Chapter - 5

FINDINGS, CONCLUSION AND SUGGESTIONS

5.1 Introduction

The very nature of cooperative banking business involving members, money and environment caused for the increasing trend in NPAs. The environment is depend on political, economic and technological development which are influenced by the natural process of change. Changes in any of these segments will have both negative and positive impact on the cooperative banking. Due to the financial sector reforms changes are inevitable, where in cooperative banks should develop a niche in the banking market. The ability of cooperative banks especially the DCCBs to adjust and survive in this changing environment have been under constant threat because of continuance of the problem of NPA. The Prudential Norms, part of Basel Accord I, aims to improve the safety and soundness in the financial system by placing more emphasize on banks own Internal Control and Management the Supervisory Review Process and Market Discipline. Whereas the policy of agricultural credit of the Government of India has been to institutionalize the entire credit demand for agriculture and rural development. Both the commercial principles of banking and farmer friendly policy of the Government of India cannot sail together, which ultimately cripple down the organizational strength of DCCBs in India. The present study analysed the whole problem taking into consideration of the changes happed in the monetary economy at macro level with micro level evidences. This chapter presents the salient findings of the study, conclusions and suggestions to arrest the problem of NPAs. The scope for further research has also been identified and listed hereunder.
5.2 Findings of the Study

The Chapter wise salient findings of the study are presented hereunder:

5.2.1. NPAs in Short term Cooperative Credit Structure

1. It was found that among the Banking Institutions, CBs and RRBs had recorded decreasing trend in NPAs from 17.8 and 36.8 per cent (1996-97) to 5.1 and 8.5 per cent (2004-05). At present the level of NPAs of the CBs had been very close to the international level i.e., 4.8 per cent. CBs and RRBs had taken effective measures to curtail the growth of problematic assets by efficient risk management practices and various policy supports of the Government of India and the RBI.

2. It was found that at all India level, NPAs of Cooperative Banks had become a major cause of concern. In SCBs and DCCBs the percentage of NPAs to total loans and advances outstanding had increased upto 16.25 and 22 per cent as on 31st March 2006 from 9.41 and 19.70 per cent respectively as on 31st March 1997.

3. It was found that the increasing trend in NPAs in Cooperative Banks had crippled the image of the Cooperative Banks especially DCCBs. Because 136 DCCBs incurred loss and they could not comply with the provisions of the Section 11(1) of the BR Act 1949 (AACS) due to the growth in NPAs as on 31st March 2006.

5.2.2 Non Performing Assets in DCCBs in India

1. It was found that despite the rehabilitation programme for more than 35 years many of DCCBs had not been able to attain a viable status and were running into losses. In 2005-06, 89 DCCBs incurred a loss of Rs.448 crore and the 136 DCCBs were non complying with Section 11(1) of the BR Act 1949 (AACS).
2. It was found that mounting overdue made many DCCBs unviable and there was decrease in membership in the year 2005-06 showing 18.37 lakh as against 28.40 lakh in the year 1991 - 92.

3. It was found that the position of share capital of DCCBs in India had been increasing throughout the study period due to the increase in the extent of loan issued, as there was linkage between loans and advances and share capital.

4. It was found that the position of reserve fund of the DCCBs had been increased from Rs.5018.09 crore in the year 1996-97 to Rs. 13923.26 crore in the year 2005 - 06. It was due to the fact that adequate provision cover extended against the NPAs that resulted into the increase in reserve fund. It was not actually set aside from the portion of net profit.

5. It was found that the owned funds of the DCCBs had increased over the years. The increase was higher during the period between 1991-92 to 2001-02 accounting for Rs.1983.57 crore and Rs.11317.82 crore respectively. The owned fund stood at Rs. 18538.46 crore during the year 2005-06.

6. It was found that at all India level, the position of deposits had been increased from Rs.3.23 crore in 1951 - 52 to Rs.2758 crore during the year 1981 - 82 at DCCBs level. The growth was higher during the period between 1991 - 92 to 2001 - 02 showing Rs. 1234.02 crore and Rs.66797.21 crore respectively. Further, it had increased upto Rs.82323.55 crore in 2005 -06. It was due to the increase in number of branches from 12223 in 1996 - 97 to 12858 branches in the year 2005 - 06. Further, the disbursement of loans through cheque system of payment and the introduction of Kissan Credit Card also facilitated for the increase in deposits.
7. It was found that position of borrowings at DCCBs level had increased from Rs.12.07 crore in 1951-52 to Rs.22551.60 crore in 2005-06. It indicated that Government had taken steps to increase the Ground Level Credit flow through cooperatives.

8. It was found that working capital position of DCCBs had recorded three fold increase in the year 2005-06 as against the year 1996-97 showing Rs.40634.97 crore. Deposits constituted more than 60 per cent of the working capital in all the years of the study period.

9. It was found that the position of loans and advances made by DCCBs in India had recorded an increase throughout the study period. At all India level the loans and advances issued by DCCBs had increased from Rs.26513crore in 1996-97 to Rs.81025crore in 2005-06.

10. It was found that the abnormal delay in recovering loans was the root cause for NPAs, which affected the banking institutions adversely with respect to liquidity. Poor recovery performance was one of the major weaknesses of DCCBs, which affected the recycling of loans.

11. It was found that at all India level the average percentage of recovery at DCCBs level had fallen from 70 per cent in 1996-97 to 62 per cent in the year 2003-04. Only 50 per cent of the DCCBs showed the percentage of recovery beyond the national average. They were viz., Gujarat (66.5), Haryana (77), Himachal Pradesh (85.9), Kerala (76.5), Madhya Pradesh (64.5), Punjab (90.1), Rajasthan (76.3), Tamilnadu (63.6), Uttaranchal (82.8), West Bengal (70.1).

12. The highest level of recovery was registered in Punjab accounting for 90 per cent. The lowest percentage of recovery was observed in Jarkhand showing 19.5 per cent. The poor recovery performance and the incidence of high overdue tend the members ineligible to borrow.
Further, it had resulted in low paid up share capital position, which in turn directly determined the borrowing capacity of the banks

13. It was found that the amount of loan waived exceeded the amount of loan given under short term, medium term and long-term credit. But all these incentives had not created any real impact on agriculture since, as observed by officials, it saved only the big landlords from their debt burden.

14. It was found that there was no significant reduction in NPAs at DCCBs level which remained around 17 to 22 per cent to total loans and advances throughout the study period. A close look at the NPAs revealed that majority of these assets were sub standard assets. Assets under this category increased from Rs.2789.81 crore at the end of March 1997 to Rs. 63199.50 crore at the end of March 2006. The loss assets position had increased from Rs.627.37 crore at the end of March 1997 to Rs.2770.88 crore at the end of March 2006 which required 100 per cent provisioning.

15. It was found from the region wise analysis that Western Region had maximum amount of loan as NPA (Rs.5246.86 crore) followed by Southern Region (Rs.4563.47 crore). These two regions together account for 42.25 per cent of total NPAs in DCCBs in India.

16. It was found the DCCBs in four states viz., Himachel Pradesh, Haryana and Punjab had NPAs at a manageable level showing 6.33, 3.7, and 6.0 per cent respectively. The level of NPA in all other states was more than 10 per cent. Especially, the gross NPA percentage in Tamil Nadu was observed at increasing rate and stood 22.7 per cent in the year 2005-06. If the same trend persists in the long run, the liquidity and the profitability of the DCCBs would be eroded.
17. It was found that after the introduction of Prudential Norms in cooperative banks especially in Short-term Cooperative Credit Structure during the year 1996-97, the loss incurred by DCCBs started to increase. Evidently, it was found that the number of banks earned profit were 261 in 1995-96 which had been reduced to 153 during the year 1996-97.

18. It was found that the aggregate NPAs were estimated to be Rs 17825.5 crore for DCCBs at the end of March 2006. These NPAs had choked the credit line and restricted recycling of funds.

19. It was found that the number of DCCBs which were non-complying with provisions of Section 11 (1) of the BR Act (AACS) had increased from 58 in the year 1996-97 to 143 in the year 2003-04 and to 136 in the year 2005-06. This trend led to the deterioration of net worth of assets of DCCBs at all India level to the tune of Rs. 11784.26 crore in the year 2005-06. Non-complying DCCBs would be placed in 'D' class in audit irrespective of marks secured.

5.2.3 NPAs in District Central Cooperative Banks in Tamilnadu

1. It was found that the total loans and advances issued by all DCCBs in Tamilnadu had increased from Rs.378.55 crore in 1996-97 to Rs. 1527.48 crore in the year 2005-06.

2. It was found that the level of NPAs had increased from Rs.432.97 crore to Rs. 1934.08 crore during the year 1996-97 to 2005-06.

3. It was found that Gross NPA was 11.58 per cent in the year 1996 - 97 at State level. It had doubly increased over the years and stood 22.07 per cent at the end of the study period.
4. When the prudential norms were introduced to Short term cooperative Structure during the year 1996-97, the State level average profit of DCCBs was Rs.320.88 lakh. But in the year 2005 - 06, it came down to just one fourth of the average profit of the year 1996 - 97. On the other hand, the State level average loss was around 10 times Rs.2774.15 lakh at the end of the study period.

5. It was found that in Tamilnadu the total DCCBs which were under loss as on 2005-06 were 10 and they were not complying with Section 11(1) of the B.R Act 1949(AACS).

5.2.4. NPAs in Sample DCCBs in Tamilnadu

1. It was found that in the case of membership coverage, among the sample DCCBs the Madurai DCCB and Dharmapuri DCCB had relatively better coverage than others. Because, the Madurai DCCB had extended its services to the Theni District which had been bifurcated from the erstwhile Madurai district. Similarly, the Dharmapuri DCCB had been extending operations for the Krishnagiri District which had been newly bifurcated from the erstwhile Dharmapuri District

2. It was found that the Dharmapuri DCCB had increased its share capital position in the year 2001-02 due to the proportionate increase in the level of loans issued. The growth rate in share capital was highest in Dharmapuri DCCB (13.66 per cent). This might be due to more lending to affiliated societies by the Dharmapuri DCCB.

3. It was found that the reserves position of the sample DCCBs had increased many folds between the years 1996-97 and 2005-06 and the same trend was observed at the State level also.
4. It was found that the position of deposits had been increasing in all the DCCBs up to the year 2001-02. Then it started to increase very slowly due to the reduction in the level of deposits mobilized by the PACBs due to the circular issued by the Registrar of Cooperative Societies (RCS) in the year 2000-01, which stated that those PACBs having more than 25 lakh of owned fund could only collect deposits from members and non members. It not only created adverse impact in the minds of depositors but also seriously affected the growth of deposits in the sample DCCBs. The growth rate of deposits in both the sample banks and State level started to decline.

5. It was found that the position of borrowings at sample DCCBs level had been fluctuating during the study period. At the same time, the position of the borrowings had been doubled in the year 2005-06 as against the year 1996-97.

6. It was found that in tune with State average, the working capital position of DCCBs had been doubled over the years except in the case of Madurai and Ramanathapuram DCCBs.

7. It was found that the growth rate in profit position of all the sample DCCBs were not significant which implied that no growth in profit. This might be due to the fact that all the sample DCCBs created provisions against the NPAs as per the circular issued by the RBI from time to time. These provisions adversely affected the growth in profit of the sample DCCBs.

8. It was found that among the sample DCCBs, the position of accumulated losses in Nilgiris and Thanjavur DCCBs were high throughout the study period, because the trend was more than the State average.
9. It was found that there was an increasing trend in the position of loans and advances outstanding in all the sample DCCBs throughout the study period. The position of loan outstanding in Dharmapuri and Madurai DCCBs was above the State average in all the years. This might be due to the fact that the most common method of book adjustments had to be done at Dharmapuri DCCB level to conceal the real position of the recovery.

10. It was found that among the sample DCCBs, the recovery position of Kanyakumari was highly appreciable showing more than 83.3 per cent and above the State level average in all the years of the study period because among the 113 affiliated PACBs of this DCCB, 109 PACBs were viable and potentially viable banks.

11. It was found that the trend prevailing in overall loan recovery was observed in ST agricultural loan recovery also. The State average loan recovery was below 46 per cent in all the years except the year 2004-05. Though the Kanyakumari had recorded more than 80 per cent recovery in all the years, it was declined to 70.05 per cent in the year 2005-06. The recovery position of the Madurai and Nilgiris and Ramanathapuram DCCBs were fluctuating during the study period. The lowest percentage of recovery was recorded in Thanjavur DCCB in the year 2000-01. It stood just 4.5 per cent. The Dharmapuri DCCB had the lowest recovery of 6.13 per cent during the year 2003-04 whereas the State level average during the year was 45.54 per cent. The conversion and rephasing of loan facilitated and created conducive recovery climate in that particular year almost in all the sample DCCBs.

12. It was found that the total loans and advances made by the sample DCCBs was at the level of 26.05 per cent and 30.1 per cent to the total loans and advances made by all DCCBs in Tamilnadu during the year
1996-97 to 2005-06. Whereas the total NPA at sample DCCBs level was at the rate of 42.3 per cent and 47.2 per cent in the total NPAs at DCCBs level in Tamilnadu during the year 2004-05 and 2005-06 respectively.

13. It was found that the gross NPA was increasing throughout the study period in all the sample DCCBs. The gross NPA position of Madurai DCCB was high compared to other sample DCCBs right from the introduction of the prudential norms which stood at Rs. 21010 lakh in the year 2005-06 as against 5347.02 lakh in the year 1996-97.

14. It was found that the Net NPA ratio of the sample DCCBs indicated the loan for which no provision cover had been provided. During the year 1997-98, the Net NPA ratio of Dhamapruri and Kanyakumari DCCBs was quite satisfactory because it was less than the prescribed level of 2 per cent. But in the subsequent years, they were unable to control the increase of loans and maintain the standard performance.

15. The sample DCCBs had set aside adequate provisions as per the stipulated norms prescribed by the RBI from time to time. The DCCBs having more loss assets had adequate cover of provisions and vice versa. It was found that the DCCBs of Kanyakumari, Nilgiris and Thiruvannamalai had the provisions below the State average.

16. It was found that the growth rate in provisioning was highest (43.25) in Thanjavur DCCB followed by Dharmapuri DCCB (37.50), Ramanathapuram DCCB (24.59), Madurai DCCB (24.28), Nilgiri DCCB (20.01), Kanyakumari DCCB (18.71) and Thiruvannamalai DCCB (12.20). The overall compound growth in the State level was recorded at 23.23 per cent. Thus, the provision position of the sample banks was increasing because the banks had created a provision for
each individual NPA loan account as per the norms prescribed by the RBI from time to time.

17. It was found that among all the sample DCCBs, Ramanathapuram DCCB had provision ratio showing 79.1 per cent when the State average stood at only 27.5 per cent. Probably, the sample DCCBs had maintained provisions more than the State average during all the years of the study period. It indicated the fact that if the recovery decreases, NPA and provisions increase; If the recovery increases, NPA and provisions decrease.

18. It was found that out of the sample banks four banks were non-complying with Section 11(1) of the BR Act 1949 and incurred a total loss of Rs. 297.63 crore in the year 2005-06. They were Dharmapuri DCCB, Nilgiris DCCB, Ramanathapuram DCCB and Thanjavur DCCB.

19. It was found that the Dharmapuri DCCB had 18.5 per cent of assets as NPAs upto the year 2001-02. This trend was fluctuating from the year 2002-03 onwards. At the end of the study period 66.7 per cent of the assets were NPAs. It was also found that imbalance in the loans and advances provided for PACBs for Seasonal Agricultural Operations (SAO), Jewel loan and Public Distribution System (PDS) and the direct lending viz., Gas loan were the main reasons for NPAs in Dharmapuri DCCB.

20. It was found that Kanyakumari had managed the NPAs well in all the years. It had standard assets of more than 90 per cent in all the years except the year 2005-06. It was found that there was imbalance in the
loans and advances provided for PACBs for Public Distribution System (PDS) in Kanayakumari DCCB.

21. It was found that in Madurai DCCB, standard assets position was more than 75 per cent up to the year 2000-01. It had declined to 56.1 per cent at the end of the year 2005-06. The loss assets of the bank stood at Rs.2102.94 lakh in 2005-06 as against Rs.8.81 lakh in the year 1996-97. Though the loss assets were just 4 per cent in the year 2005-06, the level of loss assets was very high. It was found that NPAs were high due to imbalance in loans and advances provided for PACBs for non-agricultural loans and PDS in Madurai DCCB.

22. It was found that in Nilgris DCCBs, the assets in doubtful and loss category had increased and stood at 15.9 per cent and 4.9 per cent respectively in 2005-06. It was also found that the level of NPAs were high due to imbalance in the loans and advances provided for PACBs for PDS, SAO, and Jewel Loan.

23. It was found that the Ramanathapuram DCCB had been carrying the risk of heavy loss assets in the year 2005-06 showing 25.7 per cent. In absolute terms, the loss assets were Rs.5985.62 lakh in the year 2005-06 as against Rs.835.62 lakh in the year 1996-97. It was also found that the level of NPAs were high due to imbalance in the loans and advances provided for PACBs for Jewel Loan and MT Agricultural loan.

24. It was found that in Thanjavur DCCB, the doubtful and loss assets were more and stood at Rs.3448.38 lakh in the year 2005-06. It was found that imbalance in the loans and advances provided for PACBs for SAO, PDS, Jewel Loan and the amount to be recovered from liquidated PACBs were the main reasons for NPAs in Thanjavur DCCB.
25. It was found that Thiruvannamalai DCCB had more than 75 per cent of the assets in the standard assets category except during the years 1998-99 and 2003-04. It was also found that the level of NPAs were high due to imbalance in the loans and advances provided for PACBs for SAO, and MT Non Agricultural loan.

26. It was found that there was significant positive correlation between NPAs and deposits in all the sample DCCBs up to 2002-03. The simple correlation worked out for the period from 2002-03 to 2005-06 showed that there was a significant negative correlation in all the sample banks. The growth of NPAs might not have created any panic in the minds of depositors, rather the inability of certain PACBs in honoring the matured deposit liabilities were exposed through mass media, which affected the deposits mobilization. This trend might have compelled the Office of the RCS to issue circular and restrict certain PACBs to accept deposits. This had stopped the cash inflow from PACBs to DCCBs and thereby crippled the ability of the DCCBs in honoring matured deposit liabilities.

27. It was found that the poor recovery and increasing trend in NPAs blocked the borrowings of the sample DCCBs and on the other hand the inability of PACBs and DCCBs in accepting new deposits blocked cash inflow as deposits. When the major source of working capital of DCCBs i.e., borrowings and deposits had been blocked, virtually the sample banks lost their liquidity and solvency.

28. It was found that borrowing had negative significant association with NPAs in Dharmapuri DCCB, Nilgiris DCCB, Ramanathapuram DCCB, Thanjavur DCCB and Madurai DCCB i.e., as the NPA increased the borrowings decreased and vice versa. There was no association between the borrowings and NPAs in Kanyakumari DCCB and
Thiruvananmalai DCCB. This might be due to the fact that Kanyakumari DCCB (16.1 per cent) and Thiruvannamalai DCCB (16.8 per cent) had maintained minimum level of NPAs in the year 2005-06. So the two banks availing unrestricted finance from the higher financing agencies.

29. It was found that loans and advances had significant positive association with NPAs in all the sample DCCBs except in Thiruvannamalai DCCB. This might be due to fact that there was a decreasing trend in NPAs in the year 2004-05 in this bank. This trend validates the hypothesis ‘Higher the level of loans and advances, higher will be the level of NPAs’. It means there was every possibility that every new loan account would become NPAs.

30. It was found that there was a negative significant association between recovery and NPA in all the sample banks i.e., the two variables are moving in opposite directions. Irrespective of the types of loans, the recovery and NPAs had moved in opposite directions. This trend validates the hypothesis ‘recovery performance was inversely related to the level of NPAs’.

31. The analysis found that provisioning had positive and significant association with NPAs in all the sample DCCBs. It means as NPA increased provisioning.

32. It was found that there was a negative significant association in all the sample DCCBs between NPAs and standard assets. This validated the hypothesis ‘when NPA increases, the standard assets decreases and vice versa’.
33. It was found that loans and advances contributed for more than 70 per cent of NPA except in Thiruvanamali DCCB. It means the time consuming lending procedure, delay in sanctioning loans, non professional way of appraising the projects, lack of supervisory mechanism, lack of post loan follow up etc., were the major cause for the growth of NPA. All these factors were internal to banks and hence could be controlled effectively.

34. From the regression analysis it was found that in Dharmapuri, Kanayakumari and Ramanathapuram DCCBs the level of loss contributed for more than 70 per cent in NPAs. That is level of NPA was the major cause for loss. In the case of other DCCBs the other factors like increasing establishment costs, contingent expenses etc., might had been dominant factors determining the trend in NPA.

5.3 Conclusion

Several Committees and Commissions appointed on Cooperation and related subjects in India reiterated the strategic importance of DCCBs in the STCCS. All India Rural Credit Survey Committee pointed out that ‘in many ways the position of Central Cooperative Bank is of crucial importance in the cooperative credit structure’. In the case of Tamilnadu, the importance of DCCBs was highlighted by the Second Madras Committee on Cooperation ‘as the primary societies in the State grew in number and as their credit needs became greater, the inadequacy of single financing agency to serve them was felt. It was also recognized that a bank at the metropolis cannot attract deposits from the districts and that the best way of mobilizing local deposits to finance local needs was to organize Central Bank in the districts’. However, from the above analysis it was found that right from the origin of DCCBs in India, Government of India, RBI, NABARD, and State Governments took several measures for streamlining as well as strengthening the DCCBs. But still, the
The increasing trend in NPA severally affected the profitability, liquidity, and solvency of these banks. This resulted in non-complying with the provisions of Section 11(1) of BR Act 1949 (AACS) by more than 1/3 of DCCBs in India. The total erosion in the net worth of these DCCBs was Rs.11784 crore as on 2005-06. Because of this agricultural credit as percentage to total credit had come down from 20.1 per cent in 1980’s to 10.5 per cent in 2001-02. Consequently the share of moneylenders in rural credit had increased from 36.8 per cent to 42.9 per cent during the same period.

The present study found that the total loans and advances issued by sample DCCBs were around only 30 per cent in the total loans and advances issued by all DCCBs in Tamilnadu. Whereas in the total NPAs of all DCCBs in Tamilnadu sample banks accounted for more than 47 per cent at the end of the study period. Further out of 10 DCCBs in Tamilnadu which were not complying with Section 11(1) of the BR Act 1949 (AACS), 4 DCCBs were sample DCCBs which was due to increasing trend in NPAs. Both the internal and external factors contributed for the growth of NPAs. It was found that the imbalance between the loan accounts of DCCBs and affiliated cooperative institutions was the main factor which shows the lack of credit discipline in STCCS. The imbalance occurs when a PACB receives interest and repayment from a sub-set of its members and pays in the amount towards its borrowings from the DCCB. When the amount was paid to the DCCB, the total amount was applied first by DCCB to the total interest due. The residual amount was then applied to the principal. This might not be the same account for which the loan amount was collected from members by PACB. Imbalance also occur when a PACB collects the loans and used the cash to fund its overheads over and above the actual interest spread available to it. Evidently, from the regression analysis it was found that loans and advances were the major casue for the increasing trend in NPAs.
Imbalance bred cover deficit. Because of these both DCCB and affiliated Cooperative Institutions especially PACBs become ineligible for further borrowing. It was also found that the loan waiver schemes of Government also contributed for weak credit discipline in the Short-term Cooperative Credit Structure. Hence, as reported by RBI, the reduction in the level of NPAs should be treated as national priority so as to save the Short-term Cooperative Credit Structure because NPA is not just problem for banks, but also to the economy and the society at large.

5.4 Suggestions

This study offers the following suggestions for addressing the problem of NPAs and avoidance of slippage of standard assets into NPAs category.

1) Strengthening Pre-sanction Appraisal

Pre-disbursement stage appraisal techniques of bank need to be sharpened. All technical, economic, commercial, organizational and financial aspects of the project need to be appraised realistically. A major cause for NPA is fixation of unrealistic repayment schedule. It may be fixed by taking into account the gestation or moratorium period, harvesting season, income generation, surplus available etc. If the repayment schedule is defective both with reference to quantum of installment and period of recovery assets have a tendency to become non-performing assets. Further DCCBs should set up an economic research wing at their Head Office level, which should provide a data on various types of farm and non-farm activities and rural industries etc., required for proper appraisal of the projects.

2) Post Sanction Supervision

At the post-disbursement stage, bankers should ensure that the advance dose not become a NPA by proper follow up and supervision to ensure both asset creation and asset utilization. Bankers can do either off-site surveillance or on site inspection to detect whether the project is likely to become an NPA or not.
3) **Special Mentions Accounts**

The DCCBs were suggested introducing a new assets category between standard and substandard for their own internal monitoring and follow-up. In line with international best practices but keeping in view the local requirements, Assets may be transferred to this category once the earliest sings of sickness/irregularities are identified by the Early Alert System. Special Mentioned Accounts are not classified as NPAs. This would help the DCCBs to look at the problems right from the beginning.

4) **Recovery cell**

DCCBs should set up independent recovery and legal cell at their Head Office manned by well-qualified and competent Law Officers with adequate supporting staff for effective monitoring of recovery of accounts.

5) **Incentives to the honest repayment**

Incentives can be given to honest repayers to create a better climate for repayment. The possibility of honoring best loanees and best employees during cooperative weak celebrations can be chalked out.

6) **Management Information System**

Steps have to be taken for computerization of all DCCBs and PACBs with in the district that connected to the apex level organizations. It is easy to monitoring of loan accounts effectively and efficiently. DCCBs should create a database of their NPA portfolio on well-designed formats to provide meaningful inferences, which would help in evolving effective strategies as well as account specific action plan for preventing slippage of Performing Assets in to NPA.
7) Lok Adalats

Lok Adalats have gained importance over a period of time as a forum, to settle the disputes settlements among the parties. Lok Adalats may prove to be the advantageous for the banks because long pending cases could be immediately taken up for settlement. NABARD had issued guidelines to cooperative banks for compromise settlements of dues through Lok Adalats. For the recovery of commercial banks’ loans, the Lok Adalats had proved a very good agency for quick justices and settlement of dues. So, DCCBs should approach Lok Adalats for settlement of their claims against the borrowers covering under the chronic NPAs.

8) Role of Government Agencies

Cooperative Banks have been extending financial assistances to the various classes of the people under priority sector lending schemes including those belonging to weaker sections. The bulk of loan assistances provided by the banks under priority sector pertain to the programmes sponsored by the Governments. As such, the Government Department / Organizations could play a vital role in creating right recovery climate, which in turn, facilitate DCCBs to reduce their NPAs. Government should not announce any waiving schemes or loan melas. This approach of the Government spoils the banking environment and repayment culture. Government should also introduce the Model Act in all States so as to ensure better support from the members.

9) Creating Loyal Members

Members of the cooperatives are the owners and the users of the institutions. The PACBs financial health depends on members’ loyalty to the bank in the form of repaying the loan obligations with in the due date. The mind set of the members to wait for loan waivers and lethargy to repay the loan should be eradicated through effective Member Education Programmes in the way to create loyal cooperators, which will reduce the NPAs at gross root level.
Further studies found that only less than 40 per cent of the members borrowed production credit from PACS and 15 to 20 per cent of the members had borrowed term loans from the PCARDBs. This shows that members’ involvement and participation is missing. No cooperative would get success unless members actively involve themselves in its activities therefore necessary steps should be taken to ensure members participation.

10) Personal Touch with the Borrowers

The growth of NPAs consumes precious time of the staff for preparing a large volume of returns and statements relating to substandard, doubtful, loss assets, preparing proposals for filling of suits, monitoring legal action, compromise and write off etc., So DCCBs should have to take active measures to gain personal touch with the customers through effective Customer Relationship Management.

5.5 Scope for further Research

The finding of the present study offers scope for further research on the following topics:

1. A Study on Non-Performing Assets in District Central Cooperative Banks and Regional Rural Banks - A Comparative Study.
3. A Study on Asset Liability Management in District Central Cooperative Banks.
5. A Study on the implications of Section 11(1) of the BR Act 1949 (AACS) on the functioning of District Central Cooperative Banks.