

CRITICAL STUDY OF THE  
WORKING OF MAHARASHTRA STATE  
CO-OPERATIVE BANK  
(1974-75 TO 1984-85)

BY

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**CRITICAL STUDY OF THE WORKING OF  
MAHARASHTRA STATE CO-OPERATIVE BANK  
( 1974-75 TO 1984--85 )**

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## P R E F A C E

The present study is concerned with the 'Critical Study of the Working of Maharashtra State Co-operative Bank' during the period 1974-75 to 1984-85. It contains six chapters. Chapter I reviews briefly the historical growth of The Maharashtra State Co-operative Bank. The second chapter reviews the resource mobilization by the Bank. Utilization of the resources (deployment) is discussed in the third chapter. Chapter IV evaluates the working of the Bank in terms of its income and profitability. The problems faced by the Bank during the period are stated in Chapter V. Chapter VI presents some concluding remarks.

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## CHAPTER I

### HISTORICAL GROWTH OF THE MAHARASHTRA

#### STATE CO-OPERATIVE BANK (MSCB)

1.1 The cooperative movement in the Bombay Presidency received tremendous boost on account of the establishment of the Bombay Central Co-operative Bank in 1911. Though the Bank had been registered as the Bombay Central Co-operative Bank, from the beginning, it had functioned as provincial bank. The amendments of 1923, in the bye-laws of the Bank conferred on it the same status legally. After division of the Bank consequent on bifurcation of the bilingual Bombay State, the residual bank assumed in October 1960, the name, 'The Maharashtra State Co-operative Bank Ltd.'. This bank and the Vidarbha Co-operative Bank Ltd. were amalgamated into 'The Maharashtra State Co-operative Bank Ltd. (Incorporating The Vidarbha Co-operative Bank Ltd.) in May 1961.

1.2 After attainment of Independence, the Bank made significant contribution in matters concerning evolution of cooperative thought, in orientation of loaning policies and procedures. The Bank always took initiative and exercised considerable influence by introducing several innovations on the working of the cooperative credit institutions not only in Maharashtra but also in other states. It may



be appropriate to describe briefly some of the major innovative schemes.

(a) Crop Loan System

In the early years of the Bank, the advances to the agriculturist through the primary cooperative societies were based on the security of land of the borrower, or of two sureties. As these loans had to be repaid by stipulated date, there arose a practice of advance against repayment, i.e. the loan was repaid from temporary accommodation received by the agriculturist from other sources like money-lenders and the loan renewed promptly by the Bank. This was hardly satisfactory. It was necessary to stimulate production of crops and relate bank-advances to production of crops. This system devised came to be called the 'Crop Loan System' where under the repayment of the loan is secured from sale proceeds of crop produced. A feature essential for this scheme was the link between production and marketing and repayment of loan out of sale proceeds through a cooperative agency.

The system of crop financing was refined and expanded from time to time. There are however limitations to the crop loan system. As observed by D.R. Gadgil,<sup>1</sup> "the crop loan system could meet more or less fully the needs of the more substantial cultivators in most areas where important

commercial crops were grown. The smaller cultivators and the cultivators who grew less costly crops because of the soil or climate conditions, did not equally benefit from the crop loan system."

(b) State Partnership

An important contribution of the Bank in the evolution of cooperative policy was the acceptance of state partnership in cooperative credit institutions. The large scale of financing required for the development of agriculture, required far more resources than the cooperative banks could command. This prompted the Agricultural Finance Sub-Committee of Government of India (1944) to recommend creation of state owned Agricultural Credit Corporations. The cooperative leadership in Maharashtra (the then Bombay State) felt that the cooperatives in the state were capable of discharging the responsibilities of the proposed corporation, provided the state assistance envisaged for agricultural credit was provided to the cooperative movement. This view was accepted and Government partnership in the state and central cooperative banks and also in the primary agricultural credit societies became a reality in 1948. It was clearly understood that the partnership should not be of the kind between lion and a lamb.

(c) Industrial Finance

On the industrial front, the Bank was the pioneer in the establishment of the cooperative sugar factories and latter the cooperative spinning mills. In 1961, the Bank launched a new experiment by setting up 'Cooperative Industries Commission' for the promotion of cooperative industries by taking up the responsibility for pre-investment surveys, project reports, etc.

(d) O t h e r

The Bank was increasingly interested in financing of marketing of crops and in the financing of processing of agricultural produce which was a further step in the marketing of crops. It was also found necessary to finance agricultural inputs like improved seeds, fertilizers and pesticides and agricultural equipments like oil engines, tractors, tillers, etc., for improved cultivation. The concept of agricultural financing was also widened so as to include allied and supplementary activities like milk and dairy societies, cattle, poultry, fishing, etc.

The Bank organized lectures and classes for spreading cooperative education as well as some elementary knowledge on improved farming, and popularised banking habit by introducing the system of savings, current accounts and cheques in vernacular language.

1.2 A Brief Review of the Lending Policies of the Bank

Since 1950, efforts to improve the crop loan system were continuous. Besides raising the scale of finance in step with the upward trend of cost and price of inputs, the Bank followed two courses. In the case of cash crops like sugarcane, potato, cotton and groundnut, the close link of credit which facilitated disbursement of adequate credit according to need and tightening the supervision over its use ensured the repayment of loans through the sale of produce. The introduction of intensive paddy cultivation scheme in the rainfed tracts which assured higher yields, the scale of finance for paddy was pushed towards adequacy, even though the link between credit and marketing was weak. In order to supplement, the Bank introduced in 1959, the practice of granting 'khavti' (maintenance) loan at Rs.10 per acre in certain tracts of the Thane district.

To mop-up resources for subscribing to the share capital of sugar factories on the basis of acreage, the Bank stretched its concept of the crop loan system to enhance the scale of financing sugarcane cultivators. A scheme for granting loans for the purpose was introduced by the RBI in 1958-59, but till then, this method of forced capital formation was found useful for hastening the pace

of growth of cooperative sugar factories though the prospective owners had to tighten their belts in order to meet the increased liability.<sup>2</sup>

The implementation of the monopoly procurement scheme for foodgrains through the cooperative system as the sole agent of the State Government also contributed significantly to the development of cooperative marketing.

The nationalization of fourteen leading commercial banks in 1969 was meant to fill the gaps in the supply of credit to the hitherto neglected sectors without prejudicing the role of cooperative credit within the weaker sector. The Bank had planned at the end of 1969-70, an ambitious programme for expansion of non-agricultural credit particularly through the development of sugar, spinning and other processing societies in tune with the State Government policy but the RBI failed its programme by steadily tightening its control over its lending operations in order to correct the imbalances in its advances. Besides the introduction of the Credit Authorisation Scheme for the banking system in order to tighten its credit policy, the RBI re-oriented the Bank's lending policy at the end of 1974-75 in consultation with the Government of Maharashtra and fixed the order of priorities for deployment of resources. Top priority was given to short and medium term agricultural finance followed by (a) Monopoly cotton procurement, spinning

mills, ginning and pressing societies, (b) Industrial societies, (c) Consumers' societies, (d) Urban banks, and (e) Sugar factories. In actual operation, the RBI made minor relaxations in respect of finance to sugar factories, made credit scarce for Monopoly Procurement Scheme and used Government guarantee liberally as a condition for granting loans to non-agricultural societies in tune with the state policy.<sup>3</sup>

The Maharashtra Government accepted the recommendations of the CRAFTCARD. Accordingly, the State Government issued instructions to the State Cooperative Banks, Central Cooperative Banks and the primary agricultural credit societies to amend the bye-laws wherever necessary to enable them to undertake long term lending. Some of the district banks and credit societies have already initiated the process. As a result, the project financing of long term nature will be facilitated. The MSCB decided in 1984 to allocate Rs. One crore for each of the districts in Maharashtra to enable the district banks to provide long term loans, for construction of new wells, bore wells, and the tube wells. The Bank felt that this division might make sizable contribution to programmes to overcome the situations arising from famine conditions which has now become a common occurrence in Maharashtra.

### 1.3 Progress of the Bank

The Bank recorded alround progress in respect of collection of share capital, building up of working capital, tapping deposits as well as in the matter of grant of loans and advances to the affiliated DCCBs in the State. As compared to some other leading State Cooperative Banks in the country, the progress of the MSCB has been considered to be quite appreciable. Table 1.1 brings out the position occupied by the MSCB among these banks.

Table 1.1 : Comparative performance of some of the State Cooperative Banks in India (1982-83)

(Rs.in crores)					
State	Working capital	Owned funds	Deposits	Loans outstanding	Overdues % to loans outstanding
Maharashtra	842.03	109.96	623.74	612.12	2.0
Gujarat	361.86	39.24	206.79	250.98	5.5
Uttar Pradesh	231.11	58.52	255.30	264.31	5.4
Punjab	182.09	19.95	107.81	113.36	0.5
Madhya Pradesh	220.91	28.03	115.82	151.90	3.2

Source : Cooperative Movement At a Glance in India (1982-83).

The table reveals that MSCB occupied the highest position in all spheres of resource mobilization, viz., working

capital, owned funds and deposits. The amount of loans outstanding is also the highest in case of MSCB. At the same time it shows the lowest (except Punjab) percentage of overdues in relation to the loans outstanding. It is a well known fact that the total supply of cooperative loans issued in a particular state depends on the growth of cooperatives in that state. Growth of the cooperatives had been more pronounced in those states where the system of land tenure was characterised by the owner-cultivator relationship like that in Maharashtra and Gujarat than in those states where the landlord-cultivator relationship predominated as in Orissa and West Bengal. Dormancy, linkage between credit societies and marketing societies, differential growth rates in agriculture are some of the factors which affect the growth of the cooperatives in the state.



## REFERENCES

- 1 'Perspective Development in Cooperative Finance',  
D.K. Gadgil, p. 5.
- 2 'Seven Decades of Innovative Banking' (History of  
Maharashtra State Co-operative Bank), 1911-1981,  
G.M. Laud (1983), p. 310.
- 3 Ibid., pp. 480, 481.

## CHAPTER II

### RESOURCE MOBILIZATION

2.1 The effectiveness of the functioning of an apex bank may be judged from its capacity to raise funds and the impact it makes through utilizing the above funds. Thus the two chief functions of a bank are mobilization as well as the deployment of resources.<sup>1</sup>

This chapter is devoted to the study of the first of two functions viz., resource mobilization (raising of the working capital) of the Maharashtra State Co-operative Bank. For convenience our study will be confined to the period after 1974-75. This will ascertain whether the Bank has succeeded in building up a strong capital base. Secondly, it will also facilitate understanding as to whether the Bank has helped the rural masses, especially weaker section of the state, in familiarising them with the banking habit. Thirdly, we will examine whether the Bank has succeeded in attracting enough urban and semi-urban deposits, and finally, the extent to which the Bank continues to rely on the Reserve Bank of India and others for its resources.

Resources are considered to be the prime movers of any economic activity. A cooperative apex bank generally raises its funds (working capital) from share capital, deposits,

borrowings, grants and loans from Government and also by building up reserve funds. The Maharashtra State Co-operative Bank has raised its resources through (i) share capital from societies, individuals, and Government of Maharashtra State, (ii) reserve funds created out of profits, (iii) deposits from societies and individuals and others, (iv) borrowings from various sources like Reserve Bank of India (RBI), now National Bank for Agriculture and Rural Development (NABARD), State Government, National Cooperative Development Corporation (NCDC), Agricultural Refinance and Development Corporation (ARDC) and others. Besides these sources, the MSCB raised fund by floating debentures under special circumstances as per provision under bye-law No. 2(J).

Unlike the States of West Bengal, Punjab and Andhra Pradesh which have no individual membership, the apex bank in Maharashtra is of a mixed federal structure with its membership open to both societies and individuals.

The membership of the Bank increased throughout the period under review (i.e. 1974-75 to 1984-85). In 1974-75 the total number of members was 5958 comprising of 1839 societies with Rs.6.50 crores of share capital and 4119 individuals and Government with Rs.10 lakhs and Rs.4.52 crores of share capital respectively. Number of nominal members was 6262 in the year 1974-75. The membership of societies and their share capital increased to 2254 and

Rs.13.96 crores respectively by the end of June 1985. The individual membership as discouraged deliberately by the Bank, declined to 3640 in 1984-85, but their share capital rose from Rs.11 lakhs to Rs.17 lakhs. From the cooperative year 1978-79, the Bank started refunding the amount of Government contribution to the share capital. The process was continued until the share Government became nominal i.e. one share of the face value of Rs.50 only by the end of the year 1984-85.

Though, individual membership is discouraged by the Bank, yet, as a banking institution, in order to enable it to give loans to its individual depositors against their deposits with the Bank, and under certain circumstances, a provision of nominal or 'B' class membership has been made in the bye-laws of the Bank, under the bye-law No. 17(a). Hence, the number of nominal members increased from 6262 in 1974-75 to 14106 in 1984-85.

## 2.2 Resources

### (A) Owned Funds

Owned funds not only increase the borrowing capacity of the bank but also enhance the strength and so the capacity to bear the unavoidable risk involved in the course of its lending business.

Table 2.1 shows the composition of owned funds of the MSCB in the period 1974-75 to 1984-85.

Table 2.1 : Composition of owned funds

As on 30th June	Percentage to total owned funds		Total owned funds (amount in Rs. crores)	% of owned funds to	
	Paid-up share capital	Reserves		Total advance	Total resources
1975	32.72	66.28	33.05	15.15	10.24
1976	32.08	67.92	37.30	16.62	11.09
1977	28.30	71.70	45.46	25.60	19.60
1978	25.50	74.50	53.13	19.60	13.50
1979	20.70	79.30	55.88	19.40	12.60
1980	17.60	82.40	65.35	26.60	13.90
1981	15.00	85.00	73.34	23.60	13.20
1982	13.50	86.50	86.84	17.30	12.40
1983	11.37	88.63	109.96	17.96	12.88
1984	11.17	88.83	124.14	26.78	12.19
1985	10.42	89.58	135.68	22.20	11.38

Source : Figures worked out from Administration Reports of MSCB for various years.

It is observed from Table 2.1 that the share of owned funds in total advances fluctuated widely during the decade but tended to be on the higher side during the later years.

(a) Share Capital

To achieve the objective of increase in the share capital, the Bank has been following a policy of linking the shareholding of cooperatives to the credit limits sanctioned to them. The paid-up capital on 30th June 1985 was Rs.14.13 crores.

Ownership of Capital

The details of the share capital contribution by societies, individuals and Government in the period 1974-75 to 1984-85 are given in Table 2.2.

Table 2.2 : Ownership of capital

(Rs. in crores)				
As on 30th June	Societies	Individual	Government	Total paid-up share capital
1975	6.51	0.10	4.53	11.15
1976	7.33	0.10	4.53	11.98
1977	8.25	0.09	4.53	12.87
1978	8.69	0.09	4.53	13.31
1979	8.87	0.09	2.62	11.59
1980	8.90	0.08	2.51	11.49
1981	8.95	0.07	2.00	11.03
1982	9.61	0.07	2.00	11.68
1983	10.33	0.17	2.00	12.50
1984	11.70	0.17	2.00	13.87
1985	13.96	0.17	Rs.50 only	14.13

Source : 1) Annual Reports of MSCB of various years.  
2) Administration Reports of MSCB of various years.

It can be seen from Table 2.2 that the total paid-up capital of the Bank rose from Rs.11.15 crores by the end of June 1975 to Rs.14.13 crores by the end of June 1985 i.e. by 27 per cent. The share of cooperative societies shot up from 58.3 per cent to 98.8 per cent of the total paid-up share capital; the Government's contribution remained constant upto 1977-78, but later fell in four instalments to Rs.50 only, i.e. a nominal share contribution. The shares held by individuals shrank steadily to 1981-82. As the Government's contribution was reducing, the individual's contribution was encouraged resulting in a spurt in individuals' contribution after 1982. The institutional membership rose from 1840 to 2254 while the number of individual members dropped to 3640 during the period 1974-75 to 1984-85.

(b) Reserve Funds

Reserve funds comprise (i) statutory reserves, (ii) agricultural credit stabilization fund, (iii) bad debt reserves, and (iv) other reserves. Reserves provide a cushion against unforeseen contingencies. Similarly, cooperative apex banks which generally provide short term loans may venture into the field of medium term loans to agriculturist and loans to small industries if they have a strong capital base. The RBI provides medium term loans under Section 17(4)(A) to the apex cooperative banks only to the extent of owned funds of the banks. Thus, owned funds,

not only build-up the foundation of the resources of cooperative banks but also reinforce the resource position with shock-proof reserves and inflow of funds from RBI.

As in the case of most other cooperative apex banks in India, in MSCB also, the statutory reserve and agricultural credit stabilization fund are the prominent items with an investment depreciation fund and bad and doubtful debt reserve which have a significant place in reserve funds of MSCB. Table 2.3 shows the progress of MSCB in regard to reserve funds during the period 1974-75 to 1984-85.

The total reserves of the Bank recorded a steady increase representing 89.58 per cent of the total owned funds of Rs.135.68 crores at the end of 1984-85 as seen in Table 2.1.

(1) Statutory Reserves

The statutory reserve fund of the Bank was built-up rapidly during the period 1974-75 to 1984-85 and rose 23 times. This reserve is created by transferring 25 per cent of the net profit earned by the Bank. The provision of the statutory reserve, therefore, generally, reflects the trend of net profit earned. Clearly, this shows the wise policy pursued by the Bank by ploughing back profits. The position of the Bank can be judged from the growth in



Table 2.3 : Progress in reserve funds of MSCB

As on 30th June	(Rs. in crores)						Growth %
	Statutory reserves	Agricultural credit sta- bilization fund	Investment depreciation fund	Bad debt reserves	Others	Total	
1975	2.94	8.73	1.04	2.90	6.31	21.91	100 (base)
1976	3.33	9.78	1.04	3.66	7.52	25.34	115.65
1977	5.44	11.24	0.37	5.79	9.73	32.58	148.71
1978	8.99	13.30	1.57	6.81	9.15	39.82	181.72
1979	14.07	15.37	1.60	7.83	5.43	44.28	202.11
1980	25.38	16.22	2.00	6.50	3.76	53.85	245.79
1981	31.70	17.08	4.81	4.65	4.00	62.31	284.38
1982	37.19	18.55	5.55	6.40	5.46	75.15	343.00
1983	50.38	20.11	13.75	6.00	7.22	97.46	444.80
1984	66.54	20.83	14.58	6.25	2.04	110.27	503.28
1985	69.53	22.13	15.67	6.44	7.78	121.55	554.76

Source : 1) Annual Report and Statements of Accounts of MSCB of various years.  
2) Administration Reports of MSCB of various years.

statutory reserve of the Bank, which formed 13.42 per cent of the total reserves in 1974-75 but accounted for 57 per cent in 1984-85.

(2) Agricultural Credit Stabilization Fund

The MSCB's agricultural credit stabilization fund is created for facilitating the conversion of short term loans of district banks into medium term loans. The statutory provision is to set aside minimum 15 per cent of net profits of cooperative banks to this fund. The Bank has set apart much more than the minimum requirement. The agricultural credit stabilization fund in 1974-75 was Rs.8.73 crores (see Table 2.3) which increased to 22.13 crores in 1984-85.

(3) Bad-Debt Reserves

The Bank made conscious efforts to build up reserves for bad debts from the beginning. The reserves show a sizable increase from Rs.2.90 crores in 1974-75 to Rs.7.82 crores in 1978-79. But from 1979-80, the reserves for bad debt were written off during the period from time to time as seen from the decline during 1979-80, 1980-81 and 1982-83.

(4) Other Reserves

Other reserves of the Bank include building fund, fishery credit stabilization fund, village artisans guarantee claim fund, reserves for socio-economic development, etc.

It is seen from the various annual reports of the Bank that among the various components of its reserves, the building funds show highest amount in almost all the years under review. The other reserves widely fluctuated during the decade.

(B) Deposits

The chief source of external funds for banks is deposits from public. The smooth functioning of the co-operative banks mainly depends on the ability to increase the resources by mobilizing deposits. Higher level of deposits contribute to self reliance through reduced borrowings.<sup>2</sup>

The MSCB accepts various types of deposits such as fixed, saving, current, call and recurring through its head office in Bombay, regional office at Nagpur and branches in Bombay and Nagpur. The total number of branches at the end of 1984-85 was 31 in Bombay and 7 in Nagpur.

Let us examine the ownership, type and growth of deposits to assess how far the apex bank has succeeded in mobilizing deposits and how it has contributed to the strengthening of the resources of the Bank. The information on deposits of MSCB during the period from 1974-75 to 1984-85 is given in Table 2.4.

Table 2.4 : Position of deposits of MSCB

As on 30th June	Working capital	Total deposits	Loans outstand- ing	(Rs. in crores)	
				% to deposits to Working capital	Loans outstand- ing
1975	322.77	162.52	233.68	50.35	69.55
1976	363.11	224.92	224.46	61.94	100.20
1977	335.24	230.23	177.89	68.68	129.42
1978	394.21	259.96	271.16	65.94	95.87
1979	445.18	322.78	287.51	72.39	112.09
1980	470.86	358.25	245.84	76.08	145.72
1981	555.82	429.94	310.75	77.05	138.35
1982	700.97	525.30	500.84	74.94	104.88
1983	853.76	623.74	612.12	73.05	101.90
1984	1018.49	823.37	463.61	80.84	177.60
1985	1191.90	959.75	611.25	80.52	157.01

Source : Annual Reports of MSCB of various years.

Table 2.4 reveals that the performance of the MSCB in mobilizing deposits was very satisfactory. The deposits show continuously increasing trend in the total deposits during the period under review. The amount of deposits shot up to Rs.959.75 crores in 1984-85 showing 490 per cent increase with the proportion of deposits to working capital

50 per cent in 1974-75 and 80.52 per cent in 1984-85.

The percentage of deposits to loans outstanding of MSCB in the period 1974-75 to 1984-85 showed that except in 1974-75 and 1977-78, deposits mobilized by the Bank were far more than utilized. Thus there were surplus resources which could not be appropriately deployed, and the Bank faced a problem of finding profitable outlets for employing its surplus resources.

As the deposits of the Bank were increasing, the dependence on borrowings from other sources seems to declining importance in the Bank's resource mobilization policy and the situation gave freedom to the Bank for implementing its own policy and procedure for deployment of its funds. Thus the Bank secured self-reliance in the sphere of resource mobilization as well as credit deployment. The Bank thus was enabled to make any innovations in banking policies.

Unlike many other state cooperative banks, MSCB had maintained the deposit growth rate during the whole period under review and this was so even in the period when nationalized commercial banks with their nationwide branches began to attract more savings from people with many attractive schemes of deposits and it is noteworthy that the growth rates of the Bank were comparable with those of the

commercial banks. It was 17 per cent in 1984-85 whereas it was 18 per cent in case of commercial banks in 1984-85. In respect of district central cooperative banks and urban cooperative banks, the growth rate was 24 per cent which was more than that of commercial banks, although the interest rates of the cooperative banks were on par with those of scheduled commercial banks.

Among all the state cooperative banks in India, MSCB is the most successful state cooperative bank in mobilizing deposits. Out of the total deposits of all SCBs in 1981-82 i.e. Rs. 1879.84 crores, MSCB had the highest deposits i.e. Rs. 525.30 crores (28 per cent) and was followed by Gujarat, Tamilnadu, etc.

(a) Ownership of Deposits

Although the agricultural sector was sluggish during the period under review in respect of production, the deposits from various sources showed steady increase or better to say, were at increasing rate during the period under review. Table 2.5 presents the deposit position of MSCB for the period 1974-75 to 1984-85. The most significant aspect in the ownership of deposits of the Bank is the predominance of societies' share i.e. from within the movement. In the total deposits, the share of the co-operative societies accounted for 90 per cent in the case

Table 2.5 : Ownership of deposits of MSCB

As on 30th June	Ownership of deposits %		Total amount of deposits
	Societies	Individuals	
1975	84.84	15.16	162.52
1976	88.09	11.91	224.92
1977	85.97	14.03	230.23
1978	86.79	13.21	259.96
1979	88.12	11.88	322.27
1980	87.93	12.07	358.24
1981	89.03	10.97	429.93
1982	89.86	10.14	525.30
1983	90.68	9.32	623.74
1984	92.02	7.98	823.37
1985	91.54	8.46	959.74

Source : 1) Administration Report of MSCB of various years  
2) Annual Report of MSCB of various years.

of MSCB (80 per cent in the case of all-India) in the year 1981-82, whereas it was 91.50 per cent in 1984-85, showing a slight increase. The deposits from outside the movement i.e. from individuals, showed less percentage (15.16 per cent) to total deposits of the Bank, decreased considerably from year to year and was only 8.46 per cent at the end of 1984-85.

(b) Types of Deposits

The level of deposits mobilized by any bank depends on many factors. These are : (1) efforts made by the bank to identify the savings potential of the target group and their effective channelization into its system, (2) the overall image of the bank, (3) the quality of the services offered, (4) the type of deposit schemes introduced and their need and attractiveness, and (5) branch network. In the context of ever increasing responsibilities of the Bank, pertaining to finance for various types of cooperatives in the state, deposit mobilization assumes special significance in respect of self reliance. The Bank therefore has been making conscious and concerted efforts such as prompt and attractive services to customers and introduction of special schemes for increasing deposits. Institutional depositors like Maharashtra State Khadi and Village Industries Board, the Bombay Municipal Corporation, Industrial Finance Corporation of India, etc., extended their support to the Bank by depositing their surplus funds with MSCB.

Table 2.6 presents a vivid picture of composition of the different types of deposits in terms of percentage to total.

It is revealed from the data in Table 2.6 that fixed deposits accounted for a larger share in total deposits of



Table 2.6 : Types of deposits

As on 30th June	Percentage to total deposits			(Percentages)
	Current	Saving	Fixed	Total deposits amount (Rs. in crores)
1975	20.72	9.00	70.28	162.52
1976	20.38	15.48	64.14	224.92
1977	19.27	7.78	72.95	230.23
1978	15.24	8.40	76.36	259.96
1979	19.72	7.93	72.35	322.28
1980	14.60	8.51	76.89	358.25
1981	14.35	8.02	77.63	429.94
1982	22.15	7.42	70.43	525.30
1983	28.17	7.05	64.78	623.74
1984	34.05	8.26	57.69	823.37
1985	34.42	6.79	58.79	959.75

Source : Administration Report of MSCB of various years.

the Bank throughout the period under review. It was 70.28 per cent in 1974-75 and 58-79 per cent in 1984-85. The percentage was highest (77.63 per cent) in 1980-81. However after 1980-81, though the amount of fixed deposits increased, its percentage share in the total deposits decreased. At the same time i.e. from 1980-81 to 1984-85, the share of current deposits increased from 22.15 per cent in 1980-81 to 34.42 per cent in 1984-85.

Promotion of self-help and thrift, which are considered to be important objectives of the cooperative movement always seem to be achieved in Maharashtra State. This is clearly borne out by the performance of deposit mobilization of the central cooperative banks and the primary credit societies. The efforts of the central cooperative banks in mobilizing deposits are substantial. This is evident from the percentage of deposits to working capital which stood at 72.7 per cent by the end of 1984-85.

The performance of agricultural credit societies presents a pitiable picture. The percentage share of deposits in working capital in 1984-85 was as meagre as 1.96 per cent, consequently that showed overdependence on borrowings.

As a balancing centre of the cooperative movement, the apex bank is supposed to mobilize the idle resources from the entire state, particularly from the rural areas. In Maharashtra, the apex bank has left the rural area to the care of central banks which are carrying out the job very efficiently. In cooperative sector, the district central banks in Maharashtra have the largest number of branches (2226) in India. The apex bank with her network of 38 branches (the highest number of branches in India) with head office in Bombay and regional office in Nagpur mobilizes its resources (deposits). This implies that the urban

savings or idle resources of the societies are being mobilized by the MSCB.

In 1971, Government of Maharashtra decided that the salaries of teachers in aided private schools should be made payable through banks in order to prevent malpractices. The apex bank took the initiative and secured this work for cooperatives. Thus, the teachers' accounts constituted an important source of deposits. The issue of debentures on 31st May 1971 for raising long term funds to finance co-operative sugar factories in the state also enhanced the efficiency in mobilizing the deposits.

The apex bank absorbs the surplus funds of DCCB's but has rare opportunities to bridge the gaps in their resources as they have ample resources.

(c) Borrowings

For most of the state cooperative banks, next to deposits, borrowings form an important source of funds. Information on the borrowings of MSCB during the period 1974-75 to 1984-85 is given in Table 2.7.

From Table 2.7, it could be seen that in the early years of the period under review, borrowing was the important source of raising funds for MSCB (next to deposits); and constituted more than 30 per cent of the working funds of the

Table 2.7 : Position of borrowings in total working funds of MSCB

(Rs. in crores)			
As on 30th June	Total working funds	Total borrowings	% of borrowings to total working funds
1975	322.77	98.00	30.50
1976	363.11	67.42	18.57
1977	335.34	23.00	6.86
1978	394.21	47.42	12.03
1979	445.18	29.08	6.53
1980	470.86	9.99	1.17
1981	555.82	8.80	1.58
1982	700.97	51.69	7.37
1983	853.76	72.99	8.55
1984	1018.49	19.82	1.95
1985	1191.90	35.45	2.97

Source : Administration Report of MSCB of various years.

Bank in 1974-75. But subsequently, the share of borrowings constituted less than 3 per cent of the total working funds of the Bank. Reserve Bank of India reduced the refinance assistance to the Bank due to the heavy accumulation of overdues (to the extent of 20 to 40 per cent of the demand<sup>3</sup>) at the level of district central cooperative banks and their affiliated credit societies.

MSCB borrows from various sources as RBI, NCDC, ARDC, State Government, etc. Table 2.8 shows the comparative shares of various agencies providing loans to MSCB.

Reserve Bank of India (RBI) happened to be the single largest source of borrowings. The share of RBI in MSCB's total borrowings was 82.34 per cent in 1974-75 and reduced to 16.78 per cent in 1984-85. Of course from 1982-83, most of the agricultural and rural credit activities were transferred by RBI to NABARD. Hence from 1982-83, the RBI's share in MSCB's total borrowings became nominal.

(C) (a) Reserve Bank of India

The MSCB secured accommodation at concessional rates of interest from the RBI under the provision of RBI Act 1934, for both agricultural and non-agricultural purposes.

Section 17(4 AA) as determined under Section 46A(2)(b) and 46(B) of the Act enables the RBI to provide medium term loans to the state cooperative banks for agricultural and other purposes connected with agricultural activities for periods ranging between 15 months and five years. Loans granted under Section 17(4 AA) read with 46(B) are in the nature of conversion of short term loans into medium term loans. Conversion loan is a kind of assistance to the state cooperative banks to enable them to pay arrears in respect of accommodation for short term agricultural purposes

Table 2.8 : Loans borrowed by MSCB (From various agencies)

As on 30th	Total borrow- ings (amount in Rs. crores)	% share in total borrowing					(percentages)
		RBI	NABARD	State Govern- ment	ARDC	Other NCDC and Govern- ment	Debentures
1975	98.00	82.34	-	12.9	0.6	0.9	3.05
1976	67.42	30.2	-	59.0	0.9	1.6	4.4
1977	23.00	71.2	-	7.6	2.4	5.8	13.0
1978	47.42	86.5	-	3.7	0.7	2.8	6.3
1979	29.08	76.7	-	1.7	-	5.3	10.3
1980	9.99	44.0	-	26.0	-	-	30.0
1981	8.80	43.8	-	22.1	-	-	34.1
1982	51.69	73.1	-	4.0	0.9	16.2	5.8
1983	72.99	7.35	83.52	5.02	-	5.5	4.11
1984	19.82	23.14	39.73	22.00	-	-	15.13
1985	35.45	16.78	66.34	6.30	-	2.1	8.46

- : Indicates Nil.

Sources : 1) 'Annual Reports of MSCB' of various years.  
2) 'Administration Reports of MSCB' of various years.

obtained under Section 17(2) and 17(4) which they are unable to pay owing to crop failure on account of drought, floods or other natural calamities. The refinance rate to state cooperative banks is 3 per cent below the Bank rate for short term agricultural advances and 2.5 per cent below the Bank rate for medium term agricultural advances, effective from 1st March 1978, prior to 1st March 1978, it was 2 per cent and 1.5 per cent below the Bank rate respectively. The term agricultural operations includes animal husbandry, dairy and poultry farming, pisciculture, etc., while marketing of crops includes processing of crops prior to marketing too.

Non-agricultural accommodation by the Reserve Bank to SCBs is provided under Section 17(2)(a), 17(2)(bb), 17(4)(a) and 17(4)(c) of the RBI Act 1934. Under these sections, the RBI provides short term credit to state cooperative banks for bonafide commercial purpose against purchasing or rediscounting bills of exchange and promissory notes arising out of such transactions and maturing within ninety days. Accommodation under this sub-section is granted to the Handloom Weavers' Cooperative Societies for purchase/sale of yarn. Under Section 17(2)(bb), the RBI lends to the SCBs for the purpose of financing the production or marketing activities of cottage and small scale industries (22 broad groups). The RBI charges the

concessional rate of interest of 3 per cent below the Bank rate with effect from 1st March 1978.

RBI also provides distribution credit to the state cooperative banks for distribution of chemical fertilizers under provision of Section 17(4)(c). Apart from the above section, RBI provides loans under Section 17(4)(a) for augmenting liquid resources of the state cooperative banks.

RBI also sanctions long term loans from the National Agricultural Credit (long term operations) Fund, repayable within a period of 12 years with low rates of interest. As stated in the Twenty Third Annual Report (1985-86) of National Federation of State Cooperative Banks Ltd., Bombay, "the SCBs are lagging behind the commercial and land development banks in the availment of refinance from RBI/NABARD for agricultural term lending on project basis. This is partly because of an impression persisting among SCBs that long term financing falls in the realm of co-operative land development bank. This impression has cost the SCBs dearly."<sup>4</sup>

The share of RBI in the total borrowings declined sharply from 82.32 per cent to 16.78 per cent during the period 1974-75 to 1984-85 for the reason stated earlier.

(b) National Bank for Agriculture  
and Rural Development (NABARD)

Since the inception of NABARD, the Bank had enjoyed



refinance limits for the following purposes under the NABARD Act : (a) short term loans for seasonal agricultural operations and marketing of crops to DCCBs under pooled rate scheme under NABARD Act Section 21 (1)(i) read with 21(3)(b). (b) other activities for promotion in the field of rural development under pooled rate scheme under Section 21(1)(iii) read with 21(3)(b) of NABARD Act. (c) loans to handloom cooperative weavers societies under Section 21(1)(v) read with 21(3)(a) of NABARD Act. (d) Medium term loans for conversion, rephasing, rescheduling under Section 22 of NABARD Act. (e) Medium term loans for various agricultural and rural development purposes such as irrigation and mechanization of land under Section 24 of NABARD Act. (f) long term loans under Section 25 of NABARD Act.

The share of NABARD in the total borrowing of the Bank fluctuated between 39.73 per cent and 83.52 per cent in the period 1982-83 to 1984-85.

(c) State Government

The state government provides funds to the Bank for the following purposes : (i) financing industrial cooperatives under different schemes, (ii) financing central consumer stores, (iii) financing cooperative spinning mills, (iv) financing cooperative oil mills and solvent extraction plants.

The State Government has placed an amount of Rs. 10 lakhs with the Bank for financing the working capital needs of the central consumers' stores in Bombay. Out of this, an amount of Rs.5.25 lakhs was converted during the year 1968-69 into Government contribution to the share capital of the central consumers' stores. Hence an amount of Rs.4.75 lakhs was outstanding on this account since the end of the year 1968-69.

State Government finances the industrial cooperatives under special schemes like block fund scheme, 90 per cent guarantee scheme and interest subsidy scheme.

Since the cooperative spinning mills in the state were unable to provide adequate margins for availing of cash credit limits sanctioned by the Bank, Government has placed at the disposal of the Bank since 1966-67, appropriate amount from time to time for financing the spinning mills through the DCCBs. This facility was extended during the year 1969-70 to oil mills and solvent extraction plants.

During the period under review, except in the years 1975, 1976, 1980, 1981 and 1984, the share of Government in the Banks total borrowings was by and large below 10 per cent.

The bulk of the State Government's loan is demanded for conversion operations and loans to spinning mills in

the state. Assistance to cultivators by way of conversion of short term agricultural loans into medium term loans, when they are not in a position to repay the loans due to natural calamities, was being provided from National Agricultural Credit (Stabilization) Fund of the RBI as well as from the stabilization funds of the apex bank and DCCBs. However, from the year 1978-79, it was decided that the State Government should contribute 15 per cent of the conversions at the level of societies. The State Government's contribution is in the form of medium term loans to the apex bank.

(d) National Cooperative Development Corporation

Refinance facility is available from the NCDC to the state cooperative banks against their medium term advances to processing societies viz., distilleries in sugar factories, oil mills, agricultural processing, cotton seed oil and allied industries, etc., for capital expenditure. The amount of loans from NCDC was the highest in 1981-82 i.e. 16.2 per cent of the total borrowings of the Bank. It is often observed that the corporation's share was small, ranging between one per cent and 6 per cent in the total borrowings of the Bank.

(e) Agricultural Refinance and Development Corporation (ARDC)

In uniformity with the decision of the Government to route the production finance and medium term loans for mechanization of fishing crafts, construction of new boats, erection of ice plants, cold storages, etc., through the cooperative banks instead of the fisheries department, MSCB sanctions the loans. ARDC provides refinance to state cooperative banks for the above-mentioned purposes. However, ARDC has always been a negligible source of borrowing for the Bank. It's contribution was only 0.6 per cent in 1974-75 with the maximum of 2.4 per cent in 1976-77. The Bank did not borrow from ARDC during the period 1978-79 to 1981-82. Afterwards it was merged in NABARD.

(f) Debentures

In the absence of finance from the traditional source viz., IFCI to new cooperative sugar factories in the state, the Bank with the approval of RBI, floated debentures worth Rs.3 crores with a view to assisting sugar factories on 31st May 1971. This amount was still outstanding upto the end of June 1985.

(g) Maximum Borrowing Power

The borrowing power of state cooperative banks is generally created by the State Governments under the

cooperative societies act. The ceiling on borrowings varies from 12 to 20 times of the owned funds in different states. The maximum borrowing power of the MSCB as laid down under rule 36 of the Maharashtra State Co-operative Societies Rules (1961) has been fixed at 15 times the paid-up share capital plus free reserves. The Registrar (Cooperative Societies) can raise the limit to 20 times in certain circumstances. The basic idea behind such requirements is that, the Bank should possess an inherent financial strength which is commensurate with the size of business it handles.<sup>5</sup> But it is observed that often the majority of the cooperative banks left unutilized a considerable amount of their borrowing power. Table 2.9 exhibits the position of Bank's borrowings and utilization of the capacity of the borrowing power.

It is significant to find that the borrowing (total deposits plus borrowing from higher agencies) of the Bank, throughout the period were quite low compared to the borrowing power of the Bank. The Bank used the borrowing power at the maximum of 53 per cent. As the share capital and other reserves of the Bank increased tremendously in the period, the borrowing power of the Bank, too, increased with the same magnitude. During the period, the deposits collected by the Bank were quite substantial, but not at the maximum level, as the widespread network of the commercial banks

Table 2.9 : Utilization of the borrowing power

As on 30th June	Borrowings of the Bank			Borrowing power	% utiliza- tion of borrowing power
	Total	From public (deposits)	From high agencies		
1975	260.52	162.52	98.00	495.75	52.55
1976	292.34	224.92	67.42	681.90	42.87
1977	253.23	230.23	23.00	644.90	39.26
1978	307.38	259.96	47.42	727.35	42.26
1979	351.36	322.28	29.08	749.87	46.85
1980	368.24	358.25	9.99	883.77	41.66
1981	438.74	429.94	8.80	1032.00	42.51
1982	577.00	525.30	51.70	1231.49	46.85
1983	693.73	623.74	72.99	1565.87	44.30
1984	843.20	823.37	19.83	1801.95	46.79
1985	995.18	959.75	35.43	1957.46	50.84

Source : 1) Administration Reports of MSCB of various years  
2) Worked out from Annual Reports of MSCB of various years.

competed in tapping the deposits and also the restricted area of Bombay and Nagpur cities only for the collection affected the pace of growth in deposit collection by the Bank. The other factor which affected the Banks' borrowings from the higher agencies especially from RBI/NABARD was a refusal of the agencies to accommodate the Bank on account

of the increasing overdues of the district banks and their affiliated societies.

As such, the Bank could not make the best use of its borrowing capacity which enable the Bank to enhance its scope widely.

### 2.3 Total Working Capital

Owned funds, deposits and other borrowings are generally the components of the working capital. The details of the working capital of MSCB are given in Table 2.10.

Table 2.10 : Composition of working capital of MSCB

As on 30th June	Owned funds	Deposits	Borrowings	Miscellaneous	(Percentages)
					Total working capital (Rs. in crores)
1975	10.24	50.35	30.50	9.04	322.77
1976	11.09	61.94	18.57	8.40	363.11
1977	19.60	68.68	6.86	4.86	335.24
1978	13.50	65.94	12.03	8.53	304.21
1979	12.60	72.39	6.53	8.48	445.18
1980	13.90	76.08	1.17	8.85	470.86
1981	13.20	77.05	1.58	8.17	555.82
1982	12.40	74.94	7.37	5.29	700.97
1983	12.88	73.05	8.55	5.52	853.76
1984	12.19	80.84	1.95	5.04	1018.49
1985	11.38	80.52	2.97	3.85	1191.90

Source : 1) Annual Reports of MSCB of various years.  
2) Administration Reports of MSCB of various years.

Table 2.10 reveals that deposits predominated in the composition of the working capital of MSCB and showed continuous increase during the period under review. The working capital of the Bank also showed continuous and substantial increase during this period.



## REFERENCES

- 1 'Cooperative Banking and Economic Development', Chapt. III, 'Analysis Fund Resources', p.51, Devadas Bhorali.
- 2 Ibid., p. 51.
- 3 Cooperative Movement At a Glance in Maharashtra State, 1986.
- 4 Twenty Third Annual Report of National Federation of State Cooperative Banks Ltd., Bombay, 1985-86, p. 6.
- 5 Government of India, Report of Banking Commission, 1972, p. 207.

## CHAPTER III

### DEPLOYMENT OF RESOURCES

3.1 Judicious and profitable utilization of the resources mobilized in the form of share capital, deposits, borrowings, etc., is the most important aspect of resource management by a banking institution. This aspect is discussed in this chapter. Liquidity, safety and profitability are the three main principles involved in deployment of resources. As the objectives of cooperative banks differ from those of the commercial banks, profitability is taken into consideration only after service. Instead of profit maximization, it is the maximization of members' satisfaction which is considered to be of primary importance. But so far as liquidity is concerned, no cooperative bank can afford to overlook this aspect. On the contrary, all state cooperative banks are statutorily required to maintain a certain minimum standard of eligible liquid assets. It is more important to take the appropriate decisions regarding loan and investment strategies that are closely linked with the maintenance of bank's liquidity position.<sup>1</sup>

#### 3.2 Liquid Assets

Liquidity as defined by the Federal Reserve Bank of

Chicago is, 'the ability of the bank to meet claims presented for immediate payment'.

The Banking Regulation Act 1949 (The Amending Act of 1965) has made provisions for the maintenance of liquid assets by state cooperative bank. The liquid assets comprise (1) cash reserves with RBI, (2) cash and bank balances maintained by the bank in its own till and with other nationalized or notified banks, and (3) investment in unencumbered Government and other gilt-edged securities. Every banking company, both scheduled and non-scheduled, is required to maintain liquid assets comprising the above three categories.

Since 1st March 1969, the percentage prescribed for maintaining cash reserve is minimum 3 per cent and maximum 6 per cent while liquid assets are required to be maintained at the minimum 25 per cent and maximum of 30 per cent.

(a) Cash Reserve

In India, all scheduled and non-scheduled banks maintain compulsory reserve of 3 per cent with RBI as stated above (Section 18 of the Banking Regulation Act, 1949) since 1st March 1969.

(b) Cash Balance

An addition to the cash reserves to be kept with RBI,

bank has to keep with itself, in current account of SBI or nationalized banks or in other notified bank's cash balances as a part of overall liquid assets. The cash balance that is required to be maintained as a part of the statutory provision is considered to be the first line of defence to the bankers. Bankers generally meet the day to day requirement of their depositors from these resources. These are idle resources and earn no return for the bank. It is difficult to categorically state what should be the precise quantum of such reserve for any individual bank. The requirement of a bank's cash resources will vary depending on the behaviour of bank deposits.

(c) Investment in Unencumbered Securities

(State and Central Government and other trustee securities)

Liquid assets of the state cooperative banks, as provided for under Section 24 (2A) of the Banking Regulation Act 1949, also include investments which together with 'cash balance' shall not be less than 25 per cent of the demand and time liabilities at the close of business on any day.

Next to cash resources, securities constitute the most important item of near liquid assets. Security not only serves the purpose of liquidity but also earns for the

banks a steady and definite rate of return. As excessive liquidity adversely affects the profits, the bank has to strike a balance between liquidity and profitability. The bank, therefore keeps certain portion of its resources in the form of ready cash (i.e. cash balance) and invests some portion in gilt-edged securities which have a ready market and which can be encashed in times of emergency. Banks generally invest in different types of securities, such as Government securities, trustee and other type of securities. Quantum of investment in securities by an individual bank is linked with the total deposits mobilized by it. It is the normal practice of banks to keep certain percentage of liquid assets over and above the minimum statutory requirements as a cushion against sudden withdrawal of deposits. It is difficult to fix up margin of this additional liquidity. This excess liquidity maintained by individual banks over the statutory minimum has been termed as optimum liquidity.<sup>2</sup> Dr. Datey put the optimum liquidity at 35 per cent.<sup>3</sup> In a seminar of Chief Executive Officers of the SCBs, it was suggested that the optimum liquidity may generally be 20 per cent over and above the statutory minimum liquidity prescribed under the Banking Regulation Act 1949, or one per cent of the working capital whichever is more. Cooperative banks, as a matter of convention, generally keep excess liquid assets of 6

per cent over the statutory minimum requirement. In that case, the overall optimum liquidity of the cooperative banks varies between 33 per cent and 35 per cent. Even if the highest percentage is taken as the optimum liquidity, it can be safely observed that an amount equivalent to 65 per cent of the Demand and Time liabilities is still available for loans and advances.

The position of liquidity of MSCB is shown in Table 3.1.

During the period under review, the liquidity of the Bank varied between 29.29 per cent (1984-85) and 38.45 per cent (1979-80) of the total Demand and Time liabilities, which was always more than the statutory minimum requirement i.e. 28 per cent. This indicated that the Bank had maintained a sound position regarding contingent commitments throughout the period.

The composition of the liquid assets shows that as compared to the cash balances (i.e. cash in hand plus cash with RBI and SBI) the investment in Government securities and other trustee securities was quite substantial. The cash component of liquid assets amounted to Rs.24.20 crores in 1974-75 and Rs.33.41 crores in 1984-85.

Cash balances with other banks were quite negligible considering the total liquid assets. During 1974-75 to

Table 3.1 : Liquidity of the bank (1974-75 to 1984-85)

(Rs.in crores)

As on 30th June	Total Demand and Time Liabili- ties	Total liquid assets	% of liquid assets to total D & T	Components of liquid assets			
				Cash *	Balance with other banks	Investment in Govern- ment securities	Investment in other trustee securities
1	2	3	4	5	6	7	8
1975	171.58	64.87	37.80	24.20	0.04	29.15	11.58
1976	236.57	84.04	35.52	35.27	0.04	34.74	13.99
1977	244.52	86.73	35.46	15.79	0.04	37.75	21.90
1978	272.08	101.60	37.34	23.22	0.03	41.93	23.11
1979	349.87	134.53	38.45	46.52	0.04	59.03	28.94
1980	370.71	123.26	33.24	18.62	0.06	76.04	28.54
1981	444.40	141.22	31.77	23.31	0.07	87.64	30.20
1982	531.79	172.80	32.49	34.04	.05	85.69	53.02
1983	633.73	191.45	30.20	29.87	0.31	83.32	77.95
1984	833.74	264.71	31.74	30.68	1.40	113.93	118.99
1985	973.66	285.21	29.29	33.41	0.74	112.73	134.82

\* Cash = cash in hand + cash with RBI and SBI.

Source : 1) Annual Reports of MSCB of various years.  
2) Administration Reports of MSCB of various years.  
3) Figures worked out from Annual Reports of MSCB.

1981-82, it varied from Rs.0.03 crores to Rs.0.07 crores, however, it showed a sudden increase in amount from Rs.0.05 crores in 1981-82 to Rs.0.31 crores in 1982-83 and further to Rs.1.41 crores in 1983-84. This increase occurred due to the declining share of cash with RBI and SBI in total liquid assets.

As regards the investments in Government securities it would be observed that the amount invested showed progressive increase from year to year from 1974-75 to 1978-79, the increases were quite appreciable. The amount increased from Rs.29.15 crores in 1974-75 to Rs.59.03 crores in 1978-79 - by 102.5 per cent. During the subsequent period from 1979-80 to 1984-85 though the amount invested in Government securities increased from Rs.76.04 crores to Rs.112.73 crores, it increased only by 48.25 per cent during the period.

It could be seen from the table that though during the period under review, the investments of the Bank in Government and other securities shows an increase, the quantum of Government securities in the total liquid assets shows a decreasing trend whereas the investment in other trustee securities shows an increasing trend. During the year 1974-75, the investment in other trustee securities constituted 17.69 per cent, it increased upto 47.27 per cent by the end of 1984-85. The situation has arisen mainly



because of Bank's efforts in liquidating the investments bearing less returns by increasing the investments with good returns - for example, the Bank earned increased return of average interest on the face value of the investments from 6.68 per cent by the end of 1982-83 to 7.79 per cent by the end of 1984-85.<sup>4</sup>

(d) Investments of the Bank

Table 3.2 reveals that throughout the period under review, except 1983-84, 1984-85 Government securities accounted for the largest share. However, its percentage share in the total investments decreased from 1981-82. Other trustee securities are next in importance to Government securities. Its share in investments ranged between 25.2 per cent in 1980-81 to 52.75 per cent in 1984-85. As such, in 1983-84 and 1984-85, this component has got top priority.

The investment in cooperative institutions and other institutions are quite negligible.

The investment in agricultural credit stabilization fund is linked with the profit of the Bank i.e. 15 per cent of the Bank profit.

With a view to ensure adequate resources to redeem the debentures after 15 years, the Debenture Redemption

Table 3.2 : Investment of the resources of the Bank.

							(percentages)
As on 30th June	Government securities	Other trustee securities	Shares in co-operative institutions	Other institutions	Debenture redemption fund	Total investment (Rs. in crores)	
1	2	3	4	5	6	7	
1975	67.90	30.40	0.20	Neg	1.40	50.21	
1976	68.70	29.50	0.20	Neg	1.60	59.59	
1977	62.60	35.80	0.20	Neg	1.40	72.06	
1978	63.30	34.90	0.20	Neg	1.60	79.71	
1979	65.90	32.30	0.20	Neg	1.60	89.55	
1980	71.40	26.80	0.20	Neg	1.60	106.42	
1981	73.00	25.20	0.20	Neg	1.60	119.96	
1982	60.10	37.20	0.20	1.00	1.50	142.54	
1983	53.79	43.90	0.15	0.84	1.32	177.59	
1984	48.02	50.15	0.12	0.63	1.08	237.26	
1985	45.48	52.75	0.09	0.59	1.09	255.55	

Neg = Denotes negligible

Source : 1) Administration Reports of MSCB of various years.

Fund was started during the year 1972-73. It increased to Rs.278 lakhs upto 1984-85. It had a small share i.e. 1.08 per cent to 1.6 per cent of the total investments in the period under review.

### 3.3 Credit Deployment

Out of the working capital, after making provision for liquid assets (above-mentioned and others if any), the remaining amount is available for providing loans.

After discussing the loanable resources of the Bank, let us turn to the deployment of the credit by the Bank.

The Maharashtra State Co-operative Bank is the apex institution in three-tier credit structure in the state. The State Cooperative Bank is the final link in the chain between small, scattered primary societies and the money market as also with the RBI, the central banking authority of the country, which can be called on for short and medium term accommodation under certain conditions. The state cooperative bank's relationship with the primary societies may be direct but is more often through the central banks.

It is expected that the SCB should act as a balancing centre for the affiliated societies. One part of its tasks in this connection is to absorb the societies' surplus funds and the other part is to lend them funds

whenever they require, consistent with the consideration of safety and sound banking practices.

State cooperative banks in India provide credit not only to agriculture but also to non-agricultural activities. One of the recommendations made by the All India Rural Credit Survey Committee was that, in the loan operations of state cooperative banks, the demand for agricultural credit should receive the first priority and that the loans to individuals should be given only to a very limited extent.

The Bank has been playing a pivotal role in providing finance and guidance to the cooperative institutions in the state. As its legitimate activity, the Bank has been advancing short and medium term loans for agriculture, generally through the DCCBs and also meeting the credit requirements of the processing, industrial and other societies.<sup>5</sup>

Long term loans are provided by Maharashtra State Co-operative Land Development Bank through its branches.

#### 3.4 Magnitude of Credit Deployment

The magnitude of credit deployment by the Bank can be gauged from the figures shown in Table 3.3.

Table 3.3 : Magnitude of credit deployment by MSCB during 1974-75 to 1984-85

(Rs.in crores)			
As on 30th June	Total resources	Loans outstanding *	% of (3) to (2)
1975	322.77	233.68	72.00
1976	363.11	224.46	61.83
1977	335.24	177.89	53.10
1978	394.21	271.16	68.82
1979	445.18	287.51	64.60
1980	470.86	245.84	52.16
1981	555.82	310.75	55.90
1982	700.97	500.84	71.44
1983	853.76	612.12	72.70
1984	1018.49	463.61	46.00
1985	1191.90	611.25	51.80

\* Loans outstanding to different outlets i.e. to the sugar cooperatives, marketing societies, DCCBs, etc.

Source : 1) Annual Report and Statement of Accounts of MSCB  
2) Administration Reports of MSCB.

Table 3.3 indicates that the total resources<sup>⊗</sup> increased steadily from 322.77 crores to Rs.1191.90 crores

⊗ Total resources = Total working capital comprising owned funds + deposits + borrowings + miscellaneous.

during the period under review. With increase in the resources the advances (outstanding) increased in an uneven manner from Rs.233.68 crores to Rs.611.25 crores.

The resource position of the Bank was very satisfactory during the years 1983-84 (Rs.853.76 crores) and in 1984-85 (Rs.1191.90 crores), but owing to very unsatisfactory sugar and cotton seasons in 1983-84 and owing to restrictions of NABARD on providing block capital loans to cooperative sugar factories, spinning mills, etc., the loans outstanding came down to 46 per cent in 1983-84 and 51.8 per cent in 1984-85 of the total resources from the record level of 72.7 per cent in 1982-83. As a result of higher production of sugar and cotton, in 1984-85, there was some increase in the outstanding loans towards the end of the year as compared to 1983-84.<sup>5</sup>

Thus during the period under review, the total resources of the Bank increased by 269.27 per cent while the increase in the loans outstanding was only about 161.57 per cent. The percentage of loans outstanding to total resources showed wide fluctuations varying from 46 per cent to 72.7 per cent due to various reasons explained on the foregoing. Thus sizable resources of the Bank remained unutilized and the Bank experienced the problem of finding profitable avenues for its surplus resources.

3.5 Periodwise Distribution of  
Different Types of Advances

Table 3.4 : Distribution of various types of advances  
(Periodwise) of the Bank (1974-75 to 1984-85)

As on 30th June	Total advances Rs. in crores	% of short term advances to total advances	% of medium + long term advances to total advances
1975	233.68	88.22	11.78
1976	224.46	83.56	16.44
1977	177.89	82.90	17.10
1978	271.16	88.80	11.20
1979	287.51	88.70	11.30
1980	254.64	88.80	11.20
1981	310.75	91.30	8.70
1982	500.83	89.10	10.90
1983	612.12	85.39	14.61
1984	463.61	73.60	26.40
1985	611.25	78.60	21.40

Source : 1) Annual Report and Statement of Accounts of  
MSCB of various years  
2) Administration Reports of MSCB of various  
years.

Table 3.4 shows the distribution of various types of advances (periodwise) of the Bank. It is seen that the snort term advances had a major share in all the years. Excepting in 1983-84 and 1984-85, it was more than 80 per

cent of the total advances. The increase in the share of medium term advances was mainly due to the conversion of short term loans into medium term loans.

In 1975-76 and 1976-77, the short term loans decreased due to scarcity conditions prevailing in Maharashtra as a result of which it became necessary to convert short term loans into medium term loans. From 1977-78 to 1981-82 the percentage share of short term loans did not show much fluctuations. During 1983-84, again the short term loans showed decrease amounting to 73.60 per cent and 78.60 per cent of the total loans due to the scarcity/famine conditions in most of the districts in Maharashtra State, as a result of which, there had been a large conversion of short term loans into medium term loans.

Generally MSCB avoids advancing long term loans. But in exceptional cases such as sugar factories, it had given long term advances by floating debentures worth Rs.3 crores (with prior permission of RBI in 1966-67) in 1971. As Industrial Financial Corporation of India declined the supply of capital to sugar factories in Maharashtra, and as the policy of Government of Maharashtra was in favour of expansion of sugar factories, MSCB had to provide long advances to sugar factories in 1970-71. Spinning mills, other processing mills, marketing, fisheries, etc., also



got long term loans from the Bank during the period under review.

In 1974-75, the share of long term loans was 3.38 per cent (Rs.7.91 crores) which decreased to 0.89 per cent (Rs.5.47 crores) in 1982-83 due to the downward trend in sugar production. However in 1983-84 and 1984-85, the share of long term loans both in amount and percentage showed increase. They were Rs.26.74 crores and 5.76 per cent respectively in 1983-84 and Rs.40.52 crores and 6.63 per cent respectively in 1984-85. The increase in 1983-84 and 1984-85 occurred due to NABARD's policy. NABARD has been emphasizing since its inception, the need for undertaking schematic lending on project basis in the larger interest of agriculture and rural development. It was however decided by MSCB to provide concessional medium and long term finance to the maximum possible extent for such activities during the period 1983 to 1985 (the last year under study).

### 3.6 Purposewise Credit Distribution (1974-75 to 1984-85) (Societywise)

As advances to individuals are less than 0.5 per cent, it is considered enough to confine attention to distribution of credit by the MSCB to societies.

Table 3.5 shows that sugar factories got priority in

**Table 3.5 : Advances to different types of societies (1974-75 to 1984-85)**  
(As on 30th June)

Type of society	(Percentages)										
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
DCCBs	34.60	23.86	43.15*	42.80*	35.44*	25.30*	26.30*	26.05*	29.17	36.21	26.44
Sugar factories	38.20	37.42	45.28	47.10	35.46	26.06	32.53	35.78	43.77	37.23	19.91
Spinning mills and other processing mills	4.20		5.04	3.90	3.30	2.40	8.06	3.53	3.43	6.19	5.50
Marketing societies	19.10		1.60	2.30	20.82	40.10	29.89	23.40	14.49	4.47	34.93
Weavers' societies	0.23		Neg	Neg	Neg	Neg	Neg	0.26	0.99	1.33	0.50
Labours' societies	Neg		Neg	Neg	Neg	Neg	Neg	Neg	Neg	Neg	Neg
Fishermens' societies	Neg		Neg	Neg	Neg	Neg	Neg	Neg	Neg	Neg	Neg
Other industries societies	0.84		0.94	0.75	0.67	1.24	3.80	5.15	4.20 <sup>x</sup>	3.64 <sup>x</sup>	6.62 <sup>x</sup>
Housing societies	Neg		Neg	Neg	Neg	Neg	Neg	Neg	Neg	Neg	Neg
Consumers' societies	Neg		Neg	Neg	Neg	Neg	Neg	Neg	Neg	Neg	Neg
Non-agricultural credit societies	1.43		1.45	0.85	1.20	1.77	2.02	1.89	0.44	0.85	1.54
Other societies	0.30		Neg	0.25	1.25	Neg	1.30	2.50	0.52	4.58	4.08
Miscellaneous	Neg		Neg	0.52	0.56	Neg	0.85	0.56	Neg	Neg	Neg
Urban banks	1.50 <sup>o</sup>		1.14 <sup>o</sup>	0.60 <sup>o</sup>	Neg	1.37 <sup>o</sup>	1.35	1.50	2.36	4.03	2.85
Total (Rs.in crores)	233.31	224.47	177.49	270.66	286.94	244.99	309.95	499.85	610.83	461.86	608.95

\* Including outstanding from CFA other than DCCBs

<sup>x</sup> Plus other processing

Neg - Denotes negligible

<sup>o</sup> Not separately shown in Administration Report

Source : 1) Administration Reports of MSCB  
2) Annual Report and Statement of Accounts of MSCB.

MSCB's credit portfolio. The DCCBs closely followed the sugar factories. The percentage share of loans received by sugar factories varied between 32.58 per cent and 47.1 per cent, whereas the share of loans received by DCCBs varied between 23.86 per cent and 43.15 per cent of the total loans outstanding with societies. The marketing societies had a significant share in MSCB's credit deployment as compared to the remaining societies; they accounted for the largest share in 1979-80 and 1984-85. Among the remaining societies, spinning mills and other processing mills received advances of the order of 3 per cent to 5 per cent of the total outstandings. The rest of the societies viz., weavers' societies, consumers' societies, non-agricultural societies, etc., had but negligible share in the total amount of loan throughout the period under review.

As shown in Table 3.5, the amount of total advances to societies in 1974-75 was Rs.233.31 crores. In 1975-76, and 1976-77, however, the amount decreased to Rs.224.47 crores and Rs.177.49 crores respectively. The decrease in the year 1976-77 over the previous year was mainly on account of lower purchase under the Monopoly Cotton Procurement Scheme owing to decrease in the cotton crop and lower cash credit requirements of the sugar factories. There was restrictive influence on the agricultural credit operations on account of increase in the overdues.<sup>6</sup>

The loans and advances increased to Rs.270.66 crores in 1977-78 mainly because of the increase in the pledged advances to cooperative sugar factories on account of heavy accumulation of sugar stocks, similarly DCCB's increased demand for agricultural loans, grant of loans to sugar factories, and other societies' increased demand for loans<sup>7</sup> ultimately resulted in a sizable increase of Rs.93.17 crores over that of the total amount of loans in the previous year. In 1978-79, the amount of total loans to societies further increased to Rs.286.94 crores indicating an increase of Rs.16.28 crores. The rise in the advances was mainly due to greater demand by the marketing societies.<sup>8</sup>

The advances decreased sharply in 1979-80. It was mainly because the DCCB's demand for short term loans diminished as their resources increased and the fall in sugar production and brisk sales of sugar brought reduction in advances to sugar factories against pledge of sugar.<sup>9</sup>

The amount of total advances increased to Rs.309.95 crores in 1980-81 and Rs.499.84 crores in 1981-82, the increase during the latter year being quite significant. It was due to the sharp increase in the Monopoly Procurement of Cotton and record production by sugar factories. Agricultural credit also increased during this year.<sup>10</sup> Due to similar conditions in 1982-83, the advances increased

to Rs.610.83 crores. Though the resource position of the Bank was very satisfactory during the year 1983-84, the loans outstanding went down to Rs.461.86 crores owing to lower production of sugar and cotton.<sup>11</sup> But again in 1984-85, as a result of higher production of sugar and cotton, there was considerable increase in the outstanding loans which amounted to Rs.608.95 crores.<sup>12</sup>

#### Loans to Autonomous Corporations and National Level Institutions

The RBI constituted on 22nd March 1981, a study group called 'Study Group on Deployment of Resources by State and Central Cooperative Banks' under the Chairmanship of Dr. M.V. Hate to make an in-depth study of the problem of surplus resources faced by the state and central cooperative banks and make recommendations which would offer solutions of a long term nature of this problem.

As per the recommendations, cooperative bank may finance fertilizer corporation, state electricity board, welfare corporations, transport corporation in public sector, statutory corporation, corporate body undertakings accordingly.

The MSCB started giving finance to corporate bodies and national level cooperative institutions from the year 1982-83, under consortium arrangements with some nationalized

banks. At the end of June 1983, Rs.22.93 crores were outstanding. The loans under this scheme showed decrease i.e. Rs.12.94 crores by the end of June 1984; however, during the next year (1984-85) the amount increased to Rs.36.02 crores. Indian Farmers' Fertilizer Cooperative (IFFCO), National Heavy Engineering Cooperative Society, State Warehousing Corporation and Maharashtra State Electricity Board enjoyed facility under consortium arrangement of credit in those years.

### 3.7 Nature of Loans to Societies

Financial accommodation is provided by banks either in the form of fixed loan repayable in instalments, or on the expiry of a definite period or in the form of cash credit or overdraft limit which can be continuously operated during a fixed period.

#### (1) Overdraft

The Bank provides overdraft facilities against Government and Trustee securities to different types of societies and also to DCCBs and urban cooperative banks outside Maharashtra State. The percentage of overdrafts to the total loans in the period under review did not show much variations and ranged between 1.4 and 4 per cent only. During the period 1978-79 to 1984-85, DCCB availed of the

facility at the largest share followed by urban banks, marketing societies, salary earners' societies, etc.

(2) Cash Credit

The Bank grants clean, hypothecation and pledge cash credits to certain societies in the state where the district banks are not in a position to meet the requirement on account of limitations on their resources.

The principal feature of the cash credit system is that, it enables the customer to make frequent draws from, as well as repayment into the account to suit the continuous nature of his financial transactions, thus facilitating the most economical use of the accommodation, as interest is charged only on the daily outstanding balance. Thus within the limit fixed by the Bank, the borrower is free to draw and repay as many times as he likes, provided the other conditions stipulated by the Bank are fulfilled.

The cash credit facility is availed of by different types of societies, particularly by sugar factories, spinning mills, marketing societies and other processing and industrial societies. In addition, repledge accommodation is granted to the district banks against their similar advances to sugar factories, spinning mills and reimbursement is allowed to urban cooperative banks in respect of

their pledge and hypothecation advances.

In short term advances, cash credit (including those under Government scheme) accounted for a lion's share throughout the period under review. The percentage share of it ranged between 49.6 per cent and 73.6 per cent. Since 1975 to 1982 excepting 1977, there was a continuous increase in percentage of these loans in the total outstanding loans. In 1983 and especially in 1984 there was a considerable fall in the total amount as well as in the percentage share of cash credit. In the cooperative year 1984, the total loans outstanding declined by 24.39 per cent over the previous year. Lower production of sugar and cotton affected the loan portfolio of the Bank. As a result, the Bank had to invest a sizable portion of its resources in call and short term deposits.

On an average, sugar factories recorded the highest share in cash credit facilities followed by marketing societies, central financing agencies and other processing and industrial societies, throughout the period under study.

### (3) Loans for Seasonal Agricultural Operations

The district central cooperative banks borrow from apex bank against their advances to societies for seasonal agricultural operations and marketing of crops. The apex



bank obtains reimbursement of such advances from RBI/NABARD at a concessional rate of interest. Irrespective of the fact whether the advances are made out of its own resources or out of the funds secured from the RBI, the Bank charges to district banks under pooled rate of interest scheme on uniform rate of interest on such advances. The drawals from the Bank against these limits are linked with the current dues of district banks from the societies. The drawals are normally restricted to 75 per cent of the current outstanding with societies in case of Konkan and Western Maharashtra region and 90 per cent in case of Marathwada and Vidarbha region.

Advances for seasonal agricultural operations and marketing of crops obtained second priority accounting for the percentage share ranging between 11 per cent and 24.3 per cent in total loans outstanding.

(4) Loans for Production and  
Marketing of Handloom  
Cloth

These loans are granted by the Bank to the district banks and other institutions recognized as Central Financing Agencies under the pooled rate of interest of 7.25 per cent upto 1981-82 and 8 per cent from 1982-83. Throughout the period under review the amount of loans granted by the Bank for this purpose was quite less, below 1.5 per cent of the total loans outstanding.

Table 3.6 : Nature of loans to societies during the period 1974-75 to 1984-85 (as on 30th June)

Nature of loans	(Percentages)										
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
1. Overdraft against Government and trustee securities	3.7		2.7	1.4	1.8	2.9	4.0	2.2	2.28	2.5	2.1
2. Cash credit (including those under Government scheme)	66.05		57.3	62.2	64.8	67.0	69.6	73.6	69.5	49.6	60.7
3. Loans for seasonal agricultural operations and marketing of crops	17.84		22.1	24.3	20.7	16.8	15.5	11.0	11.1	17.4	12.9
4. Loans for production and marketing of handloom and powerloom cloth	0.45		0.4	0.5	0.7	1.0	0.9	1.0	0.75	1.2	0.9
5. Loans to urban banks for financing small and cottage industries	0.01		0.1	-	0.3	0.4	0.4	0.8	1.3	2.2	1.7
6. Loans against fixed deposit receipts and Government securities	0.07		-	-	-	-	0.1	-	(0.16)	0.1	0.1
7. Medium term loans for approved agricultural purposes (including purchase of shares of spinning and sugar mills)	0.96		1.7	1.3	1.6	1.9	1.1	0.9	1.2	2.5	2.6
8. Medium term loans to central financing agencies under IKDP scheme	-		-	-	-	-	-	0.1	0.3	0.37	0.23
9. Medium term loans for conversion, rephasing and rescheduling	6.43		10.2	5.6	3.2	3.6	3.6	2.7	2.5	7.4	4.9
10. Medium term loans for non-agricultural purposes	0.53		1.3	1.6	3.9	3.3	1.9	5.3	10.1	10.8	7.3
11. Long term loans	3.38		3.9	2.6	2.4	2.3	2.1	1.8	0.8	5.6	6.4
12. Miscellaneous advances :											
- Dues with societies in liquidation	0.7		0.3	0.5	0.5	0.7	0.7	0.5	0.4	0.6	0.4
- Bill purchased and discounted	-		-	-	0.1	0.1	0.1	0.1	0.02	0.1	0.02
Total (Rs. crores)	233.31	224.12	177.49	270.66	286.94	244.99	309.95	499.85	610.83	461.86	608.95

- denotes negligible.

Source : Administration Reports of MSCB of various years.

(5) Loans to Urban Banks for Financing Small Scale and Cottage Industries

The Bank grants loans to urban banks for financing small and cottage industries under Section 17(2)(bb) of the RBI Act at a concessional rate of interest, i.e. 2.5 per cent below the Bank rate. During 1974-75 to 1977-78, the amount of loans outstanding under this head was most negligible. However the percentage of these loans to total loans ranged between 0.4 per cent and 2.2 per cent.

(6) Loans against Fixed Deposit Receipt and Government Securities

The Bank allows short term loans to societies against their holding of Government securities. The accommodation is generally availed of by non-agricultural societies i.e. urban banks, salary earners' societies and other urban credit societies, housing societies, consumers' societies, marketing societies, etc.

During the whole period under review, the percentage of these loans to total loans outstanding ranged between 0.07 and 0.16 only which indicates its most negligible place in the loan portfolio of the MSC Bank.

(7) Medium Term Loans for Approved Agricultural Purposes

These loans are allowed under pooled rate of interest

scheme, at a concessional rate of interest to DCCBs against their advances to primary agricultural societies for approved agricultural purposes. RBI/NABARD provides re-finance at the rate of 3 per cent below the Bank rate. Percentage of these loans in total loans outstanding ranged between 0.96 per cent and 2.6 per cent only.

(E) Medium Term Loans for Conversion, Rephasement and Rescheduling

RBI grants medium term loans out of National Agricultural Credit (Stabilization) Fund for conversion of short term loans into medium term loans to farmers in circumstances of distress to those farmers whose failure of crops in an area is not less than 50 per cent of the normal crop expected. The Bank grants conversion loans to district central cooperative banks for adjusting their short term loans outstanding into medium term loans.

The percentage of these loans ranged between 2.5 and 10.2 during the period under review. These loans were sanctioned by the Bank after taking into consideration paisewari of crops. However for various reasons including the same drawback in the system of declaring paisewari, the conversion operations were not effective to the expected levels. The State Government had constituted a committee to suggest improvements in the system of declaring paisewari.<sup>13</sup>

(9) Medium Term Loans for Non-Agricultural Purposes

These loans are granted to cooperative sugar factories, spinning mills and processing and industrial societies for their block capital expenditure on the security of fixed assets. Reimbursement loans are also granted to the district banks against their advances to the societies for enabling the members of the agricultural credit societies to purchase shares in cooperative societies like sugar factories and spinning mills, out of owned funds of the Bank, at a concessional rate of interest.

The outstanding under this head ranged between 1.23 crores (0.53 per cent) and Rs.11.11 crores (3.9 per cent) in the period 1974-75 to 1980-81. From 1981-82, the loans for this purpose showed market increase ranging between Rs.26.65 crores (5.3 per cent) and Rs.61.46 crores (10.1 per cent) upto 1984-85 indicating third position in the priority of the Bank's advances in that period.

(10) Long Term Loans

In order to lend stability to agriculture in the state, it is necessary to concentrate on measures like bringing maximum possible land under cultivation, making economic use of the available water resources, increasing acreage under improved varieties of crops, adoption of

new crop patterns, mechanization of agriculture and use of scientific technology, etc., MSCB, therefore, decided to provide concessional medium and long term finance to the maximum possible extent for agriculture and other allied activities. It also decided to finance even banks, which are not eligible for finance from NABARD, to the extent of Rs.100 lakhs each from the owned funds of the Bank for all types of irrigation projects. In pursuance of the policy of the State Government to utilize underground water resource to the maximum possible extent, the MSCB decided to provide refinance to the district banks for new wells, tube wells, boring of old wells, etc. Development cells are created at the Head Office and at Nagpur Regional Office. The percentage of these loans ranged between 0.8 per cent and 6.4 per cent during the period under review.

(11) Miscellaneous Advances

The miscellaneous advances comprise of (a) dues with societies in liquidation, and (b) bills purchased and discounted. It would be noted from the figures in Table 3.6 that amount to each of the above-mentioned categories throughout the period under review was quite negligible. In respect of category a, the percentage of the loans ranged between 0.3 and 0.7. In case of category b, it was quite negligible.

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## CHAPTER IV

### EFFICIENCY AND PROFITABILITY OF MSCB

4.1 The working of any bank is judged by the efficiency and profitability of the bank. Let us examine the comparative position of few large apex banks in India during the period 1974-75 to 1984-85. Table 4.1 brings out the prominent position occupied by MSCB among them.

Table 4.1 reveals that among the five states, the apex bank in Maharashtra had the highest working capital followed by Gujarat State Cooperative Bank. It increased to Rs.1191.90 crores in 1984-85 in case of MSCB ranking first in working capital recording an increase of 269.27 per cent during the period. Andhra Pradesh State Cooperative Bank however registered a faster increase in working capital of 430 per cent. Similarly Maharashtra State Co-operative Bank ranked first with highest owned funds, deposits and loans outstandings at both points of time viz. end of June 1975 and 1985, among the major state cooperative banks in the country.

The amount of overdue indicates the performance of the management in recovery of loans. It would be seen from the table that at the end of June 1985, the percentage of



Table 4.1 : Comparative position of selected state cooperative banks in India (1975-1985)

(Rs.in crores)						
State/as on 30th June	Working capital	Owned funds	Depo- sits	Loans out- stand- ing	Over- dues	% of over- dues to demand
<b>1. <u>Andhra Pradesh</u></b>						
1975	58.78	7.43	27.17	39.91	1.55	0.50
1985	311.56	38.53	136.13	251.04	35.67	18.60
% increase	430.04	418.57	401.03	529.00	2201	
<b>2. <u>Gujarat</u></b>						
1975	153.63	11.33	57.64	134.50	-	-
1985	470.82	34.63	324.32	309.42	16.80	5.70
% increase	206.48	205.91	462.66	130.05		
<b>3. <u>Madhya Pradesh</u></b>						
1975	78.61	12.79	19.01	63.31	3.93	1.00
1985	276.82	36.77	164.82	165.96	1.82	1.60
% increase	252.14	187.49	767.00	162.13	-53	
<b>4. <u>Maharashtra</u></b>						
1975	322.77	39.95	162.52	233.68	6.39	3.10
1985	1191.90	135.68	959.74	611.25	22.13	6.10
% increase	269.27	239.62	490.53	161.75	246.32	
<b>5. <u>Punjab</u></b>						
1975	62.81	7.12	38.08	41.90	1.30	3.50
1985	204.48	14.55	145.42	123.05	0.31	0.10
% increase	225.55	104.35	281.88	193.55	-99	

Source : 1) Cooperative Movement At a Glance in India, 1975.

2) Important items of data in State Central Co-operative and Primary Agricultural Credit Societies, 1984-85.

overdue to demand was only 6.1 in Maharashtra whereas it was 5.43 in respect of Gujarat. The highest percentage of overdues was recorded at 18.6 per cent in the Andhra Pradesh State Cooperative Bank. It is noteworthy that Punjab's performance in this sphere was better than that of Maharashtra.

#### 4.2 Cost of Funds

An important factor which we must take into consideration in examining the working of the bank is the cost of raising resources. The funds of cooperative bank comprise of owned funds, deposits and borrowings. A state cooperative bank borrows primarily for the purpose of providing credit to farmers who cannot pay a high rate of interest on their borrowing. Borrowings from RBI/NABARD help in achieving the object of supplying loans at a reasonable rate of interest to farmers.

Cost of mobilizing resources through deposits is higher than the borrowings from RBI/NABARD as the Bank has to pay interest on deposits which is generally higher than the interest charged by the RBI on the borrowings. However, notwithstanding the cost, this is the only source which will depend on the effort made by the Bank.

As the rates of dividend declared by MSCB during the period under review were generally higher than the interest

rates on deposits and borrowings from RBI/NABARD, the cost of raising funds through share capital is also higher than the other sources. Table 4.2 gives the cost of various sources in raising funds of the Bank.

Table 4.2 : Cost of various sources of funds of MSCB

(percentages)				
Year	Dividend	Interest rate on deposits	Interest rates on borrowings from RBI/NABARD	Bank rate
1974-75	7	5	6	9
1975-76	7	5	6	9
1976-77	7	5	6	9
1977-78	7	5	6	9
1978-79	7	7	6	9
1979-80	7	7	6	9
1980-81	7	7.50	6	9
1981-82	7	7.75	7	10
1982-83	7.50	7.75	7	10
1983-84	9	8	7	10
1984-85	9	8	7	10

Source : Statistical statements relating to cooperative movement in India-I of various years.

It is seen from Table 4.2 that the rate of dividend on share capital was steady at 7 per cent throughout the period under review, except the years 1982-83, 1983-84 and 1984-85. As the rate of dividend is mostly constant, the remaining factors viz. interest of borrowings and deposits govern the overall cost of raising funds.

It is seen from Table 4.3 that the amount of interest paid on the total external funds steadily increased from Rs.16.18 crores to Rs.89.22 crores in the period under review and the total cost of funds too, increased steadily from Rs.16.96 crores to Rs.90.38 crores. The cost of funds however showed fluctuation within the range of 6.24 per cent to 8.95 per cent.

There was a radical change in the composition of the Banks funds (Cols. 2+3+4 in Table 4.3). The contribution of outstanding borrowings dropped sharply from 30.5 per cent to a mere 2.97 in the period under review. It means that the Bank had to rely increasingly on mobilization of deposits at market cost. Although the Banks interest rates were on par with those quoted by scheduled commercial banks, the societies found the long term rates more attractive than the gross return on gilt-edged securities for employing their investible surplus.<sup>1</sup> Hence, it is observed that during the period under review, fixed deposits with the Bank increased from 57.69 per cent to 77.63 per cent<sup>2</sup>

Table 4.3 : Sources of funds and cost of raising them.

(Rs.in crores)								
As on 30th June	Share capital	Borrow- ings	Deposits	Total funds (2+3+4)	Interest paid	Dividend paid	Total cost of fund (6+7)	% cost of fund
1	2	3	4	5	6	7	8	9
1975	11.15	98.00	162.52	271.67	16.18	0.78	16.96	6.24
1976	11.97	67.42	224.92	304.32	20.41	0.81	21.22	6.97
1977	12.87	23.00	230.23	266.10	20.81	0.89	21.70	8.15
1978	13.31	47.42	259.96	320.69	21.18	0.92	22.10	6.89
1979	11.59	29.08	322.28	362.96	24.83	0.80	25.63	7.06
1980	11.49	9.99	358.25	379.73	27.81	0.80	28.61	7.53
1981	11.03	8.80	429.94	449.77	32.68	0.77	33.45	7.43
1982	11.68	51.69	525.30	588.68	40.79	0.80	41.59	7.06
1983	12.50	72.99	623.74	709.23	52.33	0.92	53.25	7.50
1984	13.87	19.82	823.37	857.06	66.96	1.17	68.14	7.95
1985	14.13	35.45	959.75	1009.33	89.22	1.16	90.38	8.95

Source : 1) Annual Reports of MSCB of various years.  
2) Administration Reports of MSCB of various years.

in its total deposit resources which implied higher cost.

As a result with increased rates of dividend, and interest rates of deposits and borrowings the cost of raising funds (Cols. 2+3+4 in Table 4.3) increased from 6.24 per cent to 8.95 per cent in the period under review

#### 4.4 Efficiency of the Bank

Efficiency of any bank can be measured by the per employee deposits, advances, income and expenditure. The higher the per employee income, advances and deposits and lower the per employee expenditure, higher is the efficiency.

The total income increased progressively from 1976-77 (as the data for the years 1975 and 1976 are not available) to 1984-85 i.e. during the entire period under review. In the period 1977-78 to 1980-81, the increase in the total income from year to year was rather steady and it increased by 53 per cent during this period, but during the latter period i.e. from 1980-81 to 1984-85, the total income of the Bank increased significantly by 158.26 per cent.

The total expenditure showed similar trend as observed in the case of total income. The total expenditure in the first half of the period under study increased by 56.5 per cent only while it increased tremendously by 162.27 per cent in the second half of the period.

As regards the deposits per employee the data in Table 4.4 indicate that from 1976-77 to 1980-81, the deposits per employee increased by only 51.22 per cent whereas it increased by 92.94 per cent in the latter half of the period i.e. from 1980-81 to 1984-85.

The increase in the per employee deposits shows the increasing efficiency of the Bank in mobilizing deposits during the period.

The advances per employee were less than deposits per employee except in 1977-78. During the first half of the period it increased by 51.2 per cent only whereas it increased by 70 per cent in the second half of the period.

In respect of income per employee, it would be noted that it increased by 33 per cent only in the first half whereas it increased with much higher rate of 123.8 per cent in the second half of the period under study. The rate of increase was more than 3 times than that of the rate in the first half.

Increasing income is the usual indicator of a good bank. Here it is noticed that income per employee has increased in spite of increase in total employees in the period.

The expenditure per employee showed almost the same

Table 4.4 : Efficiency of the Bank as indicated by the amounts of income, expenditure, deposits and advances per employee of the Bank (1974-75 to 1984-85)

(Rs.in lakhs)

As on 30th June	Total employ-ees	Total income	Total expendi-ture	Deposits per em-ployee	Advances per em-ployee	Income per em-ployee	Expendi-ture per employee	Spread per em-ployee
1975	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1976	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1977	1738	2537	2381	13.24	10.23	1.45	1.36	0.08
1978	2029	2652	2486	12.81	13.36	1.30	1.22	0.08
1979	2045	3013	2856	15.75	14.05	1.47	1.39	0.08
1980	2013	3387	3225	17.79	12.20	1.68	1.60	0.08
1981	2008	3889	3727	21.41	15.47	1.93	1.85	0.08
1982	2040	4815	4625	25.75	24.55	2.36	2.26	0.10
1983	2162	6073	5872	28.85	28.31	2.80	2.71	0.09
1984	2220	7722	7489	37.08	20.88	3.47	3.37	0.10
1985	2323	10044	9775	41.31	26.31	4.32	4.20	0.12

Source : Worked out from the figures given in the Administration Reports of MSCB.



trend as is observed in the case of income per employee. In the first half it increased by 36 per cent while in the second half it increased by 127 per cent. Though the expenditure per employee increased near about in same rate that of per employee income, this does not mean that the efficiency of the Bank is less, as both the components, income and expenditure increased due to the increased turnover of the Bank.

Spread (income minus expenditure) per employee generally indicates the efficiency of the Bank. It is seen that spread per employee was constant at Rs.8 thousand from 1976-77 to 1980-81. It increased to Rs. 12 thousand in 1984-85 which is the indicator of increased efficiency of the Bank.

#### 4.5 Cost of Management

The cost of management is comprised of salaries and allowances and provident fund of the employees (which accounts for the bulk of the cost), fees and allowances of the directors and local committee members, rent, taxes, insurance, lighting, etc., law charges, auditors fees, depreciation in and repairs to property, stationery, printing and advertisement, etc., losses from sale of or dealing with non-banking assets, loss on sale of investment in securities, etc.

Table 4.5 : Position of cost of management in the working of MSCB (1974-75 to 1984-85)

For the year ending 30th June	Total cost of management (Rs. in crores)	Percentage of cost of management to			
		Deposits	Deposits and borrowing	Advances	Working fund
1975	2.45	1.50	0.94	1.04	0.75
1976	2.77	1.23	0.94	1.23	0.76
1977	3.00	1.30	1.18	1.69	0.92
1978	3.68	1.42	1.20	1.36	0.96
1979	3.73	1.16	1.06	1.30	0.86
1980	4.45	1.24	1.21	1.81	0.97
1981	4.60	1.07	1.05	1.48	0.84
1982	5.66	1.08	0.98	1.13	0.82
1983	6.39	1.02	0.92	1.04	0.76
1984	7.92	0.96	0.94	1.71	0.79
1985	8.53	0.89	0.86	1.40	0.72

Source : Administration Report of MSCB of various years.

It is seen that the amount of cost of management increased continuously by 248 per cent during the whole period under review. This was attributed to the increase in staff and their salaries and allowances.<sup>3</sup>

The percentage of cost of management to the deposits of the Bank showed a continuous decrease during the period

under review. It can be noted that during this period especially dairying, 1980-81 to 1984-85, the rate of deposit accretion was quite fast. In spite of the increased cost of management in absolute amounts, the percentage of cost of management to the deposits decreased due obviously to the significant increase in the amount of deposits.

The percentage of cost of management to deposits plus borrowings showed fluctuations within the range of 0.13 per cent to 1.21 per cent.

The percentage of cost of management to the advances did not show any definite trend. It fluctuated between 1.04 per cent and 1.81 per cent during the period. During 1976-77, 1979-80 and 1983-84, the percentage was significantly higher due to the decrease in advances.

In all the years under review, the percentage of cost of management to working funds ranged between 0.72 per cent and 0.97 per cent, it declined in later years (1979-80 to 1984-85).

#### 4.6 Profitability of the Bank

Profitability is expressed by profits as percentage working funds. Improving profitability essentially hinges on the extent to which the difference between the interest income and the interest expenditure known as spread improves

and the extent to which the non-interest expenditure improves and the extent to which the non-interest expenditure is met by the non-interest income.<sup>4</sup>

There is an improvement in the spread (interest paid minus interest earned) from year to year during the period. The spread increased by 204 per cent in the period 1974-75 to 1984-85.

The non-interest income and the non-interest expenditure also influence to some extent the profitability of the Bank. In order to improve the profitability the non-interest expenditure should be kept low and met from the non-interest income of the Bank which is quite possible in the case of commercial banks which have large volume of resources/ activities to get non-interest income. However, in respect of MSCB, because of the restrictions on the fields of its activities, the non-interest income is very meagre while the non-interest expenditure is high as could be seen from Table 4.6.

Table 4.6 reveals that the increase in the amounts on income side of the Bank accounted for 402 per cent whereas it was 425 per cent for the expenditure side of the Bank during the period. Hence the percentage increase in amount of net profits accounted for only 93.29 per cent during the period. The percentage of profits to total

**Table 4.6 : Position of income and expenditure of MSCB (1974-75 to 1984-85)**

Particulars	(Rs.in lakhs)											% increase over the period
	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	
1. Interest received	1971.08	2430.82	2513.56	2619.93	2978.03	3351.06	3842.89	4779.91	6032.99	7655.21	9997.34	407.20
2. Commission, exchange brokerage earned	30.50	40.38	22.06	30.30	34.24	35.31	45.24	35.68	39.03	66.13	45.87	50.39
3. Other income	0.70	0.68	1.19	1.40	1.17	0.96	1.14	0.79	0.57	0.62	0.64	-
4. Total income (1+2+3)	2002.28	2471.88	2536.81	2651.63	3013.44	3387.33	3889.27	4815.38	6072.59	7721.96	10043.85	401.62
5. Interest paid	1618.21	2040.59	2081.13	2118.02	2482.73	2780.65	3267.53	4079.19	5232.78	6696.40	8921.53	451.32
6. Cost of management	244.80	276.62	300.05	368.21	372.89	444.52	459.56	566.02	639.26	792.37	853.12	248.49
7. Other expenses	Neg.	13.31	0.03	0.02	Neg.	0.02	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
8. Total expenses (5+6+7)	1863.01	2330.57	2381.21	2486.25	2855.62	3225.19	3727.09	4645.21	5872.04	7888.77	9774.65	424.66
9. Net profit (4-8)	139.27	141.31	155.60	165.38	157.82	162.14	162.18	170.17	200.55	233.19	269.20	93.29
10. Percentage of profit to working capital	0.43	0.38	0.48	0.43	0.36	0.35	0.30	0.25	0.24	0.23	0.23	-

Neg. indicate negligible.

Source : Administration Reports of MSCB of respective years.

working fund (profitability) did not go beyond 0.48 (in 1976-77); from 1977-78, it showed declining trend with the lowest percentage of 0.23 per cent in 1984-85.

The non-interest expenditure (cost of management and other expenditure) was always higher than the non-interest income (commission, exchange and other income) and the cost of management alone contributed almost the entire amount of non-interest expenditure side. The non-interest income of the Bank was too little to meet the higher expenditure on management of the Bank. In order to improve its profitability, it must try to earn more non-interest income i.e. by rendering variety of non-financial services. It should also try to reduce the non-interest expenditure by avoiding undue increase in the cost of management. Though making profit is not the objective of MSCB, the Bank has to make some profit for the efficient working of the Bank. Further, the profits can be utilized for the expansion of the cooperative movement in the state, which is the main object of the Bank.

## REFERENCES

- 1 Seven Decades of Innovative Banking History of MSCE, 1911 to 1981, G.M. Laud, p. 479.
- 2 Administration of MSCE of respective years.
- 3 Ibid.
- 4 Profitability in Banks, Financial Express, June 4, 1986, P.K. Madhukar.

## CHAPTER V

### PROBLEMS

The Maharashtra State Co-operative Bank faced two main problems in the decades, that of 'surplus resources' and of 'overdues'. The problem of financing weaker sections is also not negligible. These problems are discussed briefly in this chapter.

#### 5.1 Problem of Surplus Resources

Surplus resources can be defined as the excess of loanable funds (total resources minus 28 per cent of the demand and time liabilities of the bank) over the total outstanding loans and advances plus investment in fixed assets. (The amount invested in fixed assets showed only 0.3 to 0.4 per cent of the total resources, hence ignored while discussing the problem.)

Table 5.1 shows the surplus resources of the Bank during the period 1974-75 to 1984-85.

Table 5.1 reveals that the percentage of surplus resources to total resources ranged between 7.30 per cent and 31.55 per cent. As a result, it seems that the Bank kept its liquidity in excess ranging between 29.3 per cent and



Table 5.1 : Surplus resources of MSCB

(Rs.in crores)						
As on 30th June	Total resources	28% of D.T.L.	Loanable resources (2-3)	Loans outstand- ing	Surplus resources (4-5)	% of surplus resources to total re- sources (6 as % 2)
1	2	3	4	5	6	7
1975	322.76	48.04	274.22	233.68	41.04	12.71
1976	363.11	66.24	296.87	224.46	72.41	19.94
1977	335.23	68.47	266.76	177.89	88.87	26.50
1978	394.21	76.18	318.03	271.16	46.87	11.88
1979	445.18	97.96	347.22	287.51	59.71	13.41
1980	470.86	103.80	367.06	245.84	121.22	25.74
1981	555.82	124.43	431.39	310.75	120.64	21.70
1982	700.97	148.90	552.07	500.84	51.23	7.30
1983	853.76	177.44	676.32	612.12	64.20	7.52
1984	1018.49	233.45	785.04	463.61	321.43	31.55
1985	1191.90	272.62	919.28	611.25	308.03	25.84

Source : Worked out from the Annual Report and Statement of Accounts of MSCB, of various years.

38.45 per cent which was far more than the statutory requirement of 28 per cent. Liquid resources fetch much lower returns than loans and advances. Hence, excess liquidity adversely affects the profitability of a bank. Of course, the Bank used its surplus resources in investing in first class securities yielding higher returns, but not as high as the advances could.

The problem of surplus resources arose mainly due to higher growth rate of deposits and lower growth rates of loans and advances. The total deposits of the Bank increased by 490 per cent during the period, whereas loans and advances increased only by 261 per cent. The loans and advances were not keeping pace with their loanable resources. In other words, effective demand for funds from the Bank was lower than the availability of resources with the Bank. As such, the percentage of surplus resources ranged between 7.30 per cent and 26.50 per cent (during the period under review), which was a serious matter for the Bank. The Committee of the Study Group on Deployment of Resources by State and Central Cooperative Banks<sup>1</sup> measured the surplus resources of some SCBs in India. Its findings are shown in Table 5.2.

Table 5.2 indicates that during the specified period, MSCE had the highest surplus resources among the SCBs mentioned.

Table 5.2 : Surplus resources of the SCBs during July 1980 to 31st March 1981.

	(Rs. in crores)						
Name of SCB	Assam	Himachal Pradesh	Jammu and Kashmir	Karna-taka	Maha-rash-tra	Punjab	Tamil Nadu
Maximum surplus re-sources	5.91	3.42	0.43	10.02	174.53	19.64	24.29

Source : Committee of the Study Group on Deployment of Resources by State and Central Cooperative Banks, p.21.

The study group made the projection of surplus resources during the VI Plan by MSCB as given in Table 5.3.

Table 5.3 : Projection of surplus resources during the VI Plan by MSCB.

	(Rs.in crores)				
Particulars	1981	1982	1983	1984	1985
With SCB	70	117	155	206	210

Source : Ibid., p. 34.

The projection of surplus resources made by the Committee indicates that the surplus resources with MSCB would increase heavily; however, the actual surplus resources with the Bank exceeded even their estimates at the end of June 1984 and June 1985, as seen from Table 5.1.

The Committee considered the following reasons for higher growth rate of deposits of SCBs : (a) There was compulsion on the cooperatives to keep their surplus funds with the concerned higher level cooperative institution. This led to the higher rate of growth in the deposits of the central and apex cooperative banks. (b) The Central Co-operative Banks and Urban Cooperative Banks kept most of their liquid assets in the form of deposits with higher financing agencies. (c) SCBs were allowed to pay 0.25 per cent interest per annum on savings and term deposits over and above the interest rates permitted to commercial banks. This concession enabled the SCBs in mobilizing deposits from individuals to a significant extent.

Rising overdues resulted in restrictions on grant of fresh advances. Rapid growth of commercial bank credit in the sphere of agriculture and the emergence of Regional Rural Banks and the acceptance of multi-agency approach has imparted an element of competitiveness in the field of agricultural finance. Upto 1979, cooperative banks were not allowed to lend outside the cooperative field. All these factors adversely affected the growth rate of loans and advances of the SCBs and CCBs.

However, in pursuance of the recommendations of the Study Group on Interest Rates on Cooperative Credit Structure, the SCBs have been permitted since January 1979, as an

interim measure to utilize their surplus resources, with prior permission in each case from RBI, to the public sector institutions closely connected with the activities which facilitate rural production, processing and marketing, provided the total advances to such institutions do not exceed the deposit resources raised by the Bank from the sources other than cooperatives.

In spite of availing the above mentioned facility for deployment of the surplus resources, it is seen that except the years 1982 and 1983, the MSCB had sizable surplus resources, after 1979-80, ranging between 21.70 per cent and 31.55 per cent of the total resources.

The Committee had suggested some measures to solve this problem. Some of those are as follows :

(a) There should be cooperation and coordination between cooperative credit institutions with other credit agencies on one hand, with the concerned Government and other developmental agencies on the other, so as to make the field level arrangements for planning and implementing credit based development effective and adequate.

(b) There should be close tie-up between technological extension staff of the State Government and the disbursement of credit, so that the farmers are enabled to make the best use of credit and maximise their return.

It was expected that with the implementation of the recommendation of the Study Team a congenial atmosphere would be created for prompt recovery of loans.<sup>2</sup> As a result, the loans and advances would grow, it was hoped, at a faster rate ultimately improving the credit/deposit ratio and the resolution of the problem of surplus resources.

## 5.2 Overdue Problem

Agriculture in Maharashtra is traditionally considered to be a gamble in the rains. Hardly 12-13 per cent of the cultivated area has the facility of some assured water supply in 1986.<sup>3</sup> Failure of rains and consequently of crops has been an usual feature in Maharashtra. On an average, scarcity condition developed almost every three years. In fact, practically every year, famine conditions prevail in some scattered pockets of the State.

Scarcity conditions bring in their wake failure of crops and impair the repaying capacity of the borrowers. The direct result is the non-repayment of cooperative dues. The scarcity conditions have deleterious effects on the future agricultural production also because as per the accepted policy of cooperative finance, a cultivator becomes ineligible for borrowing fresh loans from the cooperatives, the moment he becomes a defaulter and continues to be so, as long as he does not clear the arrears. The basic

problem before the cooperatives in such circumstances is therefore to ensure that the agriculturist is not denied the finance required by him for keeping his cultivation operation going on.<sup>4</sup>

The MSCB is facing the problem of overdues since long. It seems that to some extent, it has overcome the problem as the magnitude of overdues in the period under review was not large. Table 5.4 gives an idea of the magnitude of overdues in the period 1974-75 to 1984-85.

It is clear from Table 5.4 that the percentage of overdues to loans outstandings ranged between 2.0 per cent and 7.7 per cent (Col. 3), and the overdue interest between 0.3 and 1.6 per cent. It is harmful that out of total overdues, estimated bad and doubtful debts accounted for 21 per cent to 98 per cent. This suggests that a substantial portion of the overdues is considered by the Bank as not likely to be recovered and may have to be written off. If so, this portion of overdues will ultimately eat into the reserves of the Bank. This seems to be an unhappy position. The table shows that the Bank has made enough reserves for covering such bad and doubtful debts and overdue interest.

Table 5.5 presents the classification of arrears according to the type of borrowers during the period 1974-75 to 1984-85.

Table 5.4 : Magnitude of overdues and bad and doubtful debts, MSCB (1974-75 to 1984-85)

As on 30th June	Loans out- standing (amount Rs. in crores)	Percentage to total loans outstanding					Percentage of estimated bad and doubtful debts to overdues
		Over- due	Overdue interest	Estimated bad and doubtful debts	Reserve for over- due interest	Reserve for estimated bad and doubtful debt	
1	2	3	4	5	6	7	8
1975	233.68	3.3	0.7	1.2	0.81	N.A.	36.30
1976	244.46	3.5	0.6	1.6	0.77	N.A.	46.60
1977	177.89	4.6	0.7	3.2	1.1	3.2	70.17
1978	271.16	2.5	0.3	2.5	1.1	2.5	97.68
1979	287.51	6.6	0.3	2.1	1.0	2.7	31.85
1980	245.64	7.7	1.6	2.6	1.6	2.6	34.12
1981	310.76	7.2	1.6	1.5	1.7	1.5	20.61
1982	500.84	2.7	0.9	1.2	1.1	1.3	44.99
1983	612.12	2.0	0.67	0.94	0.70	0.98	47.00
1984	463.61	2.5	0.44	1.34	0.92	1.35	53.43
1985	611.25	3.6	0.51	1.04	0.70	1.05	28.63

Source : Administration Reports of MSCB of various years



Table 5.5 : Classification of arrears according to the type of borrowers (1974-75 to 1984-85)

(Percentages)											
As on 30th June	CFA *	Sugar- fact- ories	Marke- ting socie- ties	Other proce- ssing	Consu- mer socie- ties	Indus- trial socie- ties	Non-agri- cultural credit socie- ties	Housing socie- ties	Other socie- ties	Socie- ties in liqui- dation	Total over- dues (Rs. in crores)
1	2	3	4	5	6	7	8	9	10	11	
1975	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	7.94
1976	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	7.84
1977	16.5	43.9	-	26.0	1.7	6.1	0.5	3.2	1.9	-	8.25
1978	25.0	14.0	-	39.0	5.0	10.1	Neg	4.0	2.0	-	6.91
1979	9.0	63.0	-	19.0	3.0	5.0	Neg	1.0	0.8	-	18.82
1980	14.0	62.0	-	14.5	2.0	4.6	Neg	1.4	0.8	-	18.96
1981	-	56.4	26.0	10.5	1.4	3.6	Neg	1.2	0.7	-	22.46
1982	37.1	31.4	-	17.7	2.5	7.2	Neg	1.4	1.9	-	13.38
1983	39.4	30.7	-	2.9	-	3.6	Neg	-	1.6	21.5	12.23
1984	2.7	47.8	-	6.4	-	18.6	Neg	-	2.2	22.0	11.64
1985	37.3	31.8	-	4.2	-	13.9	Neg	-	1.4	11.1	12.13

N.A. : Not available      Neg. : Negligible      \* CFA = Central Financing Agencies.      - : Nil

Source : Administration Reports of MSCB of various years.

It reveals that from 1976-77 to 1984-85 sugar factories mostly stood on top in respect of overdues, their percentage share in total overdues ranging between 14 and 63. Sugar factories are followed by CFA, in accounting for a high percentage share in total overdues ranging between 2.7 and 39.4. Other processing societies (Col. 4) together had the highest arrears only once during the period i.e. in 1978, with the share of 39 per cent in total overdues. Overdues with societies in liquidation were sizable in 1983 to 1984 in the total overdues of the Bank. Marketing societies generally were not defaulter except in the year 1981.

This implies that the societies that were the big borrowers of the Bank were also the big defaulters.

The Rural Credit Survey Committee has envisaged an integrated scheme in which both the credit and marketing sectors would develop side by side. The development of credit sector was to be looked after by the RBI, while the development of the marketing sector was entrusted to the Government of India. Development on the credit side was phenomenal (funds Rs.3000 crores; short term lending Rs.1233 crores, schematic lending Rs.5427 crores in 1984-85), but compared to this, the performance of the NCDC which is assisting the marketing and processing sector was at a much lower level (only Rs.703 crores during the period

1963 to 1984). Such lopsided development of credit vis-a-vis marketing was largely responsible for the high level of overdues in cooperative credit institutions. Therefore, strengthening of marketing and processing is vital for the sound cooperative credit.<sup>5</sup>

### 5.3 Problem of Weaker Section

It may be recalled that, as seen in Table 3.5 in Chapter III, during the period under review, more than 90 per cent of loans outstanding were with DCCBs, sugar factories, spinning mills and marketing societies. This implies that the other societies comprising mainly of weaker sections had a little share (less than 10 per cent) in the portfolio of the Bank. The annual administration reports of the Bank do not reveal the demand for credit from weaker section, hence effective and adequate supervision over assessment of needs and the use of credit is required to help the weaker section of the State.

It was suggested by D.R. Gadgil that an essential condition to create an atmosphere of dynamic credit is that the techniques for improving productivity should have been developed and convincingly demonstrated to the farmer. In other words, there should be a well developed extension service, supported adequately by research stations and working closely with the cooperative organization to

generate amongst the farmers, a demand for improved agricultural requisites and implements. With consumption loans to weaker section, extension services should be supplied for enabling the weaker section to improve their productive output.<sup>6</sup>

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- 2 Ibid., p. 88.
- 3 Cooperative Movement At a Glance in Maharashtra State, Registrar of Cooperative Societies, Maharashtra State, Pune, 1986, p. 2.
- 4 'Interim Report of the Committee on Overdues and Allied Matters' (appointed by the Government of Maharashtra, Bombay), 1977, p. 5.
- 5 '23rd Annual Report of National Federation of SCBs Ltd., Bombay, 1985-86.
- 6 'Agricultural Cooperative Credit in South-East Asia', 1967, D.R. Gadgil, p. 21.

## CHAPTER VI

### CONCLUDING REMARKS

As an apex institution in cooperative credit structure, MSCB has a special status in cooperative movement in Maharashtra and it is a leading state cooperative bank in India. Resource mobilization as well as credit deployment are two important aspects in banking. The working of MSCB is studied and discussed in this dissertation especially in respect of the above mentioned two aspects. The cooperative credit movement has spread widely in Maharashtra. In 1985 there were 18368 Primary Agricultural Credit Societies, 356 Urban Cooperative Banks, 29 District Central Cooperative Banks, and one State Cooperative Land Development Bank and one State Cooperative Bank in Maharashtra State. The total loans advanced by cooperatives in Maharashtra in 1984-85 amounted to Rs.2215 crores and the individual membership was 186 lakhs.\*

The share capital raised by the Bank increased from Rs.11.15 crores in 1974-75 to Rs.14.13 crores in 1984-85. Most of the shares were held by cooperative societies.

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\* Cooperative Movement At a Glance in Maharashtra State, 1986.

Membership to individuals was deliberately discouraged by the Bank, hence shares held by the individuals were negligible. Government contribution to share capital was high at Rs.4.53 crores between 1974-75 and 1977-78; from 1978-79, the Bank started refunding the shares of Government, and by 1984-85, Government had one share of Rs.50 only.

The Bank invested its funds in various reserves such as agricultural credit stabilization fund, investment depreciation reserve, bad-debt reserve and other statutory reserves. The amount of reserves rose from Rs.21.91 crores in 1974-75 to Rs.121.51 crores in 1984-85. Correspondingly the owned funds comprising of paid-up share capital and reserves increased from Rs.33.05 crores to Rs.135.68 crores.

As regards mobilization of deposits, MSCB did well. The total deposits increased from Rs.162.52 crores in 1974-75 to Rs.959.74 crores in 1984-85. Deposits constituted 50.35 per cent of the total working capital in 1974-75 but 80.52 per cent in 1984-85. Borrowings accounted for about 12 per cent of the working capital of the Bank upto 1977-78. However, during the later period, due to heavy accumulation of overdues at the level of DCCBs and PACs, the borrowings of MSCB from various sources declined to 2.97 per cent of the total working funds by 1984-85.

The total working funds of the Bank increased from Rs.322.77 crores in 1974-75 to Rs.1191.90 crores in 1984-85, indicating 269.27 per cent increase during the period.

Utilization of resources was in two ways: (1) investment for maintaining liquidity, and (2) loans and advances. As per the Banking Regulation Act, every cooperative bank has to keep 28 per cent liquid assets of its Demand and Time liabilities. However, the Bank's liquid assets ranged between 28.93 per cent and 37.80 per cent of its Demand and Time Liabilities. Clearly, the MSCB faced the problem of high liquidity. MSCB was generally supposed to provide short and medium term loans but it started providing long term loans too. As an apex institution, MSCB also meets the credit requirements of processing, industrial and other societies. Out of the total advances, the short term outstanding advances ranged between 73 per cent and 91 per cent of the total outstanding advances in all the years. But from 1982-83, the medium and long term loans showed increasing share in the credit portfolio of the Bank. It had the highest share (26.40 per cent) in the year 1984-85. Sugar factories received the largest amount of the advances from MSCB, followed by DCCBs, marketing societies, spinning mills, etc. The Bank provided loans at a concessional rate of interest to DCCBs for providing loans to agriculture and to the weaker section.

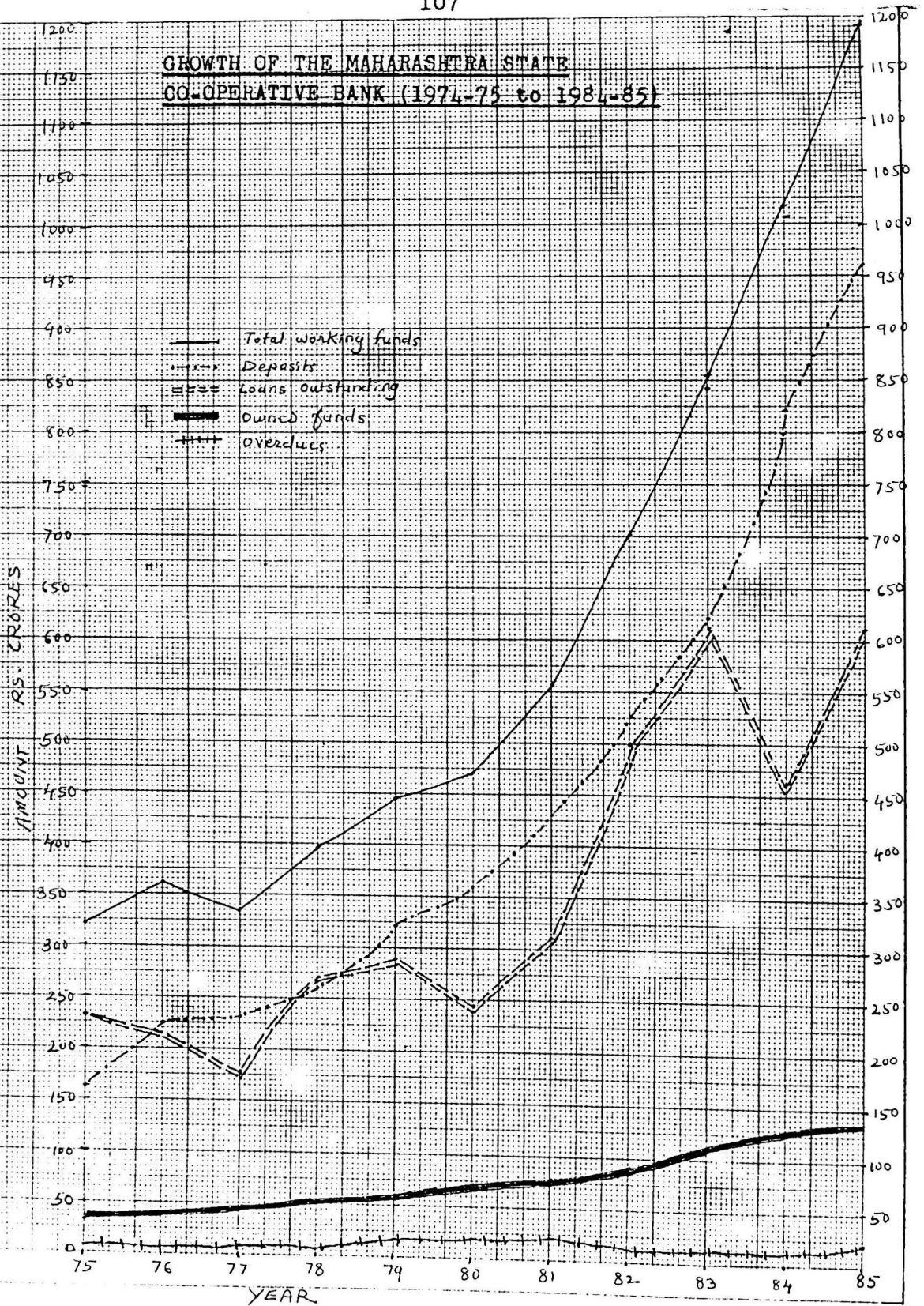


But for the remaining societies viz., sugar factories, marketing federations and other processing societies, the Bank charged higher rates of interest.

The loans outstanding of MSCB in 1974-75 amounted to Rs.233.68 crores which increased to Rs.611.25 crores in 1984-85. During the period under review, the percentage of loans outstanding to total resources (working funds) showed decrease except in 1981-82 and 1982-83. It was the lowest at 45.5 per cent in 1983-84. This percentage of loans outstanding to total resources varied from 45 per cent to 72 per cent. But in most of the years it was less than 56 per cent of the total working funds. This indicates the surplus position of resources and the problem of finding profitable avenues for deployment of the surplus resources.

The cost of management had been always less than one per cent of the total working funds. As to profitability, the percentage of profits to working capital showed declining trend during the whole period under review. Though profit-making is not the main objective of a cooperative bank, every bank should earn reasonable profits in the business.

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CO-OPERATIVE BANK (1974-75 to 1984-85)



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