
**CREDIT MANAGEMENT OF CHITRADURGA DISTRICT CENTRAL
COOPERATIVE BANK (CDCCB)-AN ANALYSIS**

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ABSTRACT

Agriculture including allied activities accounted for 13.9% of GDP at 2004-5 prices in 2011-12 as compared to 14.5% in 2010-11. In terms of composition, out of a total share of 14.5% in GDP in 2010-11, agriculture alone accounted for 12.3%, followed by forestry and logging at 1.4%, and fishing at 0.7%. Notwithstanding the declining trend in agriculture's share in GDP, the importance of the sector to the economy is best understood with reference to its share in employment and in terms of its criticality for macroeconomic stability. While the former was well known, the latter became manifest with rising growth in incomes since the mid-2000s. Hence the Planners considered cooperation as an instrument of economic development of the disadvantaged; particularly in the rural areas. One of the basic objectives of the fourth five year plan was to establish a socialistic pattern of society in the country, so that the Development with economic stability could be accomplished through Panchayati Raj and cooperatives.

The planners considered cooperation as an instrument of economic development of the disadvantaged, particularly in the rural areas and also the theme of the 12th five year plan is "faster, sustainable and more inclusive growth. To attain this noble cause the credit management of cooperatives must be sound in general and DCC Banks in particular. It is in this backdrop, it is an attempt to evaluate the performance of Chitradurga District Central Cooperative Bank in respect of its credit management. And this study entirely depends on secondary data.

Key words: *Credit management, Criticality for macroeconomic stability. Socialistic pattern of society, SLR, CRR, Reasonable rate, Reserve funds.*

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INTRODUCTION

Agriculture including allied activities accounted for 13.9% of GDP at 2004-5 prices in 2011-12 as compared to 14.5% in 2010-11. In terms of composition, out of a total share of 14.5% in GDP in 2010-11, agriculture alone accounted for 12.3%, followed by forestry and logging at 1.4%, and fishing at 0.7%. Notwithstanding the declining trend in agriculture's share in GDP, the importance of the sector to the economy is best understood with reference to its share in employment and in terms of its criticality for macroeconomic stability. While the former was well known, the latter became manifest with rising growth in incomes since the mid-2000s¹. Hence the Planners considered cooperation as an instrument of economic development of the disadvantaged; particularly in the rural areas². One of the basic objective of the fourth five year plan was to establish a socialistic pattern of society in the country, so that the Development with economic stability could be accomplished through Panchayati Raj and cooperatives³.

The Arthashastra of Kautilya⁴ states: "Whoever stays away from any kind of cooperative undertaking shall send his servants to carry on the work, shall have a share in the expenditure but none in the profits" this statement emphasizes the importance of cooperation in all walks of life. The planners considered cooperation as an instrument of economic development of the disadvantaged, particularly in the rural areas⁵ and also the theme of the 12th five year plan is "faster, sustainable and more inclusive growth"⁶. To attain this noble cause the credit management of cooperatives must be sound in general and DCC Banks in particular. It is in this backdrop, it is an attempt to evaluate the performance of Chitradurga District Central Cooperative Bank in respect of credit management.

In this connection Dr. S Nakkiran stressed the significance of deposits as follows "A bank with a sound deposit base can provide loans and advances out of its own internal resources without any outside borrowings for their financial requirements. Higher deposits will enable the bank to reduce its reliance on external borrowings. The prosperity of lending institutions depends on its capacity to generate its own resources, which only make it strong and viable but also avoids the reliance on external borrowings. The deposit is an important indicator of the success and efficiency of credit agency, the self reliance of the co-operatives will fostered only by tapping more resources."⁷

The resources available with CDCCB are to be utilized for granting loans and advances to individuals and mainly co-operative institutions after making provision for SLR and CRR requirements. While deploying its funds CDCCB has to keep credit planning and Objectives

of the district in view. To achieve this end, the bank has to adopt different techniques and strategies for the efficient and productive credit operations. Under federal structure of co-operative banking system the policies and procedures are formulated by the APEX Bank (Karnataka State Apex Bank) under the guidelines of the NABARD. The RBI has also been directing from time to time on subjects relating to short-term and medium-term loans. A sound loan policy in directing credit to farmers will certainly safeguard the economic interest. This policy is stressing more on the productive purposes, which will improve the farm productivity and strengthen the repaying capacity of the farmers. The CDCCB has followed certain techniques in its credit operations. They are as follows:

1. Credit planning.
2. Credit Disbursement
3. Credit Supervision
4. Credit collection.

1. Credit planning. Credit planning at the level of Central Co-operative Banks means the process of determining the type of credit to be provided, size of credit, type of farmers to whom the credit is to be given and Time and mode of disbursement etc., It is very important task of credit policy to achieve the desired goals of the bank. The bank has been giving right type of credit to the right formers at right time and at reasonable rates. Financing agriculture has been a great task for Central Co-operative Banks.

The following are parameters adopted by the bank in the loaning operations:

- Adequacy of credit
- Timeliness of credit

a. Adequacy of credit: Here the term ‘Adequacy’ means- ability to meet financial requirements of the members. The adequacy of credit is adjudged by the quantity of loan sanctioned in relation to the requirements of the borrowers for the given purpose. In determining the credit needs the acres of land owned, the crop proposed, the current cost of cultivation and scale of finance fixed by the expert committee are taken in to account. An adequate credit ensures proper utilization and prompt recovery. The quantum of credit is determined by the bank in consultation with its members and member PACS (primary agricultural credit cooperative societies). The scale of finance is fixed by the technical group which consists of members from state government, DCC (District central cooperative Banks)

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Banks, PACS, commercial banks and other agencies working in the district. This group meets once in a year to fix the scale of finance. The quantum fixed by the group may not be optimum if the financial needs are not fully met, because the actual cost structure may not be known to this group far it consists persons sitting at urban places without giving fair representation to the farmers in the composition of technical group.

As per AIRCRC, 1969 'Fixation of scale should be done by a group of knowledgeable persons drawn from agriculture and co-operative departments, the CCBS, the PACS and few enterprising farmers in the area', because the cost of cultivation differs from place to place and person to person and from time to time.

Table: 1 Composition of technical group

Sl. no	Area of Members	No. of Representatives	Members Actually Attended Meeting	Percentage of representatives to total	% of representatives Actually attended meeting to the total
1.	Govt.	12	06	26.1	20.7
2.	CDCCB.	05	05	10.9	17.24
3.	Commercial Banks	03	03	7.0	10.345
4.	Others	02	02	4.35	6.9
5.	PACS	24	13	52.2	44.83
	TOTAL	46	29	100	100

Source: Files of CDCCB, for the year 2009-10.

The representation of the CDCCB is not up to the mark in the group. It also reveals a disheartening feature that no representation has been given to the farmers. Therefore, it may be concluded that the scale of finance is not fixed by the appropriate lending agencies which are connected directly with farmer-members.

The technical group must be responsive in fixing an appropriate scale of finance for each year in the light of ever changing economic factors. But most of the times technical group do not take into account such changes, that leads to misuse of credit by the farmers, which would adversely affect the repaying capacity. Non revision of the scale of finance results in under

financing of agricultural requirements. The under financing is very often a cause for misutilisation and consequently mounting overdue (RBI, 1989).

The following Table 1 represents the scale of finance for the short term loans for the year 2009-10. The data reveal that the scale of finance has been revised only once during the period of 4 years. It badly affects the utilization of loan and consequently it leads to misdirection of loan amount. Therefore it may be inferred that the scale of credit are fixed by the technical group as a matter of convenience but not as a matter of necessity. It is not a realistic approach to ensure adequate finance to the farmers. The difference between credit needed and credit supplied is always existed in the co-operative banking system.

The disheartening thing is that the Chitradurga district central cooperative bank is not giving kind component of the loan, as it is giving full loan amount in cash only; there are more chances of misdirection of loans for unproductive purposes. Therefore this became one of the reasons for mounting overdues.

b. Timeliness of credit: Agriculture being a seasonal activity, timeliness is more important than any other factors. A successful credit planning process requires not only the adequacy of credit but also its timeliness. Any delay in credit impedes the operation of other agricultural activities. Hence, it is said that credit delayed is credit denied. Delay in credit discourages investment, diverts resources for non-productive use, decreases earning and repayment capacity of the borrowers. The output in agriculture depends on natural factors which always changes. The farmers have to adjust production without any delay right from sowing to harvesting. Some studies have concluded that, early sowing yields more and a delay of 15 days in many crops affect the yield significantly. The agricultural operations must be made at the right time. Therefore, right from sowing timeliness in every activity pays a high dividend to the farmers. Majority of the farmers are dependent on credit for carrying out agricultural operations right from sowing till marketing. So, any delay in sanctioning credit results in delay in the corresponding agricultural activities, which ultimately result in considerable loss to the farmers.

The timeliness of credit is ensured by how timely the technical group conducts meeting and how the PACS adhere to the time schedules as conceived by the CDCCB. Seasonality should be observed by the CCBs in giving and recovery of loans. But, this is not strictly followed by the PACS in advancing as well as recovery of funds. Sometimes PACS may not receive credit limit circulars from the CCBs on time and it leads to delay in submission of normal credit limit statements (NCLs) to the CCBs from the PACS. The process of the loaning

operations is badly affected and farmers may not get loan amount in time. It results in low productivity, low income and low repaying capacity. Hence, the above analysis shows that loaning operations are not fully effective in terms of adequacy and timeliness of credit.

Procedure of loaning operations

The pre-application stage consists of holding of annual meeting for recommending crop-wise scales of finance. The secretaries of PACS prepare the credit limit statements on the basis of the scale of finance. The general body of the society considers the statement and recommends the amount of loan for sanction to each member of PACs. The NCLs (Normal credit limit statements) should reach the CDCCB on 28th February every year. The timeliness in receipt of NCLs is very important because the bank estimates the size of credit required, reckons the resources and arranges for external borrowings. If bank do not receive NCLs on time, the arrangement of funds and timely deployment will be badly affected. The second stage concerning to the verification of loan applications by the bank inspector of the particular branch of the bank.

The third stage refers to the submission of the credit statement along with inspector's recommendations to the head office of the bank. The loan committee recommends for sanctioning the loan amount. In final stage after completion of all formalities of the bank, the loan amount is executed by the president of the PACS. Then the amount is given to its members.

2. Credit disbursement

The CDCCB has charged with greater responsibility of mobilizing adequate resources and the most important thing is to distribute them judiciously and productively. The State co-operative banks and DCC Banks get 2 percent margin for their role in the credit delivery system. If DCC Banks can get funds directly from NABARD the cost of funds to PACS would come down to that extent.

Very next stage is to deploy the available resources for granting loans and advances to societies and individuals. The disbursement of the credit should be made in such a way as to avoid misallocation of credit so that proper end-use is ensured. The Central Co-operative Banks have to adhere to the directions of NABARD and principles of social banking. The CDCC Bank advances loans for agricultural as well as non-agricultural purposes. The purpose of agricultural loan is not only to increase the production but also to save farmers from the exploitative money lenders. On the basis of the period for which loans are

sanctioned the loans and advances are divided into two type's viz., short-term and medium-term loans.

3. Credit supervision

The short-term loans or crop loans are given for a period between 12 to 18 months for seasonal agricultural operations. These loans are given partly in cash and partly in kind in the form of improved seeds, fertilizers and pesticides. The idea behind this is that the distribution of kind component is not only prevents miss utilization but also ensure supply of quality seeds and pesticides to farmers. But these days the CDCCB is not giving kind component to the farmers rather it gives full sanctioned amount in cash only.

Short-term loans are generally called crop loans which are there for accommodating current expenditure meant for rising crops. It is given on the security of production, earlier credit limits were fixed on the basis of land.

Medium-term agricultural loans: These loans are given for productive agricultural purposes such as minor irrigation, oil engines, pump sets, mulch cattle, goats, sheep, oxen and cart etc., for a period of three to five years. They help the farmers to build up irrigation assets on farms and purchase materials needed for mechanization and increasing the potentialities of adopting HYV (High yielding varieties). The repayment of M.T loans is to be made in installments. Repayment period spread over 3 to 5 years depending on the purpose for which the loan has been sanctioned. These days the CDCCB has reduced the M.T Loans because of the ever increasing overdues.

Loans to primary agricultural credit societies (PACS): The CDCCB has a main role in catering credit needs of the affiliated PACS in Chitradurga district. As per the directions of the higher institutions, it accommodated PACS for agriculture and allied activities. The table 4.12 shows the percentage of allocation of short and medium term loans and their shares in the total loans.

Table: 2 Distribution of term-wise advances (Rs.in lakh)

Year	Short term loans	Medium term loans	Total agricultural loans	% of short-term loans to total loans	% of MT loans to total loans	Annual growth rate of total agricultural loans
2004-05	1479.50	20.10	1499.6	98.66	1.34	0.00
2005-06	2783.31	29.40	2812.71	98.95	1.05	87.56
2006-07	2438.91	26.55	2465.46	98.92	1.08	-12.35

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2007-08	2371.63	42.40	2414.03	98.24	1.8	-2.1
2008-09	3012.64	26.60	3039.24	99.12	0.9	25.9
2009-10	4037.70	43.20	4080.90	99.0	1.06	34.3
Avg	2687.3	31.4	2718.7	98.85	1.15	22.29

Source: Annual reports of CDCCB for the various years

It is evident from the above Table 2 that there has been an increase in the total agricultural loans over the period of the study except the years 2006-07 and 2007-08. The phenomenal increase is in the year 2005-06, i.e., 87.56 percent. Such increase was due to the loan waiver schemes. The farmers took loans thinking that they would also get the benefit of loan waiver. Thereafter, there was a declining trend in the agricultural advances because of the strict enforcement of the guidelines of NABARD regarding the rural credit system and stern discipline on recovery. It resulted in the low disbursement of agricultural advances from 2006-07, but from the year 2008-09 it is increasing gradually due to interest waiver and low interest rate schemes of the GOI on cooperative credit.

The above table also depicts us that more than 98 percent of total agricultural credit is short-term in nature and bank is not interested to advance medium-term loans. The medium term loans account for 0.9 percent only in 2008-09 because of the non-repayment of loans. The NABARD has adopted the sound banking policy in the country. Therefore the lending to the priority sector is not given much importance. It is another factor for the declining trend in the total agricultural credit over the study period.

4 Credit Collection

The performance of the CDCCB can't be judged solely on the basis of loans and advances it has given but it depends on the recovery position also. The advances and recovery are the two faces of the same coin. Recovery is very essential for smooth recycling of credit. Timely recovery of advances not only keep the business running without interruptions of funds but also reduces the bad debts thereby enables the borrowers to get eligibility for credit in future. Thus, Maclagon committee remarked that if the loans were not repaid punctually, "it is an illusion financially". Therefore, the better performance on recovery front will add efficiency in to the working of the central co-operative banks. In nutshell recovery is an efficient indicator, which discloses effectiveness of management.

The very serious problem affecting the performance of CDCCB is mounting overdue. In spite of the provision of loan conversion and loan waivers and interest concessions extended to the borrowers in times of natural calamities, there has been remarkable increase in overdue

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largely on account of organized resistance to recovery. It crippled the activities of CDCCB. Unless it is checked in time, it is bound to spread throughout the structure and will cripple the entire co-operative structure.

Table: 3 Distribution of demand, collection and overdue. (Rs.in lakhs)

Year	Demand	Collection	Overdue	% of recovery to demand
2004-05	2498.29	1122.48	1375.81	44.93
2005-06	2679.57	2163.80	515.77	80.75
2006-07	2977.10	2159.10	818.00	72.52
2007-08	3270.04	2612.00	658.04	79.88
2008-09	3143.70	2468.92	674.78	78.54
2009-10	3724.58	3165.93	558.65	85.01
Average	3048.88	2282.04	766.84	73.61

Source: Annual reports of the CDCCB for the related years.

The Table 3 indicates the recovery performance of the CDCCB. The recovery percentage increased to 85.01% in the year 2009-10. The recovery performance was good in the year 2005-06, 2007-08, and 2009-10. The percentage of collection to demand in the year 2004-05 was very low; it reflects the inefficiency of credit management. Poor recovery impedes the credit operations of the bank. The recovery percentage is not steady. It is a sign of endangering the bank prosperity. The average percentage of recovery was 73.61%. Another important aspect is that there is inconsistency in overdue of the bank. The amount of overdue was 1375.81 lakhs in 2004-05 and decreased to 558.65 lakhs in 2009-10. It shows the inefficiency of the supervisory machinery to check the overdue periodically. If overdues are not repaid within three years, they are considered as chronic overdue. However the things have improved slightly these years due to Vaidyanathan committee report on cooperatives, still there is much scope to improve it.

Profitability

The profit is the litmus test to measure and appraise the performance and efficiency of any business organization. Likewise the survival and sustained growth of the bank depends on regular flow of profits for it is also a joint stock form of business organization. The CDCCB has got 9 branches in its network which is operating in rural and urban areas. Many operational activities such as mobilization of deposits, deployment of credit and collection of

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credit etc., are undertaken at the branch level. The major contribution towards the profitability of the bank comes from 09 branches of the bank. The performance of the branches is of paramount significance in the overall viability of the bank.

It is observed that 2/3rd of the working capital is deployed in credit business. Size and composition of working capital, interest rate structure, credit structure and operating costs etc are the factors which affect profitability of the bank. The spread of interest and owned funds also influences the profit of CDCCB.

Table: 4 Distribution of profits and working capital (Rs. In lakh)

Year	Profit	Working capital	% of profit to working capital
2004-05	661	5749.77	11.5
2005-06	770	6753.77	11.4
2006-07	798	6779.57	11.8
2007-08	783	8416.36	9.3
2008-09	780	9960.58	7.8
2009-10	1000	12483.27	8.01

Source: Annual reports of CDCCB for the related years.

It is observed that the working capital increased almost by more than 2 times from the year 2004-05 to 2009-10, but the profit rate is declining gradually from 11.5 percent to 7.8 between the years 2005-06 to 2008-09 due to high operating costs in the branches of the CDCCB. The expenses incurred on managerial staff have always increased. The cost-benefit analysis of each branch is evaluated periodically. The profitability of the branches is ensured through reducing the operational costs. But in the year 2009-10 there is slight improvement in % of profits i.e., 8.01%, the same was only 7.8% in the previous year.

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