in India and 17 in West Bengal. We have assessed the performance of DCCBs both in India and in West Bengal using trend equations and ratio analysis during the period 1990-1991 to 2006-2007. The analysis of the performance measurement of DCCBs in India and in West Bengal from economist point of view has been done by analyzing the returns of the selected parameters of the Balance Sheet. The result of which is summarized as follows:

#### ANALYSIS OF DEPOSITS

The rate of growth of total deposit is 15.50% and 20.40% for DCCBs in India and in West Bengal respectively and the growth rate is statistically significant at 1% probability level. Among the total deposits in the DCCBs in India the fixed deposits growth rate is the highest being 17.20% followed by the growth rates of savings deposits, others deposits and current deposits being 13.60%, 14.50% and 12.00% respectively. Among the total deposits in the DCCBs in West Bengal the fixed deposits growth rate is the highest being 23.80% followed by the growth rates of savings deposits, current deposits and others deposits being 17.80%, 14.20% and 10.10% respectively. All these growth rates are statistically significant at 1% probability level. (See Table 1)

A sub-period trend analysis of growth rates of the amount of deposits of the DCCBs in India as a whole shows that in the first sub-period of 1991 to 1997 the annual growth rate of nominal amount of total deposits was 18.40% which was higher than the growth rate during the second sub-period of 1998 to 2007 (Table 2). These results signify that during the post financial reform period there was fall in the growth rates of all categories of deposits in the DCCBs in India.

A sub-period trend analysis of growth rates of the amount of deposits of the DCCBs in West Bengal as a whole shows that in the first sub-period of 1991 to 1997 the annual growth rate nominal amount of total deposits was 18.00% which was lesser than the growth rate during the second sub-period of 1998 to 2007 being 22.30 (Table 2). These results signify that during the post financial reform period there was an increase in the growth rates of total deposits, fixed deposits and savings deposits and a fall in the growth rates of current and other deposits in the DCCBs in West Bengal.

The growth rates for DCCBs in India and in West Bengal shows that the people has shifted from fixed deposits to savings and current deposits in post reform period which indicates that the interest cost payable by the banks are less as the interest rates for fixed deposits is higher than the saving or current deposits. Further more the growth rates of different deposits including total deposits of DCCBs in West Bengal were higher than growth rates of different deposits in India. This indicates West Bengal DCCBs collected more deposits than national average amount.

#### ANALYSIS OF ADVANCES

The nominal rate of growth of advances is 13.70% and 14.80% for DCCBs in India and in West Bengal respectively and the growth rates are statistically significant at 1% probability level. A sub-period trend analysis of growth rates of advances as a whole shows that in the first sub-period of 1991 to 1997 the annual growth rate of nominal amount of advances were 22.90% and 13.20% for banks in India and in West Bengal respectively and in the second sub-period of 1998 to 2007 the annual growth rate of nominal amount of advances were 6.14% and 16.20% respectively for banks in India and in West Bengal. This result signifies that during the post financial reform period there has been decline in the advances in the banks at all India level and there has been growth in the rate of advances in the post financial reform period for banks in West Bengal.

Result of the analysis of advances shows that the amount of advances decreased for the banks in India over the period and in West Bengal there has been an increase in the growth rates in the post financial reform period which is also reflected in the CD ratio calculated in Table 3. The DCCBs in West Bengal are mobilizing high volume of deposits in comparatively efficient manner than DCCBs in India. The management has to find out more and more profitable avenues where it can give loan and advances without adversely affecting the risk profile.

#### ANALYSIS OF BORROWINGS



The nominal rate of growth of borrowings is 10.20% and 11.80% for DCCBs in India and in West Bengal respectively and the growth rates are statistically significant at 1% probability level. A sub-period trend analysis of growth rates of borrowings as a whole shows that in the first sub-period of 1991 to 1997 the annual growth rate of nominal amount of borrowings were 9.94% and 7.28% for banks in India and in West Bengal respectively and in the second sub-period of 1998 to 2007 the annual growth rate of nominal amount of borrowings were 10.30% and 15.50% respectively for banks in India and in West Bengal. This result signifies that during the post financial reform period there has been increase in the borrowings in the banks at all India level and in West Bengal.

The result of the trend analysis of borrowings reveals that the bank has increased its borrowings in the post financial reform period. From Table 3 it is found that the CD ratio in the post financial reform period for banks in India and in West Bengal is 92% and 41% respectively, which signifies that the bank is having a surplus amount of cash. The bank has to pay interest on borrowings. So, the management has to consider the amount of borrowings so that the spread margin can be increased consequently the profit of the bank will also increase.

## ANALYSIS OF INVESTMENTS

The nominal rate of growth of investments is 32.50% and 49.70% for DCCBs in India and in West Bengal respectively and the growth rates are statistically significant at 1% probability level. A sub-period trend analysis of growth rates of investments as a whole shows that in the first sub-period of 1991 to 1997 the annual growth rate of nominal amount of investments were 40.20% and 69.20% for banks in India and in West Bengal respectively and in the second sub-period of 1998 to 2007 the annual growth rate of nominal amount of investments were 26.30% and 33.80% respectively for banks in India and in West Bengal. This result signifies that during the post financial reform period there has been a decline in the investments made by the banks at all India level and in West Bengal.

The main source of Income of bank is the interest received on the loans and advances and the investment made by the bank. The management has to make a separate cell to manage the investment professionally and not restrict itself in the traditional ways of managing the investments so that the income of the bank can be increased with minimum risk of investment.

Estimated whole periods' nominal growth rates of different parameters of Balance Sheet of the DCCBs of India and West Bengal as a whole, 1991 to 2007.

Table 1

Parameters	India		West Bengal	
	Growth Rate Percentage <sup>k</sup>	(+) Acceleration/ (-) Deceleration	Growth Rate Percentage <sup>k</sup>	(+) Acceleration/ (-) Deceleration
Total Deposit	15.50 <sup>*</sup> (0.004)	-0.39 <sup>*</sup> (0.001)	20.40 <sup>*</sup> (0.016)	0.247 <sup>*</sup> (0.004)
Fixed Deposit	17.20 <sup>*</sup> (0.005)	-0.72 <sup>*</sup> (0.001)	23.80 <sup>*</sup> (0.019)	0.109 <sup>*</sup> (0.005)
Saving Deposit	13.60 <sup>*</sup> (0.002)	-0.025 <sup>*</sup> (0.001)	17.80 <sup>*</sup> (0.014)	0.805 <sup>*</sup> (0.004)
Current Deposit	12.00 <sup>*</sup> (0.002)	-0.06 <sup>*</sup> (0.001)	14.20 <sup>*</sup> (0.015)	0.059 <sup>*</sup> (0.004)
Other Deposit	14.50 <sup>*</sup> (0.018)	0.39 <sup>*</sup> (0.005)	10.10 <sup>*</sup> (0.025)	-1.57 <sup>*</sup> (0.006)
Advances	13.70 <sup>*</sup> (0.007)	-1.04 <sup>*</sup> (0.002)	14.80 <sup>*</sup> (0.012)	0.30 <sup>*</sup> (0.003)
Borrowings	10.20 <sup>*</sup> (0.003)	-0.021 <sup>*</sup> (0.001)	11.80 <sup>*</sup> (0.012)	0.78 <sup>*</sup> (0.003)
Investment	32.50 <sup>*</sup> (0.015)	-0.994 <sup>*</sup> (0.004)	49.70 <sup>*</sup> (0.027)	-2.45 <sup>*</sup> (0.007)

Notes:- '\*' implies significant at 1% probability level, '\*\*' implies significant at 5% probability level, '\*\*\*' implies significant at 10% probability level. Growth rates are represented in the form of percent per annum. Growth Rate and Acceleration / Deceleration is calculated using the formula  $L_t Y_t = a + bt + ct^2$ , where b is the growth rate coefficient and c is the acceleration / deceleration rate coefficient.

Estimated sub-periods' nominal growth rates of different parameters of Balance Sheet of the DCCBs of India as a whole, 1991 to 1997 and 1998 to 2007.

Table 2

Parameters	India		West Bengal	
	Growth Rate Percentage <sup>k</sup>		Growth Rate Percentage <sup>k</sup>	
	1 <sup>st</sup> Sub-Period 1991 - 1997	2 <sup>nd</sup> Sub-Period 1998 - 2007	1 <sup>st</sup> Sub-Period 1991 - 1997	2 <sup>nd</sup> Sub-Period 1998 - 2007
Total Deposit	18.40 <sup>*</sup> (0.012)	13.10 <sup>*</sup> (0.010)	18.00 <sup>*</sup> (0.038)	22.30 <sup>*</sup> (0.032)
Fixed Deposit	22.80 <sup>*</sup> (0.015)	12.60 <sup>*</sup> (0.012)	22.70 <sup>*</sup> (0.047)	24.80 <sup>*</sup> (0.040)
Saving Deposit	13.70 <sup>*</sup> (0.005)	13.40 <sup>*</sup> (0.004)	11.50 <sup>*</sup> (0.034)	22.90 <sup>*</sup> (0.029)
Current Deposit	12.70 <sup>*</sup> (0.006)	11.50 <sup>*</sup> (0.005)	14.20 <sup>*</sup> (0.036)	14.20 <sup>*</sup> (0.030)
Other Deposit	8.59 <sup>*</sup> (0.042)	19.40 <sup>*</sup> (0.036)	20.40 <sup>*</sup> (0.066)	1.75 <sup>*</sup> (0.056)
Advances	22.90 <sup>*</sup> (0.015)	6.137 <sup>*</sup> (0.013)	13.20 <sup>*</sup> (0.029)	16.20 <sup>*</sup> (0.025)

Borrowings	9.94 <sup>*</sup> (0.008)	10.30 <sup>*</sup> (0.006)	7.28 (0.033)	15.50 <sup>*</sup> (0.028)
Investment	40.20 <sup>*</sup> (0.039)	26.30 <sup>*</sup> (0.033)	69.20 (0.070)	33.80 <sup>*</sup> (0.060)

**Notes:-** Sub-Periods' growth rates are estimated by fitting kinked exponential trend (shifting origin to the break point i.e., the joining point of two sub-periods):  $L_t Y_t = 1 + b_1 D_1 t + b_2 D_2 t$ . [Where dummy variable  $D_1 = 1$  for  $j^{th}$  sub-period and 0 for the other sub-period;  $j = 1, 2, \dots$ ]. Others are same as those mentioned in the above Table.

#### ASSESSMENT OF PERFORMANCE OF DISTRICT CENTRAL COOPERATIVE BANKS (DCCBs) IN INDIA AND IN WEST BENGAL FROM ACCOUNTING POINT OF VIEW

At the macro level analysis of the performance measurement of DCCBs in India and West Bengal from accounting point of view has been done by analyzing selected ratios calculated from the published statistical data from NABARD and NAFSCOB for the period 1990-1991 to 2006-2007. The average percentage of cost of management to working capital in India is 3.01 and that in West Bengal is 2.76. The volume of transactions handled by the cooperative banks far exceeds than the other credit institutions. The cost of management can be reduced through upgrading the technology and through proper training of the staffs.

The recovery percentage is far less satisfactory than what it should be. The loan waiver scheme of the Government of India had made this condition more miserable. The average recovery percentage in India is 64.71 and that in West Bengal is 71.06. Without high recovery of loans the banks will not be in a position to give further loan and this will lead to decrease in profitability of the banks.

The main source of revenue of banks is the interest received on loans and advances disbursed by the banks. The loans and advances are issued from the amount received as deposits and borrowings made by the banks. The CD ratio indicates how much of the deposits have been utilized by the banks in disbursement of loans and advances. The average CD ratio in West Bengal is 53.45 and in India is around 97.67. It is to be noted that in India CD ratio is quite high during the pre-liberal period but since the recovery is very less the CD ratio declined to 74.91 in 2004.

The average percentages of deposits to working capital are around 62.61 in India and 68.02 in West Bengal. The banks should increase the deposit mobilization and can utilize for increasing in business by diversification to non-agricultural activities.

The interest paid on borrowings is a cost to the banks and so the banks should go for less borrowing when they are not able to utilize the amount of deposits mobilized by them. The average percentage of borrowings to working capital is 21.08 in India and 10.35 in West Bengal.

The average percentages of loans issued to working capital are 60.92 in India and 35.68 in West Bengal. Only 76% of the total number of District Central Cooperative Banks operating in India and 46% of the total number of District Central Cooperative Banks operating in West Bengal as on 31.03.2007 are running in profits. So to increase the amount of profits these banks has to find avenues where the funds can be utilized with minimal risks and should also have proper monitoring of loans.

The average percentage of investment to working capital is 17.43 in India and 24.64 in West Bengal. Since the amount of investment is increasing over the years, the banks should have a separate investment cell to look after proper investment of the surplus fund available with the banks and can earn a substantial interest on the investment made by the banks.

Table 3

Year	Cost of Management to Working Capital		Percentage of Recovery		CD Ratio	
	All India	West Bengal	All India	West Bengal	All India	West Bengal
1991	2.76	2.42	66.10	59.90	99.13	66.07
1992	2.12	2.44	51.72	63.22	85.73	65.49
1993	2.77	3.54	61.96	68.27	107	76.46
1994	2.78	3.33	63.60	69.57	94	65.48
1995	2.59	3.08	65.13	75.37	101	69.87
1996	2.57	2.63	67.52	72.76	144	77.83
1997	2.62	2.62	67.63	72.34	128	60.77
1998	2.72	2.66	67.47	71.04	119	53.42
1999	2.86	2.46	67.10	70.07	106	49.89
2000	3.09	1.98	64.26	74.66	93	36.14
2001	2.97	1.82	64.64	73.52	90	34.66
2002	2.84	1.75	64.90	78.89	92	34.33
2003	2.98	3.42	62.57	64.00	82	36.81
2004	2.82	3.10	63.10	56.93	75	37.42
2005	3.00	3.48	67.13	77.70	81	48.75
2006	4.59	3.25	68.31	79.31	80.00	43.09
2007	5.17	2.91	67.07	80.56	83.30	52.13

Year	%age of Deposit to Working Capital		%age of Borrowings to Working Capital		%age of Loans Issued to Working Capital		%age of Investment to Working Capital	
	All India	West Bengal	All India	West Bengal	All India	West Bengal	All India	West Bengal
1991	54.81	60.81	27.19	14.04	54.34	40.18	3.53	0.88
1992	54.60	61.85	28.11	13.17	46.81	40.51	3.72	0.85
1993	56.18	61.07	26.86	13.04	59.95	46.70	3.54	0.82
1994	59.94	60.69	24.00	14.68	56.63	39.73	4.75	8.02
1995	58.53	63.19	24.77	13.78	59.18	44.15	5.48	5.93
1996	59.35	65.00	24.14	13.52	85.70	50.59	9.42	12.93
1997	62.45	67.73	20.98	11.40	80.13	41.16	10.66	13.12
1998	64.56	68.76	19.66	10.49	76.51	36.73	13.70	13.64

1999	65.87	70.25	18.40	8.54	69.95	35.04	15.90	22.69
2000	67.77	75.06	18.11	5.31	62.74	27.13	27.39	40.68
2001	69.03	74.36	18.50	5.12	62.30	25.78	27.34	41.53
2002	65.47	77.05	17.91	4.81	60.09	26.45	27.76	48.38
2003	66.36	72.05	17.64	5.92	54.26	26.52	28.54	46.26
2004	64.73	71.34	17.74	6.37	48.49	26.69	30.05	46.12
2005	65.62	69.58	17.58	10.76	53.29	33.91	28.36	38.80
2006	66.02	69.09	17.68	12.24	52.82	29.77	28.29	32.87
2007	63.03	68.40	19.13	12.80	52.51	35.67	27.92	45.36

## SUGGESTIONS

Based on observations and finding from reports of various committees on cooperative banks and from our research work we present a consolidated proposals and suggestions for the improvement and betterment in the working of Central Cooperative Banks operating in India.

- The reach of commercial banks and regional rural banks in the countryside both in terms of the number of clients and accessibility to the small and marginal farmers and other poorer segments is far less than that of cooperatives. This is a compelling need to find ways for strengthening the cooperative movement and making it a well managed and vibrant medium to serve the credit needs of rural India, especially the small and marginal farmers.
- The Cooperative Credit Structure (CCS) is today impaired in governance, managerial and financial fronts. Examples of impairment on governance include non-conduct of elections for a long time, frequent supersession of Boards, delay in audit, states' intrusion in administrative and financial management. The impairment of management includes deputation of government officials to top positions in many banks, setting up the common cadre system for PACS, determination of staffing pattern by states, interference in the operational decision making of cooperatives, an ageing staff profile, poor housekeeping and weak MIS. Apart from the above even the supervision and the prudential regulation of cooperative banks is not as stringent as it is for commercial banks. So, through professional management and implementation of governance in the working can only enhance the financial viability of these institutions.
- To remove the overlapping controls and endowing functional autonomy and operational freedom to cooperatives. In case of the commercial banks the supervision and control is made by Reserve Bank of India (RBI). Whereas there are three governing, supervising, regulating and controlling the cooperative credit institutions namely National Bank for Agriculture and Rural Development (NABARD), respective State Government and RBI. Populist government policy also adversely affects the financial sustainability of these banks. The waiver of interest and principal amount of agricultural loan by the government without commensurate compensation to the cooperative credit institution not only hinder financially but also develop the attitude of non payment of interest and principal amount of loan by the farmers in future.
- Diversification of the business products with improved service is essential for sustainability of banks through greater business volumes and improved productivity. Diversification of business from banking to non banking activities like taking the corporate agency of Life Insurance Corporation of India and one of the subsidiaries of the General Insurance Corporation of India or any other leading insurance company.
- Duration of credit cycle depends on the past experiences of the regions which are generally prone to natural calamities. A credit scheme should be developed to break the vicious cycle of low productivity, low income, low surplus and low investment.
- Miscellaneous income of the cooperative banks is meager. Miscellaneous income mainly consists of non-fund based income. Non-fund business volume is to be increased. Non-fund business includes draft issuing commission, commission on salary disbursement of the clients, locker rent, commission on issuing of different types of forms and prospectus of various organisations etc. In non-fund business, no monetary capital is to be invested for earning income like commission, rent etc. Hence, these incomes directly contribute to the profit. Therefore, to improve the bank's profitability position volume of non-fund business is to be increased and in some cases to be newly introduced, if necessary.
- Management should follow suitable investment strategy, improving its infrastructure. There must be separate consultancy cell in the area of taxation, security market management (to study the volatility in risk and return), legal aspects etc. The experts will study the volatility of the security market and other related areas of the investment from time to time and give suggestions to the top management for taking necessary actions. They will also give advice to the branch personnel for investment of surplus fund of the branches. We know that the investment risk and return are two contradictory elements. Highly secured securities have low rate of return and vice-versa. At present there is no separate investment cell in the bank to study the different types of security risks and return. Therefore, to maximize the investment return at moderate risk a separate investment cell is to be build up for continuous monitoring the investment market. Moreover, some autonomy is to be given to branch managers for investing their surplus fund in the profitable areas. So, to increase the interest income on investment suitable investment policy has to be implemented.
- Cooperative banks are doing their business in rural sectors and most of the customers in rural sector are either illiterate or semi-literate. Therefore, to attract more and more customers better customers services like quick disbursement of loans, explanation of the terms and conditions of the deposits and loans, filling up the documents etc are to be given.
- In order to provide insurance coverage to the unorganized sector Gramin Accidental Policy (GAP) is introduced where premium for GAP is deducted from the amount of loan provided to the farmers. For unnatural death, partial and total disability, compensation is provided to the family members of the farmers through PACs but the major drawback is due to the ignorance of the farmers resulting non reporting to the PACs and non-submission of the requisite documents in due time. Steps should be taken for timely reporting and disbursal of the claim.
- Premium for crop insurance is also deducted from the loan given to the farmers. When disaster takes place mainly due to heavy rain, the loss to farmers are compensated from crop insurance. The main drawback of this scheme is that due to large number of farmers the compensation is not received by all of them. Steps should be taken for commensurate compensation of loss incurred by the farmers.
- The volume of the business of the PACS can be increased through proper training of the personnel. Computerization of the PACS can enhance the level of transparency and timely reporting which can help in taking decisions timely.

- The loans issued by Central Cooperative Banks are mainly to priority sectors. There is a compulsion by the RBI to issue loans to priority sector but the bank can give loans to the non-priority sectors after the prescribed level for priority sectors. The priority sectors are more vulnerable and the recovery is also low in comparison to the loans recovered from non-priority sector. In these days of competition it is found that most of the other rural banks have switched their loan portfolio from priority sector to non-priority sector over and above the prescribed level for priority sector to earn excess return on their investment. Hence to increase the bank's CD ratio and to maximize the bank's profitability the surplus amount can be invested in non-priority sector. We have seen that the loan taken by the farmers are utilized for personal loan repayment, for maintenance of family, for business and other purposes from the loan amount which has been taken in the name of agricultural loan. We cannot expect a linear correlation between the purposes of loan amount taken with the utilization of the loan amount. So, for general economic upliftment of the socio-economic condition it is very essential that the banks give loan for other purposes also.
- The PACS are mainly engaged in disbursement of agricultural loan. Since, the area of operation are limited they can go in for diversification of business like opening of consumer cooperative (including opening of retail outlets for public distribution system), wholesale distribution of fertilizers and feed for fishes etc. The concept of PURA that is providing urban facilities to rural areas as advocated by our ex-president A.P.J.Kalam on India 2020 – A vision for the New Millennium can be achieved through the ground level credit societies. Many PACS serve as retail outlet for public distribution system in traditional methods. Modern marketing concept must be used in upgrading and developing this system. The modern concept of packaging like selling the same quality of product in small quantity has enable to expand the customer base. These societies can serve as retail outlet for various consumer goods. The present situation is that the secretary is the honorary member, the service condition of the employees are not at all satisfactory with the current economic situation of increase in price level. The greatest advantages of these societies are the existence of the infrastructure including land and building. The only requirement is the adoption of suitable policy and its proper implementation.
- The service conditions of the employees of the PACS are not satisfactory and are ill paid. This also forces them to engage in unfair practices. In order to motivate the people engage in the cooperative societies the business diversification is very essential simultaneously the salary of the employees can be linked with the performance of the business i.e. the salary should comprised of two parts – one fixed and the other variable, which can be a certain percentage on the disbursement and collection of loans. This can help to act as surveillance on the utilization of the loan and timely collection. "Follow-up" action is very essential for the collection of the loan and interest there upon, this can be effectively done by the employee of the societies who disburse the loan. Lack of Follow up action is a major reason for non-collection of principal and interest of loan.
- In order to motivate the loanees in timely payment of interest and principal amount of loan interest subsidy can be given to those loanees who pay the interest and repay the loan timely. The interest subsidy can be a certain percentage of the profit of the PACS which can be given after discussion in the general meeting. It may be argued that the giving of interest subsidy will lead to the decrease in the profitability of the PACS. The working capital cycle which varies from six month to one year can be reduced. This can help these credit societies in reducing the working capital cycle and blocking of funds.
- The documentation of the annual reports should be more transparent and be framed in tune with the commercial banks. It should cover the steps being taken for better implementation of the corporate governance. The maintenance of accounts should be more detailed. The PACS and the Central Cooperative Banks are not maintaining the accounts using the same principle. The actual loan overdue in the societies is different from the actual loan overdue for the same society in the books of the Central Cooperative Bank. So, the maintenance of accounts of the Central Cooperative Banks and its constituent PACS should follow same principle and the difference in accounting policy is not desirable.

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