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A LITERATURE REVIEW ON GROWTH AND DEVELOPMENT AND THE FINANCIAL HEALTH OF CO-OPERATIVE CREDIT SYSTEM WITH REFERENCE TO JHARKHAND

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ABSTRACT

The base of every research needs encyclopedia or reviews. In this paper the researcher focuses upon the important literature reviews regarding cooperative banks in India. The word 'Co-operative' is derived from the term cooperation. The cooperative banks in India started functioning almost 100 years ago. Co-operative credit institutions constitute the major source of institutional credit for agricultural and non- agricultural purposes as well. Co-operative banks have been working at the village, district and State levels. Co-operative banks in India are registered under the Co-operative Societies Act. (1904). The major development in the growth of cooperative institutions came during 1930- 1950, when Reserve Bank of India played the pioneering role in guiding and supporting the cooperatives. However, during this phase, signs of sickness in the Indian rural cooperative movement were evident. From 1990 onwards there was an increasing realization of the disruptive effects of intrusive state patronage and politicization of the co-operatives, especially financial cooperatives, which resulted in poor governance and management and the consequent impairment of their financial health. A number of Committees were therefore set up to suggest reforms in the sector. Though many studies have been done at the National level and at various State levels, not much has been done for Jharkhand which is relatively a new State.

KEYWORDS

cooperative banks, credit, governance, reform.

INTRODUCTION

India passed her first Co-operative Credit Act in the year 1904. The main features of this act were its simplicity and elasticity. With the expansion of the co-operative movement it became necessary to have a broader co-operative law encompassing the non-credit wing of the movement, which gave birth to the 1912 Act. After struggling from the initial stage co-operative practice developed further. From time to time several committees have been formed to analyze the working and to suggest reforms. Scams in co-operative sector, failure and closure of unviable branches imposition of penalty by Reserve Bank of India (RBI) or National Bank for Agriculture and Rural Development, (NABARD) etc., are some of the significant reasons which tempt to have a look into the financial affairs of these institutions. Jharkhand, which is located in the eastern region of the country, was born on 15 November 2000. It was bifurcated from the southern part of Bihar. It has some of the richest deposits of minerals. Though it is one of the most industrialized regions in the country, yet almost 75 percent of the people in the State depend on agriculture. As per the report of the "Working Group on Improvement of Banking Services in Jharkhand" (Chairman V.S.Das- Executive Director, RBI), there is low outreach of Banks and their services in the State. The Group recommends a need for the State Government to sign Memorandum of Understanding (MoU) with the RBI so as to address various issues and problems of the Co-operative Banks especially in the context of this sectors role in the economic development of Jharkhand.

LITERATURE REVIEW

CHAKRABARTY, K.C.

Addressing the Review Meet on Implementation of the Vaidyanathan Task Force, Dr. K. C. Chakrabarty stressed upon the important role played by the co-operatives in India. He pointed out that the co-operatives are in a better position to further financial inclusion agenda than any other institution. Hence there is a compelling need to strengthen the Co-operative movement to make it a vibrant medium to serve the credit needs of rural India. He noted that 25 States have signed the Memorandum of Understanding (MoU) and progressed towards implementation of reform agenda. A large number of State Co-operative Banks and Central Co-operative Banks were functioning without a banking license for decades. The Committee on Financial Sector Assessment recommended that no unlicensed co-operative banks should be allowed to function beyond 2012. The Reserve Bank would license those co-operative banks which have Capital to Risk Weighted Assets Ratio (CARA) of 4 percent and above. There would be full computerization of all tiers of the co-operative institutions along with use of information and communication technology. Biometric cards would be issued to the members. The reform package envisages freedom to all tiers of the structure to avail loan from any of the RBI regulated entities at a competitive rate of interest. The focus area should be training and capacity building of the personnel. He hoped that after the implantation of the revival package all the co-operative banks would soon be at par with the commercial banks as far as regulatory norms are concerned and all prudential norms would be made applicable to them.

GOVERNMENT OF INDIA (2000)

Recognizing the relevance and catalytic role of co-operative banks in the development of agricultural and non agricultural sectors of Indian rural economy the Government of India appointed a Task Force on Revival / Restructuring Package for Cooperative Banks on 9 April 1999. The Task Force observed that inadequate role space and autonomy for decision making are the reasons behind the slow pace of changes in co-operatives. The co-operatives have neither remained member driven enterprises nor their leadership in majority of cases had proved to be professional, transparent, accountable and financially effective. Low volume of business/ low resource base, low borrowing membership, lack of professionalization, poor recovery performance, etc., are some of the factors responsible for the deterioration in the performance of cooperative banks. Task Force recognized increasing borrowing membership and volume of business as essential steps in order to improve the performance of co-operative. Task Force also suggested that areas having potential for setting up of more than one society should be allowed by the State Government to have more than one Primary Agricultural Credit Society. Human Resources Development is an important component for the success of any organization, however this fact has not been accorded the importance it deserves in the co-operative institutions. The co-operative banks are generally headed by a committee of elected members, who are not necessarily professionals. It is necessary to evolve scientific staffing norms. The Task Force suggested that the banks should have objective and transparent policy for recruitment of its staff. Absence of Professionalism among the co-operatives has proved to be the weakest and a neglected area in their evolution. It was observed that the low interest spread had affected the overall net margin available to the co-operative credit institutions. In many of the co-operative banks, an efficient system of funds management has been absent due to which the co-operatives are often struck with high quantum of surplus funds mobilized at high cost. It was observed that the position at District level was worse with the virtual absence of money market instruments. Lack of professional approach to investment activities, have resulted in co-operative banks maintaining liquidity far in excess of the required levels. The Task Force advised to have periodic skill up gradation programmes to Chief Executive Officers and staff of Investment Cell to keep abreast of changes in the money market conditions. A brief review of the growth of deposits and advances of co-operative Banks since 1993-1994 revealed that the growth rates in deposits were higher than the growth rates in loans and advances. The Task Force recognized that the co-operative banks do not have access to the market as in the case of commercial banks. The Debt Recovery Tribunals (DRT) was operational for recovery of commercial bank's dues where individual loan outstanding were above Rs 10 lakh. The Task Force suggested that the provisions of the existing Debt Recovery Tribunals should be made applicable in case of co-operative banks as well where loan size is more than 1 lakh. It was observed that the lack of appropriate internal control systems like inspections, internal and concurrent audit and

periodic branch visits by the higher tier officials in co-operative banks was also a matter of increasing supervisory concern. There was also a need for greater transparency in the balance sheets of co-operative banks. The Task Force emphasized that the co-operative banks continue to be the largest rural financial network. Notwithstanding their numerical strength and geographic spread, co-operative banks suffer from various degrees of financial weakness. Hence the Task Force was convinced of the urgent need to initiate measures for the rehabilitation of co-operative banks.

GOVERNMENT OF INDIA (2005)

The Government of India, felt it necessary to commission a fresh review to revive and revitalize the rural co-operative credit structure. As such the Union Government constituted a Task (vide Government of India notification dated 05 August 2004) in order to formulate a plan of action to rejuvenate the rural co-operative credit structure. The Task Force was under the supervision of Professor A. Vaidyanathan. The Task Force provided a brief review of the various phases of the evolution of co-operatives in general over the past century. The passage of the Cooperative Credit Societies Act in 1904 and the enactment of the Cooperative Societies Act in 1912 marked the beginning of a government policy of active encouragement and promotion of co-operatives. Specific provisions were made in Reserve Bank of India Act, 1934 for the establishment of an Agricultural Credit Department (ACD) in the bank and also for extending refinance facilities to the co-operative credit system. NABARD was created on the recommendation of the Sivaraman Committee in 1981. The Task Force mainly relied on secondary data obtained from NABARD and National Federation of State Co-operative Banks (NAFSCOB). While using the data it became apparent that the statistical data reporting to the co-operative sector leaves much to be desired. It was found that data are not up-to-date and validated. There were significant variations in the data obtained from different sources for the same period and parameters. To ensure that data on the credit system is collected and used meaningfully, the Task Force recommended that NABARD should utilize sufficient resources and personnel to handle the Task. It was also noted that NABARD does not maintain any data base on Primary Agricultural Credit Society. It was found that number of rural branches of commercial banks had gone down marginally as part of the branch rationalization programme thereby proving that in a country predominated by small or marginal land holdings, the reach of the co-operative system is much deeper than the other institutional arrangements in the rural areas. It was noted that the impairment in the management of the rural co-operatives is a direct result of the impairment in governance. This was mainly due to the fact that managers of Primary Agricultural Credit Society in several states were drawn from common staff pools who do not feel accountable to the Primary Agricultural Credit Society and also because of a generally ageing staff profile characterized by inadequate professional qualifications and low levels of training. It was observed that the accumulated losses of Primary Agricultural Credit Society exceed that of District Cooperative Credit Banks. The reason for the losses could be traced mainly to the overall business levels and poor recovery position of the tiers. Poor recovery loan had resulted in a peculiar phenomenon, often referred to as "imbalances". The "captive deposits" syndrome which requires the lower tier to compulsorily place a part of its deposits with the higher tier, puts pressure on the system as a whole, to fix a higher rate of interest. In working out the requirements of resource support for co-operatives the Task Force has followed the bottom up approach that is, once the losses at the primary level are met, there would be a resultant downward impact on the accumulated losses at level of district and state. It was recognized that, there could be no "one-size-fits-all" model. The States should therefore be given reasonable freedom to decide the pattern they want to follow to fulfill the basic aims of the Restructuring Programme within a reasonable period.

REPORT OF THE WORKING GROUP ON IMPROVEMENT OF BANKING SERVICES IN JHARKHAND

The working group for Jharkhand was constituted on October 17, 2007 to review the role of banks and financial institutions in supporting the initiatives taken by the State Government for promoting the economic development of Jharkhand. The group recommended the setting up for a State Co-operative Bank in Jharkhand. Jharkhand largely comprises of the forest tracts of Chotanagpur plateau and Santhal Pargana and has a distinct cultural tradition. Jharkhand is adorned with some of the richest deposits of iron ores, coal, uranium, mica, copper, bauxite, etc, and accounts for 40 percent of the nation's mineral reserves. Yet, Jharkhand has one of the highest levels of poverty in India at 40.3% (2004-2005). Agriculture and Allied Activities play an important role in the economy of Jharkhand. This sector contributes about 13% to Net State Domestic Product, (2006-2007) and provides livelihood to about 80% of the State's population. The agricultural economy of the State is characterized by high dependence on monsoon, low productivity, monocropping, inadequate irrigation facilities, etc. The Committee stressed that massive public investment is required to utilize the land for agricultural cultivation in order to bring a horizontal expansion in the agriculture sector. The agro-climatic conditions of the State are conducive for commercial cultivation of large varieties of fruits, vegetable, flowers and medicinal and aromatic flowers as well. However due to lack of irrigation facilities and also due to non-availability of quality planting material. The State also has potential for the development of inland fisheries. Promotion of rural industries is also among the priorities of the Government as this provides huge employment opportunities to the vast sections of the society, specifically to the weaker sections, minorities and women. For the fulfillment of all the above development process finance is the main requirement. Consequent upon the carving of the State of Jharkhand from Bihar, The Bihar State Cooperative Bank was not bifurcated to form a separate State Cooperative Bank of Jharkhand. One of the Terms of Reference of the Group was to specifically examine and recommend measures to improve the effectiveness of the co-operative banks (rural and urban) in the State and also to suggest measures (immediate and medium term) for the setting up of a State Cooperative Bank in Jharkhand. The Group observed that there was low Credit Deposit Ratio for the State vis-à-vis the national average. Since the Credit Deposit Ratio also depended on several factors such as demand for credit as also the absorption capacity, therefore, the Group suggested that the State Government should strive for improving the various infrastructures in the State so as to increase the State's absorption capacity. The Group observed that the banks have not been achieving the targets set under agriculture, Small Scale Industries and other priority sector for almost all the years that is 2002-2003 to 2006-2007.

SEN, PRABAL KUMAR (2003)

Professor Prabal Sen observes that even though the co-operative sector has an overwhelming presence in India, yet these institutions continue to be plagued by lack of 'stability' and 'efficiency'. The hallmark of the co-operative form of organization is its democratic set up where there is voluntary and open ended membership. Because of the informal behavior of the co-operative bank they have a greater accessibility to the customers particularly from the middle and the lower income groups. The Indian Financial development follows 'supply leading' phenomenon under which the financial institutions come into existence first and then it creates the demand for their services while on the other hand the co-operative banks are the result of the people's own efforts to create an institutional mechanism to meet the specific credit requirements of the people. Professor Sen noted that co-operative institutions have few special features, some of which have a debilitating impact. These include inadequacy in the level of professionalism in the conduct of management functions, lack of internal control and corporate governance, fragile audit system, etc, most co-operative banks in India have a very narrow capital base. As on March 31, 2002, as many as 9 out of 30 State Co-operative Banks and 139 out of 367 District Central Cooperative Banks could not comply with even the minimum share capital requirement of a mere Rs. 1 lakh as prescribed under section 11(1) of the Banking Regulation Act, 1949. Almost all the committees appointed by Government of India and Reserve Bank of India, pointed out that in most cases the co-operative banks are not audited regularly and in a comprehensive manner. Since co-operative banks are not enforced to disclose their financial status, hence it is possible for some (unscrupulous) banks to indulge in some unhealthy practices. Certain unfavorable developments witnessed in this sector in the recent past (March 2001) onwards, such as the crises faced by Madhavpura Bank, 'The Government Securities Scam' of May 2002, 'Acute Liquidity Crisis' faced by a number of Urban Cooperative Banks and District Central Cooperative Banks, has led to the deceleration of its overall growth. It has also affected the 'image' of the co-operative credit sector. Hence there is need for adoption of a comprehensive strategy for rebuilding the image of the co-operative credit sector. There is need of generating awareness about the strength and opportunities of this sector. The co-operative sector needs to be given a requisite degree of autonomy.

IMPORTANCE OF THE STUDY

The present work is expected to have considerable significance in the economy of Jharkhand. The future of rural economy in Jharkhand and for that matter in any Indian State depends upon the performance of the Co-operative Credit Institutions. If the rural economy is to be made strong, then the Co-operative Credit Institutions have to play a positive role.

STATEMENT OF THE PROBLEM

The proposed research work will examine the growth and development and the financial health of Co-operative Credit System in Jharkhand. It would also try to study the effects brought about in the working of the Co-operative Credit Institutions in Jharkhand after the implementation of the Task Force. (Government of India. 2004: Task Force on Revival of Rural Cooperative Credit Institutions. Chairman, A Vaidyanathan. Government of India: India).

OBJECTIVES

1. The main objective of this research work is to identify the factors responsible for the current state of affairs in the co-operative system in Jharkhand.
2. The present research work will try to suggest ways and means for revamping the system.

HYPOTHESES

The following are the main hypotheses which are to be tested in this study.

- a) Policies pertaining to banking system in general and Co-operative Credit Structure in particular as enunciated by Government of India and/or RBI and /or Government of Jharkhand have an impact on the functioning of Co-operative Credit System in Jharkhand.
- b) Capital base and skill endowment of the employees also impact the health and efficiency of the Cooperative Credit System.

RESEARCH METHODOLOGY

The study will cover the period 2000 – 2009 which is long enough to examine the trends of macro-economic variables. The present study will be based on the secondary data. Taking the data available from Reserve Bank of India, National Bank for Agriculture and Rural Development and Government of Jharkhand sources. Reference will be made to reports of various Committees/Task Forces etc which had studied the functioning of the Co-operative Credit Systems in the country. It will try to study the overall condition of the Credit Institutions in Jharkhand.

RESULTS AND DISCUSSIONS

There has been research work and many Committees were formed to study the working of Co-operative Credit Institutions at the National level but very few works have been done to show the status and working of the Credit Institutions in Jharkhand.

SUGGESTIONS

Every State in our country is unique and diverse with problems that is quite different and as such needs a different approach. There should be more intensive studies for Jharkhand to identify the causes behind the poor working of co-operatives in Jharkhand and to suggest ways of rectifying them.

LIMITATIONS

The non availability of data relating to the functioning of Co-operative Credit Institution operating in Jharkhand is likely to pose difficulty in the conduct of study.

SCOPE FOR FURTHER RESEARCH

Jharkhand being a new State, many aspects of the working of co-operative sector needs to be studied and analyzed properly.

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