CHAPTER 7

SUMMARY AND CONCLUSIONS

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SUMMARY AND CONCLUSIONS

7.1 Introduction

This study is an attempt to know the activities financed by the Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) in Kanyakumari district, the evaluation of these banks in terms of growth of membership, share capital, working capital, investments, borrowings, loans issued, demand, collection and outstanding of long-term loans and the profitability of these banks during the 1990's. It also includes an analysis of the characteristics of the sample respondents, extent of indebtedness, credit utilization and its impact on employment, income and repayment behaviour of the sample beneficiaries.

The approach of the study has been both descriptive and analytical. The researcher has used both primary and secondary data. The primary data have been collected by using an interview schedule. A sample of 120 (25 per cent) beneficiaries is selected from the five PCARDBs operating areas in the entire Kanyakumari district. In this chapter an attempt has been made to summarise the findings of the study. Some of the policy implications from the findings are also given in the last part of this chapter.
7.2 Summary of Findings

7.2.1 There were Primary Land Development Banks in only ten states as on 30th June 1951. The total loans advanced by them during 1955-56 amounted to Rs.1.74 crore as against Rs.1.29 crore in 1950-51. It has increased to Rs.2682 crore during 1997-98.

7.2.2 There were 225 LMBs, central and primary in the country. Out of which Madras Province alone accounted for 111 as on June 30, 1939. The number of ARDBs has increased to 3089 as on March 1998, of which Tamil Nadu accounted for 181 (5.86 per cent) banks.

7.2.3 The total membership of these banks in the country as on 30th June 1939 was 80,000, of which Madras Province alone had 48,000 (60 per cent) membership. It increased to 21 lakh (10 per cent) membership in the PCARDBs in Tamil Nadu as on 31st March 1998 as against 208.28 lakh in the country.

7.2.4 The targets of the PCARDBs in Tamil Nadu in advancing loans have increased from Rs.25.02 crore during 1990-91 to Rs.278.46 crore during 1998-99. Their achievement has increased from Rs.30.05 crore to Rs.202.20 crore during the same period.

7.2.5 The functioning of the PCARDBs was not up to the mark in Tamil Nadu. The number of banks earned profit has come down from 115 during 1990-91 to 20 during 1998-99. The number of PCARDBs, which incurred loss, increased from 66 to 129 during the same period.
7.2.6 The study reveals that there are 263 banks in this district as on 31st March 1999, of which 5 (1.9 per cent) are PCARDBs, 114 (43.35 per cent) are Primary Co-operative Banks and 16 (6.08) are other co-operative banks. The population covered per bank increased by 8.49 per cent from 1990 to 1999.

7.2.7 The bank-wise priority sector advances shows that the share of co-operative banks amounted to Rs.17,101 (45 per cent), public sector banks Rs.16061 (42 per cent) and the private sector banks contributed Rs.4781 (13 per cent).

7.2.8 The PCARDBs covers nine blocks, four municipalities and 82 revenue villages totally. The PCARDBs are not accepting deposits while other co-operatives and TIIC accept deposits from 1998-99 onwards.

7.2.9 In the demographic features of the sample units, the males outnumbered females only by a margin of 0.34 per cent. 18.81 per cent of the sample population is in the age group of below 14 years and 8.98 per cent is above 60 year and the remaining 72.21 per cent has to work and take care of the children and the old people. Only 12.5 per cent of the sample households are having three members in the family. 89.10 per cent of the sample population is literates, 3.24 per cent are illiterates and the remaining 7.66 per cent are children with less than five years of age.
7.2.10 The earner-dependent ratio ranges from 2.17 in Thovalai PCARDB area to 2.91 in Munchirai PCARDB area. It shows that 64.42 per cent of the earners are from non-farm sector and the remaining 26.38 per cent are employed in the agriculture and allied activities.

7.2.11 There are both 'A' class and 'B' class members in the PCARDBs. 'A' class members are borrowers and 'B' class members are non-borrowers. There is an increasing trend in the 'A' class membership whereas 'B' class membership remains constant to a greater extent. This shows that demand for and supply of loan has been increasing during the study period.

7.2.12 As five per cent of the loan is charged as share capital from the 'A' class members and their membership shows an increasing trend, there has been an increasing trend in the share capital year after year. The total share capital of all the five banks put together has increased from Rs.40.30 lakhs in 1989-90 to Rs.250.32 lakhs in 1998-99. The average annual growth rate of share capital was 20 per cent from 1989-90 to 1998-99.

7.2.13 The working capital position of these banks shows an increasing trend. It has increased from Rs.565.87 lakhs during 1989-90 to Rs.3366.98 lakhs during 1998-99. The compound growth rate of working capital varies from 20.01 in Thovalai PCARDB to 30.36 in Munchirai PCARDB.
7.2.14 The PCARDBs borrow from their Apex institutions like the State Co-operative Agriculture and Rural Development Bank, District Central Co-operative Bank and also from the National Bank for Agriculture and Rural Development. The total borrowings of these banks have increased from Rs.131.71 lakhs during 1989-90 to Rs.2073.72 lakhs during 1998-99. The average annual growth rate of borrowing varied from a minimum of 27.00 per cent in Munchirai PCARDB to 54.40 per cent in Thovalai PCARDB. The share of borrowings to working capital was minimum (6.17 per cent) in 1991-92 in Thiruvattar PCARDB and it was maximum (124.86 per cent) in Munchirai PCARDB in the same year.

7.2.15 The PCARDBs have to invest three per cent of their paid up share capital in SCARDB. The total investments had increased from Rs.27.63 lakhs in 1989-90 to Rs.139.08 lakhs in 1998-99. They had an average investment of Rs.16.31 lakhs during the study period. The compound growth rate of investment was 20.98, 20.87, 12.82, 7.74 and 24.04 in Agasteeswaram, Thovalai, Thuckalay, Munchirai and Thiruvattar PCARDBs respectively.

7.2.16 The PCARDBs make regular repayment of their borrowings. As the borrowings have increased the repayment has also increased proportionately. The overall average repayment is Rs.99.93 lakhs. The Thuckalay and Munchirai PCARDBs have surpassed this average level. The compound growth rate of
repayment ranged from 26.58 per cent in Agasteeswaram and 82.73 per cent in Thuckalay PCARDBs during the study period.

7.2.17 The total loans issued by all the five banks have increased from Rs.73.05 lakhs during 1989-90 to Rs.2320.11 lakhs during 1998-99. The compound growth rate of all the five banks regarding loans issued were 48.64, 38.89, 58.73, 60.62 and 35.20 in Agasteeswaram, Thovalai, Thuckalay, Munchirai and Thiruvattar PCARDBs respectively.

7.2.18 The PCARDBs can get refinance from the NABARD based on the recovery percentages. The minimum recovery percentage fixed by the NABARD is 65. The percentage of collection to demand was at a minimum of 19.72 during 1992-93 and a maximum 72.07 during 1998-99. The loan outstanding to demand was 78.96 per cent during 1989-90 and it has decreased to 27.93 per cent during 1998-99. This is a healthy sign showing the efforts taken by PCARDBs in collecting the dues from the beneficiaries. The compound growth rate of demand, collection and outstanding were 17.87 per cent, 34.5 per cent and 6.04 per cent respectively. This shows that the level of collection is nearly double than that of the demand for loan.

7.2.19 The PCARDBs are in a position to lend more than their targets except in 1997-98 during the study period. The percentage of achievement over target was 184.48 during 1992-93. The average annual growth rates of achievements (46.10 per cent) are greater than the growth rate of targets (44.10 per cent) during the study period.
7.2.20 The profitability of the PCARDBs in Kanyakumari district is influenced much by interest income, interest expenses, non-interest income and non-interest expenses, share capital, borrowing, lending policies, recovery position, accumulated profits/losses, government policy, and provision for NPA.

7.2.21 The percentage of NPA to outstanding loans was minimum in Agasteeswaram PCARDB (4.03 per cent) and maximum in Munchirai PCARDB during 1997-98 (in the year of introduction of Prudential Norms and classification of assets in PCARDBs). It has considerably reduced to a minimum of 3.44 per cent in Thovalai PCARDB to a maximum of 19.01 in Thuckalay PCARDB (except the Agasteeswaram PCARDB in which it increased from 4.03 per cent to 5.59 per cent) during 1999-00.

7.2.22 It is found that the interest income of all the five banks indicates an increasing trend except in Agasteeswaram PCARDB during 1990-91, in Agasteeswaram, Thovalai and Thuckalay PCARDBs during 1991-92 and in Thovalai PCARDB during 1993-94. The Agasteeswaram and Thuckalay banks have earned an average interest income of Rs.29.26 lakhs and 38.92 lakhs respectively, which are higher than the overall average of Rs.26.71 lakhs.

7.2.23 The total non-interest income shows and increasing trend except during the years 1990-91, 1991-92 and 1997-98. The average non-interest income of Agasteeswaram (Rs.3.69 lakhs) and Thuckalay (2.25 lakhs) PCARDBs are higher than the overall average non-interest income of Rs.2.07 lakhs.
7.2.24 The total interest expenses of all the five banks reveal that there was an increasing trend during the study period. The overall interest expenses came to Rs.22.64 lakhs. Out of the five PCARDBs in Kanyakumari district, three banks namely Thovalai, Munchirai and Thiruvattar banks have interest expenses of Rs.17.51 lakhs and 21.93 lakhs and Rs.14.99 lakhs respectively. They are lower than that of the overall average interest expenses (Rs.22.64) during the study period.

7.2.25 The total non-interest expenses of all the five PCARDBs are showing an increasing trend. Out of the five banks in this district, three banks (Thovalai, Munchirai and Thiruvattar) had average non-interest expenses of Rs.6.18 lakh, Rs.5.92 lakhs and Rs.5.12 lakhs respectively. They are lower than the overall average non-interest expenses of Rs.7.91 lakhs.

7.2.26 The average non-interest income of all the five PCARDBs except Agasteeswaram PCARDB (3.69 lakhs) in Kanyakumari district is very low compared to the average non-interest expenses. The overall non-interest income is Rs.2.07 lakhs, which is less than the overall non-interest expenses of Rs.7.91 lakhs during the study period.

7.2.27 All the five PCARDBs depend more on borrowings than on share capital for loanable funds. High proportion of borrowings affects the profitability of PCARDBs by paving the way for the need for the payment of more interest.
7.2.28 The lending policies of the PCARDBs have changed considerably. Out of the total number of loans (478), only 166 (35 per cent) loans were given for agriculture and allied activities and 312 (65.00 per cent) loans were given for non-farm sector and SRTO.

7.2.29 The recovery position of the PCARDBs has improved considerably from 21.04 per cent in 1989-90 to 72.07 per cent during 1998-99. The average annual growth rate was 40.6 per cent) during the study period.

7.2.30 The PCARDBs in the study area were suffering from net loss in all the years. Therefore the banks were not able to declare dividend to their shareholders. The accumulated loss was going on increasing from Rs.58.80 lakhs during 1989-90 to Rs.235.95 lakhs during 1998-99. The accumulated loss was the main cause for continuous loss in all the five PCARDBs.

7.2.31 Due to poor recovery, the NPA had been accumulating year after year. Higher provisioning for NPA has affected the profitability of PCARDBs in the study area during the study period.

7.2.32 The spread during the study period shows a favourable trend except in 1989-90. The spread has increased from Rs.4.33 lakhs in 1990-91 to Rs.38.73 lakhs during 1998-99. The percentage of spread to advances ranged from a minimum of 0.71 per cent to a maximum of 6.28 per cent during the study period.
7.2.33 The operating expenses of the PCARDBS showed an increasing trend. It has increased from Rs.20.25 lakh in 1989-90 to Rs.74.10 lakh during 1998-99. But the spread was fluctuating over the years. It is less than the operating expenses throughout the study period i.e., the spread is not enough to meet the operating expenses.

7.2.34 The average annual growth rate of total income is 30.6 per cent where as the average annual growth rate of total expenditure is 25.5 per cent. The growth rate of income is higher than the expenditure, which is a healthy sign to improve the profitability of the PCARDBs in course of the time.

7.2.35 The PCARDBs are viable units only when they are able to meet the cost and expense, provide for bad debts and to write off accumulated losses. The gross margin ranges from 0.80 per cent in Agasteeswaram PCARDB to 3.10 per cent in Thovalai PCARDB. The net margin is negative in Agasteeswaram and Munchirai PCARDBs, i.e., the income is not sufficient to meet all the expenses. Thovalai PCARDB has the highest net margin of 0.82 per cent.

7.2.36 An analysis of performance scores obtained by the PCARDBs indicators reveals that the Thuckalay PCARDB ranks first in its performance in the selected indicators. This situation may be attributed to the wide area of operation of the Thuckalay PCARDB, i.e., covering three (33.33 per cent) out of nine Blocks, two (50 per cent) out of four Municipalities and 25
(30.49 per cent) out of 82 Revenue villages and the resultant increase in membership, share capital, working capital and also investment. But, in terms of loans issued and recoveries made Thovalai PCARDB ranks first. Moreover, the Thovalai PCARDB has the highest net margin of 0.82 per cent. The real achievement in banking business rests on the loans and advances made, recoveries made and also the net margin earned.

7.2.37 Of the five sources of finance identified the PCARDBs contributed 95.65 per cent of credit for agriculture and allied activities, 93.46 per cent for non-farm activities and also 93.3 per cent for the small road transport operators. The nationalised banks have provided 0.42 per cent, 0.88 per cent and 3.56 per cent respectively to the above said sectors. The share of Primary Agricultural Co-operative Societies in the total credit advanced by the five sources came to only 0.14 per cent. The contributions of moneylenders and others came to 4.39 per cent to the total credit advanced by these agencies.

7.2.38 Out of 43 borrowers in the agriculture and allied activities, 38 (88.37 per cent) have borrowed up to Rs.1,00,000. Out 42 borrowers in the non-farm sector 27 (64.29 per cent) have availed more than Rs.1,00,000 as loan. In the SRTO category, out of 35 borrowers 26 (74.29 per cent) have availed more than Rs.1,00,000 long-term loan for investment purpose.
7.2.39 Credit gap exists in all the three categories of borrowers. It is high (6.70 per cent) in the case of SRTO category and low (4.35 per cent) in the case of agriculture and allied activities.

7.2.40 The percentage of loans disbursed to borrowers in the agriculture and allied activities remains minimum in all the PCARDBs. It is less than 10 per cent in the case of Agasteeswaram, Thuckalay and Munchirai PCARDBs. The loans to non-farm sector ranges from 43.16 per cent in Thiruvattar PCARDB to 73.79 per cent in Munchirai PCARDB. All the banks, except the Munchirai PCARDB, have advanced more than 40 per cent of their advances to SRTO category.

7.2.41 The utilisation of credit for investment purpose came to above 88 per cent in all the three categories. It is low (88.44 per cent) in the AA category and high (98.34 per cent) in the case of SRTO category of borrowers.

7.2.42 Out of the 120 sample borrowers, 52 (43.33 per cent) have used the credit for the intended purpose while 61 (50.83 per cent) used partially for the intended purpose. The remaining seven (5.84 per cent) of the beneficiaries have completely diverted the loans sanctioned for unintended purposes.

7.2.43 The SRTO category of borrowers have invested 98.34 percentage of the long-term loans borrowed from the PCARDBs. But it has reduced to 88.44 per cent in the case of agriculture and allied activities.
7.2.44 Out of 120 borrowers, 68 (56.67 per cent) have misutilised the loans, of which 38 (55.88 per cent) borrowers revealed that inadequacy of loans sanctioned is the cause for diversion credit and 12 (17.65 per cent) borrowers to meet their unexpected expenses. Six (8.83 per cent) borrowers have used the loan for the repayment of old debts and seven (10.29 per cent) has mentioned delayed disbursement as the cause for misutilisation for unintended purposes.

7.2.45 Only 65 (54.17 per cent) out of 120 loans sanctioned created additional employment. A comparison of post-loan employment with pre-loan employment reveals that on an average, there is an increase in employment in all the categories financed by the PCARDBs.

7.2.46 Out of the sample projects financed by the PCARDBs loans 111 (92.5 per cent) have generated additional income when compared to the pre-loan income. The increase in income varies from a minimum of 48.12 per cent in agriculture and allied activities to a maximum of 124.82 per cent in the SRTO category.

7.2.47 There are wide variations in the repayment behaviour of the borrowers. The loan amount outstanding is less (61.62 per cent) in the case of agriculture and allied activities and more (79.42 per cent) in the case of SRTO category. In both the cases, the repayment amount has exceeded 20 per cent of loan within a period of one year.
7.2.48 Out of the 120 sample borrowers, 18 (15 per cent) beneficiaries have repaid their loan within one year while 59 (49.17 per cent) beneficiaries have paid the full demand in-time. 13 (10.83 per cent) borrowers have paid more than demand during the study period while 23 (19.17 per cent) have paid less than the demand. Seven (5.83 percent) beneficiaries have made no payment at all.

7.2.49 The PCARDBs in general hesitate to take legal action against defaulters in Tamil Nadu. It was reported that it was because of government intervention through local politicians. Only Thuckalay PCARDB has taken legal action against 23 beneficiaries during the study period.

7.3 Policy Implications

Considering the problems encountered by the PCARDBs while mobilizing loanable funds, making loans and recovering the dues from the beneficiaries and also the problems faced by the beneficiaries while availing credit, utilising it and making repayments, the Central Government through the Reserve Bank of India and the NABARD and the State Government through the SCARDB should frame suitable policies to supplement the steps taken by the PCARDBs to improve their performance by serving the rural masses. The policy implications emerging out of the present study are given below.
7.3.1 Procedural Problems

The loan procedures adopted by the PCARDBs are cumbersome and time consuming. As the borrowers are required to produce land records, encumbrance certificates and also no objection certificate from other financial institutions every time they avail new loans, the following steps may be taken:

i) Introduction of Agricultural Pass Book as introduced in Uttar Pradesh to save time and money of the borrowers. For this purpose, the loan pass book should contain details like area of land and building owned by the borrower, its value, loans availed and the repayments made.

ii) The Secretary of the banks should be fully empowered as in the case of managers in other banks to sanction loans without much delay.

iii) The present system of land valuation to sanction loans by the PCARDBs is unfavourable to the beneficiaries. The members could not get adequate credit to finance their projects. This paves the way for under-financing of the projects and borrowing from informal credit agencies to fill the credit gap. The Government and the officials concerned have to take appropriate steps in such a way to provide more finance to start new projects aiming to generate employment and output to a greater extent.
iv) The recovery procedures are more rigid in nature. They should be made flexible by giving ‘repayment holidays’ when there are monsoon failures, drought or other types of natural calamities. Rescheduling repayment instalments should be allowed in the case of loans given to agriculture and allied activities instead of providing subsidies and cancellation of interest dues or loan waiving.

7.3.2 Intervention by SCARDB

The existing three-tier system, i.e., NABARD – SCARDB – PCARDBs, has failed to serve the purpose due to:

i) Delay in the processing and disbursement of loans;

ii) Fixing up a margin for the services rendered by the SCARDB raises the rate of interest than the interest rate charged by other banks;

iii) Salary payment to co-operative department staff (Special Officer/Managing Director), leave, salary, pension contributions by the PCARDBs;

iv) The present system of deposits (accepted by the PCARDBs) to be deposited in the SCARDB is a time consuming process. It leads unnecessary delay in getting back their deposits by the depositors and discourages such deposits in future.

In this regard, the Government concerned should take the following steps:
i) Establishment of two-tier system, i.e., NABARD – PCARDBs;

ii) Reduction of rate of interest at least to the level charged by other commercial banks;

iii) Avoiding the appointment of politicians as President of the PCARDBs; and

iv) Reduction of non-interest expenses by eliminating the appointment of Special Officers (in the absence of Board) and Managing Director (when there is Board).

7.3.3 Improving the Performance of the PCARDBs

To improve the performance of the PCARDBs the following steps should be taken:

i) One PCARDB should be established in each Block to serve this thickly populated district. (When there are five PCARDBs as on 31st March 1999, the average population served by each bank was 3,20,070. If there were nine banks as there are nine Blocks the average population served would be 1,77,817);

ii) Conversion of PCARDBs into full-fledged banks by allowing them to accept deposits of all kinds to mobilise the required funds for their lending programmes without any interference by the SCARDB;

iii) Persuasion of members to retain some or total of their share capital with the bank even after the settlement of
their loan, if necessary, by converting them into fixed deposits;

vii) Making policy changes to cancel the present system of investing three per cent of paid-up share capital in the SCARDB to increase the resource base of the PCARDBs.

viii) The PCARDBs should be allowed to undertake all banking businesses.

ix) The NABARD should come forward to lend liberally to the PCARDBs whenever necessary instead of the present system of providing refinances facilities on the basis of recovery performance;

x) Political interference while loan recovery should be avoided to help the PCARDBs to achieve their targets in order to help the needy rural masses instead of helping a group of rich people;

xi) The practice of loan waiver/interest reduction should be stopped since

a) it encourages improper loan repayment or default; and

b) it hurts the feelings of the beneficiaries who promptly repay the loans and make them to postpone repayment;

xii) Considering the small amount of non-interest income earned when compared to the non-interest expenses by the PCARDBs the Government of Tamil Nadu must reconsider the reduction in evaluation fee and also entrance fee. The beneficiaries should be made to pay
these amount according to their loan amount and ability to pay;

x) The policy of one time settlement (OTS) will encourage the beneficiaries to postpone their repayment instalments since they need not pay interest for some years. It will reduce the funds available for recycling of loan and the profitability of the PCARDBs. This situation necessitates suitable Government policies to supplement the steps taken by these banks to recover the loan dues.

xi) The auditors are not bank staff. Their salaries need not be paid by the PCARDBs. The payment of FR cost is a loss to these banks. To avoid this, the authorities concerned should fix a fixed amount as audit fee since he/she receives salary from the state government; and

xii) For the successful implementation of schematic lending programmes, which bear subsidy, the State Government should release the subsidy amount at the earliest to help the PCARDBs.

7.3.4 Provision for NPA

Provisioning for NPA affects the PCARDBs in the following ways:

- affects profitability;
- additional work for the bank staff;
- sometimes, banks stop credit sanction;
- NPA transferred to profit and loss account leads to accumulated loss; and
- It is a blessing in disguise to the defaulters or the rich property owning people who mostly avail loans from the PCARDBs.

As per the Revenue Recovery Act 1859, the PCARDBs loans are fully secured loans. Therefore, overdues can be collected even at a later period if the Government enacts laws to supplement the steps taken by the PCARDBs. For this,

i) Provision for NPA should be avoided to reduce the number of loss incurring PCARDBs;

ii) The interest accrued from the NPAs can be realised at a later period. It should be included in the profit and loss account which will reduce the losses if the bank incurs loss or improve the profitability of the PCARDBs; and

iii) If the Government is very particular about provisioning for NPAs, it should provide equal amount of funds to the PCARDBs to help their smooth functioning.

7.3 Conclusion

Credit for agriculture and allied activities, non-farm sector and also small road transport operators are a recurring one. Giving credit to one or two sections of the rural population on the basis of land and buildings owned will not solve the existing problem of under-finance in most of the projects financed by the Primary Co-operative
Agriculture and Rural Development Banks. The Government of Tamil Nadu should take steps to establish one PCARDB in every Block, sanctioning adequate quantum of credit, providing proper after loan services and enact laws, which supplement the steps taken by these banks to recover the overdues to increase their profitability. Periodical studies should be undertaken to evaluate the performance of these banks to identify their practical problems and to take steps to solve them.

The researcher presents this study with the hope that the present study will draw the attention of researchers to pursue their future research in the following issues.

1. The Role of Primary Co-operative Agriculture and Rural Development Banks in Rural Non-Farm Sector Development in Kanyakumari District.

2. Long-Term Finance and Transport Development in Kanyakumari District.

3. An Analysis of Overdues and Defaults on Long-Term Financing by the Primary Co-operative Agriculture and Rural Development Banks in Kanyakumari District.

4. Long-Term Financing and Profitability of Primary Co-operative Agriculture and Rural Development Banks in Kanyakumari District.