CHAPTER IV
OPERATIONAL FEATURES OF PCARDBs IN ERODE DISTRICT

4.1 Introduction

In India, the non-farm rural employment has witnessed a steady expansion during the last two decades. The work-force in rural area is gradually moving out of agriculture. This process of structural change would lead to the emergence of problems of farm and non-farm relations especially from the point of employment for the rural household\textsuperscript{1}. Development of Non-Farm Sector, in addition to its significant contribution to the National economy, gives enormous scope for generation of employment in rural areas, minimizes migration of rural people to cities/urban areas and also reduces the pressure of population on agriculture.

Migration takes place when the employment opportunities are insufficient locally. Poor people individually or with their families migrate to urban centers in search of employment in manufacturing, construction, service or transport sectors. As per 2001 census, 226 million persons changed places of residence within the country, of which only 9 percent of persons moved for employment reasons and 2 percent moved for business reasons, while inter

State migration accounted for 12 percent of all migrants, it accounted for 29 percent of those who migrated for employment or business reasons.

Unemployment problem emerges, when the number of people in rural areas exceeds the capacity of agriculture to provide sustainable livelihood opportunities. “As population pressure increases it is more difficult for the rural poor to rely on natural resource based activities. For many, livelihoods have become less secure and a source of income more varies”. Agriculture and allied activities have failed to provide avenues of employment. The diversification of rural economy with Non-Farm Sector (NFS) activities appears to be an important avenue of employment. This alternate avenue creates an enormous number of gainful employment opportunities in rural areas, discharge out-migration and improve the standard of life of the rural people.

The Non Farm Employment (NFE) is of great importance to the rural economy because of its production linkages and employment effects. It provides a substantial income to the rural households. In India, NFS existed in a primitive form at the time of independence in 1947. Over a hundred years of colonial rule had led to the systematic de-industrialization of key sectors of the economy, notably the handloom industry. In response the Gandhian nationalist reaction included a strong populist call for promotion of Khadi and Village Industries, the very first policy resolution in post independence India in 1948, mentioned China as a model to be followed in order to organize the cottage and
small-scale industries into effective institutions for providing employment opportunities. Under Pandit Jawaharlal Nehru’s leadership, the emphasis of the Industrial Policy Resolution of 1956 turned to large-scale and capital-intensive industries such as steel, petrochemicals, engineering, machinery etc., under the public sector umbrella. The Second Five Year Plan of 1956 (which came to be known as Mahalanobis Model) set the stage for the development of India in heavy Industry. At the same time, policies reserved special concession for household and small industry²

However, the role of the agricultural sector, as an employment and income provider to growing labour force, has been slowly coming down over the years, which attracted the attention of policy makers. This has given boost to NFS. This chapter analyses the significance of NFS, loan operations of PCARDBs, Loan schemes, Procedures of lending, supervision, lending and recovery performance.

4.2 Growth and Importance of NFS

There is no standard definition for NFS, either internationally or within India, because this sector is too diverse in terms of activities, unit sizes and geographic dispersal, to allow a neat classification. This is further emphasized

by the fact that the sector is usually defined in negative terms as the rural non-farm or non-agricultural sector. Positive terms, such as rural enterprises or rural industries, are inadequate: the former may include agricultural activities; the latter tends to exclude rural services, which in most countries generate more employment than does rural manufacturing.

This trend motivated various countries to have their own specific terms for NFS, for instance in China, discussion centres around Township and Village Enterprises (TVEs), an administrative category by ownership. In India, historical causes have often led the policymakers to focus on Khadi and Village Industries (KVIs). Yet neither TVEs nor KVIs are coterminous with the rural non-farm or non-agricultural sector, or with rural enterprises or industries. Moreover, the two terms TVEs and KVIs illustrate the very diverse policy perspectives on the NFS that can exist. In China TVEs are at the forefront of the industrial modernization of the State. In India KVIs belong to a largely traditional and partially stagnant sector.\(^3\)

NFS covers units in tiny, traditional and decentralized sector in addition to SSIs. Industrial units under NFS are further classified as Service Units, SSIs.

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Ancillary Units, Tiny Sector Units, Cottage Industry, Household Industry, Artisan Units, Handicraft Units, etc., based on the orientation, capital outlay, raw material base etc. The units under this decentralized sector are widely dispersed reducing congestion and pollution. NFS encompasses manufacture of a wide range of products, both traditional as well as non-traditional. There is wide disparity in technology employed as well as scale of production, thus providing vast scope for low level of technology adaptation as well as highly skilled and qualified personal to enter into the activities connected with NFS. The NFS activities have occupied a prominent place in the Indian economy.

Non-Farm Sector contributes to the national economy and generates employment in rural areas. It reduces the migration of rural people to urban areas and reduces the pressure of population on agriculture. Tamil Nadu is industrially well developed with large number of small and tiny industries apart from other major industries. The State Government’s industrial policy and incentives facilitate the development of small and tiny industries in rural areas. Automobiles, cotton yarn and leather tanning are important industries in the State. Cotton textile decimals, plastics, transport, electrical and electronics and information technology, tourism and hotel industries are also well developed in the State. Non-Farm Sector registered a growth of 18 per cent compared to 13
per cent during 2007-08. Erode district is also developing in the lines of industrial development of Tamil Nadu.

4.3 Farm Sector Finance by PCARDBs in Tamil Nadu

NABARD has classified the NFS activities into

- Industry
- Service and
- Business.

The SCARDBs are eligible for refinance under Non-Farm Sector from NABARD. Rural Housing is a new activity, which is generating indirect employment in rural areas. The SCARDBs get refinance under Composite Loan Scheme (CLS) and Integrated Loan Scheme (ILS).

4.3.1 Composite Loan Schemes

The Composite Loan Scheme is basically extended for financing small entrepreneurs and individual artisans / craftsmen / handicraftsmen for Block Capital or Working Capital or both for setting up new units and also for Modernisation / Renovation / Expansion / Diversification of the existing units. All activities covered by a spectrum of small, tiny cottage and village industries under 22 broad categories (prescribed by NABARD) are eligible for financial assistance under the scheme. The maximum limit of advance under the scheme is Rs.1 million.

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4 NABARD (2008-09), State Level Credit Seminar, Tamil Nadu State Focus Paper, NABARD, Regional Office, Chennai, p.145
4.3.2 Integrated Loan Scheme

The integrated Loan Scheme is extended to individual artisans and to individual proprietary concerns for both Block Capital and Working Capital. The maximum limit of advance under Integrated Loan Scheme is Rs.15 lakhs per project. Activities covered under Composite Loan Scheme are eligible for assistance under Integrated Loan Scheme also.

The Block Capital requirements consist of cost of work shed, plant and machinery, equipment and tools, computers, technology up-gradation, project formulation and consulting charges, preliminary and pre-operative expenses etc. The maximum repayment period is 10 years with suitable grace period not exceeding 18 months.

4.3 Loan Operations of PCARDBs

Members who wanted to get NFS loan from PCARDBs had to submit loan application in the form prescribed for the required purpose, with following documents.
### Box 4.1
**List of Loan documents**

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Current Cropping pattern</td>
<td>Obtained from the Village Administrative Officer, if the member offers land as security</td>
</tr>
<tr>
<td>2.</td>
<td>Copy of Adangal</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Land area sketch</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>A Certificate for showing the member is not defaulted for any Government loan / tax</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Encumbrance certificate for land offered as security for 13 years.</td>
<td>Obtained from Registration Department</td>
</tr>
<tr>
<td>6.</td>
<td>A certificate from Commercial bank</td>
<td>Showing the member is not a defaulter with other financial agencies</td>
</tr>
<tr>
<td>7.</td>
<td>A certificate from concerned PACB</td>
<td>To access the viability of the project and to ascertain the genuineness of the machinery</td>
</tr>
<tr>
<td>8.</td>
<td>Quotation for machinery needed from authorized dealers</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Other documents required by the PCARDBs concerned</td>
<td>To strengthen the viability of borrowers interest in loan.</td>
</tr>
<tr>
<td>10.</td>
<td>SSI Registration Certificate</td>
<td>Obtained from DIC</td>
</tr>
</tbody>
</table>

After discussion with the borrowers, the Secretary or the field supervisor received the applications with the required documents/papers like possession certificate, title deeds, estimate/ quotation from the suppliers of machineries and no due certificate from near by cooperative societies and commercial banks.

After a preliminary appraisal of the proposal, the loan application would be sent to the Agriculture Officer/ Field Officer. If the concerned officer was satisfied with the documents and other papers, on-site assessment was done.
The officer, at the time of the spot verification verifies the possession of land, the feasibility of the investment and adequacy of loan amount sought.

A detailed assessment of the value of the land was a critical work, while processing the loan application. After getting legal opinion, the bank officials, the Land Valuation and Evaluation Officer and the technical supervisor would inspect the land offered as security and the development proposal for determining the economic viability and technical feasibility of the scheme. From November 1971 onwards, uniform method of valuation of the land had been adopted. Ordinarily 50 percent of the total land value of Sub-Registrar Office guidelines was treated as eligibility for the loan amount.

4.4 Procedure for availing NFS Loans

Any member of PCARDBs is eligible to get NFS Loan for the activities mentioned above. A member, who wants to get a loan, shall submit an application in the prescribed format along with necessary documents, which include the following.

i. Title Deed of the agricultural land or house plot which is to be mortgaged as security.

ii. Project Report for the manufacturing or processing activity.

iii. Copies of land records like sketch/field map for the land/house plot from village officers.
iv. Plan approval for the proposed work shed/Blue print and building construction obtained from local body authorities.

v. Latest Machinery Quotation should be obtained from the Manufacturer /Authorised Dealer.

vi. Original Pamphlet for all the machineries should be obtained.

vii. Feasibility Certificate from the Tamil Nadu Electricity Board for the proposed power load.

viii. Permission letter from the local body authority for the proposed activity.

ix. In the case of match factory, license under Arms Act issued by the District Revenue Officer.

x. In the case of Tannery, Stone Crushing, Coir Fibre unit with Conventional Soaking Method, Cotton Ginning Unit and Tapioca Starch and Sago Factory, Clearance Letter from the Pollution Control Board.

xi. License shall be obtained from the concerned department for every activity, which needs a license.

xii. Small Scale Industry (SSI) certificate obtained from the ‘District Industries Centre’ (DIC) of the district is essential for all activities coming under SSI.

xiii. In the case of Cable TV network, Printing Press, permission letter from the District Collector

xiv. Encumbrance Certificate obtained from the Sub-Registrar of Registration Department.
The applications received by the PCARDBs are recorded in the register of applications. The applications will be processed by the PCARDBs.

4.4 Eligible Activities

Manufacturing, Processing and Approved Service activities in the cottage, village and tiny industries sector and modernization / renovation/expansion/ diversification of existing units are the eligible activities for financial assistance.

4.5.1 SRTO Scheme

Small Road Transport Operator Scheme is another industrial activity for which loan is given to individuals, possessing a valid driving license from rural areas. The vehicle should be duly registered with Regional Transport Authority as public transport vehicle. They should utilize the vehicle mainly for transportation of Rural Farm and Non-Farm Products and inputs and passengers to/from marketing centers. Transport vehicles light Motor Vehicles, Auto-rickshaws etc, are eligible vehicles. The repayment period is 5 years with moratorium period of 6 months.

4.5.2 Rural Housing Scheme

NABARD started giving refinance under Rural Housing Scheme. Eligible purposes include construction of new houses and repairs to existing
houses in rural areas. The maximum amount of loan is Rs.5 lakhs for new houses and Rs.1 lakh for repairs. The period of loan is 15 years for new houses and 7 years for repairs to existing houses.

4.6 Security and Valuation of Security

Generally long-term loans are issued only on the security of mortgage of immovable properties. NFS loans are also given on the security of mortgage of agricultural land or land with building. Land and asset created out of loan will be taken as security.

The value of land is assessed on the basis of the ‘Guideline value’ available at the Office of the Sub-Registrar of Registration Department. The borderline value is computed by the Sub-Registrar Office, taking into consideration the increase in value by adding 10 per cent of the value every year. In the borderline value of land, 50 per cent is taken and 100 per cent of the asset created also taken.

Of the total value, 50 per cent is the maximum eligible amount of loan. The loan amount in any case at any time shall not exceed 50 per cent of the total value of land and asset created or the value of land.

PCARDBs provide loans on the security of the unencumbered landed property. Loans were issued to the land owners in almost all villages in the area of operation. The land or land with building must be in the name of the borrower and free from encumbrance. The valuation of land is done by the
“Land Valuation Officer” (LVO) of the TNCSARDB. The PCARDB will send the loan application of the members with their recommendation to the SCARDB. As a matter of policy 60 percent of financial assistance was extended to small farmers. Not only, the land owner but also the landless people can avail loan through their house as collateral, and if it is not adequate, then the value of machinery purchased out of investment can be included. It was found that about 50 percent of the landless borrowers offered their house as security and availed bank loan.

4.7 Period of Loan and Gestation Period

The period of NFS loans ranges from 5 years to 15 years depending upon the activities. Loans for brick works, readymade garments manufacturing, printing press, purchase of transport vehicles, tractor dozer, establishment of rice mills, purchase of Xerox machine, concrete mixture machine, manufacturing of hallow bricks, establishment of mini flour mill, purchase of auto rickshaw etc, were given for a period of 5 years.

Loan for purchase of cranes, establishment of oil mills, chamber bricks unit, coir factory were given a period of 7 years with a development period of 6 months. Period of loans for modern rice mills ranged from 6 years to 10 years depending upon the quantum of loans. Loans for purchase of power looms were given for a period of 5 to 6 years with a gestation period of 3 months. Generally, the gestation period ranged from 3 months to 9 months.
4.8 Loan Eligibility and Repaying Capacity

Loan eligibility is assessed at 50 percent of the value of land. In case of tractor and power tillers, the cost of machinery is added to the cost of land for working out the eligibility but the loan amount is not to exceed the value of the land.

4.9 Rate of Interest

The rates of interest charged by the financing banks were given in the table 4.1.

Table 4.1

Interest Rates Charged by the Financial Agencies on borrowing 07.02.2007 onwards

(Figures in Percentage)

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Loan amount up to Rs.50000</th>
<th>Above Rs.50000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BR</td>
<td>LRP</td>
</tr>
<tr>
<td>NFS</td>
<td>6.50</td>
<td>7.00</td>
</tr>
<tr>
<td>Minor Irrigation</td>
<td>6.50</td>
<td>7.90</td>
</tr>
<tr>
<td>Farm Mechanism</td>
<td>6.50</td>
<td>7.90</td>
</tr>
<tr>
<td>Non-minor Irrigation</td>
<td>6.75</td>
<td>7.90</td>
</tr>
<tr>
<td>Rural Housing</td>
<td>6.75</td>
<td>7.90</td>
</tr>
</tbody>
</table>

Source: Compiled from TNCSARDB, Chennai.

Note: BR: Borrowing Rate of SCARDB from NABARD
LRP: Lending Rate to PCARDB
ULRB: Ultimate Lending Rate of Borrowers.

The borrowing rate of SCARDB from NABARD was 6.50 per cent, while the lending rate of SCARDB to PCARDB was 7.00 per cent and the ultimate lending rate by PCARDB to members being 12 per cent under NFS.
scheme for loans upto Rs. 50000. The borrowing rate of SCARDB from NABARD was slightly higher i.e., 6.75 per cent for non-minor irrigation and rural housing. The corresponding rates for loans above Rs. 50000 being 7 per cent (NABARD to SCARDB), 8.50 per cent (SCARDB to PCARDB) and to the ultimate members the rates for NFS, farm mechanization, non-minor irrigation being 13 per cent while for minor irrigation and rural housing 12.5 and 11.75 per cent respectively.

4.10 Fees Payable by Borrowers

Every borrower should pay certain amount of fees for availing loans. They are:

(i) Evaluation Fees

An evaluation fee @ 0.05 per cent of the cost of the project is collected for all loans with the maximum of Rs. 2000. Fees for legal opinion and technical estimate are met from out of this. These items are miscellaneous income to bank.

(ii) Encumbrance Certificate Fees

Encumbrance Certificate fees for 13 years is Rs. 44/-. No fee is payable for loan applications upto Rs. 50000/- and above Rs. 50000/- full fee is payable. Members of schedule castes and scheduled tribes are totally exempted from the payment of encumbrance fees.
(iii) **Registration Fees**

A registration fee is at 1 per cent of the loan amount. Members of scheduled castes and scheduled tribes are exempted from the payment of the registration fees.

**4.11 Down Payment**

Borrower’s contribution to the investment in the project is called as down payment. The down payment ensures sincere efforts in any activity. The borrowers are required to invest their own money in the form of down payment against the project cost. In the case of loans for purchase of machinery, transport vehicle etc, the borrowers are asked to remit in the PCARDBs their share of investment, to enable the banks to pay the whole amount of the cost of machinery, vehicles etc. to the supplier. The percentage of down payment varies from 5 per cent to 15 per cent depending upon the purposes.

**4.12 Disbursement of Loan Installment**

PCARDBs were permitted to sanction loans upto Rs. 2 Lakh at PCARDBs level for all loans. The loan applications exceeding Rs. 2 Lakh and every NFS loan application should be sent to the branch of the Tamil nadu State Cooperative Agricultural and Rural Development Bank (TNSCARDB) for sanction. Loan for development purpose are normally disbursed in three installments (30 per cent, 40 per cent and 30 per cent of the loan amount). Subsequent installments are disbursed only after the full and proper utilization of the earlier installments. In case of loans for purchase of tractors and power
tillers, electric motors and pump sets, diesel engines and pump sets and any other agricultural machinery, the disbursement is effected in one lump-sum to the dealer direct against the invoice and delivery note. In case of loans for electric motor pump sets and diesel engine pump sets, the disbursement is made to the dealer only after the installation of the pump set/diesel engines. The same is verified by the Land Valuation and Estimation Officer attached to the PCARDBs. Loans are advanced for electric motor, pump sets which are on the approved list of the TNSCARDB. Loans are advanced only to those diesel engines which bear ISI markings. In respect of NFS loans machineries should be verified by the Junior Engineer/Assistant Engineer of TNSCARDB.

4.13 Time lag for disbursement of loan

The maximum time lag for issuing loan was prescribed not more than 1 month if all the documents are produced correctly by the borrower member. In order to sanction the loan, the borrowers have to submit a project report and clear title deeds for the securities formalities.

4.14 Mode of Repayment

Loan repayment period fixed by the bank depends upon the repaying capacity or income from the investment. The minimum period fixed was 5 year and maximum period was 12 years. The grace period allowed is minimum 3 months to 1 year depending upon activities/purposes for which the loan is sanctioned.
4.15 Supervision

Supervision over utilization is necessary to ensure proper use of loans. In the case of land development and sinking of wells, it is necessary to verify whether the work is actually taken up. These loans are given in installments and further installments will be given only after verifying the progress of the previous stage of work. The supervisors of the PCARDBs take up this work and they also pursue the borrowers to pay the loans when they fall due. The All India Rural Credit Review Committee (1969) and the Committee on Land Development Banks (1974) stressed the need for adequate number of supervisors and the importance of effective supervision. Effective supervision will ensure better recovery.

4.16 Technical Monitoring and Evaluation Cell (TME)

The Tamil Nadu Co-operative State Agriculture and Rural Development Bank setup a Technical Monitoring and Evaluation Cell headed by Assistant Director of Industries at the head office and at least two Junior Engineers at each of the district / regional offices on the advice of the NABARD. The object of the TME cell is to provide technical services in formulating, scrutinizing and appraisal of the techno-economic feasibility of various projects for sanctioning the loans by PCARDBs.

The technical personnel help the borrowers to implement the project. They also provide information on infrastructure facilities available for marketing the products. The supervisors of the PCARDBs, who have direct
contact with borrowers, were trained in scrutinizing the NFS applications. The secretaries of the PCARDBs are acquainted with the NFS activities which are encouraged by the Government / banks in their area of operations, enabling them to identify activities to be taken up for financing.

The Junior Engineer is preparing the project report and technical report the inspecting the land, buildings etc. Detailed assessment is made by the junior engineer in respect of the availability of raw materials, electricity, demand for the products, marketing etc. At present, the TME Cell is functioning at the Head quarters of the TNCSARDB. The TME Cell must be functioning at the regional offices of the TNCSARDB to expedite the processing of applications of the NFS loans. Hence, TME Cell must be established at the regional offices, where it was not established already.

4.17 Management of PCARDBs

The management of the PCARDBs is vested with an elected board of management according to the Co-operative Societies Act and the byelaws of these banks. The elected board is accountable to the members. In many states including Tamil Nadu, there are no elected boards of management. The affairs of the banks are managed by the Government officers/Special officers. As on 31.03.01, the number of boards suspended was 135 in the PCARDBs in India. It increased to 322 as on 31.03.2002. As on 31.03.03, the number of boards under suspension was 378. It increased to 416 with 54 percent as on 31.03.04
constituting 54 percent of the total number of PCARDBs in India. Election was not conducted in many States. This is because of Government interference. Election must be held for the restoration of democracy.

4.18. ANALYSIS OF TARGETS AND ACHIEVEMENTS OF PCARDBs In ERODE DISTRICT

In a developing society various schemes are being formulated and implemented by Government, public and private sectors to achieve substantial progress. In this regard, these sectors fix targets for a particular period in advance and try to achieve the same during the fixed period. Like-wise PCARDBs fix targets, for comparing actual achievements with targets and finding out the deficiencies and reasons for not achieving the fixed targets to evaluate the performance of the banks.

Targets are fixed by taking into account the past experience, demand for loans, developments required, potential in the area of the operations, policies of the Central, State and local governments, the policies of Reserve Bank of India and also NABARD. The PCARDBs are keen on achieving the targets fixed by the SCARDB and NABARD and are striving hard to achieve the lending targets without shortfall. The targets and achievements in lending for the ten years period of study is given in Table 4.3
### TABLE 4.3
LENDING TARGETS AND ACHIEVEMENTS OF NFS LOANS OF PCARDBs IN ERODE DISTRICT FROM 1997-98 TO 2007-08

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>Achievements</th>
<th>Excess / Deficit</th>
<th>% of Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>598.26</td>
<td>694.88</td>
<td>96.62</td>
<td>116.20</td>
</tr>
<tr>
<td>1999-00</td>
<td>800.00</td>
<td>872.90</td>
<td>72.90</td>
<td>109.11</td>
</tr>
<tr>
<td>2000-01</td>
<td>960.00</td>
<td>944.28</td>
<td>-15.72</td>
<td>98.47</td>
</tr>
<tr>
<td>2001-02</td>
<td>880.00</td>
<td>983.37</td>
<td>103.37</td>
<td>111.74</td>
</tr>
<tr>
<td>2002-03</td>
<td>968.00</td>
<td>985.54</td>
<td>17.54</td>
<td>101.80</td>
</tr>
<tr>
<td>2003-04</td>
<td>1566.49</td>
<td>901.06</td>
<td>-665.43</td>
<td>57.50</td>
</tr>
<tr>
<td>2004-05</td>
<td>1048.37</td>
<td>638.97</td>
<td>-469.40</td>
<td>60.90</td>
</tr>
<tr>
<td>2005-06</td>
<td>1147.74</td>
<td>900.10</td>
<td>-247.64</td>
<td>78.42</td>
</tr>
<tr>
<td>2006-07</td>
<td>1256.64</td>
<td>496.64</td>
<td>-760.00</td>
<td>39.42</td>
</tr>
<tr>
<td>2007-08</td>
<td>1155.32</td>
<td>22.64</td>
<td>-1132.68</td>
<td>2.00</td>
</tr>
</tbody>
</table>

**Source:** Audited Accounts of PCARDBs in Erode District, 2007-08.

**Chart - 4.1**

TARGETS AND ACHIEVEMENTS OF NFS LOANS OF PCARDBs IN ERODE DISTRICT FROM 1997-98 TO 2007-08

Table 4.3 shows that there has been a continuous growth in the targets fixed by the PCARDBs. The achievements are more than targets up to the year 1999-2000, after that during the year 2003-04, with the introduction of new
provisioning norms there was a drastic downfall in achievements in Erode
district. The PCARDBs were affected adversely as an immediate consequence
of the implementation of provisioning norms. During 2001-02 and 2002-03,
the PCARDBs were turned around and again started to show profit. But the
asset classification norms for the co-operatives are further tightened from the
year ended March 2003 in the line with those for the commercial banks. The
co-operatives are required to make a general provision on standard asset at a
minimum of 0.25 per cent of such assets with effect from 2002-03. The asset
classification and provisioning norms in respect of the advances guaranteed by
the State Government, where guarantee had been evoked, have also been
introduced from April 2003. Therefore from the year 2003-04, the
achievements shows a declining trend and is much less than targets. The
computed results of trend and growth of target and achievement over a period
under study has been presented in Table 4.4

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Trend Coefficients</th>
<th>R²</th>
<th>CGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>a</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Target</td>
<td>75.666</td>
<td>646.724* (2.930)</td>
<td>0.55</td>
</tr>
<tr>
<td>2.</td>
<td>Achievement</td>
<td>941.217</td>
<td>-23.404 (-1.055)</td>
<td>0.13</td>
</tr>
</tbody>
</table>

CGR – Compound Growth Rate.
Figures in brackets represent t-values.
* Trend coefficient is statistically significant at 5 per cent level.

It is inferred from Table 4.4 that the trend coefficient of target was
statistically significant and it was positive with growth rate of 6.883 per cent.
But, in the case of achievement, the trend and growth rate were found to be negative and they were insignificant.

4.19 SAMPLE BANK-WISE ANALYSIS OF LOANS ISSUED

Initially, the PCARDBs advanced loans for the settlement of old loans to free the small and marginal farmers from the clutches of the village money lenders. Later, there has been a growing need for diversifying the loan portfolio keeping in view of the requirements of credit in the rural areas. Therefore, PCARDBs shifted the focus of lending for development purposes such as digging wells, farm mechanisation, plantation and horticulture and also for animal husbandry. During 1990-91 with a view to uplift the rural people and to cause rural development, non-farm sector development has been thought of by NABARD and came forward to render refinance assistance to PCARDBs through SCARDBs for financing of rural industries, small road transport operators and rural housing.

Lending eligibility of the PCARDBs is fixed by TNSCARD Bank, with reference to the instructions given by NABARD. Loan eligibility and target for the concerned year is communicated to PCARDBs by TNSCARD bank, after approval by NABARD and Registrar of Co-operative Societies. Loans are issued only after the careful scrutiny of the loan applications of the individual borrowers to ascertain the repaying capacity of the borrowers, to ascertain the purpose of which it is sought is permissible, to ascertain the post-development income expected to be generated from the project to be financed and to ascertain and confirm about the clear title of the applicant over the properties offered for mortgage and the like.
Normally PCARDBs themselves are empowered to sanction loans upto Rs.15,000, except NFS and rural housing loans, and if the loan amounts exceeds Rs.15,000 the loan applications are scrutinised and sanctioned by the SCARDB. Generally loans are given in lumpsum to NFS, SRTO and rural housing. In the case of agricultural loans like rubber plantation, digging new wells, deepening old wells and the like loans are disbursed in instalments. Under IRDP scheme the members get the full amount from the PCARDBs and they are also eligible for subsidy. The details of loans issued during the last ten years are given in table 4.5

**TABLE 4.5**
**NFS LOANS ISSUED BY PCARDBs IN ERODE DISTRICT DURING 1998-99 TO 2007-08**
(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Bhavani</th>
<th>Erode</th>
<th>Kangayam</th>
<th>Perundurai</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>85.05</td>
<td>54.01</td>
<td>97.16</td>
<td>59.24</td>
</tr>
<tr>
<td>1999-00</td>
<td>114.63</td>
<td>69.10</td>
<td>144.49</td>
<td>93.21</td>
</tr>
<tr>
<td>2000-01</td>
<td>100.07</td>
<td>63.27</td>
<td>147.35</td>
<td>103.32</td>
</tr>
<tr>
<td>2001-02</td>
<td>125.18</td>
<td>59.10</td>
<td>136.61</td>
<td>76.53</td>
</tr>
<tr>
<td>2002-03</td>
<td>150.00</td>
<td>57.07</td>
<td>136.46</td>
<td>79.24</td>
</tr>
<tr>
<td>2003-04</td>
<td>128.19</td>
<td>65.97</td>
<td>136.99</td>
<td>91.19</td>
</tr>
<tr>
<td>2004-05</td>
<td>128.46</td>
<td>32.96</td>
<td>86.61</td>
<td>32.80</td>
</tr>
<tr>
<td>2005-06</td>
<td>136.37</td>
<td>72.12</td>
<td>104.30</td>
<td>50.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>75.46</td>
<td>41.90</td>
<td>82.58</td>
<td>10.83</td>
</tr>
<tr>
<td>2007-08</td>
<td>4.69</td>
<td>4.73</td>
<td>2.74</td>
<td>1.48</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1047.46</strong></td>
<td><strong>520.23</strong></td>
<td><strong>1075.29</strong></td>
<td><strong>627.84</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>104.75</strong></td>
<td><strong>52.02</strong></td>
<td><strong>107.53</strong></td>
<td><strong>62.78</strong></td>
</tr>
<tr>
<td><strong>S.D.</strong></td>
<td><strong>42.10</strong></td>
<td><strong>20.54</strong></td>
<td><strong>44.30</strong></td>
<td><strong>35.40</strong></td>
</tr>
<tr>
<td><strong>C.V.(%)</strong></td>
<td><strong>40.19</strong></td>
<td><strong>39.48</strong></td>
<td><strong>41.20</strong></td>
<td><strong>56.39</strong></td>
</tr>
</tbody>
</table>

Source: Audited Accounts of PCARDBs in Erode District, 2007-08.
Table 4.5 shows the variations among the banks with regard to the NFS loans issued during the study period. The average amount of loans issued by the Kangayam PCARDB was Rs.107.29 lakhs during the study period and it was followed by Bhavani, Perundurai and Erode PCARDBs which constitute Rs.104.75 lakhs, 62.78 lakhs and Rs.52.02 lakhs respectively.

Regarding the stability over a period of NFS loan issued by PCARDBs, a high fluctuations was observed in almost all the banks of PCARDBs in Erode district. Among the banks, Erode bank has been stable in issuing a loan during the period under study relatively compared to other banks.
In order to study the trend and growth of the NFS loans issued, a simple linear regression model and a semi-log linear model have been fitted respectively and the results are given in Table 4.6.

**TABLE 4.6**

**TREND AND GROWTH OF NFS LOAN ISSUED BY PCARDB DURING 1998-99 TO 2007-08**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Bank</th>
<th>Trend Coefficients</th>
<th>R²</th>
<th>CGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>a</td>
<td>b</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Bhavani</td>
<td>108.71</td>
<td>1.44 (0.43)</td>
<td>0.03</td>
</tr>
<tr>
<td>2.</td>
<td>Erode</td>
<td>65.07</td>
<td>-1.55 (-0.93)</td>
<td>0.11</td>
</tr>
<tr>
<td>3.</td>
<td>Kangayam</td>
<td>144.17</td>
<td>-4.99 (1.63)</td>
<td>0.27</td>
</tr>
<tr>
<td>4.</td>
<td>Perundurai</td>
<td>103.73</td>
<td>-7.49* (-2.39)</td>
<td>0.45</td>
</tr>
</tbody>
</table>

CGR – Compound Growth Rate.
Figures in brackets represent t-values.
* Trend coefficient is statistically significant at 5 per cent level.

It was found from Table 4.6 that out of four banks, the trend coefficient of loan issued was found positive and significant only in Bhavani PCARDB. The growth of loan issued was found to be negligible in Bhavani and all other banks have a negative growth. Thus it may be inferred from the analysis that there was a declining trend of loan issued by PCARDBs in Erode district during the period under study except Bhavani PCARDB. It is observed that such a declining trend in loan issued may be due to the following reasons:
(a) Inadequate staff in the PCARDBs to monitor and issue the loans.

(b) The apex bank has issued instructions to all the PCARDB in Tamil Nadu not to concentrate their lending during the month of February and March alone. As large scale misutilisation of loans amount issued during the period noticed and the Joint Registrar’s have been instructed by the Registrar to conduct for 100 per cent verification of utilisation of loans issued during this period, the staff members of the PCARDBs reduced the issue of loans during the month of February and March. This has resulted in the considerable reduction in loans issued by the PCARDBs.

4.20 RECOVERY PERFORMANCE OF LOANS AND ADVANCES

Any credit institutions capacity to lend increases with recovery of loans already made and recycling of funds so collected and vice versa. The recovery position of the banks is a better index, which reveals the financial performance of banks. The very existence of the PCARDBs depends mainly on its recovery percentage. If the recovery percentage decreases the lending eligibility of the bank also decrease and vice versa. It is because the NABARD has been changing the recovery limits (currently 65 per cent) for availing refinance facility from it. So the PCARDBs must take all possible efforts to collect the demand fixed every year. Adequate and timely recovery of existing loans is of
the utmost importance for making further loans. The performance of the PCARDBs in the study area with regard to the recoveries is given in Table 4.7

TABLE 4.7
DEMAND, COLLECTION AND OUTSTANDING OF PACARDBs IN ERODE DISTRICT FROM 1998-99 TO 2007-08
(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Demand</th>
<th>Collection</th>
<th>Outstanding</th>
<th>% of Total Collection to Demand</th>
<th>% of Collection of NFS Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>639.60</td>
<td>229.26</td>
<td>410.34</td>
<td>35.84</td>
<td>45.4</td>
</tr>
<tr>
<td>1999-00</td>
<td>869.65</td>
<td>357.93</td>
<td>511.72</td>
<td>41.16</td>
<td>51.6</td>
</tr>
<tr>
<td>2000-01</td>
<td>1115.51</td>
<td>493.56</td>
<td>621.95</td>
<td>44.25</td>
<td>53.74</td>
</tr>
<tr>
<td>2001-02</td>
<td>1337.38</td>
<td>663.67</td>
<td>673.71</td>
<td>49.62</td>
<td>56.1</td>
</tr>
<tr>
<td>2002-03</td>
<td>1423.54</td>
<td>645.35</td>
<td>778.19</td>
<td>45.33</td>
<td>53.8</td>
</tr>
<tr>
<td>2003-04</td>
<td>1800.21</td>
<td>660.85</td>
<td>1139.36</td>
<td>36.71</td>
<td>52.6</td>
</tr>
<tr>
<td>2004-05</td>
<td>2193.14</td>
<td>758.82</td>
<td>1434.32</td>
<td>34.60</td>
<td>54.2</td>
</tr>
<tr>
<td>2005-06</td>
<td>2449.44</td>
<td>730.85</td>
<td>1718.59</td>
<td>29.84</td>
<td>53.9</td>
</tr>
<tr>
<td>2006-07</td>
<td>3152.41</td>
<td>1098.01</td>
<td>2054.40</td>
<td>34.83</td>
<td>46.8</td>
</tr>
<tr>
<td>2007-08</td>
<td>3020.51</td>
<td>467.73</td>
<td>2552.78</td>
<td>15.49</td>
<td>45.7</td>
</tr>
<tr>
<td>AGR</td>
<td>18.95</td>
<td>10.62</td>
<td>22.82</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Audited Accounts of PCARDBs in Erode District, 2007-08.
Table 4.7 showed that there has been wide fluctuations in the demand, collection and outstanding of loans given to the members by the PCARDBs. The percentage of collection to demand shows that it increased from 35.84 per cent in 1998-99 to 49.62 per cent during 2001-02 per cent, after that the percentage of collection to demand started decreasing. During the year 2007-08, it was only 15.49 per cent. This situation may be attributed to the State Government’s policy of waiving all agriculture and allied loans. The borrowers of NFS and rural housing loans also expected waiver from the Government and stopped repaying their dues to PCARDBs. The CGR of collection of loans was only 10.62 per cent and the outstanding of loans (22.82 per cent) was doubled the growth rate of collection. Percentage of collection to demand had declined to 15.49 percent at the end of the study period as against
35.84 percent in 1998-99. NFS loan recovery had fluctuated during the study period ranging from 45.4 percent to 56.1 percent.

To study the trend and growth rate of demand, collection and outstanding of loans made by the PCARDBs simple linear regression model and semi-log linear regression model have been fitted to the data given in Table 4.8

### TABLE 4.8
**TREND AND GROWTH OF DEMAND, COLLECTION AND OUTSTANDING FROM 1998-99 TO 2007-08**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Trend Coefficients</th>
<th>R²</th>
<th>CGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Demand</td>
<td>232.77</td>
<td>284.98* (15.22)</td>
<td>0.97</td>
</tr>
<tr>
<td>2.</td>
<td>Collection</td>
<td>316.80</td>
<td>53.42* (2.56)</td>
<td>0.45</td>
</tr>
<tr>
<td>3.</td>
<td>Outstanding</td>
<td>-84.03</td>
<td>231.56* (10.07)</td>
<td>0.93</td>
</tr>
</tbody>
</table>

CGR – Compound Growth Rate.
Figures in brackets represent t-values.
* Trend coefficient is statistically significant at 5 per cent level.

It is seen from Table 4.8 that the trend coefficients of demand, collection and outstanding were found to be significant. The rate of growth of the outstanding was found high during the period under study. It is followed by the demand (18.95 per cent).
4.21 SUMMARY

The development of NFS largely depends upon the availability of credit facilities. PCARDBs, which have identified RNFS as a viable area for diversification, have yet to harvest the opportunities both at State and at primary level. It is high time that the potentiality of NFS must be realized and harvested early by PCARDBs otherwise new financial players will enter into NFS market. Hence, the present approach in NFS lending need to be redesigned to make it user-friendly.

The over all performance of the PCARDBs in Erode district with regard to both lending and recovery of NFS loan were not appreciable. Because of this trend, the PCARDBs should concentrate on disbursement of NFS loan to enterprising borrowers who can utilize the loan as well as repay the loans. Further, the Government should also create conducive environment for lending to NFS by banks. Hence appropriate policy interventions are the need of the hour.