

# Lending practices of cooperative banks: A special case study of Shekhawati region in Rajasthan

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## ABSTRACT

Cooperative banks play a very important role for farmers. They play an imperative role in running the economy of the country alongside the commercial banks. While commercial banks focus in their profit motive, co-operative banks provide encouragement to the scrawny and highly neglected society of the economy. This doesn't stop here. Co-operatives also help other co-operatives as well as the richer section of the society. The Indian Rural Sector has an agricultural dominance. The engagement of majority population in farming and related activities that are seasonal in nature, leads to their occupation giving them far less returns to complete their future requirements. While the sector has a high dependency on government-aid and private money-lenders, they need a faster acting and a transparent mechanism to help them. And coming up with a motto of 'self-help' the co-operatives prove to be their backbone providing need-based finance. The co-operative structure has been designed with this clear view of motivating and supporting this section of the economy.

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## 1. Introduction

The Indian Financial System is largely dependent on banking institutions, and a co-operative bank plays a vital role especially at the village level. They play an imperative role in running the economy of the country alongside the commercial banks. While commercial banks focus in their profit motive, co-operative banks provide encouragement to the scrawny and highly neglected society of the economy. This doesn't stop here. Co-operatives also help other co-operatives as well as the richer section of the society.

Beginning in 1904, the co-operative banks have been catering to the needs of agriculture, retail trade, small and medium sized industry in urban, semi-urban and rural areas. They work on the lines of *co-operation for mutual benefits*. The co-operative structure is based on the principle of mutual help, democratic work ethics, open membership and the work hierarchy directly vested in the hands of the members. They work not only for the members but also for the needy non-members, and the society in general. The affairs of the bank are conducted in a manner beneficial to the interest of its present and future depositors and be served to the designed market segment. The market segments, although highly classified as the industrialists of small or no capital, also includes the salaried section keen on creating savings and fixed accounts.

A co-operative bank is a bank that holds deposits, makes loans, and provides other financial services to co-operatives and member-owned organizations. Formed under the co-operative Societies Act, the co-operative banks operate as an autonomous body to help an association of persons meet their common economic needs and are regulated by RBI and the Banking Regulation Act, 1949.<sup>1</sup> They perform all the main banking functions of mobilization of deposits, supply of credit

and functional specialization in agricultural needs of a specialized section of the society.

India is a developing economy and largely dependent on the primary sector. In urban areas, it mostly works for small or medium sized industrialist, but the rural tertiary and primary sectors witness a great aid from the co-operative banks. The economically weaker sections of the society are highly dependent on the co-operative banks. Co-operative banks regulate the economy by helping the economically weaker sections of the society.

## 2. Review of literature

1. *BM Desai from IIMA, (1998), in his working papers titled "Professionalism in Co-operatives for Rural Credit"* suggested that professionalism is required in rural credit co-operatives not only as business enterprises but also as a developmental bank with the underlying motive of benefiting its people and in formulating and implementing macro rural cooperative credit policies. The papers define professionalism for each of these three and goes in length discussing about the changes required in co-operatives internal structure, role and leadership and managerial attitudes, and approaches of HRD to accomplish both enterprise goals which majorly include business growth, loan recovery, and financial viability; and institutional objectives like member participation, self-regulation, and prosperity. His papers suggested internal as well as external restructuring to harness the opportunities created by the existing constitutional laws. His suggestions included a variety of changes required in Cooperative Law, Banking Regulation Act, Interest Rates and Institutional Development related macro-policies.

2. *R. Gandhi, Deputy Governor at NIRB, (June, 2015), in his speech titled, "Future and New Thoughts on Co-operative Banks"* stated that Co-operative banks have a unique structure, clientele and credit delivery and market economies have

gratefully acknowledged their role in the financial system during the recent financial crisis. Co-operatives have continually been growing in the environment emerged following the Economic and Financial Sector Reforms initiated in 1991. Though, RBI has initiated measures to give boost to the co-operative banking sector by gradually introducing prudential norms and regulatory prescriptions on par with commercial banks, it is even moralizing that co-operative banks have been showing interest to diversify their business and increasing their client base. With the existing legal framework, supportive regulatory environment, adoption of technology and re-orientation of business strategy, it can be easily suggested that co-operative banks contribute more meaningfully to the equitable economic growth across regions through their delivery models.

3. Deepak Shah, in February 2008 in his paper titled, "Banking Sector Reforms and Co-operative Credit Institutions in India" emphasized his working on the credit cooperatives in Maharashtra. He observed that they had shown slower growth in their membership and institutional financing but a faster growth in outstanding against loan advances. A careless lending approach of Primary Agriculture Cooperative Credit Societies (PACS) had been observed, particularly towards a minor section of the society. The coverage and recovery pattern have been observed to be lax as well. His study identified several issues, including that of crop loan advances in various districts and regions of Maharashtra. There had been a sharp decline in loan advances to the backward region where the over dues and the non-performing assets had been mounting up and the pile had been taken care of with severity in application, at least to the large farmers. The need to take cognizance of defaults to revitalize the rural credit delivery system through the cooperatives was a conflicting suggestion that thus resulted in various debates. He estimated the viability of two central level credit institutions, viz. Sangli District Central Cooperative Bank and Buldana District Central Cooperative Bank in order to rejuvenate the rural credit delivery system through cooperatives and analyzed the major problems facing the system, viz. high transaction cost, poor repayment performance, mounting NPAs, distributional aspect of credit, low coverage, etc. which needed to be tackled with more fiscal jurisprudence.

4. Gagan Bihari Sahu and Biswaroop Das, in their study in the period 2007-09, titled, "Self-help Co-operatives, Deposit Mobilization and Supply of Credit", aimed at exploring as to how co-operatives (a) function and deal with members while delivering micro finance; (b) mobilize funds, and (iii) get shaped and reshape the contents of members participation. They extracted raw data of various co-operatives and self-help groups to analyses their results and give a base to their study. Some of the salient findings that emerged from the paper were: (1) Around 68% of members were without access to formal credit received loans from the SHCs during 2005-06; (2) The rate of people applying for loan had been significantly more than that of members; (3) Through internal deposit mobilization, these co-operatives had generated 72.9% of their total funds and it was put use to loans; (4) The total credit growth had been showing a decreasing trend against the proportionate value of external loans; (5) The average growth rate had shown a proportionate trend between flow of funds

and volume of deposits; (6) full utilization of mobilized resources; (7) 85% repayment rate. The co-operatives thus studied appeared to be participatory and well managed. Evidently, the working principles of these co-operatives carried quite a few of the pertinent components identified by the Vaidyanathan Committee (Vaidyanathan, 2005), essential for reviving and revitalizing the co-operative credit structure in the countryside. The study suggested that with legal measures and institutional reforms becoming stronger, such structures can evolve as more participatory and self-governing platforms for provision of appropriate financial services, particularly to the rural poor.

### 3. Objectives

1. To know the lending practices of cooperative banks in Shekhawati region.
2. To measure and compare the efficiency of Cooperative banks in Shekhawati region.
3. To analyze the criteria of the Cooperative Banks.
4. To examine the role of RRBs in development of rural economy
5. To suggest the appropriate measures to improve the efficiency of the Cooperative banks.

### 4. Hypothesis

**Ho<sub>1</sub>:** There is no significant difference of variance between Opinions of respondents from Churu, Jhunjhunu and Sikar regarding Bank Loan Information & Lending practices of cooperative banks.

**Ha<sub>1</sub>:** There is significant difference of variance between Opinions of respondents from Churu, Jhunjhunu and Sikar regarding Bank Loan Information & Lending practices of cooperative banks.

### 5. Research methodology

Research Methodology is an important part of the research. Research methodology includes the criteria of variable selection, various tools applied, time frame of the study and sources of data in the study for analysis.

#### 5.1 Tools and Techniques of Analysis

The information so gathered from the polls is totally outlined and investigated with the utilization of SPSS 23.0. It empowers precision and unwavering quality of information and presents data in such a route along these lines, to the point that it turns out to be anything but difficult to decipher the information so gathered.

Detail of Tools applied in data analysis

1. Frequency Analysis
2. Descriptive analysis
3. Reliability Testing
4. Tests of Normality- Kolmogorov-Smirnov Goodness-of-Fit Test
5. Independent Samples Test
6. ANOVA
7. Test of Homogeneity of Variances- Levene Statistic

Use of statistical techniques has become a normal phenomenon in any type of analysis; statistical tools which are used for analysis are as the follows:

**• Frequency analysis:**

Frequency analysis is a descriptive statistical method that shows the number of occurrences of each response chosen by the respondents. When using frequency analysis, SPSS Statistics can also calculate the mean, median and mode to help users analyze the results and draw conclusions.

**• Average/Mean**

The most commonly used average is the arithmetic mean, briefly referred to as the mean. The mean can be found by adding all the variables and dividing it by total number of the years taken. It gives a brief picture of a large group which represents and gives a basic of comparison with other groups.

**• The Standard Deviation:**

The Standard Deviation concept was introduced by Karl Pearson in 1823. It is by far the most important and widely used measure of studying dispersion. Standard deviation is also known as root mean square deviation for the reason that it is the square root of the mean of the square deviation from arithmetic mean.

**• Kurtosis:**

Kurtosis is a measure of tail extremity reflecting either the presence of outliers in a distribution or a distribution's propensity for producing outliers (Westfall, 2014). It is a measure of the heaviness of the tails of a distribution. A normal distribution has kurtosis 0. Extremely non-normal distributions may have high positive or negative kurtosis values, while nearly normal distributions will have kurtosis values close to 0. Kurtosis is positive if the tails are "heavier" than for a normal distribution and negative if the tails are "lighter" than for a normal distribution.

**• T-test**

T-test is based on T-Distribution and is considered an appropriate test for judging the significance of a sample mean. It can also be used for judging the significance of the Co-efficient of simple and partial Co-relations. The relevant test is calculated from the sample data and then compared with its problem value based on T-distribution at a specified level of significance for concerning degree of freedom for accepting or rejecting the Null Hypothesis.

For testing the opinion difference of sample respondent in various categories of Gender for selected variable Independent Samples Test was applied. Independent samples t-test is used

on the data if there are two independent samples (Male and female respondent). Researcher used this test to compare the values of the means from selected two of the samples and test whether it is likely that the samples are from populations having different mean values. The independent t-test also called unpaired or the two samples t-test or student's t-test is an inferential statistical test that determines whether there is a statistically significant difference between the mean in two groups. Independent t-test is used to compare the mean of a normally distributed internal independent variable for two independent groups. When the two samples are taken from the same population, it is very unlikely that the mean of the two samples will be identical. When two samples are taken from two groups with different mean scores, it is likely that the means of the two samples will differ. When reporting the result of an independent t-test, the t-statistic value, the degree of freedom and the significance value of the test (P-value) are must .

**6. Data analysis**

Hypothesis testing is a process by which an analyst tests a statistical hypothesis. The methodology employed by the analyst depends on the nature of the data used and the objectives of the analysis. Hypothesis testing is used to infer a result of a hypothesis performed on sample data from a larger population, which can be either null or alternate. The objective of hypothesis testing is to either accept or reject the null hypothesis. The procedure for deciding if a null hypothesis should be accepted or rejected in favor of an alternate hypothesis is computed from a survey or test result and is analyzed to determine if it falls within a preset acceptance region. If it does, the null hypothesis is accepted otherwise rejected. For testing of Hypotheses primary data was used. To test the opinion difference on the basis of demographic factors, cross tabulation, T- test, F-Test, ANOVA Test were used. Before applying the test of hypothesis testing test normality of the data was checked.

**Results of ANOVA Test**

**Ho: There is no significant difference of variance between Opinions of respondents from Churu, Jhunjhunu and Sikar regarding Bank Loan Information & Lending practices of cooperative banks.**

**Ha: There is significant difference of variance between Opinions of respondents from Churu, Jhunjhunu and Sikar regarding Bank Loan Information & Lending practices of cooperative banks.**

ANOVA with city and loan practices							
		Sum of Squares	df	Mean Square	F	Sig.	Result of Hypothesis Testing
The staff of the cooperative bank had proper knowledge about the Loan/credit schemes	Between Groups	8.509	2	4.254	2.661	.071	Ho Accepted
	Within Groups	671.539	420	1.599			
	Total	680.047	422				
Loan procedure was implemented efficiently.	Between Groups	2.310	2	1.155	.621	.538	Ho Accepted
	Within Groups	781.439	420	1.861			
	Total	783.749	422				
The staff was courteous, helpful	Between Groups	19.001	2	9.501	7.066	.001	Ho Rejected

& competent	Within Groups	564.734	420	1.345			
	Total	583.735	422				
cooperative bank 's were found adhere to the rules and regulations of RBI	Between Groups	3.069	2	1.534	.786	.456	Ho Accepted
	Within Groups	819.929	420	1.952			
	Total	822.998	422				
Bank correspondents were prompt at all times	Between Groups	17.601	2	8.801	5.961	.003	Ho Rejected
	Within Groups	620.049	420	1.476			
	Total	637.650	422				
All concerns were timely resolved	Between Groups	9.834	2	4.917	4.936	.008	Ho Rejected
	Within Groups	418.370	420	.996			
	Total	428.203	422				
Communication was done in a clear manner	Between Groups	17.263	2	8.631	4.531	.011	Ho Rejected
	Within Groups	800.174	420	1.905			
	Total	817.437	422				
turnaround time (TAT) of loan process was appropriate and as per your expectation	Between Groups	9.748	2	4.874	2.775	.063	Ho Accepted
	Within Groups	737.576	420	1.756			
	Total	747.324	422				
Disbursed loan amount was sufficient	Between Groups	50.229	2	25.114	12.488	.000	Ho Rejected
	Within Groups	844.622	420	2.011			
	Total	894.851	422				
Credit assessment and loan offered was as per your requirement.	Between Groups	20.808	2	10.404	6.497	.002	Ho Rejected
	Within Groups	672.573	420	1.601			
	Total	693.381	422				
Payment of EMI is convenient	Between Groups	9.219	2	4.609	2.301	.101	Ho Accepted
	Within Groups	841.334	420	2.003			
	Total	850.553	422				
Rate of interest charged was attractive	Between Groups	20.290	2	10.145	5.641	.004	Ho Rejected
	Within Groups	755.374	420	1.799			
	Total	775.664	422				
loan tenure was Flexible	Between Groups	3.271	2	1.635	.879	.416	Ho Accepted
	Within Groups	781.145	420	1.860			
	Total	784.416	422				
Minimum documentation was done for the loan process	Between Groups	1.335	2	.668	.340	.712	Ho Accepted
	Within Groups	825.662	420	1.966			
	Total	826.998	422				
Security was taken for the loan sanctioned	Between Groups	18.062	2	9.031	5.059	.007	Ho Rejected
	Within Groups	749.683	420	1.785			
	Total	767.745	422				
Manual Documentation was done	Between Groups	24.959	2	12.480	6.725	.001	Ho Rejected
	Within Groups	779.386	420	1.856			
	Total	804.345	422				
Co-Applicant was required for loan process	Between Groups	17.805	2	8.903	4.817	.009	Ho Rejected
	Within Groups	776.299	420	1.848			
	Total	794.104	422				

**Interpretation:**

Results of above hypotheses have been presented in the table and criteria of acceptance and rejection is as follows:

As per ANOVA test, if values of  $p \leq 0.05$  then we conclude that null hypothesis is incorrect and variances are significantly

different hence null hypothesis is said to be rejected. On the contrary, if  $p > 0.05$  then we conclude that null hypothesis is accepted and variances are insignificant or roughly equal hence assumption is tenable hence null hypothesis is said to be accepted. Since p value for the opinion statements "The

staff of the cooperative bank had proper knowledge about the Loan/credit schemes", "Loan procedure was implemented efficiently", "Cooperative bank's were found adhere to the rules and regulations of RBI", "Turnaround time (TAT) of loan process was appropriate and as per your expectation", "Payment of EMI is convenient", "Loan tenure was Flexible" and "Minimum documentation was done for the loan process" is greater than 0.05 hence forth we conclude that null hypothesis is accepted and it can be stated that no significant difference was found between Opinions of respondents from Churu, Jhunjhunu and Sikar regarding above mentioned Bank Loan Information & Lending practices of cooperative banks.

## 7. Conclusion and findings

1. In the nonexistence of satisfactory development of central financing agencies in different parts of the Rajasthan State, the Government has had to take part in an escalating part in financing the societies. State backing has taken the form of either a pledge to ordinary banks for loans advanced to societies or direct loans, on the suggestion of the Registrar of Co-operative Societies.
2. The co-operative banking system, with two extensive segments of urban and rural co-operatives, forms a fundamental part of the Indian financial system. With a broad network and widespread exposure, these institutions have shown an essential developmental character in widening the domain of institutional credit by way of incorporating banking habits among the deprived and those in far-flung areas. In modern

times, co-operative banks have endeavored to pick up credit deliverance through some financial innovation.

3. Quality of services provided by the staff was found satisfactory because cooperative banks in Shekhawati region are catering to a small segment only and the customers are suitably dealt with.

The cooperative banks in Shekhawati region of Rajasthan state have to formulate measures and techniques so that they would get better their performance by making maneuver more resourceful so as to make certain monetary feasibility, high-quality in lending and setting up funds in fruitful Endeavour's. Consequently the following suggestions are presented for the well-organized and valuable performance of these banks.

1. The cooperative banks should expand their network using the modern methods of banking like internet banking, credit cards, ATM, etc.
2. The banks should plan to introduce better financial products and services to attract new customers and simultaneously satisfying the present ones.
3. The banks should plan for expansion of branches to make their presence more pervasive.

The banks should improve the customer services of the bank both at their offices and also on online portal so that customers' grievances can be reduced and they will be provided with speedy solutions.

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