

# OPERATIONAL CHALLENGES OF DISTRICT CENTRAL COOPERATIVE BANKS IN INDIA.

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## ABSTRACT

India is basically agriculture dependent country where maximum people in rural areas engaged in agriculture and related activities. The govt. of India has formed a co-operative credit structure to promote the agricultural and rural credit. According to NAFSCOB report there are 31 state co-operative banks, 363 District Central co-operative Banks (DCCBs) and 95,595 Primary Agriculture Cooperative Societies (PACs) were formed for the development of poor agriculturist and economically weaker sections of the society in India. Based on the selected variable for the study it is found that these challenges affect the effective governance of the DCCBs. The officials face hectic problems to manage the DCCBs effectively for the sustainability and profitability. Hence the government shall come forward to rectify such problems and empower the DCCBs to function independently to facilitate effective governance. It will ensure the successful implementation of co-operative banking system in India. The Government of India can effectively use the fund for the growth and development of weaker sections, poor agriculturists and the rural population.

## 1. Introduction

India is basically agriculture dependent country where maximum people in rural areas engaged in agriculture and related activities. The govt. of India has formed a co-operative credit structure to promote the agricultural and rural credit. According to NAFSCOB report there are 31 state co-operative banks, 363 District Central co-operative Banks (DCCBs) and 95,595 Primary Agriculture Cooperative Societies (PACs) were formed for the development of poor agriculturist and economically weaker sections of the society in India. They provide micro credit under different schemes, programs, projects and plan. The following are some of the micro financial packages which are provided for the development of weaker sections by DCCBs and PACs.

- |    |      |   |                                      |
|----|------|---|--------------------------------------|
| 1. | SAO  | - | Seasonal Agricultural Operations     |
| 2. | NFS  | - | Non-Farm Sector                      |
| 3. | IRDP | - | Integrated Rural Development Program |
| 4. | MAP  | - | Massive Assistance Program           |
| 5. | NSP  | - | National Sericulture Project         |
| 6. | OPTP | - | Oilseeds Production Thrust Program   |

7. DWCRA - Development of Women and Children in Rural Areas
8. SDS - State Drafts Schemes
9. SFPP - Special Food Production Program
10. SHG - Self-Help Group
11. SITRA - Supply of Improved Tool unit to Rural Artisans
12. SRTO - Small Road Transport Operation
13. SSI - Small Scale Industries
14. TRYSEM - Training of Rural Youth for Self-Employment
15. UPS - Uninterruptible Power Supply
16. PTL - Petty Traders Loan
17. INB Loan - Identified Need based Loan
18. OBOE - Outboard Oil Engine
19. TABCEDCO - Backward Welfare Loans
20. Govt. Assured Schemes
  - (a) Revamped Micro Credit for Women
  - (b) Woman Entrepreneurs
  - (c) Working Women
  - (d) Professional Loan
  - (e) Maternity Loan
  - (f) Loan for SHG
  - (g) Loan for Physically handicapped
  - (h) TABCEDCO Loan
  - (i) TAMCO Loan (Muslim Minority loan)
  - (j) KVIC (Kadhi and Village Industries Commission) Subsidy Scheme)

The DCCBs are assessed continuously for its performance. The State co-respective Banks circulated on assessment format to assess their performance.

## 2. Problem of the Study

Every year Government of India is allotting a huge amount for granting micro credit under different projects, schemes, plans and programs to all the states through DCCBs and PACBs. NABARD is the apex bank which provide funds to grant loans and advances under different credit system. Every year it gives instructions to all the DCCBs through respective state co-operative banks to grant schematic loans which are formed year after year to the economically weaker sections and the rural people. Even though the Govt has given direction to all the DCCBs to grant credits the officials are disinterested in granting credit.

### 3. Objectives

This study is made to identify the problems faced by the DCCBs in granting the credit and challenges of DCCBs for effective governance.

### 4. Methodology

A comprehensive study has been made to find out the challenges faced by the DCCBs in India for their effective governance. In order to identify the challenges faced for effective governance and opinion scale for measuring the level of opinion of the DCCB executives has been devised. An interview schedule was developed after having a through discussion with some selected authorities in DCCBs. The interview schedule was pretested and the statements in the schedule were validated by conducting a pilot test. The pilot test was applied in two selected DCCBs from Tamil Nadu and Kerala states. The schedule contains 29 statements. The data was collected by using the interview schedule from all the 363 DCCBs without applying sampling. The officials / executives of the 363 DCCBs in India are the respondents. Opinions from 370 officials was collected for study.

### 5. Tools for Analysis

#### 5.1 Intensity Value

The intensity value of the opinion given by DCCBs executives are calculated by assigning weight. Strongly agree-2, Agree-1, No opinion – 0, Disagree - -1 and strongly disagree -2.

Highest Intensity value = 2 x No of statements x No of Respondents.

Here,  $2 \times 29 \times 370 = 21,460$

#### 5.2 Kolmogrov – Smirnov Test (KS Test)

The hypotheses have been tested with the help of ‘Kolmogrov – Smirnov Test’ (hereinafter referred as ‘KS Test’) by using the formula.

$D = O - E$  where

D = Calculated value

O = Cumulated value

E – Calculated cumulative expected value

### Application

For the observed variables the observed proportion is calculated and cumulative observed proportion is calculated from them. Here the total number of respondents is 370. For each gradation the actual number of respondents is divided by the total number of respondents and the resultant value is the observed proportion. Then the cumulative observed proportion is calculated.

The cumulated expected proportion is calculated on the basis of the expended proportion. Here the gradation is made on 5 gradation level, so 0.20 (ie 1/5) is assigned to all the five. The cumulative expected proportion is calculated for it.

For each gradation the difference between cumulative observed proportion (O) and the cumulative expected proportion (E) is calculated. The calculated value is compared with the table value.

## Interpretation

If the calculated value is greater than the Table value, the null hypothesis is rejected. If the calculated value is lesser than the table value, the null hypothesis is accepted.

The table value at 95% confidence level

$$\frac{1.36}{\sqrt{370}} = 0.071 .$$

## 6. Analysis and Interpretation

### a. Intensity Value

Based on the opinion given by the DCCBs executives the intensity value of the opinion given was calculated and presented in the following table.

Table No. 1 Intensity value of the opinion by the DCCBs in India

Sl. No	Statements	Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree	Intensity Value
1.	Unproductive agricultural plans & projects	714	-	-	-13	-	691
2.	Over estimation of yield of agricultural plans and projects	714	-	-	-13	-	701
3.	Problems in verification of title to the security given	714	-	-	-13	-	701
4.	Own and Tenant land title verification problem	714	-	-	-13	-	701
5.	Tedious and complicated procedures in providing loans	586	77	-	-	-	663
6.	Non-availability of standard practice in valuation and verification of live stock in granting loan against live stock and for milky loans	740	-	-	-	-	740
7.	Inadequate cash and kind portion	714	-	-	-13	-	701

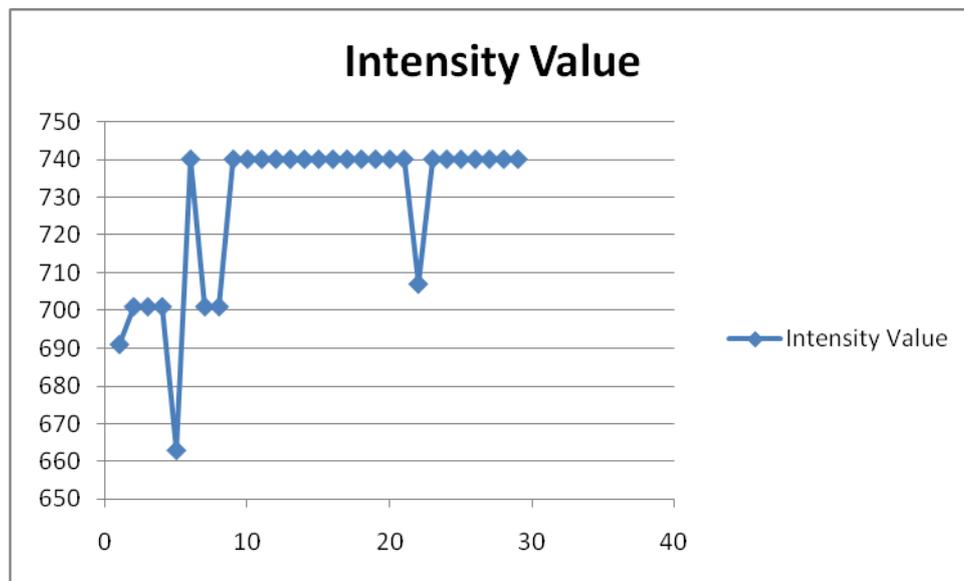
	in crop loan						
8.	Compulsion in buying unsuitable fertilizers in crop loan	714	-	-	-13	-	701
9.	Political interferences	740	-	-	-	-	740
10.	Lack of Judicial support	740	-	-	-	-	740
11.	Restrictions on coercive actions	740	-	-	-	-	740
12.	Inadequate support from higher officials	740	-	-	-	-	740
13.	No protection to Collection and Recovery staff	740	-	-	-	-	740
14.	Over due accumulation	740	-	-	-	-	740
15.	Accumulation of N.P.A	740	-	-	-	-	740
16.	Never performing schematic loans	740	-	-	-	-	740
17.	Maximum marks allotted for Recovery and collection in assessing the performance of DCCBs	740	-	-	-	-	740
18.	Lack of specialized and trained staff for verification of valuation	740	-	-	-	-	740
19.	Writing of accumulated N.P.A	740	-	-	-	-	740
20.	Restrictions in sanctioning the fund granted by Govt agencies like NABARD	740	-	-	-	-	740
21.	No empowerment in recovery and collection	740	-	-	-	-	740
22.	Irresponsible behavior of staff in sanctioning loan	718	-	-	-11	-	707
23.	Difficulty in raising own fund	740	-	-	-	-	740
24.	Conditions and Restrictions in providing fund by Govt agencies (NABARD & SCB)	740	-	-	-	-	740
25.	Ineffective enforcement of Securitization Act	740	-	-	-	-	740
26.	Vote bank politics	740	-	-	-	-	740
27.	No moral responsibility of repaying the loan availed among the beneficiaries	740	-	-	-	-	740

28.	More weight age given to collection in performance assessment	740	-	-	-	-	740
29.	We can function effectively if the above hurdles are cleared	740	-	-	-	-	740
	Overall Intensity values	21,128	77	-	-89	-	21,116

Source: primary data

The intensity of opinion in terms of value (from the above table) presented in the following Chart

Chart



From the above table it is understood that all the executives of DCCBs in India have the same opinion about the problems except very few which is negligible. All executives of the DCCBs quoted that if all such problems are addressed, they can have effective functioning. As they have expressed their opinion with strong intensity it is inferred that such variables have a strong impact on the effective governance of DCCBs.

## Overall Opinion

The overall opinion and the intensity value are calculated and presented in the following Table.

Table No. 2 Overall percentage of opinion and intensity value

Sl. No	Particulars	Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree	Total
1.	Cumulative total	10564	77	-	89	-	10,730
2.	Cumulative %	98.45	.072	-	0.83	-	100
3.	Intensity	21128	77	-	-89	-	21,116

Source: primary data

From the above table it is evidentially proved that 98.45% of the executives feel the challenges of the 29 problems with strong intensity and a mere (0.72) agreed with normal intensity. A negligible (0.83%) number of DCCBs in India showed their non agreement about the problems faced by executives in effective governance. Hence it is further confirmed that such factors have a strong impact on the effective governance of DCCBs in India.

## b. Testing of hypothesis

The twenty-nine statements are developed as hypothesis and tested by applying the KS Test.

1. Unproductive agricultural plans and projects.

This hypothesis tested by using the KS Test.

Table No. 3 Opinion regarding unproductive agricultural plans and projects – the result of KS test

Sl. No	Opinion	Observed No	Observed proportion	Cumulative observed proportion (O)	Expected proportion	Cumulative expected proportion (E)	Total
1.	Strongly Agree	357	0.9649	0.9649	0.20	0.20	0.7649
2.	Agree	-	0	0.9649	0.20	0.40	0.5649
3.	No opinion	-	0	0.9649	0.20	0.0	0.3649
4.	Disagree	13	0.0351	1.0000	0.20	0.80	0.2000
5.	Strongly Disagree	-	0	1.0000	0.20	1.00	0

Source: primary data

Calculated value = 0.7649 (ie the highest differences)

The Table value at 95% confidence level = 0.071

As the calculated value (0.7649) is greater than the Table value the null hypothesis is rejected. As such, there is a difference in the importance ratings given by the DCCBs.

The above same effect in the following statements also.

1. Over estimation of yield
2. Problems in verification of title.
3. Own and Tenant land title verification.
4. Inadequacies cash and kind portion.

5. Compulsion in buying unsuitable fertilizers.

## 2. Non-availability of standard practice for valuation and verification of live stock.

Table No. 4 Non-availability of standard practice for the valuation and verification of livestock.

Sl. No	Opinion	Observed No	Observed proportion	Cumulative observed proportion (O)	Expected proportion	Cumulative expected proportion (E)	Total
1.	Strongly Agree	370	1.00	1.000	0.20	0.20	0.80
2.	Agree	0	0	1.0000	0.20	0.40	0.60
3.	No opinion	0	0	1.0000	0.20	0.60	0.40
4.	Disagree	0	0	1.0000	0.20	0.80	0.20
5.	Strongly Disagree	0	0	1.0000	0.20	1.00	-

Source: Computed data

Calculated Value - 0.80 ie., highest t difference

The table value at 95% confidence level = 0.071

As the calculated value is higher than them the table value is null hypothesis accepted. As such there is a difference in the importance rating given by the DCCBs.

The same effect is identified for the following hypothesis.

1. Non-availability of standard practice in valuation and verification of live stock in granting loan against live stock and for milky loans
2. Political interferences
3. Lack of Judicial support
4. Restrictions on coercive actions
5. Inadequate support from higher officials
6. No protection to Collection and Recovery staff
7. Over due accumulation
8. Accumulation of N.P.A
9. Never performing schematic loans
10. Maximum marks allotted for Recovery and collection in assessing the performance of DCCBs

11. Lack of specialized and trained staff for verification of valuation
12. Writing of accumulated N.P.A
13. Restrictions in sanctioning the fund granted by Govt agencies like NABARD
14. No empowerment in recovery and collection
15. Difficulty in raising own fund
16. Conditions and Restrictions in providing fund by Govt agencies (NABARD & SCB<sub>2</sub>)
17. Ineffective enforcement of Securitization Act
18. Vote bank politics.
19. No moral responsibility of repaying the loan availed among the beneficiaries
20. More weight age given to collection in performance assessment than issue of loan
21. We can function effectively if the above hurdles are cleared.

### 3. Tedious and complicated procedure in providing loans results of KS test presented in the following table

Table No. 5 Tedious and complicated procedure in providing loans results of KS test

Sl. No	Opinion	Observed No	Observed proportion	Cumulative observed proportion (O)	Expected proportion	Cumulative expected proportion (E)	Total
1.	Strongly Agree	293	0.7919	0.7919	0.20	0.20	0.5919
2.	Agree	77	0.2081	1.0000	0.20	0.40	0.6000
3.	No opinion	0	0	1.0000	0.20	0.60	0.4000
4.	Disagree	0	0	1.0000	0.20	0.80	0.2000
5.	Strongly Disagree	0	0	1.0000	0.20	1.00	-

Source : Computed data

Calculated Value - 0.6000 (ie. the highest difference)

The table value at 95% confidence level = 0.071

As the calculated value is grater than the table value the null hypothesis is accepted. As such there is a difference in important rating given by the DCCBs.

#### 4. Irresponsible behavior of staff in sanctioning loan

Table No. 6 Result of KS test in irresponsible behavior of staff in sanctioning loan

Sl. No	Opinion	Observed No	Observed proportion	Cumulative observed proportion (O)	Expected proportion	Cumulative expected proportion (E)	Total
1.	Strongly Agree	359	0.9703	0,9703	0.20	0.20	0.7703
2.	Agree	-	-	0.9703	0.20	0.40	0.5703
3.	No opinion	-	-	0.9703	0.20	0.60	0.3703
4.	Disagree	11	0.0297	1.0000	0.20	0.80	0.2000
5.	Strongly Disagree	-	-	1.0000	0.20	1.00	-

Source: Computed data

Calculated Value - 0.7703 (i.e. the highest difference)

The table value at 95% confidence level = 0.071

As the calculated value is grater than the table value the null hypothesis is accepted. As such there is a difference in important rating given by the DCCBs.

As it is proved from the KS Test for the given 29 statements it is confirmed that all these variables are the real challenges faced by the DCCBs in having effective governance.

#### 7. FINDINGS

From the study the following facts are identified as the challenges of DCCBs for their effective governance.

1. Most of the agricultural plans and projects are unproductive. The yield of them is over estimated. So, the loans and advances provided result in overdue and NPA.
2. There is problem of verification of title to the security given. The loans and advances are made against own land and tenant land. The verification of title to such land is a hectic problem. There are tedious procedures to be followed in granting such schematic loans.
3. DCCBs are asked to grant many schematic loans against livestock and milky animals. But there is no standard valuation and verification of livestock is practice.

4. In granting the agricultural credit the beneficiaries are compelled to buy the fertilizers provided by them. It is not suitable for all the soils. The loan is provided in cash and kind. The cash portion is not sufficient to cover the requirements of the respective crop loan plans.
5. Stiff political interference in granting loans and advances and lack of judicial support in recovery. There is no sufficient support from higher officials in taking actions. Practically, there is lot of restrictions in enforcing the co-exercise actions.
6. The collection staff members are not given sufficient protection. They feel insecure in making recovery and collection.
7. Most of the credit provided result in overdue. The overdue accumulation results in non-performing assets. Some of the schematic remain even never performing. A provision for NPA is a mandatory obligation.
8. Even though the govt is instructing the DCCBs to provide loans and advances, maximum weight age is given to collection while assessing the performance of the DCCBs. So officials are hesitating to provide schematic agricultural and rural credit. The writing off NPA is a tedious procedure and every year a provision is made for it. It affects profitability heavily.
9. DCCBs lack of specialized staff. They have to follow the legal formalities in collection and recovery. No empowerment for recovery. They cannot take independent decisions on recoveries. The irresponsible behavior of the staff in sanctioning loans affects right disbursement of credit offered by the govt.
10. The govt agencies like NABARD make many conditions and restrictions in providing funds. They are not able to raise sufficient funds.
11. The Securitization Act is not enforced effectively against rural and agricultural credit.
12. There is a severe vote bank politics and there is no moral responsibility of repaying among the beneficiaries. It is cultivated among the beneficiaries that 'agricultural and rural credit are free and there is no need to repay it'.

## 8. Conclusion

From the study it is understood that these challenges affect the effective governance of the DCCBs. The officials face hectic problems to manage the DCCBs effectively for sustainability and profitability. So the govt shall come forward to rectify such problems and empower the DCCBs to function independently to facilitate effective governance. It will ensure the successful implementation of co-

operative banking system in India. The Govt of India can effectively use the fund for the growth and development of weaker sections, poor agriculturists, and the rural population.

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