



## GROWTH AND PROGRESS OF DISTRICT COOPERATIVE BANKS IN INDIA WITH SPECIAL REFERENCE TO UTTAR PRADESH

**Dr. Samreen Naqvi**

Department of Applied Economics, Faculty of Commerce, University of Lucknow, U.P., India

### ABSTRACT

**R**ural credit cooperatives in India were born more than 100 years ago as a state initiative with promulgation of the Cooperative Societies Act by the then British Government. Cooperative Credit Societies were organized with the only objective of providing credit to the farmer members at a reasonable rate of interest to emancipate them from the clutches of money lenders. After the amendment of the Cooperative Societies Act in 1912, the Cooperative Credit Societies were federated into Central Cooperative banks (CCBs) to mobilize resources to meet the credit requirement of its farmer members.

In this research paper the financial performance of District Cooperative Banks (DCBs) in India in general and Uttar Pradesh in particular, for the period of 2002-03 to 2010-11 are analyzed. In the present paper an attempt is made to make a comparative analysis of 10 selected DCBs operating in Uttar Pradesh. The financial data has been tested with the simple statistical techniques like mean, standard deviation, percentages, graphs, etc. along with advanced statistical tools like compound growth rate, ratio analysis and trend equations to arrive at the logical outcome. The analysis revealed that in almost all the variables we observed an increasing trend from 2002-03 to 2010-11 with few exceptions where we observed stagnancy in almost all the financial indicators over the years.

**KEYWORDS:** District Cooperative Banks, growth, overdues, liquid assets.

### INTRODUCTION

The cooperatives in India generally have three-tier structure in most of the states with primary agricultural credit cooperative societies (PACS) with farmers as their members at the base level, districts cooperative banks (DCBs) as the intermediate federal structure with PACS as principal affiliated members, and the state cooperative bank (StCB) at the apex state level with DCBs and other cooperatives as its principal members. This three-tier cooperative credit structure is popularly known as the short-term cooperative credit structure (ST CCS). The ST CCS functions as a three-tier structure in 16 states; while in 13 smaller states & union territories, PACS are directly affiliated to the StCB and the ST CCS functions

as a two tier structure. In 3 states, a mixed structure, i.e., two tier in some districts, and three-tier in the other districts operates. (RBI Report 2012).

Our study focuses mainly on the District Co-operative Banks. The District Co-operative Banks also known as Central Co-operative Banks occupy a significant position in the cooperative credit structure. They serve as an important link between the Apex Co-operative Bank and the Primary Agricultural Credit Societies. District Co-operative Banks are in fact a federation of Primary Agricultural Credit Societies and other types of societies working within their jurisdiction. District Co-operative Banks (DCBs) acts as the leader of the cooperative

movement in a district and plays an effective role in the all-round growth of the cooperative movement. It has to undertake various promotional and developmental activities also. Being the social banker, it has to take banking facilities to the rural areas and unbanked centers. It is the spokesman for not only the primary agricultural credit societies, but also for other kinds of co-operative institutions in the district. The DCBs are also doing personal banking along with the financing of primary credit societies.

The District Co-operative Banks (DCBs) are nodal centers of financial institutions in the co-operative sector in a district. They have to mobilize the available resources and utilize them in the most efficient and profitable manner. The major objective of this study is to analyze the trends in the progress of cooperative banking in India in general and in Uttar Pradesh in particular. The researcher also aims at examining the growth of business of cooperative banks in terms of deposits mobilization and credit advanced and evaluating the overall performance and financial performance of DCBs in India and Uttar Pradesh during the study period.

## REVIEW OF LITERATURE

Jain (2001) has done a comparative performance analysis of District Central Co-operative Banks (DCCBs) of Western India, namely Maharashtra, Gujarat and Rajasthan and found that DCCBs of Rajasthan have performed better in profitability and liquidity as compared to Gujarat and Maharashtra.

Singh and Singh (2006) studied the funds management in the District Central Co-operative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin. It noted that a higher proportion of own funds and the recovery concerns have resulted in the increased margin of the Central Co-operative Banks and thus had a larger provision for non-performing assets.

Mavaluri, Boppana and Nagarjuna (2006) suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India.

Ramappa and Sivasankaraiah (2007) observed that as overdues of the Rayalseema Grameena bank in Andhra Pradesh declined from 34 per cent in 2003 to 19 per cent in 2004 it reflects its better recovery performance. He also found that the repayment performance of non priority sector was better than that of priority sector. The study also revealed that 95 per cent of total demanded loans had been repaid by the members of the Self Help Groups which was quite remarkable.

Singh, Koshta, Chandrakar, (2007) in their study observe the performance of District Central Cooperative Bank, Raipur and its Mandir Hasaud Branch by estimating the growth rate performance indicators with the help of time series data from 1991-92 to 1998-99. . In absolute term, linear trend value of performance indicators have increased considerably and overdue was increased by amount of Rs. 375.33 per annum; is not a good sign for co-operative loans during the period of study. The estimated compound growth rate for number of borrowers, amount advanced as crop loan, recovery, outstanding and over dues was noticed by 2%, 12.42%, 5.13%, 15.36 % and 16.12 %, respectively at 1 per cent level of significance. . It is an alarming situation for co-operative bank because the increase in rate of over dues is quite high as compared to the other indicators. It is recommended to improve the recovery performance in order to check the over dues because it is not a good indication for the healthy economy of co-operatives.

Singla (2008) emphasized on financial management and examined the financial position of sixteen banks by considering profitability, capital adequacy, debt-equity and NPA.

Gandhimathi, Vanitha (2010) made an attempt to study the preference of farmers for borrowing between commercial and co-operative banks. They examined the distribution of institutional credit across various categories of farmers and assessed the coverage and quantum of credit and also the socio-economic factors which affect the borrowing behavior of farmers towards commercial and co-operative banks. They gave some suggestions for improving accessibility of institutional credit for farmers.

Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters.

## OBJECTIVES OF THE STUDY

1. To study the overall growth of DCBs in India with respect to various indicators.
2. To analyze the trends of overdues to loans.
3. To assess and analyze the status of employees in terms of their cost of management.
4. To know the position of liquid assets to demand and time liabilities.

## HYPOTHESIS

1. Over the years the number of branches of DCBs in India has increased.

2. There is an increasing trend of overdues to loans over the period of study.
3. In general the DCBs had maintained very low liquid assets.

## RESEARCH METHODOLOGY

### Data sources:-

This study is exploratory in nature and is based on secondary data, collected from Annual reports of cooperative banks published by NABARD and Basic Data on Performance of DCBs published by NAFSCOB for the period from 2002-03 to 2010-11. Data sources also include RBI bulletin (various issues), Report on trend and progress of Banking in India (various issues), books, periodicals

and research articles from various journals were also taken into consideration.

### Sample selection:-

The study focuses upon DCBs in India in general & in Uttar Pradesh in Particular. Uttar Pradesh is divided into four regions namely Eastern, Western, Bundelkhand and Central. We have selected ten sample banks on the basis of these regions. These sample banks include Eta, Etawah, Ghaziabad and Moradabad DCBs from Western region, Azamgarh and Allahabad DCBs from Eastern region, Lucknow from Central region and Jalaun, Lalitpur and Hamirpur DCBs from Bundelkhand region. We have used purposive random sampling while selecting the sample districts.

## Trends in financial performance of DCBs: the key indicators:-

**Table 1. Progress Of District Cooperative Banks in India from 2002-03 to 2010-11**

Main Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	CAGR %
No Of DCBs	366	368	368	370	371	372	373	372	371	0.17
Paid Up Capital (Rs. In crore)	3576.8	3810.0	4115.5	4511.5	5098.1	5829.2	6071.4	7776.5	7257.7	9.25
Reserves (Rs. In crore)	9675.9	11208.2	12672.9	14082.9	15505.1	16435.7	17808.0	20133.0	20692.0	9.97
Deposits (Rs. In crore)	72394.4	76884.5	80493.5	86652.2	92181.4	105993.7	123721.8	146303.1	161308.8	10.53
Borrowings (Rs. In crore)	19238.5	21128.1	21557.1	23202.1	27940.6	30533.3	28477.6	30354.8	39101.2	9.27
Working Capital (Rs. In crore)	109092.4	118905.3	122632.9	131241.9	146083.6	168137.5	184037.9	206918.4	235430.7	10.09
Investments (Rs. In crore)	31138.8	35677.3	34783.2	37127.4	40791.1	48246.6	61041.2	75624.5	75624.5	11.73
Loans Issued (Rs. In crore)	49775.5	48899.7	55212.4	60418.5	76703.8	87229.1	88028.7	110529.3	137757.2	13.57
Cost Of Mangt. (Rs. In crore)	3237.0	3345.8	3680.1	3013.0	3779.8	3748.8	4227.2	4437.4	5307.5	5.6
Number Of Employees	110078	110058	109124	105885	91768	90035	89259	87554	87928	-2.77
CoM/employee	2.93	3.04	3.37	2.85	4.12	4.16	4.74	5.07	6.04	8.37
Profits (+) / Losses(-) (Rs. In crore)	505.7	530.4	1230.4	1773.1	1067.3	-769.1	362.6	2654.8	658.4	3.35
% overdues to loans	37.43	36.90	32.86	31.69	32.93	37.15	32.69	26.73	27.37	-3.84

Source: Basic data on performance of district central cooperative banks (2002-2003 to 2010-2011), NAFSCOB

The growth and expansion in terms of the volume of business is considered to be one of the important indicators which speak about the performance of any banking institution. In order to measure the performance of the district cooperative banks, some of the financial indicators were identified and the growth rates of those indicators were computed for the selected sample banks.

The details of the growth in financial indicators of the DCBs in India are shown in table 1.

During 2002-03 to 2010-11 among all the financial indicators, loans and advances showed the highest growth

rate of 13.57 percent. This was due to the coverage of large area under lending programme and wide range of advances to both agricultural and non-agricultural purposes. Investment showed a positive growth pattern (11.73%). This was mainly due to the increase in the profitable investment of the banks.

Deposit, profit and reserve and other funds, showed positive growth (10.53%, 3.35% and 9.97% respectively) due to increase in advances both for agricultural and non-agricultural purposes and improved recovery percentage. The growth in deposit was mainly due to rapid increase in deposit mobilization. There is

negligible growth in number of DCBs over the years(0.17%). Percentage of overdues to loans registered the negative growth rate of (-3.84%) during the study period. The reason may be intensive efforts made by the staff to recover loans.

We observed huge fluctuations in profits from Rs. 505.7 crores in 2002-03 to Rs. (-)769.1 crores in 2007-08 and again Rs. 658.4 crores in 2010-11. The overall growth rate of profit was 3.35%. The paid up capital showed a considerable and high increase of 9.25%.

In general there is no significant change in the number of DCBs, we observed considerable improvement in share capital, reserves, deposits, borrowings, working capital, investments and loans and advances of DCBs in India for the period of 2003-2011.

## OVERDUES TO LOANS

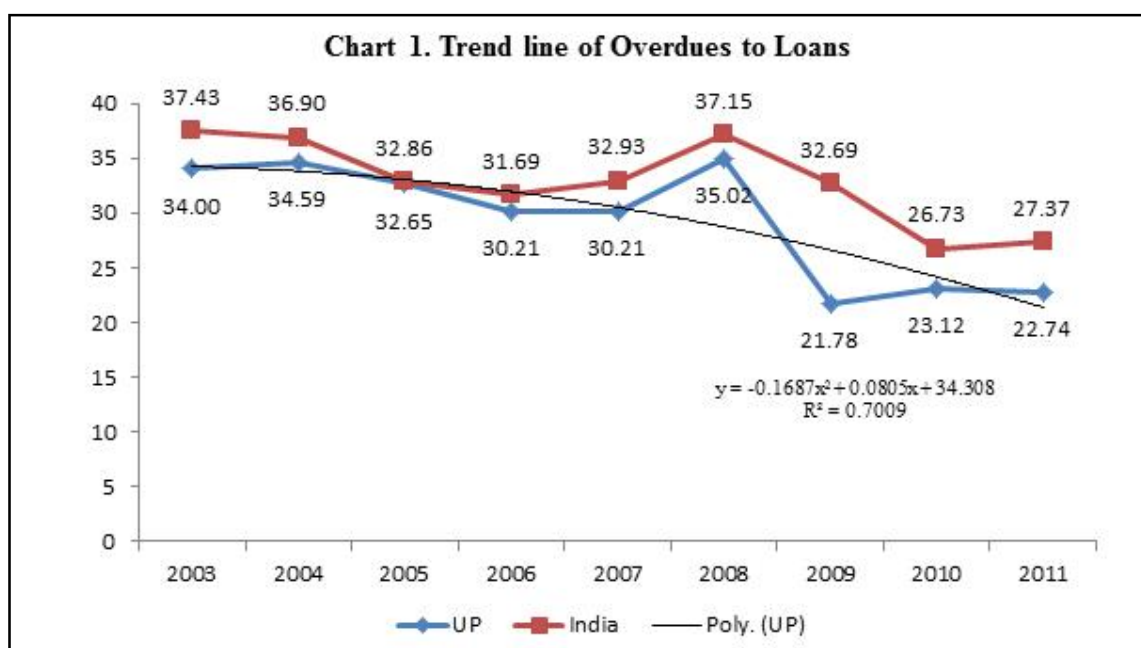
Long term solvency of a bank depends upon the credit management of a bank. Over due to total advances ratio indicates the proportion of advances which remain outstanding at the end of the period so that the bank can have an idea about the solvency position.

A higher the ratio indicates poor recovery efforts from the bankers, inadequate credit appraisal, misutilization of loan and willful default. It affects adversely on the moral of non defaulting members. While lower the ratio indicates good recovery efforts and good credit management of the bank.

**Table 2. Percentage of overdues to loans of selected DCBs from 2002-03 to 2010-11**

Districts	2003	2004	2005	2006	2007	2008	2009	2010	2011
Allahabad	42.48	45.62	45.62	44.97	44.97	43.12	36.72	35.77	32.83
Azamgarh	55.96	60.88	50.03	54.78	54.78	53.39	53.39	36.73	36.73
Etah	60.46	60.39	36.30	43.42	43.42	47.45	43.92	36.32	40.40
Etawah	38.83	34.85	34.85	34.85	34.85	34.96	33.57	26.90	31.63
Ghaziabad	24.13	24.13	17.52	6.73	6.73	5.97	3.79	2.99	2.11
Hamirpur	18.54	16.12	16.12	14.01	14.01	18.69	-20.17	8.84	-1.24
Jalaun	37.43	30.63	30.63	31.07	31.07	20.15	30.32	30.32	29.45
Lalitpur	57.82	57.82	57.82	41.89	41.89	63.78	51.46	38.10	43.35
Moradabad	23.02	23.02	23.02	23.02	23.02	23.02	23.02	17.69	17.69
Lucknow	31.29	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00
U.P.	34.00	34.59	32.65	30.21	30.21	35.02	21.78	23.12	22.74
India	37.43	36.90	32.86	31.69	32.93	37.15	32.69	26.73	27.37

Source: Basic data on performance of district central cooperative banks (2002-2003 to 2010-2011), NAFSCOB



The data in the table and the trend line in the chart show a declining trend in percentage of overdues to loans. The percentage of overdues to loans which was 34

percent in 2002-03 had reduced to 22.74% in 2010-11. This declining trend in this ratio is a positive sign as it helps in increasing the profitability of the banks.

### Cost of management per employee:-

**Table 3. Cost of management of selected DCBs from 2002-2003 to 2010-2011**

Districts	2003	2004	2005	2006	2007	2008	2009	2010	2011	CAGR %
Allahabad	515	514	514	2214	2214	1811	1854	770	860	5.86
Azamgarh	277	290	293	321	321	339	339	494	494	6.64
Etah	214	216	242	273	273	293	330	562	405	7.35
Etawah	285	465	465	465	465	543	489	609	780	11.84
Ghaziabad	362	362	453	522	522	610	754	862	2214	22.29
Hamirpur	193	155	155	191	191	281	359	381	384	7.94
Jalaun	203	220	220	253	253	318	402	402	645	13.71
Lalitpur	120	120	120	113	113	164	180	214	310	11.12
Moradabad	423	423	423	423	423	423	423	815	815	7.56
Lucknow	181	244	244	244	244	244	244	244	244	3.37
U.P.	14949	16417	16873	20947	21862	22802	23350	27188	36948	10.58
India	32510 4	33457 9	36801 2	60268 8	75596 8	37487 6	42272 4	44373 7	53074 5	5.60

Source: Basic data on performance of district central cooperative banks (2002-2003 to 2010-2011), NAFSCOB

**Table 4. Cost of management per employee of selected DCBs from 2002-2003 to 2010-2011**

Districts	2003	2004	2005	2006	2007	2008	2009	2010	2011	CAGR %
Allahabad	1.75	1.84	1.81	8.26	8.26	6.91	7.36	3.13	3.69	8.64
Azamgarh	1.74	1.86	1.94	2.14	2.14	2.26	2.26	3.55	3.55	8.25
Etah	1.75	1.82	2.03	2.26	2.26	2.44	2.87	5.11	4.26	10.39
Etawah	1.98	3.23	3.23	3.23	3.23	3.27	2.93	3.85	5.31	11.58
Ghaziabad	2.28	2.28	2.63	2.88	2.88	3.37	3.95	4.42	9.71	17.47
Hamirpur	1.74	1.37	1.37	1.77	1.77	2.36	2.92	3.31	3.34	7.51
Jalaun	2.07	2.06	2.06	2.46	2.46	2.81	2.91	2.91	5.12	10.59
Lalitpur	1.71	1.71	1.71	1.74	1.74	2.45	2.54	2.97	3.92	9.66
Moradabad	1.93	1.93	1.93	1.93	1.93	1.93	1.93	3.09	3.09	5.37
Lucknow	1.31	2.02	2.02	2.02	2.02	2.02	2.02	2.02	2.02	4.93
U.P.	2.01	2.22	2.24	2.76	2.76	3.02	3.1	3.61	4.93	10.48
India	2.93	3.04	3.37	2.85	4.12	4.16	4.74	5.07	6.04	8.37

Source: Basic data on performance of district central cooperative banks (2002-2003 to 2010-2011), NAFSCOB

It is evident from table that Ghaziabad DCB recorded the highest growth rate (22.29%) and Lucknow DCB the lowest (3.37%). The table also reveals that the growth rate of cost of management of Ghaziabad, Jalaun,

Etawah and Lalitpur DCBs were higher than the overall CAGR of Uttar Pradesh (10.58%). The high increase in cost of management of Ghaziabad DCB may probably be due to high operating expenses as compared to other districts.

## Liquid assets to demand and time liabilities ratio:-

The ratio of liquid assets to demand and time liabilities is known as statutory liquidity ratio (SLR). Apart from CRR, every bank is required to maintain in India at the close of business every day, a minimum proportion of their Net Demand and Time Liabilities as liquid assets in the form of cash, gold and un-encumbered approved securities. The ratio of liquid assets to demand and time liabilities is known as Statutory Liquidity Ratio (SLR). Present SLR is 23%. (Reduced w.e.f. 11/08/2012 from earlier 24%). RBI is empowered to increase this ratio up to 40%. An increase in SLR also restricts the bank's leverage position to pump more money into the economy.

Liquid assets (cash in hand, cash at bank and money at call and short notice) to demand and time liabilities (fixed deposit account, savings bank account,

current account and money at call and short notice account) ratio shows the liquidity position of the bank. This ratio shows the financial soundness of the bank. The concept of liquidity is highly relevant for a financial institution as it indicates the ability of the bank to meet its obligations out of its own resources.

As per statutory provisions, DCBs are expected to maintain 23 per cent of demand and time liabilities (DTL) as the statutory liquidity ratio (SLR) and 3-6 per cent of DTL as the cash reserve ratio (CRR). In addition to this, 3-4 per cent of DTL may be required for meeting contingencies and expenses. Therefore, liquid assets to demand and time liabilities ratio of around 30-32 percent may be sufficient.

The liquidity position of the selected DCBs is exhibited in table 5

**Table 5 Liquid assets to demand and time liabilities ratio of selected DCBs from 2002-03 to 2010-11**

Districts	2003	2004	2005	2006	2007	2008	2009	2010	2011	G.M	S.D
Allahabad	9	5	5	7	7	4	5	4	34	7	10
Azamgarh	6	3	8	6	6	6	6	10	10	6	2
Etah	13	12	11	12	12	11	8	43	10	13	11
Etawah	4	3	3	3	3	5	4	4	2	4	1
Ghaziabad	7	7	11	9	9	6	4	5	7	7	2
Hamirpur	7	9	9	10	10	7	6	6	11	8	2
Jalaun	5	6	6	6	6	4	5	5	7	5	1
Lalitpur	14	14	14	17	17	9	5	6	9	11	4
Moradabad	39	39	39	39	39	39	39	81	81	46	19
Lucknow	50	4	4	4	4	4	4	4	4	5	15
U.P.	10	12	11	13	13	12	15	18	17	13	3
India	11	12	13	13	12	10	11	10	76	14	21

Source: Basic data on performance of district central cooperative banks (2002-2003 to 2010-2011), NAFSCOB

Table 5 points out that during the study period except Moradabad (G.M. = 46) all the DCBs were unable to maintain the required level of liquidity. It indicates that these have to take steps to increase the quantum of liquid assets maintained. This can be achieved by decreasing the volume of loans and advances. The lowest ratio was observed for Jalaun and Lucknow (G.M. = 5, for both). This weak liquidity position would certainly cause an inconvenience to the banks in case of meeting immediate liabilities and the pace of liquid assets to the total deposits was also found to be far below than the laid down (23%) under Banking Regulation Act.

The liquid assets to demand and time liabilities ratio of Uttar Pradesh showed that on an average only 13

percent of its demand and time liabilities was kept in the form of liquid assets. It indicates weak liquidity position of the bank as 13 percent liquid assets to demand and time liabilities is considered to be obviously inadequate to meet its immediate liabilities, with comparatively low variability (S.D. = 3).

The position of India is also no better (G.M. = 14). The liquid assets to total deposits ratio was found to be unstable and not satisfactory which could be accredited to a wide deviation in the liquid ratio. The ratio was noticed as low as 10 percent during 2008 and 2010 and which has increased as high as to 76 percent during 2011 indicating the excess liquid assets over the prescribed limit reflecting an unbalanced resource management. The variability in

case of India is comparatively high (S.D. = 21). The descriptive statistics in the table shows a mixed trend for the standard deviation of selected sample DCBs. The variability is as low as one for Etawah and Jalaun and as high as 19 for Lalitpur. Such high level of variability with regard to selected sample DCBs and also for India indicates low degree of homogeneity i.e. the heterogeneity of the liquid assets to demand and time liabilities ratio.

## FINDINGS

1. During 2002-03 to 2010-11 there is negligible growth in number of DCBs in India over the years (0.17%). Hence the hypothesis that over the years the number of branches of DCBs in India has increased has been rejected.
2. We observed a declining trend in percentage of over dues to loans of DCBs in Uttar Pradesh during the period of study. Thus the hypothesis that there is an increasing trend of over dues to loans over the period of study has been rejected.
3. To assess and analyze the status of employees in terms of their cost of management is also one of the objectives of this study. In general, it was observed that for all the selected districts there has been on an average 10% growth of cost of management per employee as the compound annual growth rate for all the major districts for the selected time period is in general 10%.
4. The liquid assets to demand and time liabilities ratio was found to be far below than requirements under Sec 18 of the Banking Regulation Act, in case of all DCBs except Moradabad, where it was observed to be more than the required ratio, indicating excess funds in the form of liquid assets. As far as Uttar Pradesh and India are concerned, the case is no different, as we observed the Liquid assets to demand and time liabilities ratio is far below than required. Thus the hypothesis that in general the DCBs had maintained very low liquid assets may be accepted.

## REFERENCES

1. Chander, Ramesh and Chandel, Jai Kishan (2010). *Financial Viability of an Apex Cooperative Credit Institution- A Case Study of the HARCO Bank. Asia-Pacific Business Review, VI (2) 61-70.*
2. Chandra, B. (2006). *Performance of Burdwan Central Co-operative Bank in the Development of the strict (1988-99). Finance India , 20 (3), 991-994.*
3. E.V.K., P. (1993). *Funds management of district co-operative banks in Cochin.*
4. G.S., H. (2007). *Management Appraisal Of District Central Co-Operative Bank- A Case Of D.C.C. Bank Shimoga.*
5. Gandhimathi, V. S. (2010). *Determinants of Borrowing Behavior of Farmers - A Comparative Study of Commercial and Co-operative Banks. Agricultural Economics Research Review , 23 (1), 157-164.*
6. Jain (2001). *Comparative study of performance of District Central Cooperative Banks (DCCBs) of Western India i.e. Maharashtra, Gujarat & Rajasthan for the year 1999-2000 from the point of view of net profit/loss. NAFSCOB Bulletin, April-June 2001.*
7. Mavaluri, Boppana and Nagarjuna (2006). *A study on Cooperative Banks in India with Special reference lending practices. International journal of scientific & research publications, 2 (10), 61-70.*
8. Nabard data bank. (n.d.). Retrieved from [www.nabard.org: http://www.nabard.org/databank/pdf/Nabstats%20Issue%2](http://www.nabard.org/databank/pdf/Nabstats%20Issue%2)
9. Nafscob publications. (n.d.). Retrieved from [www.nafscob.org: http://www.nafscob.org/publications\\_f.htm](http://www.nafscob.org/publications_f.htm)
10. Ramappa, P., and Sivasankaraiah, M. (2007) *Performance of Rayalaseema Grameena Bank -A Study. Southern Economist, 45, (19), 25-28.*
11. Singh, Fulbag and Singh, Balwinder (2006). *Funds management in the central cooperative banks of Punjab- an analysis of financial margin. The ICFAI Journal of Management, 5, 74-80.*
12. Singla, Harish Kumar (2008). *Financial performance of banks in India. The ICFAI Journal of Management, 7(1).*