CHAPTER VIII

SUMMARY AND CONCLUSIONS

The development of agriculture holds the key to the progress of Indian economy. A strong foundation of agriculture is a necessary condition for sustained and rapid economic and social development in our economy. Without this, it will be impossible to accelerate growth and ensure sustained improvement of the economy of the people. Because of the inter relationship existing between agricultural development and general economic development, there is urgent need for increased agricultural production.

For stimulating the tempo of agricultural production it is imperative that the farmers must be provided with essential prerequisites like fertilizers, improved seeds, irrigation facilities, modern implements, marketing facilities etc. It is obvious that without adequate and timely credit they will not be able to make use of these essential inputs. The use of greater and better quality of inputs would mean greater demand for rural credit.
pioneers in long-term credit for agriculture and were established
only for this purpose. In recent years they have been expanding
their activities and diversified lending portfolio not only for
the activities based on agriculture, but also for non-farm sectors
and housing in rural India. Thus the scope for Agricultural and
Rural Development Banks is increasing. But their financial
characteristic often make it difficult for them to meet the
expectations placed on them. The basic financial characteristic
of these banks is that they are more effective vehicles for
distribution than accumulation.

These banks in Kerala have a two-tier-structure—Primary
Agricultural and Rural Development Banks at the primary level and
State Agricultural and Rural Development Bank at the apex level.
They are organised on a co-operative basis. It is true that
profit alone is not the main or sole motive of co-operatives. But
the objective of any organisation is to increase the volume,
reduce cost and overheads to obtain a surplus for its strength,
stability and growth.

In recent years the profit-earning capacity and funds
management of Primary Agricultural and Rural Development Banks in
Kerala are under severe strain. Fifty per cent of the primary banks in Kerala are running at loss. The overdues of these banks are increasing over the years and their funds are blocked and eroded. The operational efficiency of these institutions is also deteriorating in recent years. If this situation continues it may even question the very existence of these banks. Hence a study was attempted on the primary banks in Kerala with the following objectives:

1. To examine the funds management practices of the Primary Agricultural and Rural Development Banks in Kerala
2. To evaluate the operational efficiency of these primary banks
3. To study the factors affecting profitability and to examine its relation with the overdues
4. To analyse the structure of overdues in these primary banks
5. To identify the determinants influencing overdues
6. To identify the operational and managerial problems of the Primary Agricultural and Rural Development Banks.

For analysing the above objectives a sample of six banks were selected from the universe of 31 primary banks. The selected
banks were Irinjalakuda, Tirur, Thodupuzha, Ernakulam, Kozhikode and Thiruvananthapuram. The banks were selected by categorising them on the basis of their overdue percentage and volume of funds. The data were collected from the Annual Reports and Records of these banks from 1983-84 to 1992-93. A primary survey at the beneficiary level was also conducted to identify the factors and reasons for overdues.

The tools used for analysis were ratios, percentages, graphs, regression and ANOVA. The computed ratios were compared with the standard developed by the researcher.

The major observations of the study are summarised in the following paragraphs:

Efficiency in Mobilisation

For analysing the efficiency in mobilisation two ratios were used. Borrowings to working fund ratio shows the proportion of external dependence and owned fund to working fund ratio shows the proportion of own resources. Among the selected banks the IRK, TRR and EKM were efficient in mobilisation as they have less
borrowings to working fund ratio and high owned fund ratio. The other three banks had high borrowings to working fund ratio and a low owned fund ratio. Both these ratios showed a declining trend due to high overdues and less reserves.

Efficiency in Deployment

The credit to working fund ratio and credit to borrowings ratio were used to analyse the efficiency of the banks in deploying their funds. The credit to working fund ratio was high for TPZ, EKM and TVM. These banks lend maximum to borrowers. The IRK and TRR had high non-interest income due to high investment in outside securities. This resulted in low credit to working fund ratio. The declining trend of this ratio shows the inefficiency of the banks in deploying the funds.

Credit to borrowings ratio shows the ability of the banks to convert their borrowings to lending. The EKM, TPZ, IRK and TRR are lending more than their borrowings. The other two banks did not even lend what they borrowed. These banks are not subject to any normal financial restrictions of keeping of reserves, maintenance of liquidity etc. So they can lend the
entire amount borrowed and a portion of owned fund. But these banks are not lending upto their lendable capacity.

Ability in Controlling Expenses

The ability in controlling the expenditure of the selected banks is analysed with the help of three ratios, viz., interest expense to borrowings ratio, cost of management to credit ratio and establishment charges to cost of management ratio. The interest expense to borrowings ratio was high for KZD, IRK and TPZ. The increasing trend (7.35 to 9.95 per cent) of this ratio is due to revision of interest rate by NABARD and it also affects the profitability of these banks.

As the number of employees in TRR are more than what is needed as per the standard norm the cost of management to credit ratio was high for this bank. This is a factor which affects the profitability of this bank. This ratio in aggregate showed an increasing trend (1.46 to 1.84 per cent) during the study period. Normally, this ratio should come down when the volume of business increases. But for almost all the banks this ratio showed a
rising trend. This shows the inability of the banks in controlling their expenditure.

The establishment charges to cost of management ratio was also high for TRR and is due to the reason already explained. The IRK has sufficient volume of business to justify the number of employees and had a low ratio. The low ratio of TVM is due to the mass retirement of employees in recent years and no corresponding recruitment is made. This ratio also showed a rising trend (65.54 to 76.37 per cent). Thus these three ratios clearly indicate the increasing trend of expenditure.

Overall Efficiency

Six ratios were computed for analysing the overall efficiency of the selected primary banks. Interest expense to interest income ratio showed an upward trend from 80.06 per cent to 88.06 per cent. This trend is shown by all the banks. This clearly indicates that interest expense is growing at a higher rate than interest income. The total expense to total income ratio was high for all the banks except IRK and EKM. During the later years of the study total expenses exceeded total income for
almost all the banks. The increasing trend of this ratio clearly indicates that for all the banks there is increase in expenditure but no corresponding increase in income.

Interest received to credit ratio shows the return for the loan given. This ratio showed an upward trend (8.98 to 11.49 per cent) for all the banks due to revision of interest rate. The returns to working fund ratio shows the return on the total working fund. This ratio was low for KZD and TVM, the overdues of which are high.

The interest coverage ratio shows the debt servicing capacity of the banks. This ratio was low for all the banks except IRK and EKM. This ratio showed a decreasing trend from 109.99 to 98.12 per cent. This shows that the debt servicing capacity of the banks is decreasing. The performance recovery ratio reveals the collection efficiency of the banks. The decreasing trend (92.32 to 69.97 per cent) of this ratio shows the poor recovery performance of these banks.
Components of Spread and Burden

The two important sources of income are interest income and non-interest income. To analyse the composition of total income each type of income is related to total income. Similarly the total expenses consist of interest expenditure and non-interest expenditure and that also related to total income. The proportion of interest income and interest expense is high for TPZ, TVM and KZD compared to other banks. Similarly the non-interest income was less for these banks. The non-interest expenditure was high for all the banks except IRK and EKM. In aggregate it is found that there is no change in the interest income and non-interest income. But the interest expenditure showed an upward trend (from 73.46 to 80.30 per cent) for all these banks.

Spread, Burden and Profit

The profitability of the banks is analysed by using spread, burden and profit ratios.

Spread is the difference between interest income and
interest expenditure. The decreasing trend of spread to working fund ratio (1.49 to 0.89 per cent) shows the decline of margin available in interest transactions. The burden is the difference between non-interest income and non-interest expenditure. The burden to working fund ratio in aggregate did not show much variation. But this ratio should come down when the volume of business increases. A conclusion about profitability can be taken only after considering the gross profit and net profit ratios.

Gross profit is the difference between spread and burden. The gross profit to working fund ratio showed a declining trend from 0.89 to 0.65 per cent during the period of study. This is true in the case of all the banks. The net profit to owned fund ratio is the real indicator of profitability of the banks. The IRK (12.92 per cent), EKM (11.02 per cent) and TRR (4.54 per cent) showed profit position. The TPZ (-2.06 per cent), KZD (-8.48 per cent) and TVM (-8.93 per cent) showed loss. In aggregate the net profit to owned fund ratio showed a continuous decrease from 6.43 per cent to -3.44 per cent. Thus all these four ratios clearly indicate the deterioration of profitability in these banks.
Determinants of Profit

The regression analysis indicates a significant negative relationship between profitability and overdues. Thus as hypothesised, the quantum of overdues and the rates of profit are inversely related. This implies that there is scope for improving the profitability of these banks by reducing the overdues.

Comparison of Financial Statements

The non-interest income helps EKM to maintain profitability as it shows significant positive relationship to profit. The heavy cost of management (non-interest expenditure) negatively influences profitability even though not significant for some other banks. Thus, as hypothesised, the cost of management negatively influences the profitability of the banks.

Growth Rate of Profit Factors

Profitability of these banks is influenced by the cost components and income factors. The growth rate of cost components are high compared to income factors. The total expense is growing at a rate of 15.82 per cent, while total income is growing at the
rate of 14.88 per cent. The establishment charges grow at a higher rate of 16.93 per cent compared to cost of management which is growing at the rate of 15.01 per cent. The growth rate of demand is also high (20.31 per cent) compared to that of collection (16.52 per cent). This, in turn, resulted in the high growth rate of overdues (41.86 per cent) and decline of profit.

Comparison of Financial Statements

The financial statements between two periods (1984 and 1993) for all these sample banks were analysed to identify the comparative changes. When comparing the sources and applications of funds it was found that in the source side the proportion of share capital, borrowings and other liabilities were declined and the reserve for overdues increased. In the application side the cash, bank balance and investments were increased and credit declined. There is no much change in the proportion of fixed and other assets.

When comparing the income and expenditure between these two periods, there was no change in the composition of income. The interest expenditure, establishment charges and reserve for
overdues were increased, while the administration overheads declined. Thus, in net effect, the profit position turned to loss. Since the administration overheads declined, the only factor responsible for high cost of management is ever-increasing establishment charges. The same thing was also clarified earlier while computing the growth rates of profit factors. Thus, as hypothesised, the cost of management continuously increases due to constant increase in the establishment charges.

Interest Margin

From the analysis of the margin (spread) received by the primary banks it is found that, at present, on an average they are receiving only a gross margin of Rs. 1.74 and net margin of Rs. 0.17 per hundred rupee of lending. But the apex bank is receiving a gross margin of Rs. 1.52 and net margin of Rs. 0.95 per hundred rupee. Even though there is parity in gross margin the primary banks have to incur high cost of management for managing the credit. So it is essential to redistribute the division of interest margin.
Intra Bank and Inter Bank Variations

Intra bank and inter bank variations were studied with the help of ANOVA and critical difference test. Intra analysis proved that there is significant difference in the behaviour of majority of the variables over the years. This argument was further supported by the results of critical difference test. Similarly with respect to the behaviour of variables between banks, TRR, TPZ, KZD and TVM formed a homogeneous group. The behaviour of IRK and EKM was found to be distinct from the other four banks. These two banks were efficient in all the respects and earned profit during the entire period of study.

Structure of Overdues

The structure of overdues was analysed by taking the purpose-wise and age-wise classification of overdues. The purpose-wise classification of overdues depicts the quantum and percentage of overdues in each scheme. Age-wise classification of overdues gives the detailed break-up of overdues on the basis of the number of years for which it is due for payment.
Among the selected banks IRK and TRR are efficient in the collection of instalments on due dates. But even in the case of these banks the overdues were increased during the latter half of the study period. However, the major portion of the overdues of these banks were less than one year. Minor irrigation and land development contributed the major share of overdues in the case of IRK. But in the case of TRR minor irrigation alone contributed the major share of overdues.

The overdues in the case of TPZ increased heavily during the last year. The major share of overdues (55 per cent) in recent years is due for more than one year. Six per cent of overdues is due for more than three years. Major share of the overdues is contributed by plantation and land development.

In the case of EKM 45 per cent of the overdues is due for more than one year and 12 per cent for more than three years. Minor irrigation and plantation contributed the major share of overdues. This bank succeeded in controlling the overdue percentage from 33 per cent in 1990-91 to 23.06 per cent in 1992-93.
The quantum of overdues in the case of KZD is very high. Nearly 75 per cent of overdues was due for more than one year and 25 per cent for more than three years. Plantation contributed the major share of overdues in the case of this bank. This bank succeeded in improving its overdue position and reducing the quantum of overdues from Rs. 133.49 lakhs to Rs. 108.35 lakhs in the last year of the study. It also succeeded in clearing off its overdues (6 per cent) which was outstanding for more than five years. But the quantum of overdues is still 30 per cent of the total demand.

The overdue percentage of TVM is increasing year after year. The overdues of this bank is more than its collection. 75 per cent of the overdues was outstanding for more than one year and 25 per cent for more than three years. The percentage of overdues outstanding for more than five years was 3.35. Unlike other banks this bank has overdues in the schemes of non-farm (31.78 per cent) and land development (29.33 per cent).

Thus it is found that the overdues in non-farm and land development is high in the case of high overdue banks. The age of the major share of overdues is more than one year in the case of
these banks. The hard core overdues is also proportionately high in the case of banks having heavy overdues.

Socio-economic Factors and Nature of Default

For analysing the reasons for default a sample of 300 defaulters were selected from the sample banks. They were selected by categorising them into small, medium and large. These defaulters were grouped into wilful and non-wilful on the basis of their repayment capacity.

On analysing the nature of default (wilful and non-wilful) it was found that majority of them were (58.67 per cent) non-wilful defaulters. But when the total amount of overdues of the selected defaulters were taken 53.86 per cent were from wilful defaulters and only 46.14 per cent from non-wilful defaulters. From the analysis it was clear that the wilful default is high in the case of farmers having more land area, better education, alternate occupation, lesser age group, high loan amount, high family expenditure, high total income, long delay in receiving the loan and those who have dissatisfaction.
with the services of the bank. The family size did not show any significant relationship with the nature of default.

Degree of Satisfaction

On analysing the nature of default in relation to each bank it was found that wilful default is high in the case of banks having high percentage of overdues. It was also evident that majority of the defaulters were dissatisfied with the services of the high overdue banks.

An enquiry into the level of satisfaction of the defaulters was made in relation to the selected variables like the amount of loan, rate of subsidy, formalities in getting instalments in time and rate of interest. Majority of the defaulters were satisfied with all these variables except the subsidy system and the formalities in getting the loan. They suggested that the subsidy system should be retained in the original form and the formalities in getting the loan should be further simplified.
Determinants of Overdues

From the regression results it was revealed that family expenditure is the only variable strongly influencing the overdues in all the banks and in all types of farmers. It is also evident that even though many defaulters have the capacity to repay, they are not repaying their loans and remain in default.

Reasons for Default

1. The major reasons for default were identified as wilful neglect, modification of subsidy system, high family expenditure, low income, misutilisation of income from the project, Government policy of loan waiver etc. The reasons differ in the degree of importance from bank to bank and for different farm size groups. This validates the third hypothesis that the wilful default of the beneficiaries is the major reason for mounting overdues. The bank authorities were also partially responsible for increasing overdues by lack of supervision, ineffective leadership, lack of personal contact and improper scale of finance.
Managerial and Operational Problems

There are certain managerial and operational problems both at the institutional and beneficiary level which adversely affect the fund management of the primary banks. Some of these issues have already been reflected in the earlier discussions. Any way the major managerial and operational problems are listed below:

1. The Secretaries and other top officials of the banks are not properly trained to take the emerging challenges of modern banking business.

2. There is also lot of unnecessary political interference in the time of recovery of loans which adversely affect the further flow of credit.

3. The interest subsidy granted by the Government is received only after two or three years of the due date.

4. The credit needs of the farmers are not assessed at micro level which results in improper scale of finance and consequently overdues.
Thus the major conclusions of the study are:

1. The primary banks having a low recovery percentage are found to be inefficient in mobilisation and deployment of funds.

2. The operational efficiency and overall return is low in these banks.

3. The owned fund position is also weak in these banks.

4. The debt servicing capacity of these banks is decreasing in recent years.

5. The establishment charges constitute the major component of the cost of management and the growth rate of establishment charges is higher than the growth rate of cost of management.

6. The cost of management is also high in these banks and it continuously increases due to constant increase in the establishment charges.
negatively affects the profitability. This validates the first hypothesis that the cost of management negatively influences the profitability.

7. The banks which earn proportionately high non-interest income is found to be profitable.

8. The margin received by the primary banks is not sufficient for their profitable running.

9. The analysis concretely established that the growth rate of collection is lower than the growth rate of demand. Consequently the overdues accumulate at a very rapid rate.

10. Because of the problem of mounting overdues referred to above the profitability is deteriorating year after year. Hence the second hypothesis is well established.

11. The major portion of overdues in these banks is due for more than one year.

12. The non-farm and land development contribute a significant portion of overdues in the case of high overdue banks.
13. The hard core overdues is proportionately high in the case of banks with heavy overdues.

14. The socio-economic factors affect significantly the nature of default, i.e. wilful and non-wilful. The analysis proved that wilful default is high in the case of defaulters having high size of holding, better education, high family expenditure, more procedural delay in receiving the loan amount and dissatisfied with the services of the banks.

15. The analysis identifies that one significant determinant which influences the overdues is the heavy family expenditure.

16. The major reasons responsible for heavy overdues are identified as wilful neglect, modification of subsidy system, high family expenditure, misutilisation of income from the project and inappropriate Government policy. This validates the third hypothesis that the wilful default of the beneficiaries is the major reason for mounting overdues.

17. The bank authorities are also partially responsible for mounting overdues by lack of supervision, ineffective leadership, lack of personal contact and improper scale of finance.
Recommendations

In course of the study a large number of drawbacks, shortcomings and problems have come to light. The researcher likes to give the following recommendations for solving these problems. They will go a long way in remoulding and reshaping the policies and techniques of operations of the Agricultural and Rural Development Banks in Kerala.

1. The owned fund position of the primary banks can be improved by capital contribution of the apex bank, NABARD and the State Government.

2. The operational efficiency and overall return can be improved by controlling the establishment charges and increasing the volume of business.

3. The debt servicing capacity of these banks can be improved by increasing the overall returns.

4. The establishment charges can be controlled by implementing the norms already fixed for staff pattern.

5. The non-interest income can be increased by allowing these
banks to invest a portion of owned fund in profitable securities.

6. The margin of the primary banks can be improved by appropriate redistribution of total margin. Out of the total interest margin, $\frac{2}{3}$ can be given to primary banks and the balance $\frac{1}{3}$ is sufficient for apex bank.

7. The high growth rate of overdues can be controlled by implementing the procedures for speedy recovery.

8. Special care is needed in the collection of overdues in non-farm and land development as these two schemes contribute the major share of overdues in the case of high overdue banks.

9. The hard core overdues should be segregated and a special cell is necessary in the bank for monitoring the action and follow-up in this regard.

10. The defaulters can be categorised into wilful and non-wilful. The overdues of wilful defaulters should be collected immediately by implementing the steps of recovery.
The non-wilful defaulters can be given extension of time, if necessary.

11. The beneficiaries' dissatisfaction regarding the employees' negative attitude and unpleasant behaviour can be improved by imparting proper training.

12. The time lag in receiving the loan amount, which makes a negative impact on the prompt repayment, can be reduced by giving proper information manual. This manual should contain the formalities to be completed in receiving the loan amount.

13. The subsidy system can be retained with proper modification. It should be given to small and deserving beneficiaries in terms of interest subsidy itself at the time of prompt repayment.

14. There can be effective supervision in the utilisation of loan amount by allotting a definite number of loanees within a specified area under each supervisor.
15. Proper linking of marketing with credit is of great significance in controlling the misutilisation of income from the project.

16. The granting of loans should be based not only on land security, but also on the character of the beneficiaries.

17. There should be proper and reasonable leadership to the bank and the directors should maintain personal contact with the beneficiaries in the concerned area and take moral responsibility to persuade them to repay the loan amount.

18. The increase in the overdues due to over financing and under financing of the project can be avoided by proper scale of finance.

19. Further diversification in lending in the direction of agriculture allied activities is necessary to keep the banks with sufficient volume of business.