Research Paper Commerce

A Case Study on Banking Operations in Cooperative Sector Withreference to Visakhapatnam District Cooperative Bank, Visakhapatnam

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ABSTRACT

In the world of turbulence, Cooperative banks have taken different forms in different states according to their local needs and conditions. Some of the forms of cooperative include credit societies, marketing societies, consumer's societies, producer's cooperatives, processing cooperatives, industrial cooperatives etc. Though, the State of Andhra Pradesh is having so many forms of cooperative societies, the wide spread cooperatives are mainly the credit cooperatives.

In the State of Andhra Pradesh, the rural cooperative credit system generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts etc.). Co-operative banks differ from stockholder banks by their organization, their goals, their values and their governance.

KEYWORDS credit societies, marketing societies, consumer's societies, producer's cooperatives, rural cooperative credit system

Introduction

In the present scenario co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts etc.). Co-operative banks differ from stockholder banks by their organization, their goals, their values and their governance. In most countries, they are supervised and controlled by banking authorities and have to respect prudential banking regulations, which put them at a level playing field with stockholder banks. Depending on countries, this control and supervision can be implemented directly by state entities or delegated to a co-operative federation or central body.

Types of Co-operative Banks

The co-operative banks are small-sized units which operate both in urban and non-urban centers. They finance small borrowers in industrial and trade sectors besides professional and salary classes. Regulated by the Reserve Bank of India, they are governed by the Banking Regulations Act 1949 and banking laws (co-operative societies) act, 1965. The co-operative banking structure in India is divided into following 5 components:

Primary Co-operative Credit Society

The primary co-operative credit society is an association of borrowers and non-borrowers residing in a particular locality. The funds of the society are derived from the share capital and deposits of members and loans from central co-operative banks. The borrowing powers of the members as well as of the society are fixed. The loans are given to members for the purchase of cattle, fodder, fertilizers, pesticides, etc.

Central co-operative banks

These are the federations of primary credit societies in a district and are of two types those having a membership of primary societies only and those having a membership of societies as well as individuals. The funds of the bank consist of share capital, deposits, loans and overdrafts from state co-operative banks and joint stocks. These banks provide finance to member societies within the limits of the borrowing capacity of societies. They also conduct all the business of a joint stock bank.

State co-operative banks

The state co-operative bank is a federation of central co-operative bank and acts as a watchdog of the co-operative banking structure in the state. Its funds are obtained from share capital, deposits, loans and overdrafts from the Reserve Bank of India. The state cooperative banks lend money to central co-operative banks and primary societies and not directly to the farmers.

Land development banks

The Land development banks are organized in 3 tiers namely; state, central, and primary level and they meet the long term credit requirements of the farmers for developmental purposes. The state land development banks oversee, the primary land development banks situated in the districts and tehsil areas in the state. They are governed both by the state government and Reserve Bank of India. Recently, the supervision of land development banks has been assumed by National Bank for Agriculture and Rural development (NABARD). The sources of funds for these banks are the debentures subscribed by both central and state government. These banks do not accept deposits from the general public.

Urban Co-operative Banks

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered on communities, localities, work place groups. They essentially lend to small borrowers and businesses. Today, their scope of operations has widened considerably.

The origins of the urban co-operative banking movement in India can be traced to the close of nineteenth century. Inspired by the success of the experiments related to the cooperative movement in Britain and the co-operative credit movement in Germany, such societies were set up in India. Co-operative societies are based on the principles of cooperation, mutual help, democratic decision making, and open membership. Co-operatives represented a new and alternative approach to organization as against proprietary firms, partnership firms, and joint stock companies which represent the dominant form of commercial organization. They mainly rely upon deposits from members and non-members and in case of need, they get finance from either the district central co-operative bank to which they are affiliated or from the apex co-operative bank if they work in big cities where the apex bank has its Head Office. They provide credit to small scale industrialists, salaried employees, and other urban and semi-urban residents.

Functions of co-operative banks

The cooperative banks play a very important role in both rural and urban financing. A sharp increase in primary co-operative banks has led to rapid development of businesses of cooperative bank not only in urban areas but also in rural area in recent years. Majorly the cooperative banks in rural India facilitate financing for farming, cattle, milk, hatchery, personal finance, etc. whereas, in urban areas they facilitate finance for elf-employment, small scale industries, home finance, consumer finance, personal finance, etc. hence some of the functions of cooperative banks are presented here under.

1) Commercial banks are joint-stock companies under the companies' act of 1956, or public sector bank under a separate act of a parliament whereas co-operative banks were established under the co-operative society's acts of different states.
2) Commercial bank structure is branch banking structure whereas co-operative banks have a three tier setup, with state co-operative bank at apex level, central / district co-operative bank at district level, and primary co-operative societies at rural level.
3) Only some of the sections of banking regulation act of 1949 (fully applicable to commercial banks), are applicable to co-operative banks, resulting only in partial control by RBI of co-operative banks and
4) Cooperative banks function on the principle of cooperation and not entirely on commercial parameters.

Cooperative banks have taken different forms in different states according to their local needs and conditions. Some of the forms of cooperative include credit societies, marketing societies, consumer's societies, producer's cooperatives, processing cooperatives, industrial cooperatives etc. Though, the State of Andhra Pradesh is having so many forms of cooperative societies, the wide spread cooperatives are mainly the credit cooperatives.

In the State of Andhra Pradesh, the rural cooperative credit system is divided into long-term and short-term, medium-term cooperative credit institutions which have a multitier structure. The short-term/medium-term cooperative credit institutions have a three-tier structure comprising of State Cooperative Bank (SCB) at the State level, Cooperative Central Banks (CCBs) at the district level and Primary Agricultural Credit Societies (PACSs) at the village level. The PACSs are not banks but only societies. However, the PACSis the basic foundation for the whole edifice of Cooperative Credit. In the initial period, the long-term Cooperative Credit institutions have a two-tier structure comprising of State Cooperative Agriculture and Rural development Bank (SCARDB) and the Primary Cooperative Agriculture and Rural Development Banks (PCARDBS). But the Government of Andhra Pradesh has appointed a High Power Committee in 1982 headed by Sri Mohankanda to suggest a re-organization of credit cooperatives in the State. This Committee has recommended the introduction of Single Window System. After obtaining the approval from the Central Government, the Government of Andhra Pradesh has started "The Single Window System" with effect from 1-4-1987.

Though, there is not much of a difference in the structure of these societies after the reorganization, the functions have increased enormously. At the time of the introduction of Single Window System, there were 6,695 PACSs in the State. But, they were reorganized into 4,564 viable Societies to maintain the viability criterion. Similarly, the 27 DCCBS were reorganized into 22 DCCBs in order to maintain the norm of one district one DCCB. The Primary Agricultural Development Banks were abolished and their assets and liabilities were allotted to the respective DCCBs. With the approval of the Central Government, the Andhra Pradesh State Cooperative Agricultural Development Bank was merged with the Andhra Pradesh State Cooperative Bank in April, 1994. At present there are 22 recognized cooperative banks are functioning in Andhra Pradesh. The details of cooperative banks and their functional status in Andhra Pradesh is presented in the following Table-1.

Table-1: District Central Cooperative Banks Andhra Pradesh
(Amount in Lakhs)

S. No.	Main Items	2012-2013	2013-2014	During 2013-2014over 2012-2013	
				Net increase	% Increase
1	No. of D.C.C. banks	22	22	0	0.0
2	No. of offices incl. H. O.	567	577	10	1.73
3	Total membership (no.)	1078579	1511302	-4116	28.63
4	Paid up capital a. Of which govt.	109395 27816	105279 26059	-1757 -47566	-3.91 -6.74
5	Total reserves a) Statutory b) A.C.S. fund	198236 43249 33261	150670 20961 5517	-22288 -27744 42265	-31.57 -106.33 -502.88
6	Total deposits a) Cooperatives b) Individuals	448601 176499 256253	490866 177877 276359	42265 1378 20106	8.61 0.77 7.28
7	Total borrowings	582659	649973	67314	10.36
8	Working capital	1333775	1463030	129255	8.83
9	Investments	305514	309958	4444	1.43
10	Total loans outstanding	940256	1578174	637918	40.42
11	Total loans outstanding	881834	983556	101722	10.34
12	Total demand	811189	969964	158775	16.37
13	Total collection	557751	733314	175563	23.94
14	Balances (overdues) collection	253438	236650	-16788	-7.09
15	% of overdues to demand	31.24	24.4	-6.84	-28.03
16	Cost of management (CM)	20625	21735	1110	5.11
17	% of CM to WC	1.55	1.49	-0.06	-4.03
18	Total no. of employees	3680	4373	693	15.85

Source: author's data

Performance of cooperative societies under Single Window System

The PACS have always played an important role in providing credit to agriculture and allied activities in Andhra Pradesh. Further, with the introduction of Single Window System in 1987, these PACS have been playing critical functions by providing multi-term credit and multi-functional services to farmers in Andhra Pradesh.The data relating to the functioning of PACS before and after the introduction of Single Window System are presented in Table-2.4. From the Table it may observed that there is a significant growth in the membership of PACS in the State as well as in the District of Visakhapatnam after the introduction of Single Window System. The total membership of PACS in the State has increased from 80.73 lakhs in 1986-87 to 153.14 lakhs by 1998-99. During the period the total membership of PACS in the District has more than doubled from 2.96 lakhs to 5.19 lakhs. However in terms of the number of PACS there is a considerable decline both at the State and District levels. At the time of the introduction of Single Window System, the total number of PACS in the State were estimated as 6,785 and the same has decreased to 4,

678 by 1998-99. Similarly, the number of PACS in Visakhapatnam District has come down from 165 to 111 during the same period. This significant decline in the number of PACS has been attributed to the consolidation and amalgamation of PACS on the basis of viability criteria under the Single Window System.

Table 2
Position of cooperative societies before and after the introduction of Single Window System in Andhra Pradesh and Visakhapatnam
(Rs. In crores)

	Before single window system		After single window system		
	A.P. (1986-87)	VSP (1986-87)	A.P. (1998-99)	VSP (1998-99)	VSP (2013-14)
Societies (Numbers)	6785	165	4678	111	111
Membership (lakhs)	80.73	2.96	153.14	5.19	8.25
Share capital	62.05	2.07	589.00	12.79	23.39
Deposits	18.85	1.09	309.88	5.75	21.91
Borrowings	332.36	5.90	3251.40	102.90	215.65
Working capital	433.70	10.06	6169.47	186.77	235.96
Loans advanced	250.59	9.62	3368.24	69.57	18.32
Loans recovered	214.13	8.93	1273.61	42.93	86.02
Loans outstanding	406.00	6.87	4434.38	102.62	256.12
Overdues	158.30	3.61	1485.23	29.73	95.20

Source: author's data

With regard to the actual performance of the credit cooperative societies , data reveal a significant growth in terms of share capital, deposits, borrowings, loans advanced, loans outstanding etc.,

The total share capital of the credit cooperative societies in the State increased from Rs. 62.05 crores in 1986-87 to Rs. 589.00 crores by 1998-99. During the same period the total share capital of credit cooperative societies in Visakhapatnam District has increased by six times from Rs. 2.07 crores to Rs. 12.79 crores.

The total deposits of credit cooperative societies in the State have gone by fifteen times from Rs. 18.95 crores in 1986-87 to Rs. 309.88 crores by 1998-99. On the other hand, the total deposits of credit cooperative societies in Visakhapatnam Districts experienced a five-fold increase from Rs. 1.09 crores to Rs. 5.75 crores in the corresponding period.

However, with regard to total borrowings of credit cooperative societies significant variations are found between the State and the District. While the total borrowings of the credit cooperative societies in the State have increased by ten times i.e., from Rs. 332.36 crores in 1986-97 to Rs. 3, 251.40 crores by 1998-99, the total borrowings of credit cooperative societies in the District have gone up by nearly 20 times i.e. from Rs. 5.90 crores to Rs. 102.90 crores, during the same period.

A significant growth is also observed in the case of working capital both at the State and the District levels under the Single Window System. When the total working capital of the credit cooperative societies in the State has increased from Rs. 433.70 crores in 1986-87 to Rs. 6, 169.47 crores by 1998-99, credit cooperative societies in Visakhapatnam District accounted for a significant growth from Rs. 10.06 crores to Rs. 186.77 crores during the same period.

The introduction of Single Window System also affected the total amount of loans advanced by credit cooperative societies both at the State and the District levels. While the total loans advance by credit cooperative societies in the State have increased from Rs. 250.59 crores in 1986-87 to Rs. 3368.24 crores by 1998-99, the District credit cooperative societies, share has increased from Rs. 9.62 crores in the corresponding period.

However, the performance of credit cooperative societies in the District is found to be relatively poor compared to the performance of credit cooperative societies in the State with respect to loans outstanding and over dues. While the total loans outstanding of credit cooperative societies in the State increased from Rs. 406.00 crores in 1986-87 to Rs. 4434.38 crores (i.e. a ten-fold increase), loans outstanding of credit cooperative societies in the District increased from Rs. 6.87 crores to Rs. 102.62 crores (i.e. a sixteen fold increase) during the same period. A similar trend is also observed in term loans recovered and over dues of credit cooperative societies in the State on well on in the District.

If the analysis is extended up to 2013-14 for Visakhapatnam District the performance is quite encouraging without any exception. This picture is also true in case of overdue etc. which is quite distressing. The above analysis clearly reveals that credit cooperative societies in the State as well as in the District have experienced significant growth in terms of membership, share capital, deposits, borrowings, loans advanced etc. However, in terms of loans recovered, loans outstanding and over dues their performance is found to be not satisfactory.

Conclusion
The Cooperative Bank, Visakhapatnam being a bank of farmers and business people who take short-term and long-term loans in the district. It collects unutilized savings of the public and mobilizes them in productive channels.The deposit mobilization of the cooperative banks enables the people of the rural area to recycletheir funds particularly in the area of credit deployment. They are providing attractiveinterest rates on deposits. The credit deployment of the cooperative banks was broadly categorizedinto two viz., farm and non-farm advances. Farm advances include agricultural termloans and crop loans where as non-farm advances include advances to rural artisans, selfemployed,self-help groups, small and cottage industries etc. The DCCB has given equalimportance to both sectors as far as the deployment of credit is concerned. Throughthe cooperative banks extended their services even to the remote places of the district,thecredit-deposit ratio was always higher than 100 percent except in the year 2013-14. Tofill the gap in the credit-deposit ratio, the cooperative banks getting refinance from NABARDand Government etc. In addition to the banking services, it is also extending othervaluable services such as crop insurance, debt relief and waivers, supply of agriculturalinputs etc. Thus it is evident from the above study that Cooperatives Banks are playing akey role in the progress of Visakhapatnam district in particular and the Andhra Pradesh as a whole.

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