CHAPTER - FIVE

FINDINGS, SUGGESTIONS AND CONCLUSION

Increasing number of the rural poor in India is availing of banking services. This development has given a fillip to the efforts of financial inclusion spearheaded by the government in which cooperative banks, operating in rural and semi-urban regions, are expected to play a crucial role. However, the process is in its nascent stage at present and has miles to go before its beneficial impacts are felt. Cooperative banks should strive to identify the real and deserving entrepreneurial entities / families in their area of operations who should be assisted with finance for executing productive projects. This study found that by and large cooperative banks operating in Odisha in general and the KCCB in particular have been found to be failing in this test. The reason for that could be one or all of these, like not having expertise for judicious credit appraisals, lack of resources for conducting a rigorous due diligence of prospective borrowers, pressure from politicians and other interested lobbyists and corruptions.

Cooperative banks in general and KCCB in particular should take the assistance of the various agencies for rural development, Self Help Groups and NGOs to get all information about a prospective borrower relevant to credit analysis. Villagers and entities with unscrupulous intents, like willful defaulters of bank loans for instance, must be avoided by all means. Only then, the tax-payers’ money which governments of the states and the centre are aiming to use for rural upliftment, would be said to have been well deployed. The cooperative movement is about a hundred years old in India. It originated with the idea of a mass participation in eradicating rural poverty. However, the desired extent of involvement of people in the
grass-root level in this movement is not found as yet. The reasons for this failure are manifold. Briefly stated, those are as follows:

✓ Primary Agricultural Cooperative Societies are mostly interested in providing finance to established business houses of their area and not to new generation entrepreneurs. The predominant motive of PACS is avoidance of any kind of risks, even though the governments have well defined policies in place for PACS, urging them to extend financial assistance to innovative business proposals presented by first generation entrepreneurs.

✓ The Management of cooperative banks are not proactive decision-makers. Measures for resolution of members’ complaints are not taken up expeditiously. Policy decisions, wherever they have been adopted, are not implemented enthusiastically.

✓ Workings of the cooperative banks which include KCCB, are not automated. The lack of modernity in their working environment does not attract young and talented workers of the twenty first century to cooperative banks. An overall environment of traditional outlooks permeates KCCB where this study was carried out.

✓ KCCB has rarely advertised its entrepreneurship-oriented products and services, resulting in the targeted entities not being aware of those offerings.

It is high time cooperative banks re-positioned themselves proactively to be in tune with the main line commercial banks of the 21st century. They have not only to embrace prudential banking principles and practices but have to implement them. Gone will be days soon in which they were zealously protected and nourished by their respective
state governments. The time has now arrived for them to submit voluntarily and fully to
the jurisdiction of Reserve Bank of India if they want to survive as banks.

5.1. Effects of NPAs

When an asset became dead that mean stops to generate revenue then it is treated as
NPA. That means an Asset that does not earn any income to the bank but adversely
affect in numerous ways:

- NPAs are does not treated as an asset so the value of the asset remain block
  without any that a damage to the capital structure of the bank.
- It does not generate any interest or installment but still bank spend lot of money
  to keep the track of these account which again incurs the profit in negative way.
- Though these assets does not flow income but drains the profit of the bank in
  the form of provisioning, which affects on return on asset and on equity capital.
- As these assets are not generating any amount but declines the return on
  advance and net interest margin.
- The risk weight on these asset is 100% and the amount is blocked and these
  assets do not generate income to avail the capital blocked but it again drains the
  profits earned by the other assets.
- The NPAs are subsidized from the revenue generated by the performing assets
  so the ability to provide offers to the good customers by the bank is declines.
  This ultimately enforces the good customers to choose the best cheaper
  financing system.
- It also affects the bank to think differently while the bank thinks to divert/
  expand its business.
5.2. Findings of the study

Specific findings related to research questionnaire

- Under the marketing practices low product value is the main contributing factor of NPA in agricultural loan.
- In case of inconsistent government practices, political interferences on collection of debt are the important factor for the NPA in agriculture loan.
- Incase of crop planning unavailability of high yield seeds are major factor for NPA in agriculture loan.
- For the financial factor low bank presence in the study area is important reason for NPA in agriculture loan.
- From the agriculture credit point of view negligible interest among banks is the the main factor for the NPA in agriculture loan.
- High cost of seed supply on agriculture that contributes the NPA in agriculture loan.
- Under the banking system lack of pre-post sanction is the major contribution for NPA in agriculture loan.
- Under the banking operation lack of initiatives taken by bank is the contributing factor for NPA in agriculture loan.
- Impact of pest and insects are the important natural affect the NPAs in agriculture loan.
- From the behavior of land lord point of view no support to share croppers during the emergency is the core factor for NPA in agriculture loan.
Diversification of sanctioned fund is important factor for contributing NPAs in agriculture loan.

Absence of mixed cropping facility in cultivation affect the NPAs in agriculture loan.

Burden of multiple loans affects NPAs in agriculture loan.

No adherence to guidelines during selection process of beneficiary affects the NPAs in agriculture loan.

Due to lack of capital the borrower unable to supervise projects and its leads to NPAs in agriculture loan.

In case of recovery practices lack of coordination among bank contributing factor that affect NPAs in agriculture loan.

Willful deliquescent is the important factor that affects NPAs in agriculture loan.

Absence of information centre from agriculture department affect the NPAs in agriculture loan.

**Other general findings during the study**

The cooperative banks have very low resources to meet the continuous increasing in demand of the agricultural credit.

The structural design of cooperative credit institutions operating in the state of Odisha does not implement the basic management principle, where human resource is an important factor for success and survival of any organization.

In the present study, the basic lacuna of cooperative bank is found that the Chief Functionary of Cooperative banks placed by the government, where the chief functionary does not have any banking back ground.
In case of announcement of loan waiver, it is increasingly being accepted that the waiver of loan penalizes the honest borrowers and works as a reward for defaulters.

Most of the cooperative does not have any regulated market for them.

The absent of proper internal control system like inspections, internal audit and periodic branch visit by the higher tier officials in cooperative banks is a matter of increasing supervisory concern, which leads to weak management information system in these banks.

There are no scopes for tenant farmers for the development with regards to financial support.

The basic fall back in the cooperative banks it is found in the study area that most of the Primary agricultural cooperatives is situated in the market place which is at low presence in villages though it is situated in different Panchayata’s in document.

In the study it is also found that some of the primary agriculture society gives less interest to provide agriculture loan to number of farmers instead they are giving huge amount as loan to land lords. And there is a relation of mis utilization of loan amount by the land lord as he/she is not involved in farming process.

From the study it is found that though the there are comparable less number of employees working in various Primary agriculture cooperatives with a minimal salary but the work load on them is very high.

In the study it is also found that though the Khordha central cooperative bank is computerized but most of the primary agricultural cooperatives
are not doing the same practices which create lots of headache for the borrower while they are coming to the branch to know the detailed status of their loan.

✓ In the study it is found that lack of communication between cooperative bankers and its borrowers have greatly impacted toward the nonperforming of agriculture loan in Khordha district central cooperatives.

✓ From the study it also found that the involvement of government in agriculture loan basically in case of cooperative banks is a good sign but at the time of declaration of waiver of interest or agriculture loan it seems like adding fuel to raising the nonperforming assets.

✓ In the present study it is found that the participation of Khordha district central cooperative banks in self help group does not exists.

✓ In the study it is also found that the identification of borrowers is the main and most important factor which greatly impacts the performance of agriculture loan in Khordha district central cooperatives.
Findings of the study: Causes of NPAs in agriculture loan

- Willful defaulting
- Absence of information center
- Lack of capital
- Increase competition among banks
- Absence of mixed cropping facility
- Burden of multiple loans
- Non adherence to guidelines
- Diversification of funds
- Not supported to share cropping during emergency
- Affected by pest & insects
- Lack of initiatives taken by the bank
- Lack of pre & post sanction inspection
- Unavailability of high yielding seeds
- Political interference on collection
- Low product value
- Low bank presence
- Negligible interest among banks
- High cost of seed supply
- Lack of pre & post sanction inspection
- Unavailability of high yielding seeds
- Political interference on collection
- Low product value
- Low bank presence
- Negligible interest among banks
- High cost of seed supply

Source: Compiled from field survey
5.3. Suggestions to control NPAs

Prevention is better than Cure. Non Performing Assets are like ulcers of banks, which bleed them to death. Therefore the NPAs of KCCB would be best avoided in the Pre-sanction stage itself. The following preventive steps are suggested.

✓ Bank finance is not charity, as it is public money. An entity, a firm or an individual, who aspires to avail bank finance for productive purposes, must deserve it on merit – on the grounds of a well-planned project, realistic projections of revenue, ability to run the project diligently, willingness to provide margin and marketable collateral securities if required and eventually to repay the loan. KCCB has to ensure that each prospective borrower passes the muster on these parameters.

✓ KCCB must arrange for in-depth analysis of credit proposals received. If and when the skills and competencies of its existing employees are found deficient for judicious appraisals, it must arrange to hire the services of experienced and knowledgeable finance professionals on contracts. Its own employees who are good in credit analysis should be encouraged with regular external trainings and promotions to higher grades. Rarely has KCCB given attention to these aspects.

✓ Borrower due diligence must be carried out by KCCB with tireless sincerity before any loan is sanctioned. All sources of reference-checks, including verification in Credit Information Bureau of India Limited (CIBIL) have to be run through. Any adverse information/opinion/feedback received from any source should be taken as warning to deny credit, unless it is explained and/or remedied beyond a shred of doubt. A little delay, which takes place sometimes, in completion of such processes need not be a deterrent to KCCB. Identification
of a prospective deserving borrower has to be done with the same zeal and anxiety with which parents try to locate a good groom for giving away their daughter in marriage. This study revealed that the borrower due diligence carried out in KCCB was often not enough.

✔ KCCB’s management has to create a working environment which is devoid of fear or favour – especially in matters pertaining to loans and advances. Influence of vested interest lobbyists, internal and/or external, for sanctioning of loans has to be resisted with determination. Frank and fearless employees, generally associated with credit appraisals, have to be valued by the management of KCCB as its human assets. They need to be nourished and protected. The overall relationships between functionaries of KCCB at various levels and their borrower-clients did not indicate prevalence of such an environment. A Laxman Rekha between the two sides has to exist.

✔ KCCB needs to recruit more credit analysts so as to form Credit Committees, consisting of a group of three to four officers, for analysis and appraisal of loan proposals. This it must do at least for high value proposals. Appraisals by Committees, which is a collective body, would reduce the possibilities of errors, lapses and corruption in the pre-sanction stage, compared to appraisals done by only one officer. Consequently the need for fixation of accountability when a loan goes sticky reduces too.

Despite all care and caution taken at the Pre-sanction stage, NPAs still occur in banks after loans are disbursed. KCCB was not found to be an exception in this finding. Factors that lead to a loan going bad or a project getting stuck are both within the control of the borrowers and also beyond their control. The factors are usually out of control of borrowers are shortage of raw materials, power shortage,
price escalation, excess capacities, monsoon dependency, natural calamities, social unrest, general economic recession and unforeseen change in government policies.

In the study carried out on the assets of KCCB, none of the aforesaid events was seen to have played any significant role in turning a business loan non-performing. Which only goes to prove that many assets of KCCB have turned delinquent because of inefficient and unprofessional conduct of their business by the borrowers. In other words, the factors responsible for the deteriorating standard of those businesses were very much under the control of the borrowers and that but for the sloppy monitoring of them in the Post-sanction stage by KCCB, those loans could have been prevented from lapsing into non performing loans. The crying need of KCCB for containing the level of its NPAs at an acceptable level of 1.50 to 2.00 % therefore calls for meticulous follow up actions in the post-disbursal stage of loans, particularly business loans which usually involve large amounts.

✓ Day to day transactions on the loan accounts need to be tracked with greater focus.
✓ Repeated irregularity/delay in repayments of loan, settlement of suppliers’ dues, payments of utility bills, taxes and salaries need to be probed quickly to ascertain their reasons and repercussions on the business of the borrower
✓ Frequency of visits, often without prior information, to the site of production and storage needs to increase. In-depth on-the-spot verification during these visits should cover areas like
   ➢ Management efficiency,
   ➢ Diversion of funds,
Faulty project planning resulting in cost/time over run,

Wrong technology,

Product failing to capture market,

Strained labour relations,

Product obsolescence and last but not the least

Willful default

KCCB must have a time-bound plan of follow up actions to be taken on each of the field visit report. Request of the borrower for extension of the tenure of repayment, downward re-fixation of rate of interest, a short term additional financial assistance and a short term moratorium etc must not be considered by KCCB if the report contains any of the above-mentioned short comings found during the field visit. On the contrary, KCCB must proactively press for additional collateral security and margin from the borrower if and when it observes any of the aforesaid adverse features in an inspection report because, more often than not, those findings are the earliest symptoms of a business or project collapsing.

KCCB does not hire the services of third party inspection agencies. KCCB should start doing that as a matter of practice, rather than exception. Third parties are more skilled and more impartial. KCCB’s own employees would find more time and energy to devote to appraisals, when third parties take over the task of post disbursal follow ups from them.

Other important suggestions are

✓ Sharing Success: The practicing banker should share success stories in the field of NPA recoveries, the methods and modules operandi used. It can have only result-success and more success.
Strengthening of Assets Recovery Management Branches (ARMBs): ARMBs were intended to be the focal point of recovery strategy. The Khordha central cooperative bank must give all necessary infrastructures in these branches and evolve NPA recovery strategy.

Team Work: a staff member should be involved in the recovery of NPAs. It is not enough for branch head to be a team player, it is equally important that the head inspires others in the team with his/her brilliance and togetherness quotient.

Human Aspects of NPA management: Skills and Competencies of employees need to be developed. They should be imparted training in legal matters and recovery measures. The public relation skill, communication skill of practicing banker need to be developed to have a decisive impact on borrowers. It is an attitude towards critical aspects of NPA management that will determine whether one can prosper or perish.

Accountability Syndrome: The fear of accountability is hindering staff from taking a genuine financial decision in time. Some bankers are very cautious in accepting even some of the commercially viable proposals due to fear of accountability at the later date. Banks need to have a positive and flexible approach in respect of genuine credit decision even if they turn out to be NPA at later stage. This will boost the moral of line functionaries of Cooperative banks.

Departmental Approach: NPA management should be accepted and pursued as an organizational goal. Proactive culture should be developed in legal department of the cooperative bank. Incentive schemes should be introduced for the staff members working in different branches. There should be close
coordination between credit processing units. Branches should guard against takeover of weak accounts of other banks.

- Banker-Borrower Relationship: A healthy banker-borrower relationship should be ensured. Debt recovery will be much easier in a congenial environment. Assisting the borrowers in developing his entrepreneurial skills will not only establish a good relation between the borrowers but also help the bankers to keep a track of their funds.

- Reactivating / Strengthening Credit Monitoring Department: It is essential to strengthen the same by providing additional staff besides developing expertise on credit monitoring.

- Risk Management: Revisiting approval system from time to time in accordance with the changing profile of the lender and the borrower is a must. Needless to mention that risk management system also needs to be strengthened. Risk mitigation techniques should be adopted, so that slippages can be avoided in the first place.

- Better Balance Sheet: Recoveries are an essential or integral part of operation of bank without which these get into liquidity problems as recycling of funds is adversely affected. It is only through constant recoveries of interest or installment that the portion performing asset in the total portfolio could be kept high. This alone can ensure better balance sheets.

- Strengthening of SARFAESI Act 2002:
  - The SARFAESI Act needs to be amended to recognize the priority of claims of secured creditors even over claims of revenue.
  - When banks arrive at the settlements with borrowers for repayment of bank’s due, consent orders are to be obtained from DTRs in pending
recovery proceedings in terms of settlement. Some DTRs have taken the stand that they can only approve such settlement terms that they can only approve such settlement terms and banks have no powers to finalize the settlement terms. It is necessary to amend the law to bring it in conformity with the provisions of the civil procedure code that requires the court to pass orders in terms of settlement whenever the suit is selected out of court.

- Frivolous litigations can be restricted by inserting appropriate provisions in the Act for payment of actual costs.
- The notice period for delinquent borrower can be shortened to 15 days since the account has become a NPA and the borrower is aware of this.
- 7 days provided for banks to respond to the borrower’s reply is too short and should be suitably enhanced.

✔ The cooperative banks have very low resources to meet the continuous increasing in demand of the agricultural credit. For that cooperative banks need to increase their financial resources for development of their business. In this context it is recognized that increasing in borrowing membership and expanding the business is an essential steps for their improvement. There should not be restriction in member driven process of cooperative banks.

✔ Government should give preference to the banking back ground person as the chief functionary of Cooperative banks.

✔ The announcement of interest rate cut off or waiver of loan by government is generally creates a tendency to delaying repayment in anticipating for such type of announcements. So the study finds that these types announcement should not be to achieve the political goals of the politicians.
The debt recovery tribunals were operationalised for recovery of commercial banks dues where the individual loan outstanding above Rs. 10 lakhs. To strengthen the recovery system of Cooperative banks the study finds that incase of outstanding loan amount of Rs. 75000/- DTRs should be applicable, so that the financial performance of cooperative credit structure in Odisha can be strengthened and recovery percentage can be channelize in a positive manner.

In regards to the overdue, my research suggests that the district central cooperatives and primary agricultural cooperative societies have the right to take open auction of mortgages in case of willful defaulters so that the defaulter list will be reduced. For this it may require basic alteration in the cooperative laws but to tackle the serious issue like overdue it is opined that the cooperative institutions need to evolve compromise or settlement procedure for closing of long pending overdue loans.

Government should give prioritize to make market regulated which are these days regulated by middlemen in all most all cases.

Any functionary of Primary agricultural cooperatives or district central cooperatives should not have the direct relation with political system.

Awareness campaign should be under taken by the government to initiate inter cropping facility.

Banks should strengthen their internal check and control. So that supervision over these banks could be more effective.

Cooperative institutions should give financial support by accepting guarantees or to a group of tenant farmers so that cooperative institutions can channelize their saving and fulfill the member driven characteristics.
✓ Primary agriculture society officials should inform time to time about the status of the loan account by giving letters or by visiting the villages.

✓ Bank should take care of the development of technical support team those are responsible for the technical deficiency such soil testing, fertility of soil, quality of land as well as all details about the utilization of pesticides and sanitation problems.

✓ Computerization of all the banking transactions done by district central cooperatives and the primary agricultural cooperatives to improve the work efficiency of these units.

✓ In the study it is found that lack of communication between cooperative bankers and its borrowers have greatly impacted toward the nonperforming of agriculture loan in Khordha district central cooperatives. To overcome the problem bankers should make meeting and information oriented seminar where the detailed problem of the borrowers regarding defaults of the agriculture loan can be discussed and according to the situation cooperative banker will take steps of recovery.

**Conclusion:**

In the recent business world, to compete with the competitors the Khordha central cooperative bank has to improve its recovery performance especially on non performing accounts. These are those assets of the bank which does not generate any revenue for the bank but it increases the expenses of the bank in the form of transaction cost for carrying of these accounts. Proper information system, positive management attitude and incentive based reward system would have given a positive flow to break down the increasing rate of NPAs in Khordha Central Cooperative bank. For the
survival of this bank “Lend and Recover” ought to be slogan for salvation. The reduction of nonperforming assets has become the synonymous with the functional efficiency of the bank. Effective NPA management must encompass the objectives of sound risk management, credit administration and staff motivation. Therefore effective NPA management as an organizational goal pursued in a missionary zeal is a must to survive in this recent competitive edge. This rural based important financial institution has been facing many problems like defective control, poor staffing, lack of trained staff, poor resources, rigid policies, inefficient management, non-cooperation of other development agencies and more importantly the NPAs. Some recommendations have been given to overcome the problem of NPAs and to improve the performance of Khordha central cooperative bank. If these measures are implemented, performance of the bank will certainly improve and also problem of NPAs will be controlled to a great extent, which will contribute to a milestone in healthy growth of cooperative banking structure in Khordha district of Odisha.

Last but not the least, the Cooperative Banking System itself needs to be revamped in the state of Odisha. Gone are the days when cooperatives were based on one cardinal principle – ‘Cooperation’. In the complex and uncertain domain of banking business of the 21st century, cooperatives have to function on another guiding principle – ‘Profit’. With profit they would flourish; with loss they would perish. The three tier structure of Cooperative Banking System prevalent in Odisha is steeped in traditions for ages. Business models of entrepreneurs have changed, while the format of working of cooperative banks has not. There is therefore a huge disconnect between the two. The attitude of politicians under whose strangle hold the cooperative banks function, the infrastructure of cooperative banks, their quality of human resources, their method of conducting business, standard of customer service –
all have to be re-positioned to be in tune with the modernity of this millennium. Reserve Bank of India, India’s regulator of banking system, has been desperately trying to change all that and bring the cooperative banks of the country into a new groove. It has still miles to go to achieve even a semblance of success in its endeavors, because of stiff opposition from politicians and other vested interest entities. But then time waits for none. Politicians and the others of their ilk better read the writings on the wall and eschew opposition to RBI. Else, the saga of the cooperative movement shall soon be a close chapter in the annals of India.

**Implication of the study and Scope of future study:**

Even though cooperative credit financing was started way back to a century ago but their performances are not reaching the up to expectations. The present study will greatly help the cooperative policy makers as well as managers of the banks to strengthen the recovery practices followed by these banks. The present study highlighted the ground reality and accordingly proper care can be taken for the loan products and as well as account holders. The scope for future study can be on different loan products like advances given for purchase, procurement and renovation or upgradation of technology like tractors, power tillers, dip wells, bore wells, sugar cane crosser set and seed distribution machine etc.