



The financial Performance and Viability of Primary Agricultural Cooperative Credit Societies in West Bengal

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Abstract: Cooperation is the root of cooperative movement. Cooperation is older than cooperative movement as human beings are antecedent to the human civilization. Cooperation is a view or an ideal, "We are all for others" is the main motto of cooperation. In ancient society men accepted the idea of cooperation for their survival against all odds. Mr. Fay defines, "A cooperative society is an association for the purpose of joint trading, originating among the weak and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of the membership may share in its rewards in proportion to the degree in which they make use of their association". This paper highlights the financial viability, financial performance, efficiency of loan recovery, loan overdue, and profit earning capacity over the eight-year period (from 2002-03 to 2009-10). It also expresses the role of debt capital in the capital structure and its utilization to magnitude the return to the members. Compound rate of growth debt capital, owned capital, total capital and net profit are discussed in this paper. The correlation between debt capital and net profit, owned capital and net profit, total capital and net profit are also discussed in this paper. It signifies the relationship between capital and net profit. The regression slope of net profit on capital is discussed which signifies that magnitude of change of net profit due to change in capital. At the end it is found the management's failure to utilize the debt capital properly. Inefficient loan recovery process reduces the amount of working capital to the society and hence financial capability also. Efficient management is needed to utilize the capital with an efficient manner.

Keywords: Association, Joint trading, Unselfish spirit, Compound rate, Regression slope, Capital structure.

Introduction

Cooperation is the root of cooperative movement. Cooperation is older than cooperative movement as human beings are antecedent to the human civilization. Cooperation is a view or an ideal, "We are all for others" is the main motto of cooperation. In ancient society men accepted the idea of cooperation for their survival against all odds. Mr. Fay defines, "A cooperative society is an association for the purpose of joint trading, originating among the weak and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of the membership may share in its rewards in proportion to the degree in which they make use of their association." Rabindranath Tagore expressed his view regarding cooperative in this way, "Where man does not possess the power to assimilate each other, he is very limited and concentrated. A complete man is he, who merges himself with others." In broader perspective he says cooperative is not only an idea but a potential seed also having huge capability of becoming a full grown tree (Calvert, 1994).

The Rochdel Society propounded the following principles of cooperation:

- ❖ Open membership
- ❖ Democratic control
- ❖ Limited interest on capital
- ❖ Patronage dividend
- ❖ Cash trading
- ❖ Purity and quality of control

Importance of The Study

The cooperative is the association of persons to get themselves self reliant and self sufficient economically and socially. Cooperatives help to strengthen the existing infrastructure at the grass root level through consolidation and revitalization by way of providing financial and non-financial support both directly and indirectly. At the globalization era stiff competition is taking place in all respects. In this situation, if people are not socially and economically developed they will be far behind from the ripple of globalization. This study is mainly based on to judge the financial viability and financial performance of the primary agricultural cooperative credit societies in West Bengal. This study also highlights the participation of the socially and economically backward people to the cooperative movement (Chakrabarty, 2001).

Methodology

The study of primary agricultural cooperative credit societies was conducted on the basis of the secondary data available from financial report of National Federation of State Cooperative Bank Ltd. over the eight year period. During this period debt capital, owned capital, net profit, members (category wise), disbursement of loan and overdue amount of loan are taken for having the clear picture about compound rate of growth, correlation, regression slope and financial performance of the primary agricultural cooperative societies in West Bengal.

Capital Structure

Capital is needed to run and manage a cooperative society. Right from the birth to end cycle of a society capital plays an important role in a society's life. Capital structure refers to composition of equity capital and debt capital. Debt capital and equity capital are the two main constituents of capital structure. Too much use of debt capital than equity capital in capital structure is not welcome and vice-versa. There should be a balance between equity capital and debt capital in capital structure so that financial risk should be minimized. Financial risk is associated with the financial decision of a cooperative society. this risk essentially refers to the use of debt capital in the capital structure. Since debt capital is usually cheaper than equity capital, the use of debt increases the rate of return to equity so long as rate of return on debt capital exceeds the cost of debt capital. Thus the use of debt capital has magnifying effect on the rate of return on equity. Use of debt capital increases the variability of the return to the shareholders and probability of insolvency also. Thus, a cooperative society financed by equity only does not have any financial risk. But it may not be desirable to finance entirely from equity capital because in that case the society cannot take advantages of cheaper debt capital (Banerjee, 2009).

(Rupees in lakh)

Year	Total equity Capital(Rs) (1)	Total Debt Capital(Rs) (2)	Total Capital (Rs) (3)=(1)+(2)	Debt/Equity (4)=(2)/(1)	NP/NL (5)	Working Capital (6)
2002-03	28436	167424	195860	5.89	-1080.20	355114
2003-04	28038	163129	191167	5.82	-992.20	360470
2004-05	28780	164507	193287	5.72	-949.67	368954
2005-06	29149	169191	198340	5.80	-1032.90	367807
2006-07	25041	149108	174149	5.95	-807.96	359250
2007-08	25087	153132	178219	6.10	-478.97	368298
2008-09	24874	152882	177756	6.15	596.61	369049
2009-10	25388	156616	182004	6.17	448.33	390915

Table A: Capital Structure of Primary Agricultural Cooperative credit Societies Ltd.

Source: National Federation of State Cooperative Bank Ltd. (2002-2010)

From table A, it is found that compound rate of growth of equity capital, debt capital and total capital are negative i.e. .02(2%), 01(1%) and .01(1%) respectively, whereas compound rate of growth of working capital is positive i.e.01 (1%). Compound rate of return on equity capital, debt capital and total capital express that equity capital, debt capital and total capital decreases by 2%, 1% and 1% respectively over the years. The total amount of net profit is very bad. Most of the cooperatives are incurring losses. Compound rate of growth of working capital indicates that working capital increases 1% over the years, which is very insignificant.

The correlation coefficient (r) between equity capital and debt capital is found to be 0.96 and $r^2 = 0.92$ which implies that in 92% cases when equity capital changes debt capital also changes. As there is relevant relationship and no trend factor, the correlation is not null. There is a positive correlation between the two variables.

The correlation coefficient (r) between net profit and total capital is -0.70 and $r^2 = 0.48$, which indicates that in 48% cases net profit increases due to decrease in total capital, they are negatively correlated. The correlation between net profit and working capital is 0.63 and $r^2 = 0.40$. It implies that in 40% cases net profit increases due to increase in

working capital. The correlation between net profits and debt capital indicates that in 44% cases net profit increases due to increase in debt capital. The correlation between net profit and equity capital indicates that in 66% cases net profit increases due to increase in equity capital or owned capital. There is positive and greater impact on net profit by equity capital than debt capital. Cooperatives are not efficient enough to handle the debt capital to accelerate the rate of return to the cooperative society.

Through regression analysis we can estimate the value of one variable when the value of other variable is given. The regression equation of net profit (y i.e. dependent variable) on equity capital (x i.e. independent variable) is $y - \bar{y} = b_{yx} (x - \bar{x})$ where \bar{y} is mean value of y values and \bar{x} is mean value of x values i.e. equity capital and b_{yx} is the slope or regression coefficient of y on x.

$$\text{Then, } y - \bar{y} = b_{yx} (x - \bar{x})$$

$$\text{Or, } y - (-417.38) = -0.33(x - 26849.85)$$

$$\text{Or, } y = -0.33x + 8860.45 - 417.38$$

$$\text{Or, } y = -0.33x + 8443.07 \quad r^2 = 0.66$$

The slope of the equation is negative, which means that if equity increases by one unit (Rs. 1 lakh) net profit decreases by Rs. 33000. $r^2 = 0.66$ indicates that in 66% cases one variable increases as the other variable decreases. Inverse relation between capital and net profit indicates that capital is not properly utilized to earn profit.

The slope of the regression equation of net profit on debt capital is -0.07 which indicates that if debt capital increases by one lakh profit will decrease by Rs. 7000. Profit decreases due to negative regression slope. $r^2 = 0.44$ indicates that in 44% cases net profit decreases as debt capital increases. The positive regression slope is found in case of regression equation of net profit on working capital. The regression slope 0.04 indicates that if working capital increases by one lakh net profit increases by Rs. 4000 and $r^2 = 0.40$ indicates that in 40% cases net profit increases as working capital increases. There is also negative slope found in case of net profit on total capital (-0.06) and $r^2 = 0.48$ indicates that in 48% cases net profit increase due to decrease in total capital. It is observed that major portion of profit is required to meet the fixed obligation (Das, 2009).

Financial Performance

Financial performance of a primary agricultural cooperative society mainly depends on its nature of loan disbursement and repayment behavior. More and more overdue amount of loan will decrease the volume of working capital and hence the financial health of the society. There should be efficient loan collection mechanism to reduce the number of defaulters (Banerjee, 2009).

(Rs. In Lakh)

Year	Total Demand (Rs.) (1)	Total Collection (Rs.) (2)	Total Overdue (Rs.) (3)=(1)-(2)
2002-03	192522.42	93621.63	98900.79
2003-04	183838.58	88473.74	95364.84
2004-05	188068.56	91735.83	96332.73
2005-06	199346.56	102869.14	66311.32
2006-07	176040.05	106953.59	69086.46
200708	187700.14	106953.59	80746.55
2008-09	193095.79	115031.81	78063.98
2009-10	186560.28	116393.29	70166.99

Table B : Statement of demand, Collection and overdue of Short-term and Mid-term Loan

Source: National Federation of State Cooperative Bank Ltd.(2002-2010)

There is no compound rate of growth regarding the demand of loan. Compound rate of growth of collection percentage to demand is 4%.Compound rate of growth of percentage of overdue to demand decreases by 15% over the years which has positive impact on short term liquidity of the PACS, because more and more will add extra liquidity to the cooperative societies and hence will increase the working capital of the cooperative societies. Average percentage of collection to demand is 54.60% and average percentage of overdue to demand is 38.36%.Due to unsatisfactory collection total outstanding increases day by day, thereby reducing the short-term solvency of the PACS. In this situation societies will run without sufficient amount of working capital and cooperatives will not be able to disburse loan to the members for their needs and it will create dissatisfaction among the members.

Members' Participation

Primary agricultural cooperative credit societies were formed to help the poor and downtrodden people to make themselves self reliant and self sufficient. Scheduled caste and scheduled tribe people is the most backward people in our society. The result of the cooperative movement mainly depends on their participation to the movement. Table below explains the membership pattern of the PACS, total no of PACS and their growth.

Year	Total No of PACS	Total No of Members(000)	SC(000)	ST(000)	Others(000)
2002-03	19333	17694.74	2457.71	2809.73	12427.30
2003-04	18788	17521.56	2438.12	2812.66	12270.78
2004-05	18956	17895.01	2498.54	2820.78	12575.69
2005-06	18780	17872.26	2500.63	2817.88	12553.75
2006-07	8077	11844.46	1880.52	2349.26	7614.68
200708	8061	16572.86	2169.97	2388.47	12014.42
2008-09	8028	16879.80	2206.10	2404.47	12463.58
2009-10	8026	17228.49	2242.88	2399.62	12585.99

Table C: Statement of Membership Pattern

Source: National Federation of State Cooperative Bank Ltd.(2002-2010)

There is a negative compound rate of growth in case of total no of PACS and total no of members which are 15% and 1% respectively. Sc, St and other members decrease by 2%, 3% and 1% respectively over the years. Compound rate of growth regarding total no of PACS and total no of members is very unsatisfactory. On an average Sc, St and other members occupy 13.83%, 15.71% and 70.46% out of total members. Regarding membership pattern Sc and St People are lagging behind still now. They occupy only 30% out of total members. It is observed from the membership pattern that primary agricultural cooperatives are diverted from its objectives of mitigating the sufferings of the socially and economically backward people. From the growth of the total no of PACS, it is found that instead if increasing the total no PACS, it is decreasing year after year, for mainly for inefficient management and ignorance of the common people about the benefits of the cooperative societies to alleviate the poverty.

Profit Earning

Profit is the main yardstick of measuring the performance of a PACS. A society having capability of earning more profit will sustain for a longer period of time. Table below explains the no of profit earning societies, amount of profit or loss and their percentage.

Year	No of Societies	No of Societies in Profit	% of profit making Societies	Profit (Rs) (000)	No of Societies in Loss	% of Loss Making Societies	Loss (Rs) (000)
2002-03	19333	9012	46.61	124575	0396	53.77	232595
2003-04	18788	8210	43.70	125753	10188	54.23	224973
2004-05	18956	8253	43.54	133491	10171	53.66	228458
2005-06	18780	8178	43.55	161468	10133	53.96	291758
2006-07	8077	2338	28.95	125519	6030	74.66	206315
2007-08	8061	2442	30.29	220075	5931	73.58	172178
2008-09	8028	2437	30.36	225953	4495	55.99	166292
2009-10	8026	2472	30.80	170258	4758	59.28	125425

Table D : A statement regarding profits and losses

Source: National Federation of State Cooperative Bank Ltd.(2002-2010)

The percentage of profit making societies is lower than the percentage of loss making societies. On an average 35% of societies earn profit and the remaining societies either incur losses or having in no profit or no loss situation. In respect of earning performance the picture is very insignificant.

Conclusion

The main problem of the PACS in West Bengal is poor handling of capital and too much dependency on debt capital disregarding internal fund generation. The rate of earning on debt capital is much lower than the fixed obligation to the debt capital. Hence, they are making losses year after year. They have to generate resources internally to cope with the situation faced regarding depending on debt capital or to use the debt capital to earn more than the fixed obligation to be met. This is possible only when loans are disbursed to the right person for proper utilization to make the loan repayment smooth. Loan disbursement should be free and fair disregarding favoritism and nepotism. Loan

recovery movement should be efficient enough to induce the solvency of the cooperative societies. Magnitude of loan recovery depends on its fair disbursement. Right person should be to the right position to strengthen the efficiency of management. There should be enough opportunity to get the socially and economically backward people involved to the cooperative movement to achieve the ultimate objectives of the cooperative movement of minimizing the sufferings of the poor and common people. But socially and economically backward are not encouraged enough to come to the cooperative movement because the management of the cooperative societies are under the control of the people of the upper class of the society. Management should be participative enough to bring the common people to the managerial activities to fulfill the very objectives of the cooperative movement of mitigating the sufferings of the poor people.

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