

Managing an Urban Cooperative Credit Society towards Success

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Background

The inspiration for the urban cooperative credit movement in India came from similar movement that was successfully introduced in Germany by Schulz Delitzsh in the 19th century. The first Urban Credit Cooperative Society (UCC) in the country was the 'Anyonya Sahakari Mandali' organised in the erstwhile princely State of Baroda in 1889 under the guidance of Vithal Laxman also known as Bhausahab Kavthekar. UCCs, in their formative phase came to be organised on a community basis to meet the consumption-oriented credit needs of their members. Salary earners' societies inculcating habits of thrift and self-help played a significant role in popularising the movement, especially amongst the middle class as well as organized labour. The enactment of Cooperative Credit Societies' Act, 1904, however, gave the real impetus to the movement. The first urban cooperative credit society was registered in Canjeevaram in the erstwhile Madras province in October, 1904. Amongst the prominent credit societies were the Pioneer Urban in Bombay, Bangalore City, Betgeri (all in 1905), No.1 Military Accounts Mutual Help Cooperative Credit Society, Cosmos (both in Poona), Gokak Urban and Belgaum Pioneer, the Kanakavli-Math Cooperative Credit Society (Belgaum Dist.) and the Varavade Weavers' Urban Credit Society in the South Ratnagiri (now Sindhudurg) district (all in 1906).

The cooperative credit movement provided an alternative mode of doing business where control over the organization is diffused equally among all the members irrespective of their individual share holding. Since urban credit societies are organized by homogenous groups, belonging to a particular community or pursuing the same profession or business, the chances of success of these societies are much higher than their counterparts in the rural areas, as there is very little scope for emergence of conflict of interest among members. Such was the reputation developed by these societies that the Maclagan Committee (1915) pointed out to the flight of deposits from commercial banks during the years of bank failure 1913-1914 to UCCs. After Independence, some of the more successful of the UCCs went on to become Urban Cooperative Banks (UCBs), taking advantage of amendment to the Banking Regulation Act in 1965, providing for licencing of cooperative banks. Over the years, many UCCs and UCBs have become symbols of the prestige and clout of the communities they represent.

The present article intends to provide some useful tool-tips for effective management of UCCs, covering such areas like raising of funds and its deployment, extension of new services to members, improving cooperative corporate governance practices etc. Some useful ratios, which will help in critically evaluating the performance of a UCC, are also discussed.

Sources and Deployment of Funds

The borrowing power of any organization depends upon its equity capital. Generally speaking, under the law, a cooperative organization is allowed to borrow to the tune of ten times its equity capital minus its accumulated losses, if any. Equity capital, also known as owners capital, consists of paid-up share capital + retained earnings + undistributed profits, if

any. Consequently, any enhancement of the borrowing limit require augmenting the equity base. Some measures to strengthen the equity base include enrollment of new members, transferring a larger proportion of profits to various funds provided under the bye-laws, enhancement of the face value of the share or in the alternative enhance the minimum number of shares to be held by a member etc. Provisions can be made in the bye-laws requiring new members to pay a premium on at least one share they take from the society and transfer the premium to a special reserve fund. Besides contributing to enhancing the equity base, such a practice will contribute to recognizing the sacrifices made by existing and earlier generations of members to the society.

A cooperative will have to borrow funds in order to meet the needs of its members. Instead of borrowing from outside sources, it is always advisable to raise deposits from members, as this source confer several advantages to a cooperative organization. One, it contributes to enhancing the stake of members in the cooperative. Two, it helps in retaining the independence of the organization, as strings likely to be imposed by external creditors are avoided. Three, it provides freedom to the cooperative to maneuver with the composition of its funds thereby helping to control the cost of its funds. Four, raising deposits will help the cooperative to achieve its objective of promotion of thrift and mutual help amongst its members. While formulating its deposit policy, the cooperative should take care to ensure that a minimum of 20% to 30% of its total deposits are low cost deposits, consisting of saving deposits and thrift deposits .

As regards deployment of funds, the single most avenue available for a credit society is making advances to members. Any idle fund which remains uninvested only contribute to increase the liability of the society. Apart from personal loans, the society should develop a variety of loan products like loan on the security of gold and silver ornaments, loan against security of fixed deposits, loans on the security of life insurance policies, hypothecation loans, hire purchase loans and even mortgage loans. Interest rates may be linked to both the amount and time period of the loan.

Extension of New Services to Members

Apart from providing loans to members, the cooperative could start new services like chitty business, running of consumer stores, selling of financial products like mutual funds, selling life, general and medical insurance policies by becoming a corporate agent of insurance companies. To obviate the need for registering the chitty, the cooperative can run the chitty under the name Member Deposit Scheme (MDS), incorporating all the features of a chitty. The MDS will also contribute to increase the total income of the cooperative.

Apart from the above business propositions, the cooperative can also services aimed at contributing to member welfare. The services may include provision of library and reading room facilities, internet services, organizing health camps, arranging lectures on topical issues aimed at increasing the awareness level of members. Sceptics may argue that provision of these services will only add to the cost and not contribute to generating income to the society. Further more they may argue that extension of these services will deflect the cooperative from pursuing its core objective. Two counter arguments will be in order, one-service like internet service can be priced to cover the cost and two, the cooperative could identify sponsors and this would help to cover its costs at least in part. Provision of such welfare services will contribute to enhancing loyalty of members to the society and building this important social capital will certainly stand the cooperative in good stead in the long run.

Strengthening Cooperative Corporate Governance Practices

The idea behind the concept of corporate governance is to ensure transparency and accountability of management to various stake holders of the organization. In the context of an UCC, the term management covers both the Board of Directors and the Secretary/Chief Executive Officer and the term stake holders include members, board members, depositors,

employees and to a limited extent the government and the local community. Some specific suggestions, which an UCC may consider implementing for improving its cooperative corporate governance practices are offered below.

- Provide in the bye-laws for election of three members by the General Body to the Control Committee (CC). The CC shall act as the watch dog, apprising independently every decision of the Board and reporting the same to the General Body. In its functioning, the CC shall take care not to interfere with the working off the Board, its role model being the Public Accounts Committee of the Legislative Assembly.
- The final accounts presented by the committee shall be supported by detailed schedules, giving clear and accurate information on every head of account. No attempt should be made to hide or camouflage the accounts.
- The budgets presented to the General Body should be detailed and contained narrative explanations wherever required. Excess or shortfalls, if any, should be clearly explained.
- The reports and statements submitted to the General Body could include the following:
 - The list showing loans made to Board members and to their family members, the amounts outstanding in their names and overdue amounts, if any receivable from them,
 - The list showing the no. of Board meetings and sub-committee meetings held during the previous year, with details of attendance of members present in each of those meetings,
 - The no. of members who have actually used the services of the society during the previous year,
 - The list of delegates appointed by the Board to represent the society in various affiliated bodies,
 - The list of societies/other institutions, in which the society seeks affiliation,
- An analysis of the performance of the society, covering all its activities, expressed in terms of some simple comparative statements and ratios etc. (a list of some useful ratios are given in the annexure),
- A list of members, who have defaulters to the society for more than 6 months along with the names of their sureties and the name of the Committee Member who recommended the application, if any.
- Display in suitable charts/graphs etc. about the progress made by the society over the years in terms of important variables like membership, share capital, reserves, deposits, working capital, advances, sales turnover, profits/losses, rate of dividend declared, physical infrastructure built etc., in some conspicuous place inside the society.
- Encourage interested members and well meaning individuals or groups to undertake social audit of the society for objectively assessing its real impact on the lives of members and the local community.

The right to information, has now become a justiceable right. But for a cooperative, openness in its dealings is a matter of faith and is recognized as a basic value. By voluntarily enforcing the above accountability norms, the cooperative will only reinforce its commitment towards imbibing the value of openness in its operations.

Conclusion

Member is at the centre of a cooperative and its every activity has therefore to be evaluated in terms of its contribution to enhancing member welfare. Member welfare is enhanced by the (tangible) economic benefits and (intangible) social benefits conferred on them by the cooperative. In concrete terms, an UCC can confer direct economic benefit on its members by offering relatively higher interest rate on their deposits and by charging relatively lower interest rates on advances made to them than the rates currently prevailing in the formal market. The sense of belonging and solidarity created by the cooperative among

its members, the very provision of its services, which otherwise would not have been available to its members and in particular to those belonging to vulnerable group, the opportunities provided to members to develop their leadership qualities and to expand their mental horizons etc., all contribute to increase member happiness and therefore enhancing their welfare. Maintaining the delicate balance between its institutional goals and its enterprise goals is a skillful art and to what extent the cooperative has succeeded in mastering this art determines its success.

Annexure

Some Concepts and Useful Financial Ratios for

1. Working Funds: Take the grand total figs. Of assets from the balance sheet. From this fig. subtract the figs of fixed assets and the figs. of contra entries, if any. The balance fig so arrived is the working fund of the society.
1. Net Worth: Take the sum total of paid-up share capital, retained earnings and undistributed profits, if any. From this fig. subtract the amount of accumulated losses, if any. The balance fig. is the net worth of the society. Prudence require that the total borrowings should not under any circumstance exceed 10 times of its net worth.
2. Credit to deposit ratio: outstanding loans/outstanding deposits, ideal ratio for an UCC could be 0.80.
3. Credit to Working Funds Ratio: Outstanding Loans/Working Funds, ideal could be 0.73.
4. Financial Cost: Interest paid + Interest Payable/Working Funds
5. Financial Yield: Interest Received/Working Funds
6. Financial Margin: Item 6-Item 5.
7. Establishment Cost to WF: Salaries & allowances + Bonus + Retirement benefits to employees/Working Funds
8. Operating Costs to WF: Expenses on Directors & Meetings + Postage & stationary + Depreciation/Working Funds
9. Risk cost to WF: Reserve created for bad & doubtful debts/Working Fund.
10. Net Financial Margin to WF: Item 7 - (items 8+9+10).
11. Non interest income to WF: Other non interest incomes rent received, commission received, entrance fees received etc./ Working Fund.
12. Net Margin: Item 11- Item 12.
13. Interest expense to Interest income: Interest paid and payable/Interest received. A ratio of 0.62 could be considered as ideal.
14. Per employee business: Deposits Outstanding + Loans Outstanding/No of employees.
15. Average no of deposit/loan accounts per employee: The ideal figures could be above 600 deposit accounts and above 500 loan accounts per employee.
16. Ratio of user members to total members: No of members having either deposits with the society or have taken loans/Total no of members. Ideal ratio is 1.