

## Performance evaluation of Co-operative Banks of Jammu and Kashmir State

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### Abstract

Economic Development of our country can be achieved only through uplift of the village folk. Among the various institutional agencies engaged in rural finance, Co-operative Banks play a significant role in financing the target groups in rural sector. The study analysis the performance of cooperative banks functioning in J & K State. The performance is not as per the expectations with which these banks have been established. The focus of the Cooperative movement in J&K should be aimed at building a democratically vibrant, economically viable and self-reliant movement. Since the Cooperatives are considered to be the backbone of the rural credit structure due to their many inherent characteristics, strengthening this structure is therefore a prerequisite, if the credit requirements of the rural populace are to be properly addressed.

**Keywords:** Co-operative Bank, Co-operative Finance, Rural Credit, Agricultural Credit

### Introduction

Agriculture plays significant role and occupies a cardinal place in the Indian economy. The fact that half of the national income is being contributed by export of agro-based produce substantiates this point. Further, majority of the Country's people is depending on agriculture in one way or the other. Hence, the welfare of the people and their economic condition, and also the economic development of the country depend, to a greater extent, on the output, progress and prosperity of agricultural sector. In spite of this significant role of agriculture, it is unfortunate to note the pathetic situation of agriculturists as half of the rural population live below poverty line and most of them remain indebtedness.

Cooperative Societies as business organizations have completed 100 years of inception in J&K State. The establishment and growth of Cooperatives is regarded as one of the important instruments for economic, social and cultural development. In Jammu & Kashmir, as also in other States, Cooperatives have been used as a potential tool for all round development of human society, especially in the rural sector immediately after 1950. The growth rate in Cooperative sector had been phenomenal. The exponential growth in the membership of the societies over the years has been indicative of the growing popularity of the Cooperative movement across the length and breadth of the State. The Cooperatives took up and successfully shouldered the responsibility as institutions to purvey credit for agricultural and rural development, and in the process became successful business enterprises with social mission.

Though the Cooperatives in J&K has traversed a long path of about a century of its existence that is not to say all is well with the Cooperative movement. Cooperatives are facing several constraints and challenges in financial, organizational and management areas and are currently precariously placed, and are in fact in the grip of an economic crisis. A widespread network and vibrant and effective credit flow in rural J&K is the need of the hour. In consideration of these facts, the Govt. of J&K signed a Memorandum of Understanding with Central Govt. for implementation of Vaidyanathan Committee recommendations so as to lead to full professionalization of

Cooperatives in the State and give them a chance to make a fresh beginning. Appreciably the Govt. did it in hammer and tongs as it took a step forward to bring about required amendments in the J&K Cooperative Societies Act, 1989, through J&K Cooperative Societies Amendment Act 2010, so as to achieve aspirations sought in the implementation of the Vaidyanathan Committee recommendations. However, the execution of MOU seems to have hit some obstacles with the State Government, and focus seems to have slipped. If the Government is not on board, it is difficult to turn the tide, the sector is faced with.

In the recent past, the rural credit market in J&K has rapidly undergone change with increasing number of Banks and financial institutions, increasing competition and increasing leveraging of information technology. In this background Cooperatives need to introspect to find ways and means on how to retain their market share and to increase it over a time. Cooperatives must also bring about an attitudinal mindset overhaul leading to changes in the methods of operations, so that they are able to carry the huge burden of expectation of its large number of supporters and well-wishers. Some of the common problems being faced by the Cooperative credit institutions in the State are Poor Recovery performance, mounting overdues and unsustainable rise in Non-performing assets, low levels of diversification in business operations, inadequate loan physical system and credit planning, low capital base, lack of corporate governance, lack of appropriate system of financial management and lack of good leadership and management.

Other problems which confront in the progress of Cooperative movement in the State can briefly be analyzed as lack of cohesiveness among the members of Cooperatives as well as lack of knowledge about the nature and benefits of Cooperatives, declining percentage of borrowing memberships, lack of democratization and professional management along-with low skilled staff, overstaffing and high cost of management. Due to ongoing liberalization, privatization and globalization, the role of Cooperatives has become more challenging. It is in this scenario that Cooperative Credit Institutions have to adapt themselves to

the changing needs of the society in order to attain sustainability. They are required to take the ongoing problems head on. Pressing necessity is to be conceived that progress in other sectors of State's economy is to be replicated in the Cooperative sector as well, more or less in a do or die spirit.

### Objectives of the study

In the light of some of the problems of Co-operative Banks and also of their poor financial performance, the present study has been carried out with the following objectives:

1. To evaluate overall performance of Co-operative Banks in J&K State,
2. To evaluate the efficiency and effectiveness of Co-operative Banks in J&K State in mobilising the deposits, lending advances, investments and recovery performance of banks,
3. To suggest policy measures for improving the working of Co-operative Banks.

### Scope of the study

The study intends to analyze the financial performance of selected Co-operative Banks in the State of Jammu & Kashmir. For this purpose, it was planned to select the Co-operative Banks in the State of Jammu & Kashmir giving representation to geographical area, size of the Banks, Financial Performance, etc. The study covers the assessment and evaluation of financial performance of Cooperative Banks with an emphasis on unearthing the reasons for the mounting losses and non-performing assets.

### Methodology

The present study is primarily based on the secondary data and has been collected from annual reports, bulletins, magazines, articles, newspapers, e-sources etc. The method of analysis followed in this work is purely analytical as to how the selected Co-operative Banks are performing in terms of financial performance.

### Limitations of the study

The study will be confined to Co-operative Banks in J&K State with an emphasis on the evaluation of financial performance. Hence, other aspects that are not directly pertaining to the financial performance of Co-operative Banks are outside the purview of the present study. Further, the Banking Institutions in other sector such as private sector, foreign banks, etc. have not been covered in the present study.

### Results and Discussions

In Jammu & Kashmir State the movement of cooperatives was formally established in 1913. Important legislative and administrative changes were subsequently introduced in 1936. Before independence the cooperative movement was predominantly viewed as a credit arrangement to advance loans to farmers and save them from the clutches of money lenders. Money lenders were not only providing credit to farmers but also running shops in the villages and providing agricultural requisites/ necessities of life.

After independence cooperative movement was restructured and rebuild in 1953. Besides agricultural credit societies other types of cooperatives were also started. An integrated federal system was set up in each sector of cooperatives such as marketing, fertilizers, credit, dairy, poultry, etc. During 1953-

54 to 2013-14, 1867 cooperative societies in different fields have been established. Membership also showed a rising trend and reached more than 630 thousands in the year 2013-14 as per data of Digest of Statistics 2013-14. However the own funds increased at a slower rate compared to the increase in Working Capital. Own Funds increased by about 50 times while the Working Capital recorded an increase of about 188 times from 1948-49 to 2013-14. Owned Funds as a percentage of the working capital has progressively declined from 54.47 percent in 1948-49 to 10.50 percent in 2013-14. Dependence of the cooperative credit societies on external borrowings reveals that the response of the people to the movement does not commensurate with the State efforts. Three-tier structure of Rural Credit Cooperative with State Cooperative Bank at the apex level, District Central Cooperative Banks at the district level and Primary Agricultural Credit Societies (PACs) at the village level are key sources of credit in the State. Number of such societies in the State during 2013 was 765. During the year 2013-14 the PACs advanced Rs. 150 million as loans to the members. The Cooperative Banks have a network of 204 branches employing 1856 persons. At present there are nine banks under cooperative sector in the State--- four non-urban cooperative banks, four urban cooperative banks and J&K State Cooperative Agriculture and Rural Development Bank (SCARDB). Urban Cooperative Banks provide banking facilities to urban and semi-urban population. As of now 120 Urban Cooperative Banks are functioning in the State. Their lending operations include provision of credit facilities to small traders, artisans and persons belonging to lower/middle income groups. These loans are advanced for: housing, business, education, consumption to non-farm sector activities. Working of these banks is directly regulated and monitored by the Reserve Bank of India. These banks operate in their respective districts. The Kashmir Mercantile Cooperative Bank operates within the area of Sopore and has only two branches. The Urban Cooperative Bank Anantnag and Devika Bank at Udhampur are both single branch banks. The Citizen Cooperative Bank has 11 branches and operates in District Jammu.

State Cooperative Agriculture & Rural Development Bank was established in 1962. In contrast to the above banks it commenced its operation in the entire State in 1964. It has the status of apex bank with 35 branches mainly providing credit for agricultural development to farmers. Non-Urban Cooperative Banks comprise of J&K State Cooperative Bank (established in the 1954), Jammu Central Cooperative Bank (established in the year 1914), Baramulla Central Cooperative Bank (established in the year 1920) and Anantnag Central Cooperative Bank (established in 1923). In spite of consistent and concerted efforts to scale up the reach and spread of commercial banks and regional rural banks (RRBs), cooperative banking sector remains an important source of credit in the rural areas. Cooperative Credit Institutions provide cheap and decentralized credit services at low rates of interest. By the end of March 2007 these banks transacted business worth Rs. 25687 million out of which deposits accounted for 72.32%. Loan Outstanding worked out to be Rs. 7362.2 million and cost of management was Rs. 404.3 million. Under Kisan Credit Card Scheme, 52347 farmers benefitted till the end of March 2010. The total number of Kisan Credit Cards issued was 65350 ending March 2014 out

of which the relative share of cooperative banks worked out as 78 percent.

Regardless of the above impressive gains the failures are equally disquieting. Aside other factor, Cooperative Credit Structure has suffered heavily due to political instability in the State particularly since 1989. Increasing Non-Performing Assets (NPAs), mounting overdues, unsound governance, unethical lending and high incidence of defaults are other major factors which have adversely affected the functioning of these institutions. Rise in NPAs in particular has crippled their financial solvency, productivity and profitability. The proportion of overdues to outstanding loans of cooperative banks was more than 30 per cent during 2014. During 2010-11 the average recovery performance was 56 percent which increased to 69 percent during 2013-14. The proportion of overdues to the loans outstanding was 45 percent in 2010-11 and 35 percent in 2013- 14. The Cooperative Banks have failed to make recovery from over 53,650 defaulters whose outstanding stood at Rs. 1880 million. Table-1 shows the amount of NPAs of both non-urban and urban cooperative banks operating in the State. The amount of NPAs has increased but its proportion to the total loan outstanding has shown decreasing trend during the period 2009-10 to 2013-14. The NPAs of J&K State Cooperative Bank, Baramulla Central Cooperative Bank and Jammu Central Cooperative Bank as an outstanding loans and advances decreased by Rs.102.88, Rs.93.35 and Rs.173.24 million from 2009-10 to 2013-14 respectively. NPAs of Anantnag Central Cooperative Bank, Devika Urban Cooperative Bank, Citizen Cooperative Bank Limited and Jammu and Kashmir Mercantile Cooperative Bank Limited Sopore as a percentage of outstanding loans and advances worked out below 20 percent during the same period. Overall there has been a decreasing trend of NPAs of these banks during the period 2009-10 to

2013-14. The NPAs of J&K State Cooperative Bank worked out Rs.203.69 millions of their outstanding loans in the period 2013-14. The corresponding estimates for Baramulla Central Cooperative Bank and Jammu Central Cooperative Bank were Rs. 133.67 million and Rs. 306.82 million during the same period (2013-14) respectively. For Anantnag Central Cooperative Bank the NPAs have increased from Rs. 102.88 million to Rs. 226.31 million of loans outstanding during the period 2009-10 to 2013-14. Devika Urban Cooperative Bank, Udhampur had no NPAs during the same period. The NPA estimates for Citizen Cooperative Bank Limited Jammu increased from Rs. 193.74 million to Rs. 418.83 million of loan outstanding during the period of 2009-10 to 2013-14 and the NPAs estimates for The Kashmir Mercantile Cooperative Bank Ltd. Sopore has increased from Rs. 7.53 million of loan outstanding to Rs. 11.55 million during the same period. Three cooperative banks have turned bankrupt and are under notice from the NABARD and RBI. These banks include Jammu Central Cooperative Bank (JCCB), Anantnag Cooperative Bank (ACB) and Baramulla Cooperative Bank (BCB). Together these three banks have a cumulative default of around Rs. 2875 million up to 2014. RBI had impressed upon banks from time to time to strengthen credit appraisal and NPAs supervision. The ratio of net NPAs to total advances outstanding should be less than 10 percent as per the RBI guidelines. Against this background, NPAs scenario of cooperative banks operating in J&K warrants serious introspection. The NPA impacts the performance of these banks and reduces their interest income, the net worth and strengthens capital risk adequacy ratio. These in turn restrict recycling of funds and obstruct the desirable yields. Obviously these banks have to take effective measures to reduce the NPAs. This is necessary to protect the interests of depositors and increase creditworthiness of these banks.

**Table 1:** Non-Performing Assets (NPAs) of Co-operative Banks in Jammu & Kashmir

| S. No. | Bank  | Non-Performing Assets (NPAs) Rs. In Millions |         |         |         |         |
|--------|---|--|---------|---------|---------|---------|
|        |   | 2009-10                                      | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
| 1.     | Baramulla Central Cooperative Bank                  | 95.35  | 84.36   | 136.50  | 132.36  | 133.67  |
| 2.     | Jammu Central Cooperative Bank                      | 481.32                                       | 496.82  | 536.85  | 487.22  | 306.82  |
| 3.     | J&K State Cooperative Bank                          | 173.24                                       | 188.87  | 187.58  | 216.34  | 203.69  |
| 4.     | Anantnag Central Cooperative Bank                   | 102.88                                       | 136.38  | 196.32  | 204.43  | 226.31  |
| 5.     | The Urban Cooperative Bank Ltd. Anantnag            | 2.64   | 4.68    | 3.92    | 4.30    | 4.57    |
| 6.     | Citizen Cooperative Bank Ltd., Jammu                | 193.74                                       | 334.30  | 383.92  | 402.39  | 418.83  |
| 7.     | Devika Urban Cooperative Bank, Udhampur             | 0.00   | 0.00    | 0.00    | 0.00    | 0.00    |
| 8.     | The Kashmir Mercantile Cooperative Bank Ltd. Sopore | 7.53   | 8.84    | 9.93    | 10.86   | 11.55   |

**Source:** Compiled form Annual Reports of the respective banks

**Conclusions**

Cooperatives are desperately required to review their strategies, reorganize their activities, redefine their philosophies and embrace new technologies to make themselves efficient and potent tools of development of the rural sector. The focus of the Cooperative movement in J&K should thus be aimed at building a democratically vibrant, economically viable and self-reliant movement. Since the Cooperatives are considered to be the backbone of the rural credit structure due to their many inherent characteristics, strengthening this structure is therefore a prerequisite, if the credit requirements of the rural populace are to be properly addressed.

The co-operative banks need to encourage the agricultural sector by providing larger amount of term loans. Generally, non-agricultural sector indirectly helps the rural economy in many ways. Keeping in view, the cooperatives may enhance the percentage of loan to this sector. This finding may be considerable use to rural banking institutions and policy makers in developing and shaping the appropriate credit structure as cooperative banks are integral part of the rural credit structure in India. The importance of the co-operative banking in the economic development of a country cannot be overlooked. As Mahatma Gandhi said, “real India lies in villages” and village economy is the backbone of Indian economy. Without the development of the rural economy, the objectives of economic planning cannot be achieved. Hence,

co-operative banks are considered to be a vital role for the development of the rural economy in J&K State. The main goal of establishing of co-operative Banks in J&K State is to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural labourers and even small entrepreneurs.

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