CHAPTER 2

REVIEW, OBJECTIVES AND METHODOLOGY

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Chapter 2  
REVIEW, OBJECTIVES AND METHODOLOGY

A theme-wise presentation of a brief review of related studies, the objectives of the study, the hypotheses to be tested, choice of the study area, data required, methods of collecting primary and secondary data, tools of analysis of data are given in this chapter. This chapter also reveals the design of the thesis and also the limitations of the study.

2.1. REVIEW OF RELATED STUDIES

In recent years studies on long-term financing by the Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) have gained significance since they are important for the economic development of rural areas of our country. In the past these banks advanced loan mainly to farm sector development and met with severe problems related to achieving their targets in lending and recoveries. But, the PCARDBs have now changed their policy and began to lend for non-farm sectors also. The present study was undertaken to analyse the performance of these banks with regard to their lending activities to both farm sector and non-farm sector. Though there exist a large volume of literature, both conceptual and theoretical—only a few selected papers are reviewed below.

2.1.1 Institutional Finance

The introduction of new technology in agriculture has brought about a significant increase in the financial requirements of the
farmers. The village moneylenders who deal with micro level credit could not provide adequate finance for production and investment in agriculture. After bank nationalisation in 1969, the adoption of multi-agency approach has considerably expanded institutional finance for agriculture. To know the role of various institutions in this respect a review of earlier studies on institutional finance becomes pertinent.

Balishter and Singh (1986) have conducted a study in U.P to know the extent of institutional credit available, to examine the credit gap, to study the utilisation pattern of credit and also the repayment performance of loans availed from different institutional agencies. Their study revealed that 46 per cent of the sample borrowers borrowed from commercial banks, 34 per cent from co-operative societies and 20 per cent from LDBs. The study shows that resourceful farmers are able to get loan from more than one source. There was no co-ordination among institutional finance agencies. The percentage of credit gap in the case of marginal, small, medium and large farms was 22, 29, 27 and 45 respectively. The study shows that 89 per cent of credit was used for productive purpose. The repayment position of loans is good in the case of LDB in all the category of farmers and in the case of commercial banks and co-operative societies the repayment is not satisfactory.

Rao and Narayana (1988) had conducted a study to analyse the performance of commercial banks with regard to finance for priority sector in Andhra Pradesh. Their study was based on purely secondary data. For analysis purpose they have classified priority sector into:
i. Agriculture;
ii. Activities allied to agriculture;
iii. Rural and cottage industries;
iv. Small-scale industries and other sectors.

The sector-wise analysis shows that agriculture was given the top most priority followed by small-scale industries and allied activities to agriculture. The allocation of credit is felt to be inadequate compared to the size and composition of rural and cottage industries.

Giri and Dasgupta (1988) have made an attempt to know some aspects of inter-state and intra-state variations in the flow of institutional agricultural credit by using available secondary data. The mean value of loan per borrower for all the 18 states together for four years were Rs.815.44, Rs.860.82, Rs.1,137.44 and Rs.1,131.88 respectively. They have also made an attempt to estimate the extent of interstate and intra-state variations in the distribution of institutional credit and offered few suggestions to eliminate the imbalance in the distribution of agricultural credit.

1. Fixing of credit limit at variable proportion among the different size-group of farmers and
2. Activities of commercial banks and RRBs should be extended to reduce imbalance in the distribution of credit arising out of unequal growth of co-operative movement.

Patil et. al. (1990) have conducted a study to know the extent of borrowing and its adequacy, sources of borrowing and their
contribution to agricultural credit. They have classified the sample cultivators into three groups on the basis of size of operational holdings. Their study reveals that maximum number of cultivators had borrowed from institutional agencies and that too mainly from cooperative societies. Out of total borrowing about 98 per cent was borrowed from institutional agencies. The share of LDBs in total borrowing was 34.49 per cent. The credit gap was found to be associated with the adoption of recommended technology. They have concluded that motivation of cultivators is essential to adopt recommended technology in order to reduce the credit gap.

Reddy (1991) has presented the agricultural credit structure and institutionalisation of farm credit in India. The need for credit, demand and supply of farm credit and the progress of institutional credit in India are clearly shown. The variations in the distribution of farm credit between size groups, between beneficiaries and non-beneficiaries and also the effect of farm credit on farm business income of different size groups were examined. One important finding of the study is that there is no significant effect of institutional credit on farm business income of beneficiaries.

Subbiah (1994) has clearly analysed the role of public sector and private sector commercial banks, Pandyan Grama Bank and other institutional agencies under the Lead Bank Scheme (LBS) in Kamarajar District, Tamil Nadu. According to him, though the LBS has been in operation for more than two decades, the lead banks are still facing organisational difficulties such as not having special powers to control and co-ordinate different banks participating in the scheme.
He has also stated that fixing credit plan targets on the basis of availability of funds rather than the development potentials and demand for funds will result in the unrealistic utilisation of funds. The data analysis reveals that there is no significant difference in the mean performance scores of various financial agencies in lending to agriculture, industries, services and total priority sector in the study area. The recovery of loans given to agriculture, industries and services sectors ranges between 43 per cent and 66 per cent. An opinion survey conducted among the bank officials reveal that there are problems in the recovery of loans given under the government-sponsored programmes.

Bhat (1995) has made an attempt to present the profile of the agricultural borrowers from commercial banks, RRBs and Co-operative Credit Societies in Dakshina Kannada district of Karnataka. A high degree of inequality exists in the ownership of land. The data reveals that 64.2 per cent of the sample beneficiaries are small farmers and 9.2 per cent are big farmers. The study shows that the inequality in the distribution of income is greater (127.8) than the inequality in the distribution of land (90.4) among beneficiaries. He has suggested that

i. The cost of institutional credit to the target-group should be lower than the cost of credit to the non-target group of borrowers.

ii. Non-interest costs of institutional credit to the target group should be reduced.
iii. It is essential to devise new measures and schemes of lending to the target group against securities other than land.

Verma (1997) has given the concept and evolution of commercial banks, their role in agricultural development, non-agricultural development and rural development. His study in Muzaffarpur district reveals that there exist inter-village disparities in the provision of banking facilities and in the distribution of funds. Resources mobilised in this district are probably diverted elsewhere. Paucity of funds impedes development in the district. Banks prefer to finance agriculture in such areas where better irrigation facilities are available. Recovery performance of agriculture and allied activities is not satisfactory. Small and marginal farmers as well as small entrepreneurs are more prompt in repaying the loans compared to big ones.

Jebakar (1997) has studied the impact of institutional credit on technology and production efficiency in producing paddy, banana, tapioca, coconut and rubber in Kanyakumari district during 1993-94. His study reveals that there was positive change in the production of paddy, banana, coconut and rubber. There was negative change in the production of tapioca except in 1987-88 and 1989-90. In the whole district, 177 cultivators have one agriculture credit source unit though the district is endowed with sufficient number of financial institutions distributed equally. The main aim of his study was to measure the extent of flow of institutional credit to the farmers and to examine its impact on technology, productivity and revenue in agriculture in the study area. The index of area financed to develop all the five crops
underwent wide fluctuations. The average index was higher in the case of coconut when compared to other crops. Rubber ranked second, banana third, paddy fourth and lastly tapioca.

2.1.2 Rural Credit

Gandhiji once observed that the solution to India’s problems lies in her five-lakh villages. But, most of the farmers who live in the rural areas suffer a lot because of absence of adequate supply of institutional finance and their indebtedness to the informal credit agencies. This shows the inefficiency and apathy of commercial banks and RRBs. Though the government always encourages institutional sources of rural lending to fulfill certain objectives, the complicated process and lengthy procedures often retards the pace of the credit disbursement to the rural farmers.

Turan (1989) has described the role of institutional finance in the field of rural credit in Haryana State. It is a study that encompasses the results based on primary as well as secondary data pertaining to the co-operative banks, commercial banks and the recipient of loans from them. The study offers interesting findings as to the operational and structural problems of the multi-agency credit system, extent of involvement of these banks in filling the rural credit gap, assessment of the impact of institutional finance on borrowers economic position, problems faced by the bankers as well as borrowers in the field of rural credit, preferences of borrowers for specific institutions and reasons there of.
Chidambaran (1992) has remarked that declining rate of recovery is the main limitation of Indian Rural Banking. Target-oriented lending, political interference and inadequate staff strength are the reasons for ineffective post-sanction follow-up and poor rate of recovery. These problems are inevitable in the developing economy but the intensity of these problems can be minimised by the involvement of rural bankers. He has also stated that many rural lending programmes are vague and the quantum of credit deployed by banks through these programmes is increasing. But the village moneylenders and indigenous bankers have a sizeable portion of rural credit under their control.

Jugale (1992) has conducted a study on co-operative credit in Shirol Taluk of Kolhapur district in Maharashtra. The study area has 195 PACS's to provide short-term credit and two PLDBs to provide long-term loans. The study is based on secondary data. His study reveals that rich peasantry is harnessing most of the credit benefits. According to him, efforts to motivate the farmers to borrow medium-term and long-term loans are essential because such borrowing is an indication of investment and capital formation in agriculture.

Madhura (1993) has used village data collected from Uthamapalayam Taluk of Madurai district, Tamil Nadu to trace some of the effects of credit policy on differential access to sources of rural credit. The numbers of commercial bank branches in rural areas have increased from 113 in 1969 to 1,683 by 1985. The volume of credit disbursed expanded from Rs.45 million to Rs.5,844 million in 1985. Households with assets worth less than Rs.500 received a share of
credit higher than their share of total assets. Her study reveals that the growth of formal credit did not lead to a decline in the size of the informal credit market. In some cases, the growth of formal credit have led to a rise in demand for informal credit where a household borrows from informal sources to meet the costs of maintenance of a new asset acquired with a bank loan. The share of informal lenders in total credit remained unchanged from 1977 to 1985.

Shettý (1996) has remarked that a vibrant agricultural economy is the key to many of our problems faced in the rural credit system. He has also pointed out that the very important consideration for the successful implementation of the credit programmes in rural banking relates to the credit delivery mechanism of the financial institutions. Credit delivery mechanism relates to adequacy and timeliness of credit supply and its certainty. It also relates to rate of return on such a credit programme. He is of the opinion that the increased rural lending over a number of years on the basis of cross subsidisation has resulted in reduced profit to the banks. This is due to lower rate of return in rural banking and higher transaction cost.

Sastry (1996) has analysed the banking financial services to Indian farmers into three stages. They are

i. Pre-nationalisation era of commercial banks
ii. Post-nationalisation era of commercial banks
iii. Financial globalisation and liberalization era.

In the pre-rationalisation era bankers' services to farmers were negligible. Big farmers utilised banking services. Surety and security
were the hurdles in those days between commercial banks and the rural poor. In the second stage, small farmers were identified and many branches were opened in the rural areas. Many subsidy schemes like IRDP, MAD, and SFDA were set up to help small and marginal farmers. Yet, banks were unable to uplift the living conditions and standard of small farmers. In the third stage, financial institutions are thinking of ways and means for safe investment of its own resources.

Mahapatra (1997) has given the rural economic scene of Ganjam District of Orissa, various credit agencies extending rural credit, the capital structure and sources of capital of Rushikulya Gramya Bank (RGB), the role of RGB in income generation and also the operational constraints. The RGB has expanded its branches from seven in 1981 to 75 in 1991-92. The average deposit per branch of the RGB was Rs.20,11,000 and average advance per branch was Rs.22,12,000. The RGB does not have adequate demand for loan from the prospective beneficiaries in agriculture and industry, as targets fixed for these sectors are not achieved in many years. The case of under-finance is a common occurrence in RGB lending which results in the ineffectiveness of the use of loans.

Sharma (1998) has made an attempt to raise certain basic issues pertaining to banking in general and rural banking in particular. According to him,

1. The share of rural branches to the total number of bank offices has declined from 58.2 per cent in 1989 to 55.7 per cent by September 1995.
2. While the share of rural branches in aggregate bank deposits has remained stagnant at 15.5 per cent, the proportion of bank credit disbursed through rural branches has registered a decline.

3. The share of priority sector advances to total bank credit declined from 42.8 per cent in 1989 to 32.3 percent in 1994 though subsequently improved. These are the adverse impact of financial sector reforms on rural banking. He has suggested that the main objective of financial policies in developing countries should be to ensure that resources are allocated at the lowest possible cost for investment in areas with the highest social return without causing instability or reducing the volume of resources mobilised for investment.

2.1.3. Credit Recovery

The role of nationalised banks and RRBs has been envisaged as major partners in the development of rural economy. They have diversified their lending operations by widening their list in the priority sector lending. With the growth of lending, the banks have experienced few problems like poor recovery performance, unofficial sale of vehicle from one hand to the other, and mounting wilful overdues.

Kandasami (1991) has conducted a study to know the recovery performance of PACSs in Periyar District of Tamil Nadu. The objective of the study is to measure the extent of overdues (dependent variable) of the sample societies. He has identified the following as the factors influencing the overdues of the societies.
1. Cropping intensity of the area covered by the society;
2. The percentage of area under irrigation;
3. The percentage of area under cash crops;
4. The percentage of borrowing members to total members;
5. Degree of supervision; and

The following suggestions were made to minimise the overdues:

1. Members should be educated to cultivate cash crops in major areas;
2. Necessary additional personnel should be recruited to have effective supervision.
3. Efforts should also be made to provide supplementary occupation such as poultry and dairy farming to the borrowing members to augment their income.

In another study, Kandasamy (1991) has pointed out that accumulation of overdue loans will result in the shortage of credit and needy members may have to go without credit. Mounting overdues may even bring the society to the verge of liquidation. He has used Bayesian classifying procedure to classify the borrowers into defaulters and non-defaulters based on certain socio-economic and psychological characteristics of borrowers. His findings are

1. With the increase in the level of education of borrower the chance for defaulting is high.
2. The larger the size of families, greater the chance of becoming defaulters and vice-versa.
3. When the percentage of dependent members to total members is above 50, the probability of borrowers to become defaulters is 59 per cent.

4. When the percentage of area under irrigation increases, the probabilities to become defaulters get reduced.

5. The probability to become defaulters is high with low level of credit orientation.

6. The probability to become defaulters is very high, when the borrowers’ involvement in Agriculturists’ Association is high (0.91).

7. High the level of borrowers who identify themselves with their societies, lower (0.34) would be the probability to become defaulters.

Gupta (1994) has stated that the slow pace of recovery of bad and doubtful debts has been adversely affecting the viability of various banks and financial institutions. According to him, the prevailing system of recovery of bank dues through the machinery of civil courts is not only time consuming but also un-productive and expensive. He has also explained “The Recovery of Debt to Banks and Financial Institutions, 1993” and the establishment of Tribunal in Bombay, Calcutta, Delhi and Madras. He has given a clear explanation about the procedures to be followed for the speedy recovery of bank overdues. He has concluded that the prohibitive measures coupled with existence of Tribunals in Judiciary System are likely to make the borrowers to strictly adhere to the financial discipline of the bank and thereby improve the climate of recovery of overdues.
Upadhyay (1994) has classified the causes for unpleasant recovery performance into (a) internal and (b) external. By internal reasons he refers defective loan procedures, granting shorter repayment period, ineffective supervision, over or under financing, etc. According to him, the present remedies available with the banks are

1. Continuous persuasion to the borrowers.
2. Effective follow up with every defaulter.
3. Initiating legal actions by either
   (a) Filing civil suits or
   (b) Filing recovery certificate with the Government.

It is also stated that the rate of recovery after legal actions are very low and pointed out a procedure of seizure of vehicles as few banks did in Gujarat. The details of the procedure for seizing the vehicle are as under:

1. The banks approve an agency for seizing the vehicles.
2. The bank has to approve go downs where the vehicles so seized are housed.
3. The banks release the vehicles after necessary considerations.

The strategy to seize vehicles helped to increase recovery of loans, reduced the cost of loan recovery and also reduced the Non-Performing Advances. He has also mentioned the merits and demerits of this procedure.

Parmar (1994) has conducted a study to know the recovery of priority sector advances in Gujarat. The important findings of the study are:
1. The recovery per cent to demand varied between 30 per cent and 59 per cent in agriculture.

2. The analysis of variance revealed that the performance of the banks with respect to recovery varied significantly.

3. When all the schemes were considered together, the three variables, ratio of earning members to total number of members, number of follow-up visits and total advances outstanding per number of bank staff explained about 95 per cent of the total variation by the multiple linear regression equation.

4. The field staff is inadequate at the branch level to keep pace with pre-sanction appraisal and post-disbursement supervision for increased agricultural advances.

5. In the case of Small Scale Industry, the recovery per cent to demand varied between 15 per cent and 43 per cent.

6. The study of relationship between recovery and influencing factors for poor recovery has revealed that the variable, number of follow-up visit alone explained more than 80 per cent of the variation in recovery.

7. The recovery performance in Total Priority Sector varied between 41 per cent and 45 per cent during 1984-88.

8. The controlling offices had not constantly and closely reviewed recovery performance of the branches and separate recovery cell had not been set up as per the Guidelines of RBI.

9. He has suggested that support of district administration and Government agencies is essential for successful implementation of the various lending schemes of banks.
According to Monsur et al. (1995) the procedure of disbursing institutional credit is time consuming and lengthy. Delay in the disbursement of credit affects the utilisation of credit for productive purposes and affects the recovery performance. They have also stated that the repayment performance of short-term loans were better than long-term loans. The large farmers have mainly received long-term loans and they were the main defaulters. Further most of the rural bank branches are poorly staffed with supervisory personnel, which is responsible for poor recovery of agricultural credit. They have concluded that although the interest rates from institutional sources were low, the real cost of borrowing was much more compared to usual interest rate charged by banks. Unless the effective interest rate is kept at a low level the small farmers would avoid taking institutional credit.

Mazumdar and Baruah (1999) have made an attempt to analyse the major socio-economic factors affecting the borrowing and repayment performance of the borrowers, imbalances and weaknesses existing in the present credit system and to suggest appropriate measures for strengthening the rural credit system. According to them, the problem of repayment arises due to misutilisation of credit. The overall level of misutilisation was 15.76 per cent. There are variations in the amount due for repayment caused by factors like amount of loan sanctioned, extent of subsidy and time permitted for effective payment.

2.1.4 Non-Performing Assets (NPA)

Since 1992, NPAs have emerged as one of the major challenges facing the banks. Increase in NPAs affect the profitability of banks
and paves the way for accumulation of losses in the succeeding years. Therefore, a review of studies related to NPAs become pertinent in many aspects (A detailed analysis of NPA is given in Chapter 5).

Sudhakar (1998) has made an attempt to analyse the policies pursued by the banks with the focus on Public Sector Banks (PSBs) since their NPA level is considerably high. According to him, incremental NPAs result in higher interest on the performing borrowers. NPAs as percentage to total assets differ from bank to bank and ranges from 10 per cent for stronger PSBs to 34 per cent for weaker banks. The gross NPAs as percentage to total assets reduced from 23.2 per cent in 1992-93 to 17.84 per cent in 1996-97 and the amount of NPAs have been increasing in absolute terms. About 50 per cent of the outstanding NPAs are pending in the courts and Debt Recovery Tribunals (DRTs). Over 25 per cent of the NPAs pertain to suit field accounts with balance over rupees one crore. Fifty three per cent respondents ranked ‘Staff accountability’ as the hurdle in NPA reduction. Sixty eight per cent cited lack of reliable Management Information System in banks as the cause for NPAs. Small loans are recovery effort elastic and big borrowers relatively effort inelastic. NPA reductions followed by PSBs are reactive than proactive in most cases. Legal departments in most banks were not proactive enough for NPA reduction. He has concluded that NPA reduction, as an organizational goal is important for the Public Sector Banks to survive in global competition.

Patel and Kaveri (1998) have clearly analysed different pattern of repayment behaviour of borrowers. According to them, as a result
of snags in the repayment behaviour of borrowers, the accounts are termed as overdues and the banks have to face a situation of NPAs. Their study reveals that the aggregate NPAs for the PSBs have crossed Rs.40,000 crores as on March 1996. The immediate financial effect of such NPAs level is to see from the fact that all scheduled commercial banks had to make a substantial provision of Rs.8,043 crores in 1992-93 and Rs.8,740 crores in 1993-94 to take care of the NPAs. They have also stated the factors responsible for accounts becoming NPAs are priority sector. According to them, the following are the important implications of NPAs.

i. The NPAs affect the profitability level of the branches.
ii. It leads to additional work for the bank staff
iii. Business of the banks gets adversely affected because of the preoccupation of the staff with the NPAs.
iv. It leads to reduction in the NABARD refinance.
v. Sometimes, banks stop credit sanctions. At this situation, some borrowers do not like to repay. This leads to further NPAs. They have concluded that the recovery problem can be effectively solved with the careful approach, sincerity and involvement of staff.

Rajendra Singh (1999) has remarked that the level of NPAs in the Indian Banking System is very much high and alarming. According to him, the major cause for NPA is not priority sector advances but due to the lending programme to medium and large industries. According to him, there are both internal and external causes for NPAs. They are
i. Large scale dilution of procedures and practices of lending.

ii. Unrealistic terms/conditions of the sanction and fixing unrealistic repayment schedule.

iii. Deficiencies in documentation.

iv. Lack of supervision and follow-up and the resultant diversion of funds, alienation of securities.

v. Political interference in sanctioning of loans and patronage to defaulters.

vi. Lack of infrastructure facilities like power, raw materials, fuel, transport, marketing and technical support.

vii. Nature also adds to the woes of borrowers in meeting their repayment commitments to banks.

viii. Lack of inter-bank co-ordination as well as co-operation with financial institutions in exchange of information over list of defaulters.

He has concluded that to effect recovery of accumulated NPAs it is necessary that the State Government agencies should extend assistance to the banks to educate the borrowers, arrange campaigns and recovery drive, introduce some incentive schemes for prompt recovery, reschedule or extend the period of repayment and resort to legal action.

2.1.5 Land Development Banking

The review of earlier studies given above reveals that all of them are dealing with the problems related to short and medium term loans given by co-operative institutions and nationalised banks. Since
Co-operative Land Development Banks (now called as Agriculture and Rural Development Banks) in India are important institutions in providing long-term credit for rural development, a review of studies related to their functioning is essential for the present study.

Kurulkar (1983) has stated that the backwardness of Indian agriculture was due to the neglect of long-term credit to the agriculture sector. According to him, to improve the productivity of our agriculture and to free the cultivators from the vicious circle of poverty a break through has to be achieved by supplying adequate amount of long-term investible funds to the cultivators. His study also reveals that the inadequate credit disbursed to cultivators was not fully utilised for the right purpose. The diversion of long-term funds is quite massive in Maharashtra. It not only affects the economic system but also leads to diminishing repaying capacity of the borrowers. It increases overdues. He has also analysed the financial feasibility of major agricultural projects undertaken by cultivators and the repaying capacity of the cultivators undertaking these investments in backward region.

Kunwar (1987) has examined the various aspects of credit facilities specially extended by Land Development Banks in Bihar. He has analysed the extent to which the LDBs are helpful to fulfill the requirements of the agricultural sector. He has also discussed the problems including credit, its structure, loaning and recovery. The study was based on purely secondary data.
Rayini (1988) has analysed the different types of agricultural credit, need for long-term credit, sources of farm credit, need for LDBs in Uttar Pradesh. He has also pointed out the organisational structure and management of funds, loan policy and operation, loans to small farmers and weaker sections, recoveries and overdues. His study was entirely based on secondary data. His study reveals that share capital and debentures are the main internal and external sources of fund for the UP SLDBs. The bank sanctions loans much less than required by the borrowers in large number of cases. This was mainly because of the present method of land valuation based on land revenue rate. It is not scientific and favourable to farmers. According to him, the mounting up of overdues has deteriorated the financial positions and also hampered the further lending operations of the bank. Singh (1990) has conducted a similar study in Bihar. He has examined the trend in the growth of working capital and also made an assessment of the contribution of the various sources of funds with special reference to "debentures". His study offers a penetrating analysis of key issues in the working of development banks in Bihar where a predominantly large population lives in villages under the grim shadow of poverty, unemployment, socio-economic disparities and overall backward areas.

Pawar and Bhuvanendran (1989) have made a study on the impact of long-term loans on production and income. They have purposively classified long-term loans into

i. Minor irrigation
ii. Farm mechanisation
iii. Land development and
iii. Others.
Of this irrigation was given top priority as it has a direct impact on production, which leads to increase in income of the farmers. They have also analysed the utilisation of loans and the nature of overdues. They have concluded that production as well as income level of the farms increase due to the bank loans.

Siddique (1991) has made a modest attempt to present an analytical study of land development banking in the country with reference to Uttar Pradesh. After a brief reasoning of its inception and history of its growth and development, he has discussed in detail the main aspects of problems like organisation, financial resources, recovery and overdues of loans with suggestive capsules. He has suggested the following:

i. A long period of repayment, which is 30 years in some European countries, which is 50 years in Japan, should be allowed to farming community in UP. This suggestion cannot be followed in a capital-starved country like India.

ii. The Government should provide assistance to the bank by way of contributing more to its share capital.

iii. Banks can advance loans at subsidised rate of interest.

iv. Loans are to be advanced up to a maximum of 75 per cent of the value of land.

v. Linking credit with marketing for realising the due to the bank.

vi. A liberal view regarding the securities to be provided for availing loans.
According to him, non-utilisation and improper utilisation of loans are the major factors contributing to the growth of overdues. The various problems could be solved by augmenting the source of finance of the bank, guidance to the borrowers, simplifying loan procedures etc.

Sachidanand (1994) has analysed the performance of ARDBs by studying the structure of SCARDBs, their membership, resources, loan operations and recoveries. He has also analysed the productivity by taking members, borrowers, working funds, loans advanced, loans outstanding, recoveries, income and expenditure as parameters. Out of 18 SCARDBs in 1992-93, six had incurred losses ranging between Rs.0.03 crore (Manipur) to Rs.40 crores (Maharashtra). The Tamilnadu SCARDB had earned the highest net profit of Rs.10.55 crores during 1992-93. The effective membership averaged 2427 at the all India level. It was the lowest at 149 in Assam and the highest number of borrowers at 6696 in Kerala. The average of loans advanced and outstanding per unit worked out to Rs.40.23 lakhs and Rs.191.42 lakhs respectively while recoveries averaged Rs.33.57 lakhs. The average income earned per unit by these banks was Rs.20.47 lakhs with the expenditure averaging Rs.21.83 lakhs. However, there were considerable variations in the performance between individual SCARDBs. While Kerala SCARDB accounted for the highest averages per operating unit in respect of membership and borrowers, Punjab was topping the averages for all other performance indicators including highest level of income and expenditure.
Sankaran (1995) has stated that many low-income agrarian economies have established Special Farm Credit Institutions to cater to the long-term investment and credit requirements of the rural households. In India, SFCI are known as Co-operative Land Banks. According to him, the loaning operations of many PLDBs have been declining because of their restricted eligibility and a large segment of needy people are left out of the benefits, which could accrue, from long-term investment loans. He has ranked the PLDBs in Kerala in terms of performance index. In his analysis, he has used some important quantitative variables like loan outstanding, demand, overdues and membership. He has concluded that LDBs have performed better in regions where commercial bank coverage is low and economic activities are more agriculture based.

Rao (1998) has also made an attempt to make a review of the operations of the banks during 1986-87 and their performance. He has analysed the performance of LDB/ADBs with two sets of indicators. Loaning and recovery performance indicators include

i. Loans advanced against lending targets;
ii. Increase in loan business,
iii. Share of weaker section advances; and
iv. Recovery of loans.

Operational efficiency is measured in terms of

i. Per employee advance;
ii. Per employee recovery; and
iv. Return on investment (net profit to loan outstanding).

He has concluded that the overall lending performance of banks during 1986-87 was satisfactory as the advances exceeded the lending targets.

Selvaraju (1998) has mentioned that LDBs have considerably diversified their loans portfolio in non-traditional purpose. In order to improve the quality of loaning and recovery through close contacts with the borrowers, the NABARD has introduced the supervised credit system. His study is an attempt to analyse the functions and working of Tiruvarur Co-operative LDB under supervised credit system. His analysis was based on primary data. His analysis reveals that 42 per cent of the borrowers have borrowed for diversified purposes and 24 per cent for minor irrigation purposes. With reference to mechanisation of agriculture, which is production-oriented, 50 per cent of the total members who have borrowed were big farmers and 33 per cent were medium farmers and 17 per cent were small farmers. The recovery performance of the bank was found in good condition under supervised credit system.

According to Ravindran (1998), despite of their impressive performance in lending, the ARDBs suffer from many weaknesses. The following are the causes for it:

i. Government interference and control at bureaucratic and political level;

ii. Top management placed by government and co-operative departments;

iii. Implementing directed credit programmes of the government;

iv. Financing target groups identified by outside agencies;
v. Less attention to credit effectiveness resulting in high overdues; and
vi. Over-staffing and inefficiencies leading to high management and transaction costs.

ARDBs are non-resource based financial institutions. They depend heavily on borrowed resources even today. Ravindran has also summarised the problems faced by the ARDBs while availing refinance from NABARD and government, NHB support for rural housing and also building up own resources.

Puthussery (1998) has conducted a study during 1995 to identify the factors determining the profitability of PCARDBs in Kerala with the following objectives.

i. To study the factors affecting profitability of primary banks;
ii. To examine the relationship between profitability and overdues;
iii. To analyse the impact of cost of management on profitability; and
iv. To evaluate the operational efficiency of these institutions.

His study reveals that 50 per cent of the primary banks in Kerala are running at loss. The overdues of these banks are increasing year by year. The increase in the growth rate of cost factors such as interest expenses and reserve for overdues resulted in the deterioration of profitability.
Yadav (1998) has stated that the basic objective of the HSCLDB is to eliminate exploitation of the farmers by the moneylenders by providing long-term loans at cheaper rate of interest repayable in easy instalments. He stressed that it is the only bank in the co-operative sector, which provides long-term loans to the farmers of Haryana through its network of 84 PARDBs within the State. The bank is advancing loans for the following purposes.

1. Minor irrigation.
2. Farm mechanisation
3. Horticulture/Plantation
4. Animal Husbandry
5. Land development
6. Non-farm sector establishing rural, tiny and cottage industries including services sector.

The bank has advanced loans to 7,41,675 ultimate borrowers worth Rs.1,538.23 crores from 1.11.1966 to 31.3.1998. The bank has recovered Rs.151.65 crores against the demand of Rs.163.63 crores during the co-operative year 1997-98, as such 92.65 per cent recovery to demand has been effected. The bank has achieved the distinction of the highest profit during the year (1997-98) worth Rs.7.69 crores because of better management of funds and curtailment of avoidable expenditures. This bank has been earning profit and paying dividend to its shareholders since its inception in 1971.
2.2 OBJECTIVES

The overall objective of the present study is to analyse the financial performance of the Primary Co-operative Agriculture and Rural Development Banks in Kanyakumari District. The specific objectives are:

1. To study the structure and functioning of the Primary Co-operative Agriculture and Rural Development Banks, the characteristics of the borrowers and the activities financed by these banks;
2. To analyse the performance of the PCARDBs in the last 10 years;
3. To examine the adequacy of credit supplied by the PCARDBs;
4. To study the credit utilisation, its impact on employment, income and repayment behaviour of the borrowers;
5. To study the problems faced by the bankers while lending and recovering loans and also the borrowers while borrowing and repaying loans.

2.3 HYPOTHESES

1. The Primary Co-operative Agriculture and Rural Development Banks depend more on borrowings than on share capital for lending purpose.
2. Provisioning NPA affects the profitability of PCARDBs.
3. Loans advanced by the PCARDBs were inadequate for the purpose it was sanctioned.
4. PCARDBs' lending is concentrated on non-farm sector and SRTO than on agriculture and allied activities.

5. There is fungibility of long-term loans advanced to farm sector and non-farm sector activities.

6. There is no significant increase in employment and income between the pre-loan and post-loan situations.

2.4 METHODOLOGY

The methods adopted in the selection of sample beneficiaries, collection of data and tools of analysis are discussed below.

2.4.1 Choice of the study Area

The present study was undertaken to assess the performance of the Primary Co-operative Agriculture and Rural Development Banks in Kanyakumari District, Tamil Nadu. This district is the largest producer of rubber. In the Eastern part of the district, people concentrate on the production of paddy, banana and coconuts. In the Western areas, they mainly produce rubber and other plantation crops. The average rainfall is 1400 mm. Moreover, this district is having a well-planned canal irrigation system. Thus, assured water facilities are available for multiple cropping in this district.

A network of Commercial banks, District Central Co-operative Bank and its branches and the Primary Agricultural Co-operative Societies in each revenue village provide the short-term loan facilities to the farming community. To cater the long-term financial requirements of the farmers there are five Primary Cooperative Agriculture and Rural Development Banks. They are
1. Agasteeswararn PCARDB - Nagercoil.
3. Thiruvattar PCARDB - Kulasekaram.
4. Thovalai PCARDB - Boothapandy.
5. Thuckalay PCARDB - Thuckalay.

These PCARDBs (earlier called as ‘Land Mortgage Bank’ and later ‘Land Development Banks’), as their name implies, are ‘development banks’ created not only for the improvement in agriculture but also for rural development in the areas under their purview. They have been lending to the non-farm sector for establishing rural, tiny and cottage industries including service sector, road transport vehicles upto the gross vehicle weight of 16 tones. Above all, the much needed database and statistical information is available from this area. On the basis of these factors Kanyakumari District is purposively chosen for the present study.

2.4.2 Data Required

To satisfy the objectives of the study both primary and secondary data were collected.

a) Secondary data

In order to evaluate the performance of the PCARDBs, required secondary data were collected from the following sources:
b) Primary Data

Primary data related to borrowers' family details, assets and liabilities, cost and returns, tools and equipments purchased, income and expenditures, old debts and new borrowings from different sources, amount utilised for the purpose for which it was sanctioned, repayments made and outstanding loans, overdues and causes for overdues were collected from the sample beneficiaries. They were collected from the sample respondents through direct personal interview with the help of a pre-tested questionnaire. Efforts were also made to contact the respondents personally to explain explicitly the objectives of the study to get proper response and co-operation from them.

2.4.3 Methods of data collection

There are five PCARDBs in Kanyakumari District. They advance long-term loans to the farm sector and also non-farm sectors. There were totally 478 'A' class members benefited from these banks during 1998-99. They form the universe of this study. Bank-wise and category-wise classification of beneficiaries were made to collect 25 per cent samples from each bank and each category of borrower to get
120 sample respondents by using a pre-tested questionnaire on the basis of proportionate purposive random sampling technique.

Table-2.1

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Category</th>
<th>Number of borrowers in the PCARDBs</th>
<th>Total number of borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Agasteeswaram</td>
<td>Thovalai</td>
</tr>
<tr>
<td>1.</td>
<td>Agriculture and Allied</td>
<td>12 (3)</td>
<td>48 (12)</td>
</tr>
<tr>
<td>2.</td>
<td>NFS</td>
<td>28 (7)</td>
<td>24 (6)</td>
</tr>
<tr>
<td>3.</td>
<td>SRTO</td>
<td>32 (8)</td>
<td>28 (7)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>72 (18)</td>
<td>100 (25)</td>
</tr>
</tbody>
</table>

Source: The PCARDB (Regional), Nagercoil.
Figures in parentheses indicate the number of samples selected and percentage of samples to total.

Table 2.1 gives a clear picture of how the samples were selected from the borrowers of PCARDBs during 1998-99. The samples selected represent 25 per cent (120) of the total number of borrowers (478) during 1998-99.

2.4.4 Analysis of Data

After collecting primary data from the sample borrowers, the data were classified and tabulated for making further analysis and interpretation of data easier.
a) Simple Average

Arithmetic Mean and percentages are used to analyse and to interpret data related to family size, number of earner and dependent, level of literacy, assets and liabilities, investments, cost and return, net income from activities financed, savings and indebtedness. Percentages and ratios of the following variables were calculated. They are used to analyse the operational efficiency of the PCARDBs in Kanyakumari District.

i. Borrowings to Working Capital Ratio

\[
\frac{\text{Borrowings}}{\text{Working Capital}} \times 100
\]

ii. Percentage of Investments to Total Assets

\[
\frac{\text{Investments}}{\text{Total Assets}} \times 100
\]

iii. Percentage of Collection to Demand

\[
\frac{\text{Collection}}{\text{Demand}} \times 100
\]

iv. Percentage of Outstanding to Demand

\[
\frac{\text{Outstanding}}{\text{Demand}} \times 100
\]
v. Percentage of Spread to Advances

\[
\text{Spread} \times 100 = \frac{\text{Advances}}{\text{Advances}}
\]

vi. Percentage of Spread to Working Capital

\[
\text{Spread} \times 100 = \frac{\text{Working Capital}}{\text{Working Capital}}
\]

c) Trend Model

In order to achieve the objective of the study, the linear and semi-log linear regression of different variables has been estimated by using the following models:

i. Simple Linear Regression Trend

\[
Y = a + bx
\]

Where

- \(Y\) = Dependent variable
- \(a\) = Constant (\(\Sigma Y/n\))
- \(b\) = Slope parameter/trend value
- \(x\) = Time variable

ii. Semi-log Linear Regression Trend

\[
Y = ab^t
\]

Log \(Y\) = log \(a + t \log b\)

\(t\) = Particular Year (Time variable)
d) Regression Analysis

To identify the significant variables, which determine the credit requirements of the sample borrowers, following linear multiple regression model has been used.

\[
\log Y = b_0 + b_1 \log X_1 + b_2 \log X_2 + b_3 \log X_3 + b_4 \log X_4 + b_5 \log X_5
\]

- \( Y \) = Total credit receipts
- \( X_1 \) = Investment
- \( X_2 \) = Gross income
- \( X_3 \) = Area of land owned
- \( X_4 \) = Education
- \( X_5 \) = Family size

e) t-Test

To study the impact of credit on employment and income, t-test is used separately for the differences in averages of before and after the utilisation of loans.

For employment, the t-test used is:

\[
t = \frac{|\bar{E}_A - \bar{E}_B|}{S.E}
\]

\[
S.E = \sqrt{\frac{S_1^2}{n_1} + \frac{S_2^2}{n_2}}
\]

Where,

- \( \bar{E}_A \) = Post-loan employment (average)
- \( \bar{E}_B \) = Pre-loan employment (average)
For income, the t-test used is:

$$ t = \frac{|\bar{Y}_A - \bar{Y}_B|}{S.E} $$

$$ S.E = \sqrt{\frac{S_1^2}{n_1} + \frac{S_2^2}{n_2}} $$

Where,

- $\bar{Y}_A$ = Post-loan income (average)
- $\bar{Y}_B$ = Pre-loan income (average)
- $S.E$ = Standard error
- $S_1$ and $S_2$ = Standard deviation of Post-loan and Pre-loan income
- $n_1$ and $n_2$ = Number of samples

### 2.5 Limitations of the study

1. There are two classes of membership - 'A' class and 'B' class. Since 'A' class members are borrower members and 'B' class members are non-borrower members and the latter is excluded from the present study.

2. Generally, producers or investors in both farm sector and non-farm sectors maintain no accounts for the investments made and
expenses incurred. So they are not in a position to give the exact, accurate facts and figure.

3. The respondents are scattered throughout the district. So the present study is not a village-level study. It led to bank-wise and sector-wise classification of respondents.

4. Even though all the 5 PCARDBs are included in the present study, only 120 (25 per cent) out of the 478 borrowers during 1998-99 are taken as sample respondents.

5. It is an area specific and bank specific study. As such the inferences arrived at and conclusion of the study cannot be generalised. It will be valid for the study area (Kanyakumari District) only.

2.6 Chapter Scheme

The first chapter includes an introduction to the topic, the importance of long-term financing by the PCARDBs at the national level, state level and district level.

A brief review of related studies, objectives of the study, hypotheses to be tested, methodology followed for collection and analysis of data, the limitations of the study and the chapter scheme are presented in the second chapter.

The third chapter gives a short profile about the credit market structure in Kanyakumari District and the characteristics of the sample respondents.
The performance of the Primary Co-operative Agriculture and Rural Development Banks in the study area is analysed in the fourth chapter.

The factors affecting the profitability of the PCARDBs including the provision for non-performing assets are clearly portrayed in the fifth chapter.

A detailed discussion on the long-term credit requirements, credit availability, credit gap, the utilisation and the repayment performance of the borrower in both the farm sector and non-farm sector are given in the sixth chapter.

A summary of findings, policy implications and conclusions of the study are given in the final chapter.

6.7 Conclusion

Earlier studies reviewed reveal that rich peasantry is harnessing most of the credit benefits. They indicate the need for motivating the farmers to borrow since such borrowings improve investment and capital formation in agriculture. Some studies reveal that cross subsidisation has reduced profit of the PCARDBs. The rate of return in rural banking is lower than the transaction cost. Further some studies suggested appointing personnel to have effective supervision and also to take efforts to provide supplementary occupations to augment the family income of the beneficiaries. An analysis of the performance of the PCARDBs in Kanyakumari District has been made in the succeeding chapters.
References


