CHAPTER - VII

SUMMARY OF FINDINGS

CONCLUSION AND SUGGESTIONS
CHAPTER VII

SUMMARY OF FINDINGS, CONCLUSION
AND SUGGESTIONS

7.1 INTRODUCTION

India is a country of villages and the development of the country depends upon all round progress of the rural areas. Rural development indeed envisages overall economic development of rural areas, harnessing the existing potential for higher production and income generation. The economic soundness of any rural development programme depends upon various inputs but one input that can help to accelerate the economic growth is capital, namely 'credit'. Credit has become an essential condition for the healthy functioning and desired progress of an agriculture dominated country like India. Credit being a scarce and critical input in economic processes, the banking system has an important role to play in contributing to the reduction in regional disparities. Commercial banks, regional rural banks and co-operative agricultural banks provide only short term and medium term finance, which are inadequate in relation to their demand. Long-term finance is very essential for agriculture and rural development. The Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) which provide the long-term loans are therefore chosen for intensive study.

The credit for agriculture and rural development through the Primary Co-operative Agriculture and Rural Development Banks (PCARDBS) is the best and cheapest source because loans are advanced for productive activities and at very low rates of interest as compared to those charged by the private moneylenders and
various institutions. These are the main reasons for selecting the topic *The Role of Primary Co-operative Agriculture and Rural Development Banks in Tirunelveli District.*

The present study highlights the agricultural as well as rural development credit extended by the Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) in Tirunelveli district and analyse the performance, factors affecting profitability, credit requirement and factors responsible for overdues.

The stratified multistage random sampling technique has been used to select the sample beneficiaries, taking the district as universe, banks as strata and member borrowers as the ultimate unit. In Tirunelveli district, there are eight PCARDBs and the bank wise list of borrowers is obtained for five years from 2000-2001 to 2004-05 to select the 300 sample respondents for primary data collection.

In the foregoing chapters, the performance of the PCARDBs in terms of membership, working capital, lending performance, share capital, borrowings and the like, the factors affecting the profitability and the management of the non-performing assets, credit requirement, utilization, impact of long term finance and factors responsible for over dues have been discussed. The major findings along with conclusions and few suggestions are presented in this chapter.

**7.2 SUMMARY OF FINDINGS**

7.2.1 The study shows that the credit market structure in Tirunelveli district comprises of both a formal structure and an informal structure. There are 252 (100 per cent) banks in Tirunelveli district as on 2004-05 of which 8 banks (3.17 per cent) are PCARDBs, 154 are commercial banks (61.11 per cent), 51 are Regional Rural banks (20.23 per cent), 26 banks are District Co-operative Banks (10.32 per cent). The number of Urban Co-operative Banks is 10 (3.97 per cent) and 3 other financial institutions (1.20 per cent) function in Tirunelveli district.
7.2.2 The eight PCARDBs functioning in Tirunelveli district cover 19 blocks, 14 taluks and 588 revenue villages.

7.2.3 The study has proved that there is an increasing trend and growth in the membership, share capital and working capital during the period under study in Tirunelveli district. The Valliyoor bank is relatively stable when compared to all other banks. The growth of the membership paid up share capital and working capital is high in the Ambasamudram bank. This may be due to the large area covered by the bank in the issue of loans, when compared to the other banks in the district. Therefore, there is more scope for providing huge amounts to borrowers and thereby the compound growth rate is high.

7.2.4 The PCARDBs borrow funds from the State Co-operative Agriculture and Rural Development Bank (the apex bank) and from the District Central Co-operative Bank. As per the by laws of the bank the PCARDBs can borrow only 20 times the paid up share capital plus reserve funds.

The trend and growth of borrowings are found significant and positive except in the Valliyoor PCARDB. Regarding the fluctuations over a period, the value of the coefficient of variation indicates that the Valliyoor bank is relatively more stable than other banks; it is followed by Vasudevanallur bank. High fluctuation is observed in Ambasamudram bank.

In all the eight banks the percentage of borrowings to working capital has gone above the 75 per cent level. This higher ratio shows that the PCARDBs depend more on borrowings than other sources of funds for their lending operations. The share of paid up share capital and reserves is meager and the deposits are nil, as these banks are not allowed to accept different types of deposits.
The compound growth rate of borrowings was high in Ambasamudram bank and is negative in Valliyoor bank. This may be attributed to the difference in the amount of total loans advanced by these banks and the requirement of funds.

7.2.5 The PCARDBs must invest a minimum of two per cent of their paid up share capital in the apex bank (SCARDB). They are also allowed to invest in shares issued by the Indian Farmers Fertilizers Co-operatives (IFFCO), the District Central Co-operative Bank (DCCB), the Co-operative Printing Press, the Post Office Savings Certificate and the like. Higher the share of investments in the total assets higher will be the financial strength of the banks.

The trend and growth of investment are found positive and significant in all the PCARDBs in Tirunelveli district. The calculated value of coefficient of variation indicates that more stability in investment is found in Valliyoor bank when compared to other PCARDBs in Tirunelveli district. High fluctuation in investment during the period under study is observed in Tirunelveli bank.

The percentage of investment to the total assets remains less than five per cent in all the PCARDBs except Tirunelveli PCARDB (6.61 per cent). The compound growth rates of investments made by the PCARDBs are found high in the Tirunelveli PCARDB.

7.2.6 The repayments made by the PCARDBs to the higher level lending agencies are equally important compared to the repayments made by the beneficiaries of these banks. Irregular repayment of the PCARDBs prevents them from availing further funds for their functioning from the institutions like the SCARDB and the NABARD.
Bank-wise analysis of repayment showed that stability in repayment is observed in the Tenkasi bank followed by the Tirunelveli banks. High fluctuation in repayments is observed in Kuruvikulam bank.

The trend coefficients of repayments made by the PCARDBs are statistically significant only in three banks (the Ambasamudram PCARDB, the Nanguneri PCARDB and the Tirunelveli PCARDB). The overall trend coefficients of all the eight PCARDBs are significant during the period under study. The compound growth rate of Ambasamudram PCARD is high (16.62 per cent) compared to other PCARDBs. This situation may be attributed to the regular settlement of loans by this bank to avail further funds to carry on its lending operations continuously.

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

Stability in the loans issued during the period under study is found in Vasudevanallur bank. Negative and significant trend is observed in the Sankarankoil and Valliyoor bank. A positive trend and growth of loans issued are found in the Ambasamudram bank and all other banks has a negative growth.

7.2.8 The demand for the collection of loan amount has increased from Rs.639.60 lakhs in 1995-96 to Rs.3020.51 lakhs in the year 2004-05. The
percentage of collection to demand varied from 35.84 per cent in the year 1995-96 to 49.62 per cent in the year 1998-99. After that the asset classification norms for the PCARDBs and SCARDBs has been implemented and tightened from March 2000. The percentage of collection to demand started decreasing from 1999-2000 and it is only 15.49 per cent during 2004-05.

The trend and growth of demand, collection and outstanding are found positive and significant at the 5 per cent level during the period under study. The compound growth rate of the collection of loans is 10.62 per cent and outstanding of loans is 22.82 percent (double the growth rate of collection).

7.2.9 Regarding targets and achievements, the achievements are more than the targets up to the year 1996-97. After that during the year 1997-98, with the introduction of new provisioning norms there is a drastic downfall in achievements in Tirunelveli district. The PCARDBs are affected adversely as an immediate consequence of the implementation of the provisioning norms. During 1998-99 and 1999-2000, the PCARDBs turned around and again started to show profit. But the asset classification norms for the co-operatives are further tightened from the year ended March 2000 in line with those for the commercial banks. Therefore from the year 2000-01 the achievements show a declining trend and are much less than targets. The trend and growth rate of achievement is found to be negative and insignificant over the period under study.

7.2.10 The ranking of the PCARDBs is made on the compound growth rate registered by each PCARDB with reference to the different indicators of PCARD Banks' development. The analysis showed that Ambasamudram bank stood first in performance in the selected indicators followed by Tirunelveli PCARDB.
7.2.11 The prudential norms involving income recognition, asset classification and provisioning requirement have been made applicable to PCARDBs from the accounting year of 1997-98. Therefore, it is found essential to study the concept of NPAs, its impact on the working results of PCARDBs, the causes and remedies, the strategies of NPA reduction and the like.

The study demonstrates that the percentage of NPA to total loans outstanding shows an increasing trend. This situation severely affects the profitability of the PCARDBs. Therefore, the researcher’s null hypothesis “provisioning of NPA does not affect the profitability of PCARDBs” is rejected, proving that the provisioning of NPA affects profitability of PCARDBs in Tirunelveli district.

7.2.12 Analysis of the impact of the NPAs on the credit growth of PCARDBs shows that with high NPAs, banks are left with no other alternatives except to resort to the reduction in issue of loans and accordingly it is noticed that there is a declining trend in the loans issued by the PCARDBs in Tirunelveli district. During the study the issue of loans of all the eight PCARDBs shows an increasing trend from 1995-96 to 1997-98. It is Rs.694.92 lakhs in 1995-96 and increased to Rs.944.28 lakhs during the year 1997-98 (pre-prudential norms period). Immediately after the introduction of the prudential norms in 1997-98 in co-operative banks, out of eight PCARDBs in Tirunelveli district, the issue of loans in three PCARDBs decreased compared to previous years performance. Though the prudential norms has been made applicable to PCARDBs in the year 1997-98, they have been given an extended period upto 1999-2000 to create full provisioning as required. As a result of this, there is a steady deceleration in the matter of loans issue from 1999-2000. It ranges from Rs.985.54 lakhs in 1999-2000 to Rs.23.65 lakhs during the year 2004-05. This situation rings a warning bell to take concrete steps to revitalize the PCARDBs.
7.2.13 An adverse impact of the prudential norms on the recovery performance of PCARDBs is noticed during the study. It is found that after 1997-98 there is an increasing trend in loans outstanding in the district. It ranges from Rs.410.34 lakhs during 1995-96 to Rs.2552.78 lakhs during 2004-05. The percentage of collection to demand started decreasing after 1999-2000 and it is only 15.49 percent during 2004-05. Because of this situation, the PCARDBs became ineligible to get refinance from the higher refinancing agencies. The ever-increasing incidence of overdues is not only affecting the capacity of the co-operative banking system to recycle the funds and accelerate the flow of credit at the grass root levels but also its profitability and viability.

7.2.14 The study of the impact of the NPAs on the profitability of PCARDBs shows that both losses during the years and accumulated losses during the study period are on the increasing path. The long-term structure which was otherwise not in its best of health even before the application of the prudential norms is adversely affected due to the impact of the implementation of the norms. As on 1995-96 the accumulated losses of the PCARDBs are Rs.371.99 lakhs after implementation of the prudential norms in 1997-98 the accumulated losses increased to Rs.1068.71 lakhs in 1998-99. During 2004-05 the accumulated losses of the PCARDB in Tirunelveli district jumped to Rs.2483.88 lakhs.

It may be appreciated from the above situation that wherever financial fundamentals are strong; these adverse impacts would only be a temporary phenomenon which could be overcome quickly. The PCARDBs even after several years of the implementation of prudential norms, failed to improve their position. This may lead to the inference that prudential norms itself may not be solely responsible for the deterioration in the working results of the PCARDBs.
7.2.15 The other key factors which affect the profitability of the PCARDBs are income factors, expenditure factors and restrictive co-operative law and negative government attitude.

7.2.16 It is observed that after the implementation of the prudential norms the income of the PCARDBs (both interest and non-interest) started declining. In 1995-96, the PCARDBs earned Rs.173.43 lakhs and it increased to Rs.514.67 lakhs during 1999-2000. In the year 2000-01 it declined to Rs.503.54 lakhs. During the year 2004-05 it is only Rs.389.68 lakhs.

7.2.17 The non-interest income of the PCARDBs shows an increasing trend from 1995-96 to 1998-99. After 2000-01 there is a declining trend in the non-interest income of PCARDBs. It declined from Rs.29.29 lakhs in 2000-01 to Rs.13.78 lakhs in 2004-05. Stable non-interest income is found in the Tirunelveli bank. The highest fluctuation is found in the Kuruvikulam bank. A negative trend and growth are observed in the non-interest income in almost all the banks.

7.2.18 Regarding the expenditure factors the trend and growth of non-interest expenses are found to be increasing except in the Valliyoor bank during the period under study. The highest growth is observed in the Kuruvikulam bank with regard to the interest expenditure and the Nanguneri bank with regard to the non-interest expenditure.

7.2.19 Spread is the difference between interest expenses and interest income. The percentage of spread to advances fluctuates much, especially in the year 2004-05. The situation shows that the banks suffered huge loss during the year.
The operating expenses have increased from Rs.77.53 lakhs in 1995-96 to Rs.115.54 lakhs during 2004-05. There are high fluctuations in the percentage of operating expenses in relation to spread.

7.2.20 Regarding the legal action taken and the recovery of loans, the number of overdue borrowers as on 1.4.2003 to 31.3.2004 varies from 741 in the Valliyoor bank to 3525 in the Nanguneri bank. The legal action taken against the borrowers ranged between 142 in the Sankarankoil bank to 468 in the Tenkasi bank. The overdue amount varied from Rs.142.43 lakh in the Kuruvikulam to Rs.407.67 lakhs in the Tenkasi bank. The amount of recovery is lower than the amount of overdue at the end of the year. This situation reflects that some special measures are required to bring the overdue figures under control for the better performance of the PCARDBs in Tirunelveli district.

7.2.21 The profitability ratio of key indicators shows that there is wide fluctuation in the ratios in all the indicators over the period. Especially during 2004-05 the variations are alarming. The profitability ratios indicate that there is some growth in the performance of PCARDBs from 1995-96 to 1997-98 and the PCARDBs earned a meager profit during the year 1997-98. But after 1997-98 (post prudential norms period) there is wide fluctuations and continuous negative trend in profitability ratio of the PCARDBs and it is –24.01 during 2004-05. On the whole this picture of PCARDBs proves that the sound practices of managing the credit risk in PCARDBs is of foremost importance and urgent as well.

7.2.22 Regarding the demographic features of borrowers, the analysis shows that in the case of sex composition, males are more than females only by a margin 3.33 per cent. Out of the 300 sample borrowers, majority of the borrowers
are in the age group of 30-40 years. The family size is found to be a maximum of 4 members (114 respondents). Illiterates are numerous (38.67 percent) in the study area. The analysis of employment status shows that more than fifty per cent of the borrowers are engaged in agriculture and allied activities (52.02 percent) followed by the non-farming sector (29.39 percent).

7.2.23 The source-wise supply of credit indicates that out of the total amount borrowed from different sources by the borrowers, 93.08 per cent is taken from the PCARDBs followed by the nationalised and commercial banks and only a very small proportion (2.52 percent) is borrowed from private money lenders and others. The analysis shows that out of the 300 sample respondents, 51.67 per cent have availed below one lakh followed by 19.67 per cent and 15.33 per cent who have availed 1 to 2 lakhs and 2 to 3 lakhs respectively.

7.2.24 The analysis of the credit gap has proved that the credit gap is found high in the non-farm sector (31.57 percent) followed by the rural housing credit. Regarding utilisation, out of the total credit, the loan amount used for investment purpose varies between 78.60 per cent in agriculture and allied activities and 93.72 per cent in the farm mechanisation sector. It is found that the farm mechanisation category borrowers used maximum amount for investment purpose (93.72%) followed by the NFS borrowers (92.65 per cent). Out of the 300 sample borrowers, only 52.67 per cent of them have fully utilized the credit for the purpose and nearly 7.33 per cent have diverted their full credit to some other purposes.

7.2.25 The reason for diverting their funds is mainly due to the inadequacy of loan amount followed by the payment of old debts. The analysis of the impact of the long-term financing has brought out the fact that the employment and income have increased after getting the loan from the PCARDBS in Tirunelveli district.
7.2.26 In order to identify the factors responsible for overdues, the discriminant function analysis has been used. The results have revealed that the level of Education, family consumption expenditure, own Funds, and total family annual income are the characteristics which discriminate the borrowers into defaulter and non-defaulter.

7.2.27 Further the analysis proved that the per capita annual consumption expenditure, annual family income and level of education discriminate the defaulters into willful and non-willful defaulters.

7.2.28 Regarding the problems faced by the borrowers, 30 to 40 per cent of the borrowers mentioned the distance of banks from their place as their foremost difficulty. Another important reason is the land valuation system followed by the banks to fix the loan amount. The undue delay in the sanctioning of loans, lack of customer service, lengthy and cumbersome legal formalities and general reemissions by the State Government are other important problems faced by the borrowers in the study area.

7.3 POLICY IMPLICATIONS

Agriculture and Rural Development Banks at present are passing through a critical phase with regard to their operations and structural viability. In order to compete with other financial institutions these banks will have to take care of the existing and new challenges by restructuring and by simplifying its existing policies. There are some very important areas of concern which need to be addressed immediately. The policy implications emerging out of the present study are given below:
7.3.1 SYSTEMS AND PROCEDURES

1. The loaning policies and procedures are to be streamlined and simplified. The ARDBs have scope for cutting down delays in sanctioning loans and simplifying the procedures, keeping in view the interest of the borrowers who are mostly illiterate. However, a specific time limit is prescribed by the register of co-operative societies (27 days) the bankers do not adhere to the time limit in most of the cases.

2. Term loans given are to be supervised for ensuring proper utilization and the continued use of the assets for realizing increased income levels by borrowers. Loans need to be serviced through constant contacts with borrowers, which are not the practice with the banks at present. Normally the banks' field staffs visit borrowers only when they are in default. This practice should be changed for improving recovery.

3. The Secretary of a bank should be fully empowered as in the case of the managers in other banks to sanction loans without any limit (i.e., the loan sanctioning power of the PCARDBs should be enhanced from the present limit of Rs.15000).

4. Borrowers even in rural areas look forward to higher standards of customer service, which is not satisfactory in the PCARDBs at present. Long waiting for getting a loan is the most important impediment to customer satisfaction in the ARBDs. Under competitive market conditions in lending and resource mobilisation, better attention to customer service is vital.
5. The entire advances of the ARDBs are going for capital formation only. However, the ultimate benefits of loans from ARDBs depend on the utilisation of the asset created. The non-availability of adequate working capital to put the assets to optimum use has been one of the main problems faced by the borrowers. The NABARD and the concerned officials should take appropriate steps to extend adequate production credit along with term loan by the ARDBs to their borrowers in order to optimise the benefits of long-term loans. (Several committees have recommended this).

6. To increase the efficiency of service and improvement of management, information system, modern technology in IT and communication sectors may be introduced in the ARDBs. It also helps to cut costs in the long run by the reduction of manpower.

7. The recovery procedures are rigid in nature. They should be made flexible by giving ‘repayment holidays’ when there are monsoon failures, drought or other types of natural calamities.

8. The State Governments’ attitude to the banks problem of overdues has not at all been helpful. On the contrary, the banks quite often faced Government interference in recovery and orders against defaulters.

7.4 CONCLUSION

Credit for agriculture and allied activities, non-farm sector and rural housing is a recurring need. 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 PCARDBs. 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 and increase their profitability. The ARDBs have to move on to the efficiency track if they have to compete in the market-oriented economy. The financial sector reforms have also triggered a sea change in the quality and contents of banking operations of the co-operative sector. Therefore co-operative banks have to gear themselves upto not only to increase their volume of business so as to attain sustainable viability but also to diversify their business to other non-commercial areas also to increase their profitability.

The researcher presents this study with the hope that it will draw the attention of researchers to pursue their future research on the following issues:

1. The role of the Primary Co-operative Agriculture and Rural Development Banks in Rural Non-Farm Sector development and other innovative schemes.
2. Prudential norms and effective management of the NPAs in the PCARDBs.
3. Long-term financing and profitability of the Primary Co-operative Agriculture and Rural Development Banks.
4. Strategy and issues in diversification of the PCARDBs' lending portfolio.