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# **Evaluating Financial Health of Credit Cooperatives in Maharashtra of India**

**Deepak Shah\***

## **Context:**

Among various states of India, the Rural Financial Institutions (RFIs) of Maharashtra are reported to show the highest amount of overdues and outstanding loans over the past one decade (Gulati and Bathla, 2002). Even the proportion of overdues to outstanding loan of RFIs are substantially high in this state. One of the earlier studies conducted in cooperative sector of Maharashtra has clearly shown better financial health for the institutions at the district level as compared to the primary or grass root level (Shah, 2001). It is not the cooperatives alone but there are several RFIs that are beset with similar plethora of deficiencies that impede their efficient functioning. This necessitates a relook at the performance of various agricultural financial institutions operating in Maharashtra with a view to recommending, designing and framing appropriate policies to rejuvenate the existing rural credit delivery in this state.

The major foci of attention of this paper are on not only to review the rural credit scenario of Maharashtra but also to examine the banking business, in general, and disparity in distribution of credit, in particular, in both forward and backward regions/districts of Maharashtra. The scope of the study stretches further to the evaluation of issues related to viability of these agricultural financial institutions operating in these regions/districts of the state, especially in the era of financial sector reforms.

The entire paper is divided into two sections. While the first section specifically focuses on the evaluation of credit delivery in forward and backward districts of Maharashtra, the second section is chiefly devoted to examining the functioning of various RFIs in the state.

## **Section I**

### **Banking Business in Forward and Backward Districts**

The composition of banking network in the forward district of Sangli of Maharashtra of India encompasses 15 nationalised banks, four scheduled commercial banks, Maharashtra State Finance Corporation (M.S.F.C.), Sangli District Central Cooperative Bank (SDCCB), and Maharashtra State Cooperative Rural Development Bank (MSCARDB). Among these, the SDCCB has the largest network of rural branches and plays a pivotal role in implementing the District Credit Plan (DCP) as well as in distributing rural credit. The implementation of DCP and the performance achieved under it are regularly monitored in the Block Level Bankers

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Committee (B.L.B.C.) meetings at the block level as well as in the District Level Consultative Committee (D.L.C.C.) meetings at the district level. Periodic review of performance achieved under DCP helps in bringing on surface the strengths and weaknesses of various programmes relating to socio-economic development. Due to the concerted efforts of the members of D.L.C.C, the banking business of this district has flourished significantly over time.

As for the backward district of Buldana of Maharashtra of India, the banking network encompasses a group of four public sector banks, two banks relating to State Bank group, two cooperative banks, two Gramin banks, and M.S.F.C. However, in general, these banks are broadly classified as commercial and cooperative banks.

In general, the development of banking business in Sangli and Buldana districts has been evaluated in terms of growth trends in credit in relation to deposits and also in terms of targets achieved by various banks under DCP during the period between 1989-90 and 1998-99, and these estimates for commercial and cooperative banks, are brought out in Table 1.

A critical evaluation of Table 1 shows dwindling of credit-deposit ratio of commercial banks in the forward district of Sangli , which has fallen even below 60 per cent in 1997-98. Like commercial banks, the cooperative banks in this district have also shown a declining C-D ratio during the decade of 1990s. Nonetheless, it is to be noted that this C-D ratio for cooperative banks remained well above 100 per cent all through the period between 1989-90 and 1997-98. During the given period of time, the SDCCB has shown lower C-D ratio as compared to cooperative banks in general operating in this district.

The commercial banks operating in backward district of Buldana have also shown a falling C-D ratio all through the decade of 1990s. The C-D ratios of commercial banks of this district have fallen from 88 per cent in 1989-90 to 61 per cent by 1998-99. The cooperative banks operating in this district have also followed a trend similar to commercial banks and have shown their C-D ratio to fall from as high as 130 per cent in 1992-93 to nearly 100 per cent by 1998-99. The C-D ratio of BDCCB is seen to be much lower than the overall C-D ratio of cooperative banks operating in this district. The higher C-D ratios of cooperative banks are mainly due to their higher amount of loan advances as compared to their deposits.

It is also clearly evident from Table 1 that, during the period between 1990-91 and 1996-97, the commercial banks operating in Sangli district have not only achieved their targets of loan advances set for agriculture and allied activities but also for other priority sectors. Similarly, the cooperative banks operating in this district are also seen to achieve their targets of loan advances set for agriculture and allied. However, the performance of commercial banks in terms of achieving their targets of loan advances to various sectors is much better as compared to cooperative banks operating in this district.

**Table 1: Key Indicators of Development of Banking Business in Sangli and Buldana Districts**  
(C-D ratio in per cent)

Year	Forward District: Sangli					Backward District: Buldana				
	C-D Ratio	Achievement as % of Target				C-D Ratio	Achievement as % of Target			
		Agril. & Allied	SSI	OPS	Total		Agril. & Allied	SSI	OPS	Total
<b>Commercial Banks</b>										
1989-90	67.95					88.22	-	-	-	-
1990-91	71.59	135.52	85.70	173.30	139.67	78.05	-	-	-	-
1991-92	68.65	106.99	178.96	78.28	109.02	75.81	90.46	26.68	85.94	84.66
1992-93	65.70	92.03	197.03	105.43	103.96	75.64	98.45	89.72	71.99	92.78
1993-94	55.47	131.61	102.73	140.63	128.04	65.68	120.52	27.73	95.96	108.28
1994-95	61.23	129.81	166.16	173.98	145.15	63.11	137.39	47.84	175.51	132.74
1995-96	66.51	122.61	71.84	112.44	110.82	59.81	110.64	5.62	165.23	99.73
1996-97	61.20	107.46	66.90	109.61	100.10	63.18	89.14	28.28	59.62	77.74
1997-98	54.21	-	-	-	-	65.48	101.57	39.89	71.83	90.74
1998-99	-	-	-	-	-	61.13	102.26	87.18	100.53	100.82
<b>Cooperative Banks<sup>@</sup></b>										
1989-90	127.20 (85.93)	-	-	-	-	122.98 (100.83)	-	-	-	-
1990-91	169.79 (121.39)	106.75	91.57	109.68	105.47	113.68 (88.90)	-	-	-	-
1991-92	145.33 (145.33)	106.77	65.94	169.10	112.97	130.58 (103.71)	100.93	98.42	151.84	102.18
1992-93	202.56 (155.71)	120.35	193.96	77.54	122.24	118.53 (91.99)	90.78	43.48	14.40	79.63
1993-94	157.86 (119.98)	125.29	130.31	109.99	125.34	113.95 (91.60)	115.27	25.34	2.99	94.73
1994-95	203.42 (169.39)	121.67	205.78	70.25	127.01	104.95 (84.13)	119.58	104.78	22.09	115.10
1995-96	171.99 (143.54)	90.89	104.35	52.58	90.81	100.29 (82.26)	99.57	472.49	84.84	126.69
1996-97	143.07 (123.29)	75.94	85.25	82.86	76.63	92.91 (77.88)	84.30	93.44	15.41	83.35
1997-98	134.04 (106.22)	-	-	-	-	127.47 (109.85)	79.46	33.49	10.60	63.51
1998-99	-	-	-	-	-	99.49 (89.14)	85.79	112.28	169.80	106.38
<b>Grand Total</b>										
1989-90	84.91	-	-	-	-	99.45	-	-	-	-
1990-91	98.37	114.90	89.33	145.61	117.14	88.99	-	-	-	-
1991-92	89.75	106.83	101.43	137.29	111.78	94.37	96.86	66.20	97.10	94.56
1992-93	103.77	113.04	195.47	99.89	116.38	90.40	93.70	57.22	57.66	84.94
1993-94	86.51	126.59	118.59	132.08	126.05	81.94	117.26	25.98	62.95	100.04
1994-95	105.25	123.30	187.48	149.80	131.86	78.36	127.16	74.14	144.80	123.38
1995-96	103.11	97.26	86.65	100.34	96.49	74.77	103.83	139.19	157.26	113.77
1996-97	90.70	82.27	74.52	104.57	83.54	75.22	86.58	53.82	55.87	80.35
1997-98	79.57	75.03	46.60	71.10	71.96	86.77	88.97	37.17	16.85	73.20
1998-99	-	-	-	-	-	77.26	93.17	94.19	147.22	104.17

Source: Figures have been compiled from 'District Credit Plan (Various Years) Under Service Area Approach', Districts: Sangli and Buldana, Maharashtra.

Notes: @-including loan advances of LDBs and Maharashtra State Finance Corporation (MSFC)

1) Figures in parentheses are C-D ratios for SDCCB Ltd and BDCCB Ltd., respectively.

2) For Sangli District: Commercial Banks include State Bank of India (SBI), Bank of Baroda (BOB), Bank of Maharashtra (BOM), Canara Bank (CB), Central Bank of India (CBI), Corporation Bank (CB), Dena Bank (DB), Indian Bank (IB), Punjab National Bank (PNB), Punjab and Sind Bank (PSB), Syndicate Bank (SB), UCO Bank, Union Bank of India (UBI), Vijya Bank (VB), Sangli Bank Ltd. (SB Ltd.), United Western Bank (UWB), Ratnakar Bank Ltd. (RB Ltd.), Bank of India (BOI). Cooperative Banks include Sangli District Central Cooperative Bank (SDCCB), Maharashtra State Cooperative Rural Development Bank (MSCARDB), and Maharashtra State Finance Corporation (MSFC).

3) For Buldana District: Commercial Banks include State Bank of India (SBI), Bank of Baroda (BOB), Bank of Maharashtra (BOM), Central Bank of India (CBI), Punjab National Bank (PNB), State Bank of Hyderabad (SBH), Buldana Gramin Bank (BGB), and United Western Bank (UWB). Cooperative Banks include Buldana District Central Cooperative Bank (BDCCB), Lead Development Banks (LDBs), and Maharashtra State Finance Corporation (MSFC).

Interestingly, neither the commercial nor the cooperative banks have achieved the targets of loan advances set for S.S.Is, especially during 1995-96 and 1996-97. As a result, the overall targets of loan advances achieved by commercial and cooperative banks have fallen close to 100 per cent during these years. As for the achievement of targets of loan advances under DCP, both commercial and cooperative banks, in general, are seen to show better performance during the period between 1990-91 and 1994-95 and thereafter a deterioration in their performance in this respect is seen.

An analysis drawn from Table 1 also shows better performance of commercial banks operating in Buldana district as for the achievements of their targets of loan advances to agriculture and allied activities are concerned. Cooperative banks in this district are seen to have performed well as far as the achievements of their targets of loan advances to S.S.Is. and other priority sectors are concerned. However, mention may be made here that the overall performance of cooperative banks in Buldana district in terms of achieving their targets of loan advances to various sectors is much better as against the commercial banks. Not only the cooperative banks have shown better performance in terms of achieving their targets of loan advances under DCP but also in respect of C-D ratio, which is seen to have been higher than commercial banks and in accordance with the norms stipulated by the RBI.

It is to be further noted that the loan advances of commercial banks to priority sectors in Sangli district remained well above 40 per cent of their total loan advances during the period between 1991-92 and 1996-97 (Table 2). Similarly, during the same period, the direct advances of commercial banks to agriculture also remained above 18 per cent of their total loan advances as stipulated by the RBI. Except for the year 1996-97, the advances of commercial banks to weaker sections also remained above 10 per cent as stipulated by the RBI. Nonetheless, the disquieting feature of Table 2 is the loan advances of commercial banks under DRI schemes, which is seen to have remained less than 1 per cent of their total loan advances all through the period between 1991-92 and 1996-97. On the hand, the cooperative banks in this district have shown relatively better performance insofar as their loan advances to priority sectors and loan advances to weaker sections are concerned.

The cooperative banks operating in this district have strictly followed the minimum prescribed limits of the RBI. Table 2 also shows a steady increase in loan advances of commercial banks to non priority sectors. Contrary to this, the loan advances of cooperative banks to these sectors have come down in course of time.

Thus, the estimates relating to banking business presented in Tables 1 and 2 reveal much better performance of cooperative banks during the decade of 1990s. The cooperative banks have performed well not only in forward district of Sangli but also in Backward district of Buldana.

**Table 2: Distribution of Loan Advances to Various Sectors/Purposes in Sangli District**  
(Amount in Lakh Rupees)

Banks/Years	Loan Advances	Percentage to Total Loan Advances				
		PS Advances	DA Advances	WS Advances	DRI Advances	NPS Advances
<b>Commercial Banks</b>						
1991-92	22190.03	55.52	31.29	14.65	0.62	44.48
1992-93	24575.89	51.49	29.06	14.38	0.43	48.51
1993-94	25021.86	53.63	28.21	14.69	0.49	46.37
1994-95	30737.57	48.71	25.07	10.96	0.43	51.29
1995-96	37239.73	46.36	24.18	11.11	0.71	53.64
1996-97	39075.64	46.58	24.03	8.14	0.68	53.42
<b>Cooperative Banks</b>						
1991-92	17830.13	44.31	-	1.15	-	55.69
1992-93	29191.94	55.23	44.86	6.29	-	44.77
1993-94	30975.00	60.45	49.67	16.08	-	39.55
1994-95	45793.73	49.37	40.41	15.09	-	50.63
1995-96	51164.57	49.20	41.47	16.58	-	50.80
1996-97	51854.24	53.36	41.09	16.01	-	46.64
<b>Grand Total</b>						
1991-92	40020.16	50.52	17.35	8.37	0.35	49.48
1992-93	53767.83	53.52	37.64	9.99	0.20	46.48
1993-94	55996.86	57.40	40.08	15.46	0.22	42.60
1994-95	76531.30	49.11	34.25	13.43	0.17	50.89
1995-96	88404.30	48.00	34.19	14.28	0.30	52.00
1996-97	90929.88	50.44	33.76	12.63	0.29	49.56

Source: As in Table 9.

Notes: 1) PS = Priority Sector; DA = Direct Agriculture; WS = Weaker Sections

DRI = Differential Rate of Interest Schemes; NPS = Non Priority Sector

2) RBI has stipulated minimum levels as follows: (i) Advances to priority sector – 40 % of total advances, (ii) Advances to agriculture – 18 % of total advances, (iii) Advances to weaker sections – 10 % of total advances, (iv) Advances under DRI schemes – 1 % per cent of total advances, and (v) Credit/Deposit ratio – a minimum of 60 %.

The credit delivery and recovery performance of cooperative banks are noticed to be remarkable in the forward district of Sangli. Nonetheless, as for the achievements of targets of loan advances to various sectors, the commercial banks of Sangli district have performed better than cooperative banks operating in this district. At the same time, it deserves mention here that both commercial and cooperative banks have shown rather poor performance insofar as their achievements of targets of loan advances to S.S.Is are concerned. This holds good in both the forward district of Sangli and the backward district of Buldana. Shrinking flow of credit to S.S.Is during the decade of 1990s is certainly a matter of concern.

### **Institutional Viability**

The focus of the present study is on assessing viability of only central level credit institutions operating in both forward district of Sangli and backward district of Buldana. These central level credit institutions are: Sangli District Central Cooperative Bank (SDCCB) and Buldana District Central Cooperative Bank (BDCCB). The viability of these credit institutions is evaluated with the help of estimation of break-even levels of their total loan advances and deposits, and also through estimation of various financial ratios, particularly for the period between 1984-85 and 1998-99.

### Break-even Analysis

The estimates on the variable cost incurred and income generated in respect of per hundred rupee of money spent on advances coupled with break-even points of loan advances and deposits for SDCCB and BDCCB encompassing the period between 1984-85 and 198-99 are provided in Table 3.

The estimates provided in Table 3 show that the SDCCB granted 12.62 per cent higher loan than the break-even level during TE 1986-87, 26.59 per cent during TE 1992-93, and 5.88 per cent during TE 1998-99. A similar trend was also noticed in respect of break-even level of deposits and actual deposit of the bank. The actual deposit of SDCCB turned out to be 23.38 per cent higher than the estimated break-even level during TE 1986-87, 26.66 per cent during TE 1992-93 and 5.94 per cent during TE 1998-99. Thus, the financial viability of SDCCB had declined during TE 1998-99 as against TE 1986-87 and TE 1992-93 consequent to break-even levels of both advances and deposits becoming very close to actual advances and deposits during the late nineties as compared to mid-eighties and the early nineties.

**Table 3: Break Even Levels of Advances and Deposits for SDCCB and BDCCB**

Particulars	TE 1986-87 (1)	TE 1992-93 (2)	TE 1998-99 (3)	% Change		
				2 over 1	3 over 2	3 over 1
<b>SDCCB</b>						
1. Income per Hundred Rupee Advance (Rs.)	22.30	20.68	28.02	-7.26	35.49	25.65
2. Variable Cost per Hundred Rupee Advance (Rs.)	18.15	16.73	23.85	-7.82	42.56	31.40
3. Margin per Hundred Rupee Advance	4.15	3.95	4.17	-4.82	5.56	0.48
4. Fixed Expenses (Lakh Rs.)	229.95	623.93	1838.98	171.33	194.74	699.73
5. Break Even Point (BEP) for Advance	5547.22	15762.55	44066.35	184.15	179.56	694.39
6. Break Even Point (BEP) for Deposit	7072.94	15470.99	51222.94	118.73	231.09	624.21
7. Actual Advance (Lakh Rs.)	6247.02	19953.40	46656.68	219.41	133.83	646.86
8. Actual Deposit (Lakh Rs.)	7948.62	19595.55	54265.89	146.53	176.93	582.71
9. Percentage of Actual Advance to BEP	112.62	126.59	105.88	13.97	-20.65	-6.74
10. Percentage of Actual Deposit to BEP	112.38	126.66	105.94	14.28	-20.72	-6.44
11. Percentage of BEP to Actual Advance	88.80	78.99	94.45	-	-	-
12. Percentage of BEP to Actual Deposit	88.98	78.95	94.39	-	-	-
<b>BDCCB</b>						
1. Income per Hundred Rupee Advance (Rs.)	16.21	18.17	23.00	12.09	26.58	41.88
2. Variable Cost per Hundred Rupee Advance (Rs.)	11.38	12.60	17.15	10.72	36.11	50.70
3. Margin per Hundred Rupee Advance	4.83	5.57	5.85	15.32	5.03	21.12
4. Fixed Expenses (Lakh Rs.)	131.74	283.76	2308.37	115.39	713.49	1652.22
5. Break Even Point (BEP) for Advance	2739.93	5105.54	39200.95	86.34	667.81	1330.73
6. Break Even Point (BEP) for Deposit	1973.44	5197.12	49568.28	163.35	853.76	2411.77
7. Actual Advance (Lakh Rs.)	2984.78	5344.31	15716.78	79.05	194.08	426.56
8. Actual Deposit (Lakh Rs.)	2156.30	5443.78	19998.49	152.46	267.36	827.44
9. Percentage of Actual Advance to BEP	108.94	104.68	40.09	-4.26	-64.59	-68.85
10. Percentage of Actual Deposit to BEP	109.27	104.75	40.34	-4.52	-64.41	-68.93
11. Percentage of BEP to Actual Advance	91.80	95.53	249.42	-	-	-
12. Percentage of BEP to Actual Deposit	91.52	95.47	247.86	-	-	-

As for the BDCCB, The break-even level of loan advances was estimated at Rs.2739.93 lakhs in TE 1986-87, Rs.5105.54 lakhs in TE 1992-93, and Rs.39200.95 lakhs in TE 1998-99. As against this, the actual loan advances of this bank were Rs.2984.79 lakhs in

TE 1986-87, Rs.5344.31 lakhs in TE 1992-93, and Rs.15716.78 lakhs in TE 1998-99. Thus, the bank granted 8.94 per cent higher loan than the break-even level during TE 1986-87 and 4.68 per cent during TE 1992-93. However, during TE 1998-99, the actual loan advance of BDCCB was much lower than the breakeven level and a deficit in this loan to the tune of around 60 per cent was noticed during this period. A similar trend was also noticed in respect of break-even level of deposits and the actual deposit of the bank. The actual deposit of BDCCB turned out to be 9.27 per cent higher than the estimated break-even level during TE 1986-87 and 5.23 per cent during TE 1992-93 with a deficit in this deposit estimated at 60 per cent during TE 1998-99.

### **Ratio Analysis**

Five different categories of ratios have been estimated with a view to analyze the operational and functional efficiency of SDCCB and BDCCB and these ratios for the three time periods under consideration are brought out in Table 4.

A critical evaluation of Table 4 revealed that though the financial health of SDCCB had improved during the second half as against the former half of the overall period considered, the more recent period, i.e. the late nineties period, was found to be marked with declining profitability ratios, fixed ratio, asset turnover ratio, income-expenditure ratio, equalization and income multiplier, and marginal efficiency of capital of SDCCB. Although the capitalization ratio of SDCCB gave an indication that the permanent capital of this financial institution had increased over time, this increase in permanent capital of SDCCB, however, might not be considered as a sign of improvement in its efficiency since major portion of SDCCB's assets were financed by debt and this dependency on debt had marginally increased during the latter half as against the former half of the overall period. Further, hardly any improvement in the net worth of SDCCB was observed and in fact the share of net worth in total liability of SDCCB had rather declined over time.

The declining share of net worth was instrumental in causing an increase in debt asset ratio of SDCCB during the latter period. This apart, the return on owner's equity had also drastically fallen during the late nineties period as against the early nineties. Thus, it could be interpreted that the financial health and economic viability of SDCCB had considerably declined in more recent times, ignoring increasing trends in several financial ratios. In fact, the return on owner's equity is a function of how efficiently a firm manages its assets, the net profit margin on sales, and the degree of financial leverage. A decline in returns on equity of SDCCB could, therefore, be considered as a sign of decline in the efficiency of SDCCB in managing its assets and liabilities, and also income and expenditure pattern, especially in more recent times.



**Table 4: Financial Ratio Analysis for SDCCB and BDCCB**

Financial Ratios	SDCCB			BDCCB		
	TE 1986-87	TE 1992-93	TE 1998-99	TE 1986-87	TE 1992-93	TE 1998-99
<b>A. Liquidity Ratios</b>						
a. Current Ratio	1.40	1.45	1.73	1.13	1.18	1.14
b. Acid Test Ratio	1.06	0.85	1.05	0.98	1.10	1.48
<b>B. Profitability Ratios</b>						
a. Rate of Return on Asset (%)	0.27	0.58	0.15	0.24	0.13	-4.37
b. Return on Owner's Equity	3.74	7.47	2.10	2.67	1.62	-67.77
<b>C. Financial Leverage Ratios</b>						
a. Debt-Asset Ratio (%)	92.67	93.28	93.16	91.13	91.81	93.00
b. Capitalization Ratio (%)	87.55	87.83	89.84	0.73	0.81	0.86
c. Fixed Ratio	0.31	0.38	0.31	0.64	0.56	0.55
d. Net Capital Ratio	1.08	1.07	1.08	1.10	1.09	1.08
e. Equity Ratio	0.08	0.07	0.08	0.10	0.09	0.08
f. Equity to Asset Value Ratio	0.07	0.07	0.07	0.09	0.08	0.07
<b>D. Efficiency Ratios</b>						
a. Asset Turnover (times)	0.62	0.71	0.66	0.55	0.52	0.55
b. Accounts Receivable Turnover (times)	16.11	10.25	19.87	12.80	8.66	5.71
c. Days Advances Outstanding (days)	22.72	37.44	18.62	28.62	42.85	67.73
<b>E. Income Ratios</b>						
a. Income-Expenditure Ratio (%)	101.96	104.27	100.78	102.75	101.37	81.66
b. Gross Ratio (%)	98.09	95.91	99.20	97.35	98.65	131.86
c. Operating Ratio (%)	79.16	77.72	84.03	64.58	64.95	69.00
d. Rate of Capital Turnover	0.14	0.15	0.18	0.09	0.09	0.13
<b>F. Other Diagnostic Tools / Ratios</b>						
a. Equalization Multiplier	-	49.02	36.01	-	22.45	34.50
b. Income Multiplier	-	6.62	4.73	-	8.67	6.99
c. Marginal Efficiency of Capital	0.27	0.58	0.14	0.32	0.16	-4.46
d. Debtors / Creditors Ratio	5.37	3.83	5.95	3.02	3.81	6.29

Inssofar as the BDCCB is concerned, the mounting NPAs or overdue or bad debt during the late nineties period had adversely affected majority of the estimated ratios during this period. Not only the permanent capital position of BDCCB was noticed to weaken during the late nineties period but its dependency on debt for its finances had also sharply increased during this period. The share of net worth in total liability of BDCCB was also noticed to have sharply declined during the period between mid-eighties and the late nineties. The declining share of net worth had caused an increase in debt asset ratio of BDCCB during this period. Added to this, the return on equity of BDCCB had not only drastically fallen but it became negative during the late nineties period as against the mid-eighties or the early nineties period. The rate of return on asset and marginal efficiency of capital of BDCCB had also shown a drastic fall during the period between early- and the late nineties. All these disquieting trends clearly indicate non-viable functioning of BDCCB during the more recent times. Further, the negative value of return on equity of BDCCB noticed during the late nineties period clearly indicates inefficiency of BDCCB in managing its assets and liability, as also its income and expenditure patterns.

## Section II

### *Cooperative Bank Finances*

The trend over the past two decades show a slower growth in institutional finance through credit cooperatives during the decade of economic reforms (1991-2000) as against the decade preceding it (1980-1990). Not only this, the reform period is also seen to be marked with a slower growth in membership of credit cooperatives in Maharashtra (Table 5). On the other hand, the outstanding loans of these cooperatives have grown at much faster rate as compared to their loan advances during both pre-and post economic reform periods.

**Table 5: Cooperative Bank Finances in Maharashtra; 1980-2000**

(Amount in Crore Rupees)

Period	Cooperative Banks											
	No. of Coop. Inst./Soc.			No. of Members ('000')			Loan Advances			Outstanding Loansl		
	Apex	PACS	Total	Apex	PACS	Total	Apex	PACS	Total	Apex	PACS	Total
TE 1982/83	31	18565	18596	1109	5595	6704	3318	288	3606	1507	431	1938
TE 1990/91	34	19694	19728	1523	7910	9433	9298	929	10227	4811	1521	6332
TE 1999/00	34	20378	20412	1340	10432	11772	22195	2280	24475	15274	3456	18730
CGR (%)												
- 1980-90	1.33	-0.03 <sup>NS</sup>	-0.03 <sup>NS</sup>	1.01 <sup>NS</sup>	4.90	4.33	14.47 <sup>NS</sup>	13.64	14.08 <sup>NS</sup>	23.97 <sup>NS</sup>	12.59	18.50
- 1991-00	-	0.48	0.48	-1.91	3.48	2.72	7.12	9.36	9.74	13.52	9.07	12.98
- 1980-00	0.37	0.65	0.65	1.65	3.35	3.15	8.64	12.93	10.76	14.57	12.92	14.64

Source: Computations are based on figures obtained from various issues of 'Economic Survey of Maharashtra'

Notes: 1) CGR = Compound Growth Rates

2) All growth rates significant at 1 per cent level of probability

3) NS: Growth rates not significant at 1 per cent level of probability

4) Apex institutions include SCBs and DCCBs

Another interesting feature of credit cooperatives, particularly of PACS in Maharashtra, is the increasing trend in their share of medium and long term (MT &LT) advances and decline in their share of short term (ST) advances (Table 6). The trends in recovery and outstanding loans of PACS in Maharashtra are also similar to that of their loan advances, i.e., a declining share in short term recovery and outstanding loans of PACS in the face of an increasing trend in their share of MT and LT recovery and outstanding loans during the period between TE 1985 and TE 2000. This is a pointer to the fact that in more recent times medium and long term loans have become the major foci of farm finance. Nonetheless, mention may be made here that the PACS in Maharashtra are beset with several deficiencies in their functioning. The deficiencies are noticed in respect of their law operational efficiency, high incidence of overdue, low level of recovery, distributional aspect of ST and MT loans, coverage of SC/ST members, etc. (Shah, 2001).

**Table 6: Progress of PACS According to Type of Loan Advances, Recover and Outstanding Loans in Maharashtra**  
(Amount in Crores Rupees)

Period	Loan Advances				Recovery				Outstanding Loan			
	ST	MT	LT	Total	ST	MT	LT	Total	ST	MT	LT	Total
TE 1985	280 (81.79)	59 (17.35)	3 (0.86)	342	255 (87.75)	34 (11.85)	1 (0.40)	290	381 (72.23)	140 (26.53)	7 (1.24)	528
TE 1990	594 (72.67)	185 (22.63)	38 (4.71)	817	485 (77.85)	114 (18.32)	24 (3.83)	623	739 (61.97)	388 (32.58)	65 (5.45)	1192
TE 1995	790 (80.51)	162 (16.55)	29 (2.94)	981	656 (82.51)	124 (15.64)	15 (1.85)	795	1074 (59.18)	631 (34.76)	110 (6.06)	1815
TE 2000	1902 (76.05)	543 (21.69)	57 (2.26)	2502	1567 (81.37)	325 (16.90)	33 (1.73)	1925	2122 (60.09)	1219 (34.52)	190 (5.39)	3531

Source: Computations are based on figures obtained from various issues of 'Co-operative Movement at a Glance in Maharashtra, Office of the Commissioner for Co-operation & Registrar of Co-operative Societies, Maharashtra State, Pune

Notes: i) Figures in parentheses are percentages to the total

ii) TE: Triennium Ending; ST: Short Term; MT: Medium Term; LT: Long Term

The borrowing members per society of PACS are also reported to have come down, especially after the late eighties period. Further, despite Maharashtra being accounting for the bulk of the nation's total production and acreage under cotton crop, the share of this crop in total crop loan advances of PACS is also reported to have declined perceptibly, especially in more recent times (Shah, 2001). Even the statistics reported by Mujumdar (2001) at all-India level show a decline in borrowing farmers during the period between 1990-91 and 1995-96. However, this statistics is reported for commercial banks. In fact, the lackadaisical approach of PACS towards loan advances to SC/ST members and other weaker sections, and also for cotton crop calls for immediate remedial measures if Maharashtra is to continue to lead the country in the cooperative development.

### ***Commercial Bank Finances***

As for institutional finance to farming community, the commercial banks in Maharashtra have also not shown encouraging trends. The trend over the past two decades shows a slower growth in rural institutional finance through commercial banks during the decade of economic reforms as against the pre-economic reform period (Table 7). The commercial banks in Maharashtra have not only shown slower growth in their loan advances and deposits but also decline in their credit-deposit (C-D) ratio during the period of reforms as against the pre-economic reform period. However, mention may be made here that though the rural C-D ratio of commercial banks in Maharashtra has come down from 72 per cent during TE 1982/83 to 65 per cent by the TE 1999/00, it is still well above the minimum prescribed limit of 60 per cent as stipulated by the RBI.

It is to be further noted that in Maharashtra the outstanding loans of indirect finances of commercial banks have grown at much faster pace as compared to their outstanding loans of direct finances to farmers (Table 8).

**Table 7: Rural Deposits and Credits of Commercial Banks in Maharashtra**

(Amount in Crore Rupees)

Indicators	Triennium Ending			CGR (%)		
	1982/83	1992/93	1999/00	1980-90	1991-2000	1980-2000
Rural Deposits	381	1964	5145	19.05	14.40 <sup>NS</sup>	16.28
Rural Credits	274	1457	3346	17.08	12.28 <sup>NS</sup>	14.91
CD Ratio (%)	71.91	74.18	65.03	-	-	-

Source: Computations are based on figures obtained from various issues of 'Economic Survey of Maharashtra'

**Table 8: Progress of Distribution of Outstanding Advances of Scheduled Commercial Banks to Agriculture in Maharashtra Vis-à-vis India**

(Amount in Crore Rupees)

Period	FDFI		LEEBEW		OTIF <sup>@</sup>		DFF		Total	
	No. of Ac.	AO	No. of Ac.	AO	No. of Ac.	AO	No. of Ac.	AO	No. of Ac.	AO
<b>Maharashtra</b>										
1980	2649	18	1105	33	83396	90	485350	254	574500	395 (11.05)
TE 1985	4416	11	5012	69	51141	113	906131	572	966700	765 (10.02)
TE 1990	2458	16	176	44	20940	105	1548068	1388	1571642	1553 (10.06)
TE 1995	4557	24	2454	212	13541	175	1577661	1819	1598212	2230 (10.10)
TE 2000	2859	115	9256	386	21879	2241	1217692	3182	1251686	5924 (14.06)
<b>India</b>										
1980	36700	206	12010	145	1085002	433	8501469	2789	9635181	3573
TE 1985	50135	325	38119	392	639520	695	13582102	6220	14955262	7632
TE 1990	44514	363	54823	484	606412	645	20665098	13950	21370846	15442
TE 1995	45271	389	69127	923	314821	860	20486449	19916	20915667	22088
TE 2000	58477	1455	71915	1589	178850	6095	16810610	33001	17119839	42140

Source: Computations are based on figures obtained from various issues of 'Statistical Tables Relating to Banks in India, Department of Banking Operations and Development for the RBI, Bombay'

Note: Figures in Parentheses are shares of Maharashtra in India's total Outstanding Loans

@-includes loans to farmers through Primary Credit Societies

FDFI: Finance for Distribution of Fertilizer and other Inputs; LSEBEW: Loans to State Electricity Board for Energization of Well, etc.; OTIF: Other Types of Indirect Finance; DFF: Direct Finance to Farmers; AO: Amount Outstanding

Table 8 also shows an increasing trend in share of Maharashtra in total outstanding loans of all scheduled commercial banks of India, which has grown from 10 per cent during TE 1985 to as high as above 14 per cent by the TE 2000. These trends are certainly not very encouraging insofar as the commercial bank finances to farming community in Maharashtra are concerned. Despite the recommendations of the R.V. Gupta Committee, appointed in 1997, which encompass several changes in commercial bank's documentation, loan appraisal parameters, operational procedures and loan product with built-in liquid saving product, the rural credit delivery through commercial banks in Maharashtra has grown at lower pace, especially during the 1990s.

### **RRBs**

Undoubtedly, the major part of resources of RRBs is generated through deposits. Nonetheless, too much dependence on deposits and lack of attention paid to loan advances is certainly a disturbing phenomenon. In course of time, the RRBs in India have shown a drastic fall in their credit-deposit (C-D) ratio. The C-D ratio of RRBs at all-India level has come down from 123 per cent during 1981 to as low as 43 per cent by the TE 2000 (Table 9). The fall in this ratio is more sharp in the state of Maharashtra, which has come down from 148 per cent during 1981 to 55 per cent by the TE 2000. It is to be noted that in Maharashtra, as on March 2000, there were 582 branches of RRBs with Marathwada region accounting for around 50 per cent share in total numerical strength of these bank branches of RRBs. The decline in C-D ratio of RRBs is mainly due to diversion of substantial portion of their resources in investments instead of lending in rural areas. It should be recollected here that the chief objective of setting up of RRBs was the effective coverage of small and marginal farmers, landless labourers, rural artisans, etc. with a view to enhance their productive capabilities. The decline in their lending business is a clear cut reflection of deviation of RRBs from the objectives they were initially formed.

**Table 9: Progress of Deposit and Credit of Regional Rural Banks (RRBs) in Maharashtra Vis-à-vis India**  
(Amount in Lakh Rupees)

Period	Maharashtra			All-India		
	Deposit	Credit	CD Ratio (%)	Deposit	Credit	CD Ratio (%)
1981	557	824	147.94	33147	40682	122.73
TE 1985	1724	2034	117.40	97075	107492	110.73
TE 1990	8851	10709	120.99	353554	321839	91.03
TE 1995	22757	17373	76.34	861931	528835	61.35
TE 2000	75492	41562	55.05	2685412	1152160	42.90

Source: Computations are based on figures obtained from various issues of 'Statistical Tables Relating to Banks in India, Department of Banking Operations and Development for the RBI, Bombay'.

It has been asserted by Shivamaggi (2000) that the major problem faced by RRBs in India is the lack of staff motivation and specialization despite local recruitment of their staff. The poor performance of RRBs greatly owed it to their hurriedly recruited and trained staff that not only lack exposure in dealing with a large number of small-term/ composite loans but also in terms their weak knowledge to deal with bank accounts, seek assistance and guidance at each stage of loan application to its recovery.

### **Land Development Banks**

In the state of Maharashtra, the loan advances of LDBs have not only declined sharply during the period of reform but also working capital of these banks fell marginally during this period (Table 10). The membership of LDBs of Maharashtra has also grown at slower rate during the period between 1991 and 2000 as against the period between 1981 and 2000. Even the recovery of loans and share capital base of LDBs have weakened during the reform period.

Nonetheless, it is to be noted that the outstanding loans of LDBs in Maharashtra have grown at slower pace during the period between 1991 and 2000 as against the period between 1981 and 2000 (Table 10).

**Table 10: Progress of Maharashtra State Cooperative Land Development Banks (LDBs)**  
(Amount in lakh Rupees; Membership in thousands)

Period	Membership	Share Capital	Owned Funds	Borrowings	Working Capital	Loan Advances	Loans Recovered	Loans Outstanding
TE 1985	827	3743	7173	31182	44405	5651	2710	30627
TE 1990	926	4531	11922	48045	66685	8932	3846	49245
TE 1995	1111	7184	14766	68076	107311	13668	6089	82328
TE 2000	1189	9752	54633	109438	144262	4875	8641	99690
CGR (%)								
- 1981-00	2.79*	9.34*	13.18*	9.38*	6.07*	0.54	7.75*	9.21*
- 1991-00	1.65*	7.07*	38.61*	8.79*	-0.27	-18.53	6.83*	5.64*

Source: Computations are based on figures obtained from various issues of 'Co-operative Movement at a Glance in Maharashtra, Office of the Commissioner for Co-operation & Registrar of Co-operative Societies, Maharashtra State, Pune

In order to tackle the problem of overdue of LDBs, certain suggestions have been extended by Kumar and Dixit (1998), which mainly revolve around creation of greater coordination among ST, MT and LT loans and streamlining the operations of LDBs, checking the diversion and misuse of LDB's credit, effective supervision of loan product, strengthening the share capital base, and mobilizing deposits and debentures through more innovative deposits and debenture schemes. Another important suggestion in this context is in favour of launching intensive membership drive with a view to increase the coverage of these long term financial institutions. Some of the agricultural and rural development banks (ARDBs), popularly known as LDBs, have already taken initiatives in these directions.

### Conclusions

An analysis encompassing central level credit cooperatives operating in forward and backward districts of Maharashtra also revealed deterioration in their financial health due to mounting NPAs or overdues'. It is to be noted that both SDCCB and BDCCB showed a decline in their financial health and economic viability during the late nineties as against the early nineties period. Nonetheless, this deterioration in financial health witnessed particularly during the second half (between TE 1992-93 and TE 1998-99) of the overall period (TE 1986-87 and TE 1998-99) was found to be more pronounced in the case of BDCCB as not only various financial ratios estimated for this bank had declined during this period but majority of them were seen to be beset with negative values, especially during the late nineties period. The mounting NPAs or overdues' of BDCCB, noticed during the late nineties period, had grossly affected the functioning of this bank. They had not only affected various estimated financial ratios but also break-even levels of loan advances and deposits of this bank. Because of substantially high NPAs, the fixed expenses of BDCCB had been adversely affected, which in turn had grossly affected the break-even levels of loan advances and deposits of this bank, so

much so that there had been huge gap between the break-even levels of loan advances and deposits and the actual loan advances and deposits. The deficit between actual and the break-even levels were so high (about 60 per cent) that it was well-nigh impossible for BDCCB to overcome this situation. The mounting NPAs of BDCCB had also affected the profit profile of this bank during the late nineties period. The proportions of actual advance and deposits to their break-even levels of SDCCB had also come down during the latter half (between TE 1992-93 and TE 1998-99) as against the former half (between TE 1986-87 and TE 1992-93) of the overall period considered. Nonetheless, mention may be made here that there was no deficit between actual and break-even levels of loan advances and deposits of SDCCB during this period. Thus, while BDCCB had shown gross inefficiency in its functioning during the latter half of the overall period, the SDCCB, on the other hand, showed only a general deterioration in its financial health during this period.

One of the recent studies conducted by Shah (2004) has already shown high transaction costs and poor repayment performance as the twin root causes of the moribund state of rural credit delivery system. With a view to revive the agricultural credit delivery system, there is need to adopt innovative approaches like linking of Self-Help Groups (SHGs) and Non-Government Organizations (NGOs) with mainstream financial institutions. Such linkages are reported to have not only reduced transaction costs but also ensured better repayment performance (Kshirsagar and Shah, 2002).

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## **Financial Health of Credit Cooperatives in Maharashtra: A Case of Sangli and Buldana District Central Cooperative Bank**

**Deepak Shah\***

### **Abstract**

An analysis encompassing two case studies conducted in forward and backward regions of Maharashtra (India) has shown deterioration in the financial health of central level credit cooperatives (Sangli District Central Cooperative Bank (SDCCB)) in forward region and gross inefficiency in their functioning (Buldana District Central Cooperative Bank (BDCCB)) in the backward region of the state, due mainly to their mounting NPAs or overdues<sup>7</sup>. Because of substantially high NPAs, the fixed expenses of these institutions have been adversely affected, which in turn have grossly affected the break-even levels of loan advances and deposits of these credit institutions, so much so that there has been huge gap between the break-even levels of loan advances and deposits and the actual loan advances and deposits. In the case of BDCCB, the deficit between actual and the break-even levels are so high (about 60 per cent) that it will be well-nigh impossible for it to overcome this situation. High transaction costs, poor repayment performance, and mounting NPAs are the root causes of the moribund state of rural credit delivery through these cooperatives. Further, it is to be noted that the estimated trend over the past two decades in Maharashtra shows a slower growth in institutional finances through credit cooperatives and also in their membership during the decade of economic reforms (1991-2000) as against the decade preceding it (1980-1990). On the other hand, the outstanding loans of these cooperatives have grown at much faster rate as compared to their loan advances during both pre- and post economic reform periods. The slower growth in institutional finance through credit cooperatives during the decade of 1991-2000 is mainly due to adverse environment created by the financial sector reforms. Due to unfavourable policy framework, much of the deposits of the credit cooperatives are going into investments, instead of advancing loans to the farming sector. As a result, the C-D ratios of these credit cooperatives have been adversely affected. With a view to revive agricultural credit delivery through cooperatives, the need of the hour is to adopt innovative approaches like linking of SHGs and NGOs with mainstream financial institutions, including cooperatives. Such linkages are reported to have not only reduced transaction costs but also ensured better repayment performance. In brief, in order to rejuvenate rural credit delivery system through cooperatives, the root problems facing the system, viz., high transaction cost, poor recovery performance, and NPAs, need to be tackled with more fiscal jurisprudence reserving exemplary punishment for willful defaults, especially by large farmers, and the individual cases who have borrowed credit from these institutions. In fact, insofar as rural credit delivery through credit cooperatives is concerned, the focus should be on strategies that are required for tackling issues such as sustainability and viability, operational efficiency, recovery performance, small farmer coverage and balanced sectoral development.

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