Indian Streams Research Journal
Volume 2, Issue. 8, Sept 2012
ISSN:-2230-7850
Available online at www.isrj.net
ORIGINAL ARTICLE

Performance Of Maharashtra State Cooperative Agricultural And Rural Multipurpose Development Bank - A Case Study Of Jalna.

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Abstract:

The Jalna district land mortgage bank was established in 1982 at Jalna. It was known as Land Mortgage Bank. With effect from May 1st, 1973 all primary banks were converted into branches of the State Cooperative Land Development Bank and 'Unitary Pattern' came into existence.

Again with effect from 2001 all district branches have been converted in to primary banks and federal pattern came into existence. However, during these years the bank oriented itself towards developmental lending which led to change in its name from land mortgage bank to land development bank and since 1985, with the additional focus on rural development the bank is now functioning as the agriculture rural multipurpose development bank.

The MSCARD Bank Ltd Jalna was engaged during the year 1981-82 to 1996-97 in providing long term credit for improving the economic conditions of the rural masses. Bank issued loans to farmers on the base of recovery performance. The recovery performance was decreasing from year after year. From the year 1997 the bank stops its loan activities due to non-availability of funds. From the year 1997 the State Government stops the guarantee to NABARD against the funds released to MSCARD Bank. In case of the Vaidyanathan's suggestions will be accepted by the State Government in future the funds will be released from the NABARD to MSCARD Bank for regular finances.

There has been a vast expansion in the sphere of its activities in Jalna District. These activities ranged from loans for minor irrigation works to the loans for lift irrigation, farm mechanization, storage facilities like godown and cold storage, transportation facilities and market sheds. They include loans for other purposes also like milk cattle, bullock cart and biogas plants which provide additional facilities and supplement the income of borrower farmers. As farmer's bank, the bank has to play an important role in meeting the credit needs of the rural sector. In fact, there is no other agency in the district today, which is exclusively catering to the developmental credit needs for agriculture and other economic activities, for facing the emergency competition in the market; the bank has to be much more efficient in the matter of its credit services. The bank may necessarily have to widen its business operations in order to provide a package of credit services to farmers and other in the rural sector including financing of such services and infrastructure development, which would contribute to the rural economy, and economic development of the farmers.

The CRAFICARD (1979), recommended that loans for non-land based activities either to land owners or to landless beneficiaries should be secured by hypothecation of the assets created or acquired out of the loan. All these recommendations to rationalize the loaning with particular reference to liberalization of the standards of security have been suggested so that the bank could increase its rate of lending and play a crucial role in the years to come in tune with national priorities and aspirations.

VIABILITY STATUS OF JALNA DISTRICT CO-OPERATIVE AGRICULTURE AND RURAL MULTIPURPOSE DEVELOPMENT BANK:

An evaluation of viability of any organization should, no doubt, be approached from the angle of task dimension that is the socio-economic objectives for which it is created or established. However, it is equally necessary to ensure that the social objectives do not provide an umbrella to their efficiency and therefore, an appraisal of working of any organization in general and financial institution in particular should be based on the fulfillment of social objectives as well as its financial viability.A financial institution is considered financially viable if it attains a level of business giving it an income level which would enable it to meet not only all the expenses, but also help it to build up a minimum reserve over a period of time.

The need for viability of the banks has assumed particular urgency in the context of the agricultural credit projects sanctioned in most of the states by the International Development Association and refinanced by the Agricultural Refinance Corporation. One of the pre conditions for participation in the projects is that the banks should be viable units. The committee (1975) suggested that a branch of the central agriculture and rural development bank should have a minimum loan business of Rs. 35 lakhs to be a viable unit and recommended that these norms should be followed strictly by the State Government and Central Land Development Banks at least in regard to the organization of new branches of the Central Land Development Bank. As regard existing branches of Central Agriculture and Rural Development Banks which do not come up to these norms, the State Governments and the Central Agriculture and Rural Development Banks should have a plan of action for bringing these branches at least up to this standard within a period of 3 years. The period of 3 years is generally adequate for a branch of the bank to attain viability except in areas where the growth rate in loaning business is slow because of the poor supporting facilities in the area or the predominance of scheduled castes and tribes or where the nature of agricultural financing requires a very long period of gestation. The committee (1975) has suggested that the new branch, if set up should be provided with necessary financial and other support by the State Government or by the Central Agriculture and Rural Development Bank in order to enable it to maintain adequate staff from the very beginning itself so that it becomes viable within a period of 3 years with a loan business of at least Rs. 35 lakhs.

The committee (1975)pointed out that a large number of branches of the CARDBs would be required to cope up with the increasing quantum of loan business and to undertake more diversified functions in future so that they can play an important role in the modernization of agriculture. The committee also laid the norms of viability with regard to minimum staff necessary for technical guidance, adequate supervision and efficient administration, maintenance of adequate resources and payment of a reasonable dividend. According to the committee, a branch of CARDB is expected to attain viability with a loaning business of Rs. 35 lakhs which would give an income of Rs. 0.52 lakh, assuming a margin of net profit of 1.5 percent, enabling the bank to maintain a reasonably adequate staff for undertaking various items of work as also for making provisions for various reserves like reserve fund, bad and doubtful debts reserve etc. and declare a modest dividend. On the basis of the above norm of Rs. 35 lakhs of loans outstanding for making a branch viable.

A study under taken by the RBI in 1979 indicated 17 primary banks at the block level had no chance of achieving viability. However, subsequently, new items of investment in agriculture were identified in the areas served by these banks and 7 out of these 17 banks were found to be viable. Similarly, it is possible that some banks, which are viable today, may become non-viable later. This can happen either due to the shortage of loaning business for minor irrigation works which is at present one of the major items of financing by ARDBs or lack of positive efforts by the bank to locate alternative avenues of profitable investment.

The viability of an organization is said to have reached to the level of viability, when the firm earns income sufficient enough to meet the cost. With a view to improving the financial health and operational efficiency of the branches of SCARDBs in the long term cooperative credit structure, a 10 point action programme for rehabilitation of weak branches of SCARDBs was introduced by National Bank in January 1986.The rehabilitation measures included among others, the merger of non-viable units with strong units, investigation of over-dues, strengthening of resources etc. The continuous deterioration in the financial health of these institutions has been due to a variety of causative factors, mainly the poor resource-base, high transaction costs coupled with low margins, mounting over-dues, lack of professional management, faulty accounting procedure resulting in imbalances among the various tiers of the cooperatives in the loan amounts outstanding the excessive state controls with a high degree of bureaucratization.

The committee (1990)suggested that to enable the bank to be self supporting in respect of its advances for agriculture and allied activities; the gross margin should be adequate to cover the transaction cost and the risk cost and leaves some surplus. The transaction cost is about 4 percent and the risk cost is about 1 percent. About 0.5 percent may be required for generating adequate surplus to enable the bank to make the agricultural credit profitable. Thus the gross margin required is about 5.5 percent.

The committee (1985)has said that, “The impact on profitability of banks and other financial institutions of interest policy, based on widespread use of concessional interest rates, needs to be recognized. In the interest of promoting effective use of credit on the one hand, as also operational efficiency of lending agencies on the other, it would appear that in the present structure of interest rates, there is considerable scope for eliminating concessional interest rates or reducing the extent of concessionality, apart from reducing the number of categories for which different concessional rates are specified.The objective of improving productivity in the industrial and agricultural sector calls for a reorientation of the present interest rates structure with a view to permitting more efficient use of funds by the borrowers”.

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