

Two-tier Co-operative Credit Structure in Manipur: An Overview

Janee Yumlembam¹, Ram Singh^{2*} and S. M. Feroze³

¹Deptt. of Agricultural Economics, BCKV, Nadia, West Bengal, India.

^{2,3}School of Social Sciences, CPGS, CAU, Barapani-793 103, Meghalaya, India.

*Corresponding author: ramsingh.cau@gmail.com

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ABSTRACT

Serving the Indian society since 1904; the cooperative credit structure has proved itself to be the life blood of the Indian economy and the mechanism as well as the booster for many a developmental programs especially in agriculture dominated rural sector by playing a pivotal role in triggering the welfare of common individual, financing his business and other personal needs. The paper is an effort to provide an overview of the two tier co-operative credit structure, of Manipur of NEHR in order to reveal its performance with special reference to operation, recovery performance, financial performance and loan delinquency rate for last 12 years (2000-01 to 2011-12). The co-operative structure in the state shown satisfactory its growth but at the same time the loan delinquency of MSCB was observed to be in higher side which shows poor recovery of the loan from the farmers. Further, to strengthen the co-operative system study suggests opening more branches of co-operative for more outreach of loan to the remotely located villages in the state. Campaign of awareness programmes should be initiated to reduce the delinquency of loans in the state.

Keywords: Co-operative, Bank, Credit, Two-tier and MSCB

The government of India has initiated several policy measures in order to improve the accessibility of farmers to the institutional sources of credit. The emphasis of these policies has been on progressive institutionalization for providing timely and adequate credit support to all the farmers with particular focus on small and marginal farmers and weaker sections of the society to enable them to adopt modern technology and improved agricultural practices for increasing agricultural production and productivity. The flow of credit to agriculture have increased from 12 per cent in the early 1970s to 67 per cent in 2010-11 as measured by the ratio of agricultural credit to agricultural gross domestic product (Rao, 2012). Among the institutional sources of credit *viz.*, scheduled commercial banks, co-operative banks and regional rural banks; the co-operative banks play an important role in addressing the socio-economic needs of those gentry living below poverty

line. At present there are 31 State Cooperative Banks (hereafter StCBs), 372 District Central Cooperative Banks (DCCBs) and 92,432 Primary Agricultural Cooperative Societies (PACS) in the country (NAFSCOB, 2013). However, co-operative credit institutions have been the oldest dominant source of agricultural credit. Unfortunately, their share in total agricultural credit was 62 per cent in 1992-93 which was decreased to 15 per cent in 2013 (NABARD, 2013). Reports of the Expert Committee to examine three tier Short Term Cooperative Credit Structure (ST CCS) has noted that StCBs in the NEHR region as well as smaller states and union territories like Delhi, Goa, Chandigarh, *etc.*, provides insignificant credit to agriculture and are catering to the requirements of only the urban population (RBI, 2013). Co-operative banks should be strengthened to regain the confidence of the depositors and widening of financial inclusions of the rural population of the

country also. In context of the North Eastern Hill Region (NEHR), the region is having only 2.62 per cent of the total number of StCBs in the country. The StCBs in NEHR are suffering from low profitability, high operational costs, high overdues and low recovery rate. Operating and efficiency ratios of StCBs in NEHR are also very poor in comparison to national level (Das, 2012).

Locale of the study

Manipur is one of the state of NEHR with a total geographical area of 22,327 square kilometer of which valley region covers 2238 sq. km and hill region covers 20,089 sq. km (GoM, 2013a). It has vast tracts of fertile land with a gross cropped area of 317.47 thousand ha which accounts for 1.42 per cent of total geographical area while the country's total accounts for 189.84 Million ha. Paddy is the main crop cultivated in the state. The tribal people living in the hills usually practice *Jhum* cultivation. The overall cropping intensity of the state was 143.26 per cent while the national records 136.05 per cent during 2011-12 (GoM, 2012a). Agriculture in the state plays a vital role. The gross state domestic product at constant prices in the state in terms of agriculture and allied activities has increased by 40 per cent from 2004-05 to 2010-11 (GoM, 2013b). The growth rate of agriculture and allied sector in Manipur during 1999-97 to 2012-13 has grown up by 13.68 per cent (GoI, 2013). The credit under priority sector (agriculture) increased in the state from ₹1327 lakhs in 2004-05 to ₹5220.22 lakhs in 2012-13 (GoM, 2012b). The total loan advances from various commercial and co-operative banks under agriculture and allied sectors were ₹9663.45 lakhs in 2004-05 which increased to ₹42103.04 lakhs in 2011-12 (GoM, 2012c). Similarly increasing trends in the agricultural and its allied production were noticed for the last eight years in the state. The production of major crops like rice, maize, meat, milk, fruits and vegetables in the state has increased (GoM, 2013c) which reflects increased investments in the farm sector. Hence agricultural sector in the state has been attracted to the financial institutions for more credit flow.

Agricultural Credit Structure in the State

The state is blessed with both institutional and non-institutional sources of agricultural credit. Among the institutional source of finance, co-operative

financial institutions, play an important role in financing agriculture and its allied activities in the state because of its wide network of Primary Agricultural Co-operative Credit Societies in the rural areas. The formal co-operative movement in the state started in the year 1938. Co-operative banking system in Manipur is a two tier structure. At the apex / state level the Manipur State Co-operative Bank and Primary Agricultural Co-operative Credit Societies at the village level. Co-operative credit institutions in Manipur have been grouped under two types: agricultural credit institutions and non agricultural credit institutions.

Rationale of the Study

Agricultural credit institutions, there are Manipur State Co-operative Bank and Manipur State Land Development Co-operative Bank at the state level and PACS at the village level. Among the agricultural credit institutions, Manipur state co-operative bank (hereafter MSCB) has an outstanding role in financing agriculture and its allied activities in the state. MSCB after being registered on 2nd July 1956, presently it has expanded to 10 branches of which 6 branches are in valley districts and the rest 4 are in the hill districts of the state. It finances 175 PACS located in different districts of the state. The village level PACS working in the valley region of the state are known as *Gram Panchayat* Level Multipurpose Co-operative Societies (GPLMPCS) while those operating in the hills are called Large Sized *Adivasi* Multipurpose Co-operative Societies (LAMPS). These Primary Agricultural Co-operative Credit Societies operating at the village level are basically multipurpose in their function. The main function of the societies are to extend financial supports such as short-term crop loans, medium term and long term loans for agricultural activities such as storage and distribution of agricultural inputs, chemical fertilizers and marketing of agricultural produce. MSCB takes a great role to deliver credit to farmers through its branch network in each district. However, in the later years, it has been assumed that co-operative credit institution advances loan in agriculture sector for the attainment of significant growth in agricultural production. An assessment of the performance of the two tier structure of the bank will lead to the formulation of appropriate policy reforms to serve better. Keeping in view the

role of two-tier co-operative credit in agriculture of the state, this paper is an overview of performance of two-tier co-operative Credit Institutions in Manipur.

Operation and Recovery Performance

Growth rate of performance indicators *viz.*, bank branches, memberships, borrowings, working capital, net profit, loan advances, reserves and surpluses, gross income and gross expenditure of MSCB has been presented in Table 1. The expansion of bank branches of MSCB were constant (10 branches) during the period (2000-01 to 2011-12). The compound annual growth rate (CAGR) of working capital of the bank was estimated to be 20.35 per cent it is in still lower side and needs to increase. Though the membership increased by 21.58 per cent the reserves and surpluses of the bank showed fluctuating trend, CAGR for which was estimated to be 13.31 per cent. The CAGR of own funds was found to be 12.53 per cent. It was found that MSCB borrowed long term loan from National Bank for Agriculture and Rural Development (NABARD). An increasing trend of borrowings of MSCB has been observed during 2000-01 to 2010-11 except in the year of 2011-12 which may be due to decreased in borrowings for farm mechanization, farm water management scheme, fishery, *etc.* The overall CAGR of borrowings was found to be 39.87 per cent. Loan advances showed increasing trend except in the year 2001-02 and 2011-12. It may be due to fall in advances under bills purchased and discounted, cash credit and overdraft. The CAGR was 29.59 per cent. Income of the bank shown zigzag trend and the overall CAGR of income were estimated to be 42.29 per cent. Total expenses of the bank showed increasing trend except in the year 2002-03. It may be due to decreased expenses on interest paid on deposit and borrowings and depreciation on and repair of building (asset). The CAGR of expenses was estimated to be 18.05 per cent. The CAGR of net profit of the bank during the study period stood at 52.11 per cent. Hence, membership, number of borrowings and amount of borrowings were found to be increased, instead of not increase in number of branches of the bank. Therefore, increasing the number of branches under MSCB is the need of hours.

Total deposits of the bank showed increasing trend till 2003-04 and decreased in 2004-05 due to fall in

current deposits. Reason in fall in current deposits was mainly due to decreased deposits from other societies, temporary deposits from registrar of co-operative societies. During 2011-12 there was a fall in all type of deposits resulting in decreased total deposits of the bank. It was probably due to decreased current deposits from individuals, firms and institutions. Keeping parity with other deposit, Fixed deposits was also decreased during 2011-12 due to fall in deposits from individuals, firms and institutions, staff security deposits, fixed deposits to MSCB and also due to decrease in special bad debt reserve of societies. The overall CAGR of deposits of MSCB was estimated to be 23.11 per cent. An increasing trend in the paid up share capital of MSCB could be observed during the study period except in the year 2011-12 and it was due to fall in share from the government in that particular year. The CAGR of paid up share capital of the bank was 12.39 per cent. It could be observed that the growth of all the indicators except net profit was found significant at 1 per cent level of significance (Table 2).

Financial Performance

The various financial ratios of MSCB have been estimated and presented in Table 3. The generally accepted standard ratio for current ratio is "two to one" which is referred to as banker's rule of thumb or arbitrary standard of liquidity for a firm was found to be satisfactory during 2003-04 to 2011-12 ranging from 1.45 to 4.39. Short term liquidity position of the bank was found highly good in the year 2004-05 and it was least in the year 2009-10. As general rule, when the quick assets are more than or equal to current liabilities, the financial position is considered satisfactory. The quick ratio indicates the ability of the business to meet its commitments as they fall due for payment. The standard norm is 1:1 since the cash yield will be sufficient to meet current liabilities. All the ratios during the study period were below the standard ratio, ranging from 0.04 to 0.14 indicates the poor liquidity position of the bank to meet its current or liquid liabilities in time.

Total liabilities to own fund ratio indicates debt financing done for the banking business. Thus, higher the ratio lower is the net worth position of the bank and higher is the finance from outsiders. Total liabilities to own funds ratio of MSCB ranged

Table 1: Growth rate of physical and financial performance indicators of MSCB during 2000-01 to 2011-12

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR (%)
Working capital (₹ lakhs)	5616.96	6279.78	7322.68	8743.98	11559.78	15105.08	24337.77	269333	29241.05	30419.3	33663.02	31208.30	20.35*
Memberships (nos.)	3123	3123	3159	4136	4596	7419	10419	12718	15057	16564	17392	17549	21.58*
Reserves and surpluses (₹ lakhs)	979.43	948.27	886.11	873.96	906.61	918.6	1083.75	1325.25	1446.52	1832.35	2267.57	5507.10	13.31*
Owned funds (₹ lakhs)	472.85	1833.52	1856.32	1891.71	2836.18	4021.89	4095.77	4176.73	4309.14	4420.96	4386.28	1776.70	12.53*
Borrowings (₹ lakhs)	584.07	696.65	1017.9	977.04	3199.38	5004.84	13751.54	13720.42	14020.14	13574.53	12291.56	12066.94	39.87*
Loan advances (₹ lakhs)	1575.2	1570.42	2074.77	2365.51	2613.55	5679.47	9623.88	12691.77	15369.3	15201.96	15478.47	15253.30	29.59*
Gross income (₹ lakhs)	1429	17.04	181.07	334.76	216.84	438.09	746.57	934.49	1930.50	1439.82	1250.32	1751.81	42.29*
Gross Net profit (₹ lakh)	345.29	475.61	250.64	287.74	339.87	415.93	711.99	849.3	996.51	1366.74	1204.67	1730.03	18.05*
	- 201.11	- 458.57	- 69.57	47.02	- 123.03	22.16	34.58	85.19	933.99	73.08	45.65	21.78	52.11**

Source: Annual reports of MSCB, 2012

Note: *Significant at 1 % probability level

** Significant at 5 % probability level

Table 2. Growth rate of physical and financial performance indicator of MSCB

Sl No.	Particulars	GR%	CV	"b"	S.E.	R2	t
1	No. of bank branches (nos.)	0	20.35	0	8.25E-33	1	0
2	Working capital (Rs)	20.35	62.59	0.185*	0.016	0.93	11.569
3	Memberships (nos.)	21.58	82.86	0.195*	0.015	0.94	12.738
4	Reserves and surpluses (Rs)	13.31	46.05	0.124**	0.027	0.67	4.607
5	Owned funds (Rs)	12.53	20.35	0.11**	0.044	0.41	2.654
6	Deposits (Rs)	23.11	23.11	0.2**	0.018	0.92	11.304
7	Paid up share capital (Rs)	12.39	12.39	0.116**	0.048	0.36	2.413
8	Borrowings (Rs)	39.87	80.03	0.335**	0.047	0.83	7.139
9	Loan advances (Rs)	29.59	74.72	0.259*	0.025	0.91	10.116
10	Gross income (Rs)	42.29	90.26	0.352**	0.06	0.77	5.877
11	Gross expenditure (Rs)	18.05	65.02	0.165**	0.024	0.81	6.74
12	Net profit (Rs)	52.11	213.66	0.419**	0.191	0.51	2.188

Note: *Significant at 1 % level of significance

**Significant at 5 % level of significance

Table 3. Financial ratio analysis of MSCB during 2003-04 to 2011-12

Year	Liquidity ratios		Long term solvency ratios		Test efficiency ratios		Profitability ratios	
	Current ratio	Quick ratio	Total liabilities to Owned fund ratio	Fixed assets to Owned fund ratio	Total expenses to Gross income ratio		Net profits to total assets ratio	Net profits to Owned funds ratio
2003-04	2.28	0.04	1.42	0.18	3.20	2.21	0.01	0.02
2004-05	1.83	0.06	0.67	0.10	1.57	0.80	0.00	0.00
2005-06	1.42	0.04	1.17	0.11	0.95	0.48	0.00	0.00
2006-07	1.45	0.06	2.26	0.02	0.95	0.28	0.00	0.01
2007-08	3.49	0.10	2.50	0.01	0.91	0.59	0.00	0.02
2008-09	2.77	0.14	2.71	0.01	0.52	0.66	0.03	0.21
2009-10	4.39	0.09	5.54	0.03	0.95	0.60	0.00	0.01
2010-11	3.34	0.10	3.20	0.01	0.96	0.62	0.00	0.28
2011-12	1.73	0.14	7.33	0.03	0.99	0.72	0.00	0.00
	2.52	0.09	2.29	0.06	1.22	0.77	0.00	0.06

Source: Balance sheet and Income statements of MSCB, 2012

between 0.67 and 7.33. The maximum ratio (7.33) computed in the year 2011-12. The average ratio of total liabilities to own funds was found to be 3.0 of the bank which was not within the prescribed norm. Thus, it is clear from the analysis (Table-3) that the debt financing of MSCB was high during the study period. The dependency of the bank on outsider's fund was high which indicates that there was a need for elimination of the same to avoid indebtedness and to avoid liquidation of bank. The fixed assets to

own funds ratio was found to be less (> 0.75) during the study period. The ratio showed decreasing trend from 0.18 in the initial year during 2000-01 to 0.03 in the year of 2011-12. The overall average ratio was estimated to be 0.06 which was low and indicates that lesser share of the bank's assets was frozen. Thus, own funds of the bank which are available can be liquidated to meet long term solvency. Test efficiency ratio is a measure of total expenses of the bank in respect to gross income generated. Lower

Table 4. Loan delinquency rate of MSCB

Year	Loan demand (₹ in Lakh)	Loan Overdue (₹ in Lakh)	Delinquency rate (%)
2000-01	1593.39	1532.6	96.18
2001-02	1543.5	1482	96.02
2002-03	1522.56	1364.2	89.60
2003-04	1892.3	1347.35	71.20
2004-05	1852.3	1313.2	70.90
2005-06	1782.29	1407.41	78.97
2006-07	2245.15	1660.16	73.94
2007-08	3742.16	2691.26	71.92
2008-09	5484.19	3127.41	57.03
2009-10	5806.66	4717.99	81.25
2010-11	7919.12	6625.54	83.67
2011-12	10067.53	9026.13	89.66

Source: Annual reports of MSCB, 2012

the ratio better is the financial efficiency position of the bank. The test efficiency during the study period was low (less than zero) except in the year 2004-05, 2006-07, 2010-11 and 2011-12 which indicates the expenses during mentioned the years were more than the income generated which is not a good sign for the bank. The rest of the years where the ratio was below zero indicates low earning capacity of the bank. The importance of operating expense ratio lies in the fact that it is an indicator of the efficiency level of managing the property. A lower operating expense ratio indicates a greater profit for the bank. In simple words, the operating expense ratio reflects the percentage of a bank's income which is being utilized to pay operational and maintenance expenses. The ratios of operating expense to gross income of the bank accounted to be low during the entire study period (less than 1) which indicates more expenses than income and inability of MSCB to generate more income.

As net profits to total assets ratio or capital employed ratio refers to return on capital employed, higher the ratio better is the profitability of the bank. The net profit generated by MSCB during each year was less (0.00 to 0.03) which depicts poor profitability of the bank. It may be due to accumulated loss during each year of the banking business. The rate of return of the bank from own funds observed in a range of 0.00 to 0.28 per cent. The net profit of the bank in the year 2004-05 was zero which indicates that MSCB

had incurred losses in that particular year. The same ratio was observed in 2006-2007 in spite of the fact that the bank earned net profits during those years, it was because of negligible rate of return from the own funds. Similarly, during 2010-11 and 2011-12 the returns were too low. Over the years there was fluctuating trend in the rate of return on own funds of the bank.

Loan delinquency rate

The account of Table 4 represents the rate of delinquencies of loan advanced by MSCB during 2002-03 to 2010-11. These rates measures non - repayment of loans borrowed against the loan demanded in a particular year. It can be observed from (Table 4) that delinquency rate was high and it ranges from 57.03 to 96.18 per cent. The highest delinquency rate was recorded during 2000-01 (97.18 per cent) and the lowest in the year of 2008-09 (57.03 per cent). The overall delinquency rate of MSCB was high indicates that there was high rate of non-repayment of loans which should be of prime concerned for the bank to take up measures for efficient and effective recoveries for the smooth functioning of the bank.

Conclusion

Growth performance of Manipur state co-operative bank was found satisfactory and significant. Financial performance of MSCB revealed good

liquidity position of the bank. Loan delinquency of MSCB was found to be in higher side which is not a good sign of the bank. The MSCB needs to increase its branches to make more reach of the farmers to the credit. Reduction of delinquency and improvement of recovery of the bank can be increased by way of quick an effective follow up by the bank officials for loan recovery, encouragement of prompt repayment to the borrowers, look into the problems of the borrowers. Regular recruitment of staff for MSCB with special expertise should be done to enhance the efficiency of recovery and to make possible the advancement of loans to the farmers of the state.

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