Chapter - VII

Conclusions and Suggestions

The present study is aimed at analysing the management of funds in Central Cooperative Banks. Funds management starts with raising the funds and deploying them in a profitable way. These two vital aspects have been analysed with important financial parameters. Since the major findings of the study have been summarised at the end of each chapter, the significant conclusions emerging from the study and the suggestions with policy implications are presented hereunder.

7.1. Summary and Conclusions

The results of this study are given in four parts:

(a) Trends in mobilisation of resources

(b) Sectoral deployment of funds

(c) Operational constraints related to minimum involvement, seasonality discipline, directed lending programmes and recovery problems and

(d) Operational efficiency of the CCBs based on various financial parameters.
7.1.1. TRENDS IN MOBILISATION OF RESOURCES

Resource mobilisation assumes a greater significance in view of objectives of the banks to render better service to their members. The quality of services rendered by a cooperative bank can be directly attributed to its capacity to mobilise resources. The CCBs mobilise funds both from internal and external sources. Share capital which is the internal source of the CCBs has increased 3.24 times during the study period. But the percentage of share capital received from Government has decreased indicating lesser dependence on Govt. funds. Similarly an analysis of the accumulation of reserves and other funds of the CCBs in Tamilnadu during the period between 1981-82 and 1992-93 reveals that there has been an actual growth of Rs.8,549.66 lakhs of various reserves which have multiplied 2.97 times over the period.

Deposits constitute another important source of funds of the CCBs. Deposits predominate in the composition of working capital. The average ratio of total deposits to total working capital of Salem CCB constitutes 62.1 per cent, of South Arcot CCB 51.2 per cent, of Kancheepuram CCB 53.1 per cent and of Pudukkottai CCB it is lesser at 43.6 per cent. The All India average of deposits to working capital worked out to 53.8 per cent during the same period (1989-90). Sourcewise mobilisa-
tion of deposits by the CCBs in Tamilnadu reveals that 59.6 per cent of the total deposits is from individuals and on an average 38 per cent has been from cooperative institutions. An analysis of the composition of deposits shows that the CCBs have more than 70 per cent of deposits by way of fixed deposits and reinvestment schemes, 22 per cent in the form of savings deposits and 4 per cent by way of current deposits. It is clear that all the CCBs possess more of high cost deposits and less of low cost deposits. Nabard suggested the CCBs to have 30 to 35 per cent of deposits at low cost. The CCBs are not maintaining at this level. They follow obsolete deposit mobilisation techniques.

70 per cent of the borrowings of the CCBs is for seasonal agricultural operations. The major source of borrowings is from NABARD. Borrowings to working capital of the CCBs has been 29.6 per cent at national level as on 30.6.90. But the CCBs in Tamilnadu had 39 per cent as on that date. This indicates that the CCBs depend much on borrowings over and above the deposits mobilised. The CCBs have registered steady growth in resource mobilisation over the years. The average cost of borrowings @ 11.70 per cent and the average cost of funds @ 10.90 per cent of the CCBs are found to be high. They have to take pains to have proper mix of funds to reduce the cost. They should also put their heart and
soul to mobilise more of cost free resources by way of float funds and thereby reduce cost.

7.1.2. SECTORAL DEPLOYMENT OF FUNDS

Cooperative Banks have the statutory obligation of maintaining cash reserve ratio and liquidity reserve ratio before deploying funds in a profitable way. There are instances that the CCBs in Tamilnadu are keeping excess cash reserve and liquid assets with a view to ensure that there is no shortfall in compliance with the statutory requirements. They have maintained 35.5 per cent to exorbitant highest level of 43.5 per cent. On the contrary, there are instances of the CCBs default by maintaining cash below the statutory requirement. The lowest was 23.9 per cent by Pudukkottai CCB in 1989-90. Excess cash reserve does not fetch any return and maintenance of excess cash reserve for off setting the shortfall in the investment portfolio would only end up in loss. While analysing the management of funds it is found that the liquid assets exceeded the statutory minimum level and they are not deployed in a profitable way. The CCBs experience an insurmountable problem in remitting surplus cash. Refusal of SBI to accept huge cash is the main hitch for the CCBs.

The CCBs are found deploying their resources either in low yielding securities such as India loan
1999 and in India loan 2000 which fetch 5 1/2 per cent and 6 1/2 per cent return. Moreover they are found investing in securities viz. National savings certificate which are not approved by NABARD. Further there is leakage of income by the non-collection of interest accrued on investment for years together. The CCBs do not have sound investment policy seeking to combine yield with ready marketability.

The CCBs rely more on borrowed funds which are available at concessional rates of interest. On the other hand, if the reliance is increasingly placed on deposit resources, lending becomes uneconomic as the cost of deposit is much higher than the lending rate. Deposits start yielding marginal results only after meeting SAO requirements. But, this marginality is also dampened by the unrealistic target fixed over and above the limit given by NABARD for SAO. It has totally become a white elephant and the CCBs are not able to effectively manage funds. Certain causes of the problems of profitable investment of loanable/lendable resources are 1. The high cost of deposits, 2. Directed lending programmes and 3. Administered interest rates. The CCBs burn their fingers to the extent of 1.6 per cent to 2.11 per cent in concessional advances. The CCBs are practically left without any margin in SAO.
The Salem and South Arcot CCBs had surplus gross internal resources over loans and advances during the years 1985, 1987 and 1990. Low performance in lending loans and advances and their inability to diversify their lending lead to this situation.

There has been steady growth in the non-agricultural advances of the CCBs. There was marginal growth for Salem CCB, it rose from 83.2 per cent to 84.1 per cent during the period between 1986-87 and 1990-91, while a fluctuating growth from 16.7 per cent in 1986-87 to 45.9 per cent in 1988-89 and sudden fall to 37.7 per cent in 1990-91 were experienced by South Arcot CCB. Similar trend, from 38.2 per cent to 45.3 per cent and increase to 53.5 per cent was witnessed by Kancheepuram CCB. Pudukkottai CCB had rising trend from 68.8 per cent to 91.4 per cent during the same period. Effort is made by the CCBs to have spread of investments in such a manner that losses suffered on one or two components of advances especially on agricultural front do not take away the major portion of revenue and bring down the average return.

7.1.3. OPERATIONAL CONSTRAINTS IN TERMS OF FINANCIAL OPERATIONS RELATED TO MINIMUM INVOLVEMENT, SEASONALITY DISCIPLINE, DIRECTED LENDING PROGRAMMES AND OVERDUE SYNDROME

During the research study it was found that
many CCBs were not able to maintain minimum involvement in agricultural lendings stipulated by Nabard. During the year 1986-87 Nabard had fixed Rs. 134.75 Crores as MI for all the CCBs. No CCB could achieve MI and they experienced hardship. Nabard revised the limit to Rs. 128.15 crores and enabled the CCBs to achieve MI. During that year 3 CCBs could not maintain MI which included Kancheepuram CCB taken up for study. During 1989-90 two CCBs failed, between the year 1991-92 & 1992-93 more number of CCBs failed to maintain the required level including Salem CCB which was the leading bank in the state.

The level fixed by the National bank has always been high. Banks have to involve high cost deposits in low yielding avenues. Due to the increase in the quantum of MI during the year 1990-91 even one of the good working banks viz. Salem CCB taken up for study incurred a loss of Rs. 20.79 lakhs and the earnings of the bank has deteriorated.

Further, deterioration in the earnings of the bank is due to involvement of internal funds in directed lending with administered rates of interest. The CCBs are incurring loss of 1.24 per cent to 1.74 per cent due to their owned funds involved in SAO finance and 0.15 per cent to 0.38 per cent in MT Agricultural finance.
The CCBs have come to the stage of feeling bitter that mobilisation of more and more deposits penalises the bank since M.I. is being fixed on a percentage basis on the ILR which includes deposits. 46.35 per cent of the total internal lendable resources are deployed in ST and MT agricultural finance and only 53.65 per cent of the ILR is available for deployment in other lendings to offset the loss in SAO lendings. At the same time cooperative banks are compelled to give loans for SAO by RCS over and above the credit limit sanctioned by Nabard plus minimum involvement amount. Thus the target orientation is unrealistic and leads to loss of the banks.

The loan waiver policy of the Govt. paved way for the financial instability to the Cooperative Banks. The consequence of this is that the CCB's are unable to maintain seasonality discipline imposed by the National Bank. Seasonality discipline is one of the important conditions imposed by Nabard on the CCBs. They are required to collect and remit to Apex bank atleast 40 per cent of the total demand under short term agricultural loans in respect of every cooperative year, by 30th June to qualify for drawals in ST credit limits and from 1st July in the new limit sanctioned. From the year 1985-86 to 1991-92 it was found that the CCBs could not comply with this discipline and it was more an acute problem during the year 1989-90 as ten CCBs failed
to comply with this condition. Added to this, growing politicisation and the announcement of debt relief scheme have adversely affected the recovery climate. Though massive relief was extended under ARDR scheme the cash recovery position is yet to attain the pre ARDR scheme level in most of the CCBs. The percentage of erosion of owned funds in these seven CCBs was high. In the case of Pudukkottai CCB it was 37.7 per cent as on 30.6.92. Overdues contribute as the sole reason. The percentage of overdues to demand of all the CCBs in Tamilnadu in an average stood at 69.8 per cent as on 30.6.90 and it came down to 31.3 per cent as on 30.6.93.

7.1.4 OPERATIONAL EFFICIENCY OF THE CCBs BASED ON VARIOUS FINANCIAL PARAMETERS

The operational efficiency of the CCBs has been ascertained on the basis of capital ratios indicating the financial strength of the bank by involving owned funds in lending operations, capital adequacy, marginal efficiency of capital indicated by the percentage of profit to working capital, composition of owned funds to working capital, deposits to working capital, borrowings to working capital, credit deposit ratio, owned funds to fixed assets, cost of funds, yield on assets, cost of management to working capital, cost of management to deposits, cost of management to loans issued, productivity and profitability ratios.
The ratio of share capital to total liabilities of the CCBs shows a declining trend in an average falling from 4.9 per cent to 4 per cent during the period between 1986-87 and 1992-93. This indicates lesser involvement of owned funds in the lending operations and greater dependence on other borrowings. The CCBs collect share capital from member societies when the latter borrow. It is done in accordance with the bylaw provision. They cannot increase the share collection from individual members since it is debated as a burden for a borrowing member. There is little scope for the CCBs to identify new areas of mopping up more share capital. Similarly reserves to total liabilities showed a declining trend reducing from 5.4 per cent to 4.3 per cent during the same period. The power of generating adequate reserves by the banks has become poor. This is a clear indication that the growth rate of profit has declined over the years.

The financial soundness and stability of the banks have been ascertained through their Net Capital ratio. The relationship between owned capital and total liabilities of the CCBs establishes the fact that most of the CCBs have adequate capital. Close examination of the position of owned funds of the CCBs reveals that during the year 1986-87 all the CCBs had more than 8 per cent of owned capital to total liabilities. But, gradually
it had receded in all the four banks by 1992-93. Salem CCB had 3.4 per cent, South Arcot CCB had 5.7 per cent, Kancheepuram CCB had 9.2 per cent and Pudukkottai CCB had 10.0 per cent. The CCBs have to put in more efforts to improve their capital position.

The capital adequacy of the CCBs is analysed, on capital/deposits ratios and capital/assets ratios. The average capital to deposit ratio is high for Pudukkottai CCB with 24.5 per cent. The capital to assets ratios do not show a progressive trend in almost all the CCBs. It ranged between minimum of 7.3 per cent and maximum 10.9 per cent among the four CCBs. Further, it is ascertained that the total owned funds required for investments in shares of SCB at 5 per cent and for absorbing overdues at the level of 20 per cent of the outstanding are inadequate with five CCBs which included Pudukkottai CCB taken up for study. The overdues to outstanding percentage stood at 24.32 per cent. It will not be possible for all these five CCBs to absorb the overdues fully within their owned funds. Moreover, some amount of owned funds is also required for investment in fixed assets such as in building and furniture. The proposed capital adequacy for the banking industry deals with Credit risk. Under the Bank for International Settlements (BIS) norms capital adequacy is measured as the ratio of capital to risk weighted assets. The minimum
capital standard proposed under the BIS norms is a ratio of 8 per cent of capital to risk weighted assets by 1996. With regard to Salem and South Arcot CCBs though, they reached the norm of 4 per cent to be achieved by March 1993 these banks have to strive hard to reach the ultimate goal of 8 per cent by 1996. The other two CCBs enjoy comfortable position even after taking into account the non-performing assets suggested by the committee on the Financial System.

A study on share of return from interest items to share of return from non-interest items to measure the efficiency of capital structure brings to light the fact that the share of return from interest items is higher from 93.2 per cent to 98.4 per cent than the share from non-interest items for all the CCBs. The average percentage of non-interest income was between 1.6 per cent and 6.8 per cent of the total income of the CCBs. Generally the weighted average revenue earned by the bank should exceed 15 per cent of average resources of a bank. But the CCBs do not seem to have reached this level.

The CCBs heavily depend on outside borrowings especially from Nabard. Interest cost has a direct bearing on efficiency of capital. The annual average of the component of the interest cost of the CCBs ranged
between 71.5 per cent and 80.4 per cent. It is very high with Salem CCB. In the other CCBs non-interest cost also was very high which was due to salary settlements made by the staff. The significant fact which emerges out of the study is that the CCBs are much constrained by the parametric factors on returns and cost which are in other words controlled frequently by the directed lending programmes and administered rates of interest. The rates of interest that were available to banks were lower than the market related rates or what they could have secured from alternate deployment of funds. Further there has been deterioration in the quality of loan portfolio which in turn has come in the way of banks income generation and enhancement of their capital funds.

The marginal efficiency of capital of the cooperative banks has been analysed by working out the percentage of profit to working capital. The marginal efficiency of capital during the period of study is very low for the CCBs. This indicates that the business potentiality is to be fully tapped by the CCBs and they are not making use of the capital to prudent use. Nabard has suggested that the CCBs have to achieve the ratio between 0.2 per cent and 0.5 per cent. As against this the performance of the CCBs at the level of 0.1 per cent and 0.0 per cent indicated inefficient management of funds.
during several years. Further, during the year 1990-91 the ratios indicated negative performance for Salem and South Arcot CCBs.

The Working capital of all the CCBs showed a steady increase. It had increased more than two fold in all the CCBs. Owned funds showed gradual decrease. A significant factor is that deposits predominate the composition of working capital. The average rate of total deposits to total working capital of Salem, South Arcot, Kancheepuram and Pudukkottai CCBs during the period between 1986-87 and 1992-93 constituted 62.1 per cent, 51.2 per cent, 53.1 per cent and 43.6 per cent respectively. As on 30.6.90 the All India average of the CCBs deposits to working capital stood at 53.8 per cent. Except Pudukkottai CCB (43.5 %) all other CCBs had reached this level. The owned funds to working capital of all the CCBs had exceeded the national average of 10 per cent as on 30.6.90. All CCBs had favourable growth. In respect of borrowings to working capital as against the national average 29.6% as on 30.6.90, the CCBs under study had low and high percentage on the same date. Salem CCB had 13.3%, South Arcot CCB showed 29.5%, Kancheepuram possessed 22.6% and Pudukkottai CCB had 40.1%. The above figures indicate that Pudukkottai CCB heavily relies on borrowed funds whereas Salem CCB operates with owned funds. South Arcot is nearer to the
national average and Kancheepuram CCB below that indicator exhibiting better efficiency. Based on the above study it may be suggested that the CCBs have to strengthen their own capital base.

The long term solvency of the CCBs is analysed by assessing the relationship between borrowings and owned funds. The ability of the banks to repay the debts out of their net worth is identified. Except Salem and Kancheepuram CCBs the other CCBs have higher ratios than the normal debt equity ratio of 2:1. Between 1986-87 and 1992-93 South Arcot CCB and Pudukkottai CCBs had the highest ratios of 7.9:1 and 4.4:1 respectively. This is a clear indication that creditors have greater claim than the owners and the CCBs increasingly depend on Nabard which is the main funding agency.

Effective use of loanable funds is studied through credit deposit ratio. The credit deposits ratio of commercial banks had been 56.6% during March 1993. The credit deposit ratio of Cooperative Banks has always been high. It is so with the four CCBs taken up for study. The ratio of Salem CCB was 119.7%, 162.6% for South Arcot CCB, 129.1% for Kancheepuram CCB and 165.5% for Pudukkottai CCB. The striking contrast between commercial banks and cooperative banks is that the latter lend more out of borrowed funds than the former banks.
The owned funds to fixed assets ratio indicates the financial solvency of banks. The ratio of all the CCBs indicated high financial solvency. The ratio of net profit to capital funds indicates the level of efficiency in the utilisation of funds with maximum benefits. Comparison of ratios during the study period indicates that the CCBs have to put in efforts to improve their performance.

The operational efficiency of a bank can be achieved by mobilising funds at the least cost and maximising yield on funds deployed. During the research study it was found that in Salem CCB major share of the total funds came by way of deposits forming 58.07% and borrowings formed 18.59%. The average cost of deposits worked out to 12.96% and the average cost of funds worked out to 8.92%. The study on yield on assets of the bank revealed that the average yield on assets works out to 11.66%. There is a financial margin of 2.74%. The cost of management as percentage to working fund was 2.59%. After taking into account the miscellaneous income and the possible risk cost the bank had a net margin of 0.43% during the year 1992-93. The above analysis reveals that the CCBs earn less margin in their operations. The cost of deposits is high. They have to go for low cost deposits so that the net margin can be increased.
The CCBs deal with directed credit and SAO is the traditional lending of the CCBs. The study of profitability of the CCBs in SAO has a special significance. In the light of the fact that the CCBs are entrusted with the task of purveying credit at concessional rate of interest the profitability of the CCBs in SAO is analysed for the year 1992-1993. It is derived that the CCB loses 3.68% in every SAO. All the good benefit achieved in other banking business is offset by the loss incurred under this directed lending programmes.

The operational efficiency of the CCBs based on manpower expenses plus other expenses to gross income reveals that Salem, South Arcot and Pudukkottai CCBs operate at lesser COM TO GI ratio whereas Kancheepuram CCB worked at high ratio (28.3%) but within the limit stipulated by NABARD. The COM to working capital should be within 1 to 2 per cent. The cost of management has a bearing on the profitability of a bank. Among the four CCBs during the period between 1991-92 and 1993-94. Salem, South Arcot and Pudukkottai CCBS have maintained at 2 per cent during the year 1991-92. During other periods it had exceeded 2% but it was kept within 3% which is permitted by RCS of the state. COM includes salary of the Special Officers appointed by the Government. It can be said that the establishment charges are kept under control.
The cost of management to deposits and COM to loans ratios reveal that Salem and Kancheepuram CCBs are operationally efficient or cost effective. Their expenses were kept at 0.01%. Cost is high @ 1.50% with Pudukkottai CCB. South Arcot CCB is at moderate level.

The productivity and profitability ratios of the CCBs have been ascertained to know the overall efficiency. It is indicated by input output ratio which should be less than unity. The performance of employees at the required level of efficiency reveals that the total business per employee of CCB uniformly showed an increasing trend. The Productivity rate of Salem CCB has always been much higher when compared with that of the banking system in India. During the year 1991-92 the productivity ratio of banking system was Rs.45.03 lakhs of core business per employee whereas Salem CCB had 49.31 lakhs business per employee. During the year 1993-94 for Public Sector Banks the core business per employee was Rs.51 lakhs, for Salem CCB it was Rs.62.71 lakhs. Similarly Pudukkottai CCB had high performance of employee productivity during the year 1993-94. The profitability ratios of the CCBs in terms of interest income per employee and total income per employee show steady growth and favourable position. The Performance of Salem CCB is better than the other CCBs.
7.2. SUGGESTIONS

Suggestions for improving the operational efficiency and effective management of funds of the CCBs based on the studies conducted and explained in Chapters III to VI and the views obtained from bankers, policy makers and officials are given here.

7.2.1. CHANGE IN THE MIX OF RESOURCES

Share capital is one of the important sources of fund of the CCBs. Member societies do not remit shares beyond the limit required for borrowing. The main reason is the lesser dividend declared by these banks. Dividend must be declared at least one per cent above the rate of interest offered on long term deposit by banks. Further the CCBs cover larger population by way of accepting deposits. The depositors may be admitted as associate members and equity base can be widened.

Deposits form major portion of the owned funds of the Cooperative Banks. They follow traditional method of target orientation. The target is not fixed on scientific basis. The Potentiality of the area, staff strength, expertise and experience of the staff must be taken into account while fixing the target. The CCBs may be advised to follow the techniques of deposit budgeting. Every branch of a bank should have environmental data, development schemes to be implemented in
the area and sectorwise classification of depositors and potential depositors. Based on the above, budget should be prepared and deposits must be mobilised scanning the entire command area. Cooperative banks do not have support of Government for receiving deposits from local boards and Semi Govt. institutions. In this respect commercial banks are in a more favourable position than the cooperative banks. By way of Government order, making a provision to invest funds in cooperative banks they can be placed on par with commercial banks and the deposit position will certainly improve. The cooperative bank do not formulate novel schemes suitable to the general public. They should formulate schemes at regular intervals and capture the potential depositors by having market approach. The physical facilities of the CCB branches must be improved. The CCB branches must be located in busy and potential centres.

7.2.2 CHANGE IN THE COMPOSITION OF DEPOSITS

An analysis of the performance of the CCBs shows that 67.3% to 80.2% per cent of the total deposits are mobilised by way of term deposits. Though the cost of servicing is cheaper, the cost of deposits is high. The CCBs have to mobilise more of low cost deposits even when servicing cost is marginally high. They have to mobilise more cost free float funds or improve fee based
non-fund miscellaneous business such as issue of drafts, mail transfer, TTS, collection of bills, issue of gift cheques, hiring out safe deposit lockers, income tax services, other financial services like investment portfolio, management of clients investments etc. These float funds will increase the share of total funds and will definitely reduce the average cost of funds too.

7.2.3 CASH MANAGEMENT

The CCBs maintain CRR and SLR. Either excess cash or less cash reserve is maintained by the CCBs. Excess cash maintenance does not fetch any return. Cash remittance to SBI and commercial banks in the districts and transfer of funds from districts to Apex Bank in the state capital have become a perennial problem for the CCBs. The CCBs pay huge commission to take drafts from commercial banks for transferring cash. The SBI accepts only limited cash of Rs.2 lakhs only which is not even adequate to meet the clearing liabilities. The CCBs avail of overdraft facilities to meet this contingency and pay high interest. Further Rs.500/= denominations only are allowed to be remitted in guarantee box once or twice in a month and it insists for an investment of Rs.25 lakhs to Rs.100 lakhs in term deposit for a period of 16 days or 46 days at the rate of 12.5 per cent interest per annum and to raise advances against such deposit to meet the clearing house liabilities.
Problems related to excess cash maintenance may be solved by the cooperation of the SBI and public sector banks at the compulsion of RBI. More cash chests must be opened by SBI and Apex bank in districts to accept more cash from the CCBs and by accepting cash on all the days of the week. Another solution is that cooperative banks may open accounts with four or five commercial banks in their area and arrange to remit funds into their accounts on alternate days. The supply and demand of cash at the rural branches may also be tackled by establishing 'nucleus' branches which will take care of collecting excess cash and supplying cash to the needy branches. The banks may also make arrangement to lend excess cash on call and short deposits with other banks operating in the area. In addition to the primary cash reserves, the cooperative banks should also plan for judicious investments of their secondary reserves viz., liquid assets in such a manner that they mature at regular intervals and thereby provide funds to meet the shortage of cash balance if required and at the same time it takes care of maintenance of statutory liquidity reserves at the required levels. Moreover, the investment policy of a CCB should seek to combine yield with ready marketability.
7.2.4. APPROPRIATE INVESTMENT OF FUNDS

The CCBs should not invest funds in low yielding securities like India loan 1999, India loan 2000 nor should they invest in national saving certificate which is not an approved security and permitted by the National bank. They must invest in high yielding securities. The CCBs deploy 50% of the lendable resources to ST and MT agricultural purposes. They need to diversify the lending towards non-agricultural advances which will bring more return. The CCBs should have spread of investments in such a manner that the losses suffered on one or two components of the investments, do not take away the major portion of revenue and bring down the average return sharply to an unaffordable level. They can even think of financing institutions outside the cooperative fold but which are very much connected with agriculture and allied agricultural activities or development of rural areas. The cooperative banks may provide loans to dairy development corporation for setting up chilling/storage plants repayable within five years on the hypothecation of plant and machinery and on Govt. guarantee. They can provide term loans to state electricity board in respect of their schemes for providing electric connections for energising pumpsets and also for welfare corporations set up for scheduled castes and scheduled tribes with Government guarantee.
7.2.5. ADJUSTMENT OF POLICY

The CCBs must try to reduce the level of minimum involvement of owned funds in lending to short term SAO, MT agricultural advances and weavers finance by an organised approach of taking the matter to Nabard through Apex bank federation. Further it is suggested that MI can be fixed at 25% of the total lendings for CCBs. This would help them to get adequate profit, declare reasonable dividend and stop further deterioration of earnings. Moreover, due to mounting overdues the CCBs are not able to observe seasonality discipline. Erosion in owned funds happens due to overdues of loans for more than three years. Growing politicisation being the main reason state Governments have to be strictly advised by Nabard and Central Government not to announce waiver scheme. Nabard may impose condition that credit limits will not be sanctioned to the CCBs in the state when waiver is announced. This condition may prevail upon the politicians and they may think twice before announcing the waiver which cripples the entire credit system.

7.2.6 RECOVERY EFFORTS

Recovery machinery should be strengthened and the recovery procedures tightened. Strategies towards better and effective recovery include recovery planning
and budgeting, area approach, compulsory preparation of profile of each account, strict compliance with stipulated norms on granting advances, minimising of filing suits and recalling the advances by registered notice followed by issuing legal notice, obtaining additional securities to safeguard banks interest wherever possible, enforcement of security, preferring claims from deposit insurance and credit guarantee corporation wherever possible, filing suit wherever necessary. Support from Government is essential. The banks may be kept free from outside interference and a law may be passed to punish heavily the wilful defaulters and who prevent others from remitting dues. Wilful default must be treated as an act of criminal offence and criminal proceedings may be initiated after a definite period. Farmers must be educated about the need to repay the loans. Target of recovery may be fixed for sponsoring organisations as they identify and recommend for loans initially. Block level officials involved in identifications of beneficiaries under IRDP, ISB loans must be compulsorily entrusted with the same task of recovering loans from the beneficiaries identified and recommended.

7.2.7. OPERATIONAL EFFICIENCY

The capital ratio of all the CCBs show a declining trend. This indicates the weak capital base. As
suggested earlier share capital can be collected from depositors by admitting them as 'B' class members. The CCBs have to function as profit centres, at the same time without foregoing the valuable cooperative ideology. Only when they function towards achieving profitability can reserves be built up.

The CCBs have rising interest cost burden as they heavily depend on fixed deposits for raising funds. As deposits increase interest cost also goes up. In order to promote financial efficiency in the form of marginal efficiency indicated by profits to working capital ratio, the CCBs should economise in the non-interest cost like administrative cost and increase their revenue by lucrative use of funds. Further the CCBs can try to boost returns from non-interest items by way of dealing with such banking business which will yield more commission, discounting charges, rent (on lockers) etc. Reduction of expenses in non-interest items such as rent, taxes, premium, legal charges, telephone charges, postage, travelling expenses, stationery and printing charges will help to increase the marginal efficiency of capital.

In the CCBs huge man power is wasted and expenses on postage, telephone and telegrams, etc., are incurred in furnishing various types of information to different organisations like Apex Bank, Nabard, RCS office or for
the same organisation repeatedly. Formatting such data and storing the data to be retrieved later should be done through extensive and effective use of Computers without any delay. Expenses on postage and telephones must be reduced, budgeted and strictly adhered to.

7.2.8. PRODUCTIVITY

Productivity of staff is the only way of improving the profitability of banks. At present much stagnation is found in cooperative banks. Mechanical nature of work, age old type of services, fewer promotional avenues, stagnation at lower levels, heavy workload and lack of recognition for work done are the main reasons for resentment and lesser productivity of staff. Though the productivity in the CCBs is comparatively much better than the productivity of staff at public sector banks, it can be improved by proper allocation of work, fixing responsibility at all levels, presenting standards per employee or per branch through proper redeployment of staff within the organisation.

7.2.9 PROFITABILITY

Banks to improve the profitability should be given discretion to have lending mix and to charge interest rate. This does not relate to reducing the percentage of priority sector advances. It relates to proper mix
of priority and non-priority sector advances. This will help banks to develop an active secondary market for effective deployment of funds. They will have maximum use of non-priority advances with flexibility to earn more income.

Implementation of the above suggestions as regards change in the mix of resources, change in the composition of deposits, cash management, appropriate investment of funds, adjustment of policy constraints on the banking system of cooperative banks, recovery efforts, operational efficiency, steps taken to improve the benefit factors or reduce the cost factors or both, through suitable bank policies ably supported by Government, Nabard and RCS should help in the reversal of the adverse trends in the management of funds of the CCBs, ensuring safety, stability and adequate return. The central cooperative banks will then function not only as a strong balancing centres in the three tier credit structure but will become beacons for other cooperative credit institutions.