

**A STUDY OF AGRICULTURAL AND RURAL DEVELOPMENT BANKS
IN KERALA WITH SPECIAL REFERENCE
TO FUNDS MANAGEMENT**

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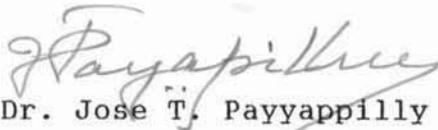
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This is to certify that the thesis "A Study of Agricultural and Rural Development Banks in Kerala with special reference to Funds Management" is a bona fide record of research work done by Shri. Joy Joseph P. under my supervision and guidance. The thesis is worth submitting for the award of the degree of Doctor of Philosophy in Management.

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CHAPTER I
DESIGN OF THE STUDY

Introduction

Agriculture is the most important sector in the Indian economy. "Agriculture and allied activities constitute the single largest contributor to the Gross Domestic Product (G.D.P), accounting for almost 33 per cent of the total. They are vital to the national well-being as, besides providing the basic needs of the society and the raw materials for some of the important segments of Indian industry, they provide livelihood for almost two thirds of the work force. The share of the agricultural products in the total export earnings, both in primary and processed form, is very significant."¹

The National Commission on Agriculture (1976) emphasised that the agricultural sector has to grow at a much faster rate than before not only for its own sake, but for the sake of the

¹ Government of India, Planning Commission, Eighth Five Year Plan (1992-97), Vol.II, New Delhi, 1992, p.1.

economy as a whole.² Hence the prosperity of the country entirely hangs on the prosperity of the agricultural sector. If agriculture stagnates, it will act as a break on industrial expansion and halt real growth. But it is obvious that there is hardly any possibility of substantial increase in the area of cultivation. Therefore, intensive cultivation appears to be the only way to boost agriculture. The All India Rural Credit Review Committee (1969) has stated "with arable land in the country forming about 52 per cent of the total geographical area it has generally been recognised that possibilities of the future development of agriculture lay more in increasing yield per unit of land already brought under cultivation. For a breakthrough in agricultural stagnation, it is, therefore, imperative that the farmer is so stipulated and helped that the same land may be used for multiple cropping and for increasing substantially the yield per acre."³

The emergence of green revolution during late sixties

² Report of the National Commission on Agriculture, Part II Policy and Strategy, Department of Agriculture, Government of India, New Delhi, 1976, p.26.

³ All India Rural Credit Review Committee, Reserve Bank of India, Bombay, 1969, p.55.

and introduction of new agricultural technology in India, has converted the nature of agriculture. Due to these, the farmers tended towards the replacement of traditional methods of farming with scientific and developed methods. For instance, use of High Yield Variety (HYV) of seeds, fertilizers, pesticides, irrigation, machinery and equipment etc. requires huge amount of capital which is beyond the capacity of most of the farmers. Due to this the farmers compulsorily depend upon borrowed funds. This causes the increasing demand for credit. So, in respect of transformation of traditional or subsistence farming into commercial farming, the importance of agricultural credit has increased comparatively more.

The development of institutional credit is, thus, a basic condition for agricultural progress. The history of agricultural development in all advanced countries shows that an integrated system of institutional credit laid the foundation of agricultural prosperity. The objective of the institutional credit is to make a breakthrough in the vicious circle of poverty

and debt, and to stimulate the farmer to boost agricultural productivity.⁴

On the basis of period, credit needs of farmers may be classified as short-term, medium-term and long-term. Short-term loans are given for seasonal agricultural operations directed towards raising crops on land, including reasonable amount for the maintenance needs of the farmer and his family. These loans are given for a period of 9 to 12 months and are repayable after the crops are sold.

The medium-term loans are given for a period ranging from 12 months to 5 years for the purpose of purchasing cattle and farming implements. Long-term credit is given for a period ranging between 5 to 20 years for making permanent improvement in land. The purposes include digging and repairs of well, purchase of motors, agricultural machinery, construction of farm house and for plantations.

⁴ Mathur B.S., Land Development Banking in India, National Publishing House, New Delhi, 1974, p.7.

Importance of Long-term Credit

In the past, as agriculture was in a primitive stage, the need and necessity of long-term credit was not felt. Agriculture was considered to be a gamble and there was no certainty of assured production on account of various natural calamities. Investment in agriculture was neither adequately rewarding nor the result of investment quickly secured. These factors largely accounted for lack of adequate finance for long-term investments in agriculture.

One of the most encouraging features of the present situation is that the isolation to the agricultural sector is being rapidly broken and, in a sense, agriculture is being industrialised and commercialised.⁵ The new innovations in agricultural technology have opened up vast potentialities for development of agriculture. Now long-term credit is viewed essentially as dynamic credit in the sense that it helps the farmer to create assets on land, thereby progressively increasing

⁵ Report of the Study Group of the National Credit Council, Government of India, New Delhi, 1969, p.2.

his output and adding to the agricultural production of the country.

The demand for long-term finance has been increasing during the last few years. This is due to the increasing realisation on the part of the farmers that agriculture should be persuaded more as an industry and business, by putting more capital investment on land and increasing the production potential. The most important institutional agency providing long-term credit directly to millions of farmers is the Co-operative Land Mortgage Banks, currently known as the Agricultural and Rural Development Banks.

Agricultural and Rural Development Banks

The Agricultural and Rural Development Banks are the pioneers in long-term credit for agriculture and were established only for this purpose. Still they continue to occupy an important position and cater to the investment credit requirements of farmers. 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 these banks is increasing.

The Agricultural and Rural Development Banks in Kerala have a two-tier-structure, viz., 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. These banks play a significant role in the long-term agricultural finance. Currently, of the total requirements of long-term agricultural credit in Kerala about 40 per cent is met by these banks. They have to provide sufficient capital to farmers at reasonable cost and at the same time, as an organisation they have to maintain a minimum level of profit. 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 volume, reduce cost and overheads to obtain a surplus for its strength, stability and growth.

The primary banks in Kerala are passing through a critical stage in their growth. A good number of them is running at loss and their overdues are increasing over the years (Table 1.1). The operational aspect of these banks is also not

Table 1.1

Statement Showing the Percentage of Primary Banks in Loss and their Overdues to Demand in Kerala from 1983-84 to 1992-93

Year	Percentage of primary banks in loss	Percentage of overdues to demand
1983-84	18.78	18.06
1984-85	8.82	19.89
1985-86	17.14	27.22
1986-87	19.44	30.60
1987-88	18.92	35.42
1988-89	32.50	40.29
1989-90	33.33	46.80
1990-91	47.62	41.94
1991-92	51.16	37.43
1992-93	48.84	40.04

Source : Government of Kerala, Hand Book on co-operative Movement, Various Issues, Department of Statistics, Thiruvananthapuram.

satisfactory and hence there is the need for a detailed study of the factors affecting the operational efficiency and profitability of the Primary Agricultural and Rural Development Banks in Kerala.

Statement of the Problem

In recent years, the profit earning capacity and funds management of the Primary Agricultural and Rural Development Banks in Kerala are under severe strain. Fifty per cent of the primary banks are running at loss. Apriory two basic reasons can be attributed for this state of affairs. One reason is the constantly increasing overdues and the second is the inefficiency in the funds management of these banks which is the result of multiple factors. Because of these problems nowadays majority of the primary banks are forced to follow the policy of restricted lending. If this situation continues it may even question the very existence of these banks. Hence the study was conducted with the following objectives .

Objectives

The objectives of the study are:-

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.

Hypotheses

The major hypotheses of the study are the following:-

1. There is an inverse relationship between profitability and cost of management of the Primary Agricultural and Rural Development Banks.
2. Quantum of overdues and the rates of profit are inversely related.
3. Wilful default of the beneficiaries is the major reason responsible for mounting overdues.
4. Cost of management continuously increases due to the constant increase in the establishment charges.

Scope of the Study

The scope of the study is limited to the selected Primary Agricultural and Rural Development Banks in Kerala and it mainly concentrates on three important aspects:

1. The efficiency and effectiveness of the funds managed
2. The structure of overdues
3. The reasons and factors affecting overdues and its impact on profitability.

Methodology

The Primary Agricultural and Rural Development Banks and their defaulters constitute the universe of the study. On 31st March 1991 there were 42 primary banks in the State. Of these, 10 banks started functioning only after 1983, i.e., during the study period. The Perinthalmanna Bank was working with an overdue of 80 per cent and was in loss for all the years because of special lending to Adivasi Project of the State Government. Hence these banks were left out while selecting the sample banks.

Sample

The National Bank for Agriculture and Rural Development (NABARD) divides the primary banks into different categories on the basis of the percentage of overdues. But the norm followed by the NABARD is inconsistent due to frequent revisions (Appendix I). So for the present study the primary banks were grouped into three, as those banks which have overdues less than 20 per cent, those between 20 per cent to 40 per cent and those between 40 per cent to 60 per cent. The number of banks in group I is nine, in group II twelve and in group III ten (Appendix II). From these three groups two banks each were selected. While selecting these banks due consideration was given to have representation to different districts and banks with different volume of funds. The selected primary banks in group I are Irinjalakuda and Tirur, in group II Thodupuzha and Ernakulam and in group III Kozhikode and Thiruvananthapuram.

For the purpose of the study altogether 300 defaulters were selected from these six banks. The sample was taken by categorising the defaulters into three: small farmers with land area less than 1.50 acres, medium farmers with 1.51 to 2.50 acres

and large farmers having more than 2.50 acres. Landholding in Kerala is comparatively low in relation to other states in India and larger number of lending is to those farmers below 1.50 acres. So the number of defaulters selected from small farmers was 150, medium 90 and large 60. Thus from each bank a sample of 50 defaulters were selected maintaining the same proportion of different farm size of defaulters. For the selection of the sample, a list of defaulters dividing them into small, medium and large were taken from the selected banks as on 30th June 1992. While drawing the sample due care was given to select the defaulters who have taken loan under different schemes through stratified random sampling. The defaulters in the schemes of non-farm and rural housing were not included in the survey as they were introduced recently and not directly related to agricultural activities.

Period of the Study

The study is restricted to 10 years, i.e., from 1983-84 to 1992-93. This is due to the following reasons:

1. The National Bank for Agriculture and Rural Development

(NABARD) was formed only on 12th July 1982.

2. The data prior to this period is rarely available and data of a minimum period of 10 years is advisable for statistical analysis and statistical significance.

Data and Procedure of Collection

The study was conducted with the help of primary and secondary data. The data for analysing the fund management practices and operational efficiency were collected from the Annual Reports of these selected banks for the period 1983-84 to 1992-93. For analysing the structure of overdues an age-wise and purpose-wise classification of overdues were taken from the records of these banks. To analyse the factors affecting overdues the primary data were collected from 300 defaulters through a pre-tested structured schedule. The primary level survey was conducted during the year 1992-93. A detailed interview and discussion with the presidents and other top officials of the selected banks were also conducted to identify the managerial and operational problems.

Tools for Analysis

To examine the fund management practices and to evaluate the operational efficiency, ratio analysis has been used. The ratios were calculated by grouping them into three:

1. Ratios in relation to mobilisation and deployment of funds.
2. Ratios in connection with expense and overall efficiency.
3. Ratios in relation to spread and burden.

The computed ratios were compared with the standards developed.

Average Annual Growth (AAG) rate was used for the comparison of growth rates of different financial variables like income, expenses, borrowings, credit, overdues, profit etc.

Regression analysis was attempted to identify the factors affecting the profitability of the banks. The independent variables selected were overdues, non-interest income, interest income, non-interest expense (cost of management) and interest

expense. ANOVA (RBD type) was used for examining the intra bank and inter bank variations.

The structure of overdues was analysed with the help of percentages. To know the impact of the socio-economic variables on the nature of default chi-square test was used. The determinants influencing the overdues was examined with the help of step-wise regression. The independent variables selected were the amount of loan, agricultural income, total income and family consumption expenditure. Graphs were also used to indicate the trend of essential variables.

Limitations

The structure of Agricultural and Rural Development Banks in Kerala consists of a two-tier system — primary banks at the base and the apex bank at the state level. The scope of this study is restricted to the selected primary banks and the sample defaulters.

The period of the study is limited to 10 years from 1983-84 to 1992-93. However, in the year 1989 the Co-operative

Act was amended making the co-operative year from 1st April to 31st March in order to bring a uniform pattern in tune with the financial year of other organisations. In order to bring these changes the absolute figures for the year 1988-89 was appropriately adjusted.

Scheme of the Study

The study consists of eight chapters. The introductory chapter starts with a discussion on the importance of Agricultural and Rural Development Banks in investment credit. This is followed by the statement of the problem, objectives, hypotheses, methodology, scope and limitations of the study.

The second chapter traces the evolution of the Agricultural and Rural Development Banks and reviews their growth. A brief description of the selected primary banks is also given.

A review of fund management is given in chapter three. The sources and applications of funds are also analysed in this chapter.

The efficiency in mobilisation and deployment of funds is explained in chapter four. The ability to control expenses and to increase the overall efficiency is also examined.

The factors affecting the profitability and its relation with overdues are studied in chapter five. An intra bank and inter bank comparison is also attempted.

The sixth chapter analyses the structure of overdues. This is done by taking scheme-wise and age-wise classification of overdues.

The impact of socio-economic factors on the nature of default and the reasons for overdues are analysed in chapter seven. The determinants influencing the overdues are also analysed.

The conclusions and recommendations are given in the final chapter.

CHAPTER II

AGRICULTURAL AND RURAL DEVELOPMENT BANKS IN KERALA — AN OVERVIEW

The first Land Mortgage Bank, called the "Land Mortgage Bank of India Ltd." was established by an English Company in 1863. It was incorporated in London on the model of Credit Foncier of France.¹ For about 20 years the bank carried on a profitable business throughout India. Thereafter its loan operations declined and the bank was closed shortly after 1885. It is significant to note that this bank was a purely private concern which enjoyed no subsidy and received no special privilege from the Government.

One of the earliest schemes for the establishment of state-aided Land Mortgage Banks was that framed by the Government of India in 1882. The scheme contemplated the establishment of private bank and the Government of India had agreed to give this bank the privilege of recovering its debt through revenue courts. The tentative scheme was however, rejected by the secretary of

¹ B.S. Mathur, Land Development Banking in India, National publishing House, New Delhi, 1974, p.20.

state for India in 1884 on the ground that the position of the proposed bank was anomalous.²

The first Co-operative Land Mortgage Bank saw the light of the day in Punjab when in 1920 such a bank was organised at Jhang. Its membership was confined to landowners and agricultural credit societies. Loans were given for the redemption of land, liquidation of unsecured debt and improvement of land. By 1931 there were 12 Co-operative Land Mortgage Banks in Punjab. The depression, with the accompanying fall in land values, and the existence of the Land Alienation Act mainly accounted for their failure to which the defaults of directors and honorary workers who were themselves large borrowers also contributed.³

The real beginning of the land mortgage banking in India was marked by the establishment of Central Land Mortgage Bank in Madras in 1929 for centralising the issue of debentures and for co-ordinating the working of primary banks in that province. This gave considerable impetus to the organisation of new primary banks

² Ibid. p. 21.

³ Review of the Co-operative Movement in India, Reserve Bank of India, Bombay, 1939-40, p.36.

and within 10 years the number of such banks in Madras increased from 10 to 119.⁴

In Bombay the formation of Land Mortgage Bank was suggested as early as 1923, but the scheme could materialise by 1929 only, when three primary banks were started in that province. These banks were financed by Bombay Provincial Co-operative Bank out of the funds raised by the issue of debentures.⁵ In Orissa a Provincial Co-operative Land Mortgage Bank was established in 1938-39 which, however, financed the members directly through its branches.

At this stage the working of the Land Mortgage Banks was carefully examined by the Royal Commission on Agriculture (1928) Central Banking Enquiry Committee (1931) and various provincial Banking Enquiry Committees. The Royal Commission strongly opined that Land Mortgage Banks should be established only after most careful preliminary enquiry. The Commission recommended that the Government should guarantee the interest on the debentures of

⁴ Ibid., p.37.

⁵ Choubey B.N., Agricultural Banking in India, National Publishing House, New Delhi, 1983, p. 260.

these banks. The Central Banking Enquiry Committee emphatically emphasised that no money should be advanced which was not economically profitable to the borrower and the loans should be devoted to the principal object specified.

Depression Period

The great depression of the thirties resulted in a catastrophic fall in price particularly of agricultural commodities. This affected the repayment capacity and there is heavy demand for mortgage loans. The number of these banks increased to 226 in 1938-39.

War Period

The war came as a boon to the agricultural classes as it led to a boom in prices. The repaying capacity of the farmers increased and they were able to clear off their old debts. Another factor which had an adverse effect on the transactions on *Land Mortgage Banks* was that the debt adjustment boards, which were established in various provinces and states, scaled down the debts of the agriculturists and made them payable in easy

instalments. The Government also provided loans under "grow more food" campaign. This left hardly any incentive for the agriculturists to approach the Mortgage Banks for accommodation.

Post-Independence Period

During the post-independence period the war time phenomenon of restricted demand for loans was reversed. This was due to food shortage which assumed serious proportions and called for allout efforts for increasing agricultural production. Large scale improvement in land and methods of cultivation assumed greater importance, and Land Mortgage Banks which had so far confined their attention to financing the discharge of old debts, were required to play an effective part in providing finance in connection with land improvement also.

It is evident from Table 2.1 that there was an all round progress for Land Mortgage Banks during this period. The membership of Primary Land Mortgage Banks increased from 1,39,075 to 2,44,617 while their working capital rose from Rs.400.94 lakhs to Rs.866.30 lakhs. The fresh advances made by these banks increased from Rs.73.98 lakhs to Rs.146.18 lakhs, while the loans

Table 2.1

Progress of Land Mortgage Banks in India from 1946-47 to 1952-53

(Rs. in lakhs)

Particulars	Central Land Mortgage Banks		Primary Land Mortgage Banks	
	1946-47	1952-53	1946-47	1952-53
Number	5	7	268	288
Membership	6,493	36,418	1,39,075	2,44,617
Share capital	34.38	49.36	34.38	66.81
Working fund	516.67	1230.86	400.94	866.30
Fresh advances	62.77	170.31	73.98	146.18
Recoveries	32.59	68.91	40.03	53.88
Loan outstanding	342.64	937.70	360.32	793.79
Overdues	0.46	31.13	3.38	14.20

Source : Statistical Statements relating to Co-operative Movement
in India, Various Issues, Reserve Bank of India, Bombay.

outstanding from Rs.360.32 lakhs to Rs.793.79 lakhs during the period under review. The progress made by the Central Land Mortgage Banks was also quite appreciable.

The overall position was that barring Madras, Bombay and Mysore land mortgage banking was either imperfect or hardly developed at all. In more than half the states there were not even a single Land Mortgage Bank. Most of the Land Mortgage Banks were concerned too much with the redemption of old debts, and too little with the improvement of land and agriculture and the introduction of better methods of cultivation.

The danger of advancing loans for liquidation of old debts were highlighted as early as in 1937, e.g. in the Statutory Report of the Agricultural Credit Department of the Reserve Bank as under.

"Our investigations into the working of Land Mortgage Banks in India reveal that in the liquidation of old debts, to which they are at present devoting their almost exclusive attention, they are running the risk of falling into the same

error which was committed by co-operative credit societies in the past."⁶

In 1945 Agricultural Finance Sub-Committee also observed "Co-operative Land Mortgage Banks in India have so far been advancing loans almost exclusively for the redemption of old debts. It should not, however, be forgotten that the main object of land mortgage banking is to finance land improvement."⁷

The policies and procedures followed by the Land Mortgage Banks hardly benefited the small and medium types of agriculturists. According to All India Rural Credit Survey Committee these banks never touched the main agricultural population. They catered to the need of only rich and big agriculturists.⁸

⁶ Statutory Report of the Agricultural Credit Department, Reserve Bank of India, Bombay, 1937, p. 215.

⁷ Report of the Agricultural Finance Sub-Committee, Government of India, New Delhi, 1945, p. 54.

⁸ All India Rural Credit Survey Committee, Reserve Bank of India, Bombay, 1954, p. 225.

Rural Credit Survey Committee (1954)

The publication of the report of the All India Rural Credit Survey Committee in 1954 proved to be the most important landmark in the history of co-operative movement in India. The Survey Committee inter alia recommended the establishment of Central Land Mortgage Bank in each state. The State Governments were enjoined to review their tenure and tenancy laws to take steps to eliminate such features in those laws which were hindrances to the development of a simple and effective system of land mortgage banking. The Committee also recommended that the size of Government contribution to share capital, while subject to a minimum of 51 per cent, should be such as to establish, an adequate number of Central Land Mortgage Banks whose financial structure enabled them to borrow adequately. The Land Mortgage Banks were advised to reorient their operation to production, i.e., they were expected to give first priority to applications for loan for improvement, reclamation and development of land, purchase of agricultural machinery and equipment and for other

productive purposes. Along with these, the banks were to reduce loans for non-productive purposes.⁹

Progress During Second and Third Plans

The land mortgage banking received a great impetus after the publication of the Rural Credit Survey Committee Report. The second Five Year Plan incorporated some of the main recommendations of the committee. Apex banks were established in Bihar, Kerala and Rajasthan during 1957, West Bengal and Punjab during 1958 and Uttar Pradesh and Goa during 1959. The progress of Land Mortgage Banks during the period 1955-56 to 1965-66 can be seen from Table 2.2.

It may be observed that co-operative land mortgage banking made significant progress during the period 1955-1965. The number of Central Land Mortgage Banks increased from 9 to 18 and Primary Land Mortgage Banks from 302 to 673. Paid-up capital of Central Land Mortgage Banks increased from Rs. 7.90 to Rs.15.39

⁹ Ibid., pp. 436-39.

Table 2.2

Progress of Land Mortgage Banks in India from 1955-56 to 1965-66

(Rs. in crores)

Particulars	Central Land Mortgage Banks		Primary Land Mortgage Banks	
	1955-56	1965-66	1955-56	1965-66
Number	9	18	302	673
Membership (in thousands)	90.71	403.24	314.13	1048.42
Paid-up capital	7.90	15.39	0.86	11.18
Working capital	18.53	206.59	11.35	136.93
Borrowings	17.20	238.80	10.19	124.20
Loan operation				
i) Loan issued	2.83	56.41	1.74	41.23
ii) Loan outstanding	13.08	163.26	10.51	124.33
Overdues	1.15	3.05	0.24	4.42

Source : Statistical Statements relating to Co-operative Movement
in India, Various Issues, Reserve Bank of India, Bombay.

crores and that of Primary Land Mortgage Banks from Rs.0.86 to Rs.11.18 crores. Loan issued from Central Land Mortgage Banks increased from Rs.2.83 to Rs.56.41 crores and that of Primary Land Mortgage Banks from Rs.1.74 to Rs.41.23 crores.

Problems connected with the development of land mortgage banking was considered by several committees during this period. Broadly, the recommendations of these committees envisaged a land mortgage banking structure which would restrict itself to financing long-term improvement in agriculture. In July 1963 Agricultural Refinance Corporation was established with a view to augmenting the resources available for long-term loans. One of the most significant developments in the field of long-term credit was that Land Mortgage Banks began to orient their loan policies towards provision of loans for productive purposes and started providing increasing attention to agricultural development and that is why they began to be called Land Development Banks or Agricultural Development Banks.

Trend and Progress from 1975-76 to 1991-92

In recent years the Agricultural Development Banks made considerable progress (Table 2.3). Even though the number of

Table 2.3

Progress of Agricultural Development Banks in India

from 1975-76 to 1991-92

(Rs. in crores)

Particulars	1975-76	1985-86	1991-92
No. of State Agricultural Development Banks	19	19	20
No. of Primary Agricultural Development Banks*	2026	2747	3194
Owned fund	154.23	473.34	778.07
Debenture outstanding	1384.31	2854.46	4832.46
Loan disbursed	205.62	533.23	992.31
Loan outstanding	1068.57	2625.32	4738.24
Overdues	64.24	323.54	944.61
Demand	170.67	717.77	1891.10
Recovery	106.43	394.23	946.49
Recovery percentage	62.36	54.92	50.05

* Includes the branches of State Agricultural Development Banks

Source : Statistical Bulletin, Research and Development Cell,
National Co-operative Agricultural and Rural Development
Banks' Federation Ltd., Bombay.

State Agricultural Development Banks increased only from 19 (1975-76) to 20 (1991-92) the Primary Agricultural Development Banks increased from 2026 to 3194. The position of owned fund improved from Rs.154.23 to Rs.778.07 crores. The quantum of debentures outstanding have considerably increased from Rs.1,384.31 to Rs.4,832.46 crores. Loan disbursed during an year increased from Rs.205.62 to Rs.992.31 crores and the loan outstanding has increased from Rs.1,068.57 to Rs.4,738.24 crores.

The overdues of these banks have considerably increased from Rs.64.24 crores in 1975-76 to Rs.323.54 crores in 1985-86. This has further increased to Rs.944.61 crores in 1991-92. The recovery percentage showed a declining trend from 62.36 in 1975-76 to 50.05 in 1991-92.

Performance of Agricultural and Rural Development Banks in Kerala

Origin

The first Land Mortgage Bank in former Travancore State was established at Trivandrum in 1932. Maximum amount of loan given by the bank was Rs.5,000/- and that too for the repayment of

old debts. Since the main resource for the bank was the budget allocation by the Government, it could not progress much. So the Government established the Travancore Credit Bank as a joint stock company in 1938. This bank gave loans for repayment of old debts and for construction of residential buildings. The main resource of the bank was the money raised through debentures with state guarantee. This bank functioned upto 1956.¹⁰

The first Land Mortgage Bank was established in former Cochin State by a special Act in 1935. The bank gave loans for a period of 20 years to the agriculturists for the repayment of old debt. The bank was administered by a committee nominated by the Government. The main resources of this bank was the money raised through debentures. The employees of the bank was Government officials. The bank functioned upto 1960.¹¹

In Malabar area, which was the part of the Madras state, there were four Primary Land Mortgage Banks. They were at Kozhikode, Palakkad, Thalassery and Kasaragod. By the formation

¹⁰ Pavithran K.V., "History of Land Mortgage Banks", Boovikas Trivandrum, Vol. I, No.1, Nov.1977, p.8.

¹¹ Ibid.

of Kerala State in 1956 the Malabar area was joined to Kerala State and the four primary banks were also affiliated to the Kerala State Co-operative Land Mortgage Bank.

The publication of the Report of All India Rural Credit Survey Committee in 1954 proved to be the most important landmark in the history of the co-operative movement in India. The survey committee recommended the establishment of Central Land Mortgage Bank in each state. Thus with the approval of the State Government the Travancore Credit Bank was converted into Central Land Mortgage Bank by the Director Board. The Kerala Central Land Mortgage Bank was registered on 4th October 1956. The Travancore Credit Bank was liquidated on 26th October 1956 by the order of the Government. The entire assets and liabilities were transferred to the Central Land Mortgage Bank by the special order of the Government on 31st October 1956. The new bank was registered under the Travancore-Cochin Co-operative Societies Act and started functioning from 1st November 1956 onwards.

In 1960 the State Government passed the Kerala Co-operative Land Mortgage Bank Act for the smooth functioning of the Land Mortgage Banks. The Cochin Co-operative Land Mortgage

Bank was also affiliated to the Kerala Central Land Mortgage Bank in 1960. By 1960 there were 16 Primary Land Mortgage Banks in the State. In the beginning the primary banks were organised at district level and now the Government proposes to have a bank at taluk level.

Present Position

The progress of the Kerala State Co-operative Agricultural Development Bank during the period 1960-61 to 1992-93 is given in Table 2.4.

During the period under reference the number of primary banks increased from 10 to 43. The paid-up capital has increased tremendously from Rs.33.25 lakhs in 1960-61 to Rs.1,062.18 lakhs in 1992-93. Reserve fund of the bank also showed remarkable increase from Rs.7.16 lakhs in 1960-61 to Rs.4,714.38 lakhs in 1992-93. It is clear from the table that the increased sources of funds are being effectively utilised by the bank for advancing loans. The loans advanced by the bank were only Rs.15.69 lakhs in 1960-61, but it was increased to Rs.8,118.27 lakhs in 1990-91 and declined to Rs.6,987.82 lakhs in 1992-93. The bank's profit was

Table 2.4
Progress in the Working of Kerala State Co-operative Agricultural and
Rural Development Bank from 1960-61 to 1992-93

Particulars	(Rs. in lakhs)				
	1960-61	1970-71	1980-81	1990-91	1992-93
No. of primary banks	10	22	31	42	43
Paid-up share capital	33.25	59.88	350.96	927.42	1062.18
Reserve fund	7.16	30.77	246.96	3281.27	4714.38
Deposits	2.81	1.22	31.15	248.65	337.36
Loans advanced	15.69	156.01	2389.06	8118.27	6987.82
Loans outstanding	101.56	732.22	7173.42	30640.96	37661.97
Debentures floated	45.00	156.21	2044.84	8434.06	6454.34
Investments	36.09	212.74	1424.56	9024.00	10126.20
Profit	2.30	7.70	31.11	146.36	166.90
Establishment and Contingency charges	1.77	6.50	36.45	165.43	270.95

Source : Annual Reports, Kerala State Co-operative Agricultural and
Rural Development Bank Ltd., Thiruvananthapuram.

also increased. It was only Rs.2.30 lakhs in 1960-61 and increased to Rs.166.90 lakhs in 1992-93.

The progress in the working of the primary banks during the period 1983-84 to 1992-93 is given in Table 2.5. During this period the number of primary banks increased from 32 to 43. The share capital increased from Rs.7.73 crores to Rs.24.39 crores. Borrowings and credit made a substantial progress as they increased from Rs.101.47 crores and Rs.108.40 crores to Rs.374.07 crores and Rs.369.74 crores respectively. The amount of loan given during an year was also improved from Rs.24.91 crores to Rs.70.41 crores.

The amount of demand and collection also increased. The amount of overdues increased enormously (from Rs.3.14 crores to Rs.40.83 crores) and its percentage rose from 18.06 in 1983-84 to 40.04 in 1992-93. The number of banks earning profit declined from 26 to 22 while the number of banks incurring losses substantially increased from 6 to 21 during this period. This trend of increasing overdues and declining in the number of banks earning profit was acute during the last five years of study. This is evident from Table 2.5 and Figures 2.1 and 2.2.

Table 2.5

Progress in the Working of Primary Banks in Kerala from 1983-84 to 1992-93.

(Rs. in Crores)

Particulars	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
Number	32	34	35	36	37	40	42	42	43	43
Membership (in thousands)	450.68	472.98	511.49	514.61	553.98	589.52	613.27	665.74	702.38	783.04
Share capital	7.73	9.11	11.03	12.90	14.03	15.20	17.13	19.51	22.14	24.39
Borrowings	101.47	118.97	148.29	166.45	197.98	213.35	243.45	301.78	339.48	374.07
Credit	108.40	127.67	153.69	169.03	199.67	215.06	247.11	305.88	337.09	369.74
Loan advanced	24.91	30.18	39.09	30.08	47.06	39.75	51.63	84.64	66.22	70.41
Demand	17.42	21.55	27.62	32.91	39.47	50.23	59.51	75.29	92.84	101.75
Collection	14.28	17.27	20.11	22.84	25.49	29.99	31.61	43.71	58.09	60.92
Overdues	3.14	4.28	7.51	10.07	13.98	20.24	27.90	31.58	34.75	40.83
Overdue percentage	18.06	19.89	27.22	30.60	35.42	40.29	46.88	41.94	37.43	40.04
Number of banks in Profit	26	31	29	29	30	27	28	22	21	22
Loss	6	3	6	7	7	13	14	20	22	21

Source : Annual Reports, Kerala State Co-operative Agricultural and Rural Development Bank Ltd.,
Thiruvananthapuram.

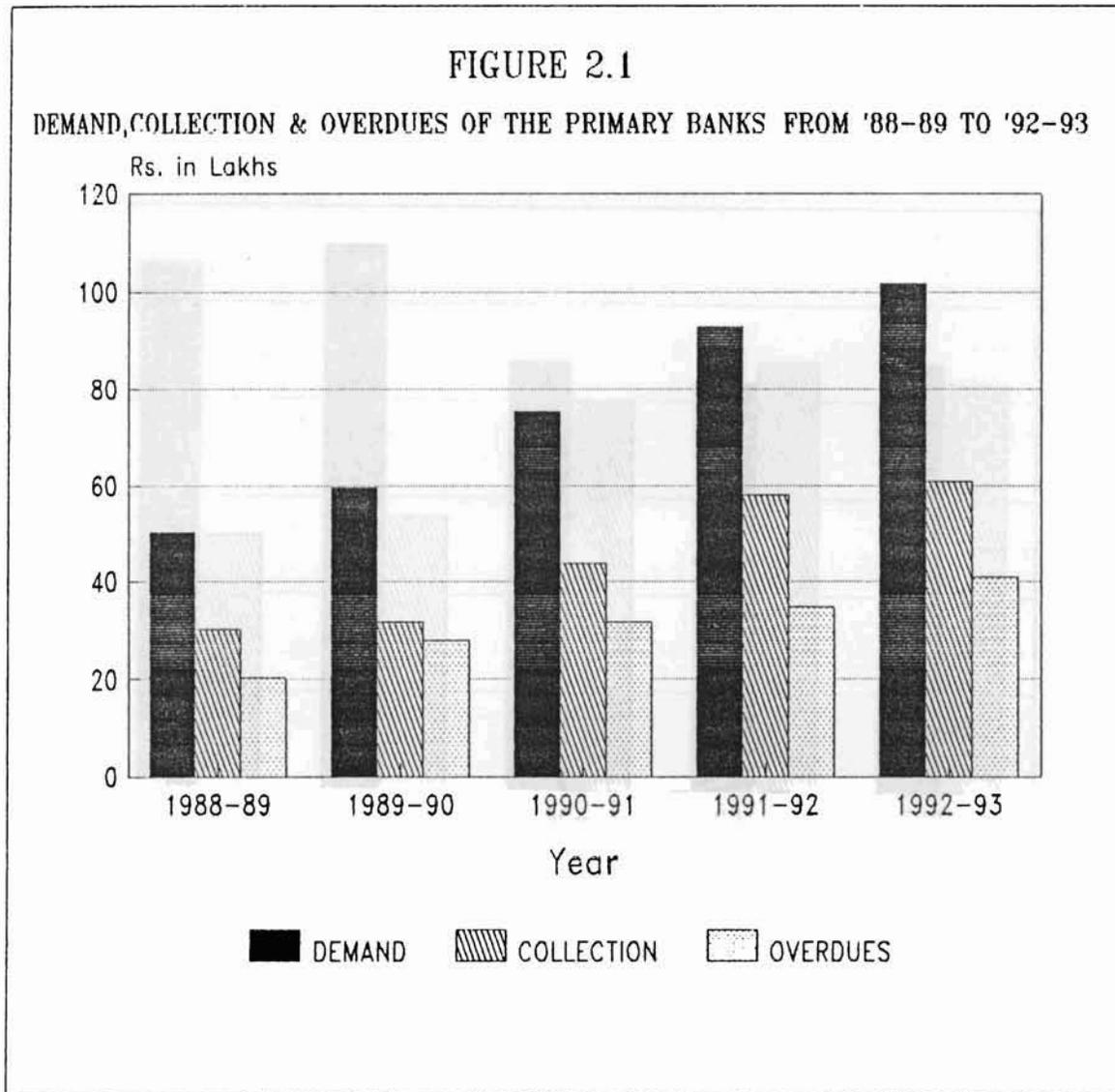
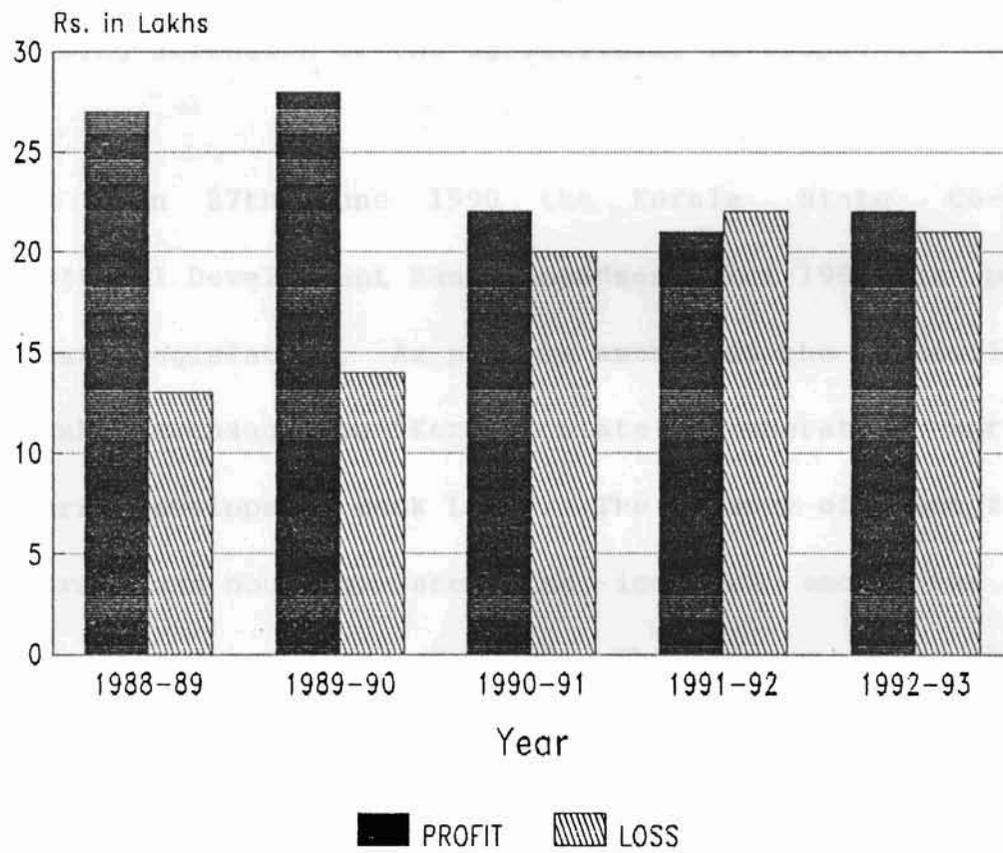


FIGURE 2.2

NO. OF PRIMARY BANKS WORKING IN PROFIT/LOSS FROM 1988-89 TO 1992-93



The Kerala State Co-operative Land Mortgage Bank was renamed as Kerala State Co-operative Agricultural Development Bank in 1984 as they began to orient their loan policies towards provision of loan for productive purposes and started providing increasing attention to the agricultural development.

On 27th June 1990 the Kerala State Co-operative Agricultural Development Bank (Amendment) Act 1990 was passed in the State Legislature. As per the amendment the nomenclature of the bank was changed to "Kerala State Co-operative Agricultural and Rural Development Bank Ltd.". The advance of loans for rural industries and housing, were also included among the eligible purposes for the advance of loans. The primary banks have also come to be known as Primary Co-operative Agricultural and Rural Development Banks from that date onwards.

Structure

The structure of Agricultural Development Banks in Kerala is of federal type with the State Agricultural Development Bank at the top and Primary Agricultural Development Banks at the base. Hence the long-term credit structure in Kerala is two-tier

and the Primary Agricultural Development Banks are federated to the State Agricultural Development Bank which is the apex institution for the State concerned. The apex bank is controlling and regulating the 43 primary banks with the help of 12 regional offices.

Membership

The State Government, 43 Primary Banks, State Electricity Board and South Wynad Girijan Farming Society were the members of the bank as on 31st March 1993. The comparative position of share capital as on 30-6-1983 and 31-3-1993 are given in Table 2.6.

In the case of primary banks the individuals who want to borrow long-term loans for development become members of these banks in accordance with the Act, Rules and Bye-laws. Normally, there are two types of members, namely, regular and nominal. Regular members are full-fledged members, who intend to borrow loans and fulfil the conditions laid down in the bye-laws for acquiring full-fledged membership rights including voting rights. Co-parceners of principal borrowers are admitted as nominal

Table 2.6

Details of Membership and Share Capital of State Co-operative
Agricultural and Rural Development Bank

Members	Share Capital			
	as on 30.6.1983		as on 31.3.1993	
	No.	Amount (lakhs)	No.	Amount (lakhs)
Primary Banks	32	282.79	43	918.50
State Government	1	140.79	1	140.79
K.S.E.Board	1	0.01	1	0.01
South Wynad Girijan Farming Society	1	2.88	1	2.88
Total	35	426.47	46	1062.18

Source: Annual Reports, Kerala State Co-operative Agricultural and Rural Development Bank Ltd., Thiruvananthapuram.

members without full membership rights to enable them to become co-executants to mortgage bonds executed by the principal borrowers. However, non-borrowers can also become members.

Objectives and Functions

The main objective of Primary Agricultural Development Banks is to arrange for long-term loan from the State/Central Agricultural Development Bank, to which it is affiliated, and lend to its members against the security of mortgage of lands and immovable properties owned by them or against any other security specified in this behalf. So a primary bank borrows from the apex bank and lends to its members for the following main purposes:

- a) To promote the economic interest of the members and, more particularly, to arrange for funds to be lent to its members on the security of property for the following purposes:
 - i) Construction and repair of wells
 - ii) Preparation of land for irrigation
 - iii) Drainage, reclamation from rivers and other water
 - iv) Bunding, levelling, terracing and other similar improvements
 - v) Horticulture and plantations including forest plantations
 - vi) Purchase of tractors, power tillers and other agricultural machinery

- vii) Purchase of oil engines, pumpsets and electric motors
- viii) Construction or repair of farm house or cattle sheds
- b) Development of dairy, poultry, piggery, sheep, goat and other livestock and inland and marine fisheries
- c) Procurement and installation of equipment and machinery for processing, marketing and transportation of all agricultural and products of animal origin.
- d) Installation of gobar gas and biogas plants
- e) Redemption of prior debts
- f) Payment of purchase price by tenants for purchase of the right, title and interest of landlord
- g) Construction of residential house in rural areas
- h) Any other purposes conducive to agricultural and rural development as decided by the Board of Directors of Agricultural and Rural Development Banks.

Area of Operation

There is no hard and fast rule about the area of operation of a Primary Agricultural Development Bank. In some states the area of operation extends to whole of a district, while

in some others it extends to a subdivision or a few taluks. In Kerala on an average, there are more than three banks in a district. In the long run, the State Government proposes to have a primary bank for each taluk. There are a number of factors which are relevant in determining the area of operation such as density of population, efficiency and sufficiency of means of communications, nature of land tenure, financial resources of the bank and experience and efficiency of those entrusted with the task of management.

The All India Rural Credit Survey Committee observed that "the area of operation of a Primary Land Mortgage Bank, on the one hand, be compact so as to enable it to maintain close touch with the borrowers and, on the other, not so small as to render the bank an uneconomical unit in relation to the volume of business available."¹²

¹² All India Rural Credit Survey Committee, Reserve Bank of India Bombay, 1954, p. 455.

Management

Like any other co-operative organisation the ultimate control over the Primary Agricultural Development Bank vests in the general body of members. The members elect Board of Directors in accordance with the Act, Rules and Bye-laws of the bank. The number of members, tenure of office etc. are regulated as per the Rules and Bye-laws of the bank. For day-to-day management the bank employs full time secretary/manager, accountant and other supporting staff.

The general superintendence of the affairs and business of the State Agricultural Development Bank shall be entrusted with a Board of Directors which may exercise all powers and do all such acts and things as may be exercised by the bank. The Board shall consist of the following directors:

- i) Director of Agriculture (Ex-officio)
- ii) Director, Special Agricultural Development Unit
(Ex-officio)
- iii) The Registrar of Co-operative Societies (Ex-officio)
- iv) One member for each revenue district elected by and from among the delegates of shareholding primary banks

- v) The Managing Director (Ex-Officio)
- vi) The Additional Secretary (Co-operation) Ex-Officio

Funds

The Primary Agricultural Development Banks raise their financial resources from the following sources:

- a) Share capital
- b) Loans from State Agricultural Development Bank
- c) Admission and other fees
- d) Grants and subsidies from Government
- e) Borrowing from other agencies

The primary bank raises their share capital by issuing shares to their members in certain proportion to their borrowings from the bank. The initial contribution towards share capital is just to enable the beneficiary to become a member of the bank and borrow a long-term loan. The second method of raising share capital is to deduct certain percentage of the amount borrowed by the members at the time of disbursement of a loan. This enables the bank to increase its own funds, thereby increasing its borrowing powers.

Loans from the State Agricultural Development Bank constituted the single major source of raising funds by the primary bank. The borrowings of the primary banks from the apex bank are also linked with their shareholdings in the apex institution with which they are affiliated.

The funds of the State Agricultural Development Bank are raised by shares, debentures, bonds, deposits, loans from State Government and other financial agencies like State Bank of India, State Bank of Travancore, Kerala State Co-operative Bank and National Bank for Agriculture and Rural Development. The debentures and bonds are the main source and they are issued for a period not exceeding 20 years.

Loan Operation

Prior to the All India Rural Credit Survey Committee Report, the Agricultural Development Banks were mostly giving loans for discharge of prior debts and for redemption of past mortgages. There was a shift in the lending policy of the primary banks following the recommendations of the Committee of Direction of the All India Rural Credit Survey (1954). In accordance with

the committee's recommendations, the Agricultural Development Banks required to reorient their operations to production and the banks were required to give first priority to applications in respect of loans for improvements, reclamation and development of land, purchase of agricultural machinery and equipments and other productive purposes.

Norms of Lending

The Reserve Bank of India started stipulating certain norms and conditions to enforce the recommendations of the All India Rural Credit Survey Committee. They advised them that at least 80 per cent of the total loans issued by Central Agricultural Development Bank should be for productive purposes if they wanted to be eligible for the debenture support from the Reserve Bank of India, State bank of India and Life Insurance Corporation. Since then there has been some improvement in the lending priority. Nowadays the largest amount of loan is being given for minor irrigation, farm mechanisation and for plantations. Till 1968-69 the Agricultural Development Banks were required to advance at least 80 per cent of their loans for productive purposes. This percentage was increased to 90 per cent

in 1968. Out of the 90 per cent loans for productive purposes, at least 70 should be for easily identifiable productive purposes. It was reported that in recent years nearly 78 per cent of loans were given for purely identifiable productive purposes like construction of new wells, purchase of agricultural machinery, plantation etc. and another 12 per cent for other productive purposes like leveling or bunding, reclamation of land etc.

Now the loans of the bank is broadly categorised as ordinary and schematic loans. Major portion of loans were schematic loans which are meant for definite schemes. The bank is now also providing loans in the non-farm sector and for rural housing.

During the years 1983-84 and 1992-93 the apex bank advanced loans of Rs.2,411.47 lakhs and Rs.6,987.82 lakhs respectively. The primary banks in turn advanced Rs.2,490.67 lakhs and Rs.7,040.79 lakhs to different purposes as given in Table 2.7 and Figure 2.3.

Table 2.7

Statement Showing the Lending Pattern of Primary Banks

in the Years 1983-84 and 1992-93

(Rs.in lakhs)

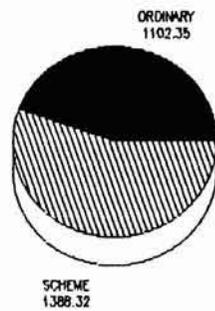
Purpose	1983-84	1992-93
Ordinary	1,102.35	1,253.23
Scheme	1,388.32	2,770.34
Non-farm	0	1,830.91
Rural housing	0	1,186.31
	<u>2,490.67</u>	<u>7,040.79</u>
	=====	=====

Source: Annual Reports, Kerala State Co-operative Agricultural and Rural Development Bank Ltd., Thiruvananthapuram.

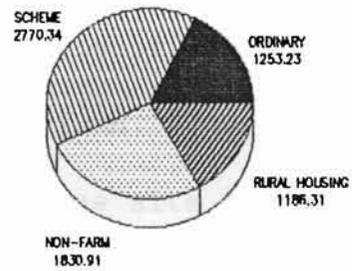
Period of Loan

The principle of sound agricultural development banking requires that the period of loan should normally be limited to the active economic life of the asset. The maximum repayment period given in the case of ordinary and schematic loans is 15 years. In the case of non-farm sector lending it is 10 years and for rural housing 20 years. The period of loan in individual cases should be fixed based on the case by case appraisal, i.e., subject to the repaying capacity of the life of the asset financed.

FIGURE 2.3
LENDING PATTERN OF PRIMARY BANKS DURING THE YEARS
1983-84 & 1992-93



1983-84



1992-93

Security of Loan

Loans shall be sanctioned on the security of the land proposed to be improved in the case of ordinary and schematic loans. The valuation of security should be done on the basis of income capitalisation method. Hence the presumptive value of the land is worked out at eight times of the post development net income arrived from the benefiting area. About 60 per cent of the presumptive value of the land is considered as the loan eligibility. In the case of loan in non-farm sector the amount of loan shall be sanctioned on the security of the land and other fixed assets to be acquired with the loan. The land and building to be constructed or the house and house site to be renovated will be accepted as primary security in the case of housing loan. The applicant should also offer additional security of immovable property or personal security

Sample Profile

From the universe of 31 primary banks the six selected primary banks are, Irinjalakuda (IRK), Tirur (TRR), Thodupuzha (TPZ), Ernakulam (EKM), Kozhikode (KZD) and Thiruvananthapuram

(TVM). A brief description of these banks are given in the following paragraphs. The important variable like 'membership, share capital, borrowings, credit, total expenses, total income, demand, collection, overdues, profit etc. are described here as on 31-3-1993 and presented in Table 2.8.

Irinjalakuda Primary Bank

Irinjalakuda Primary Bank (IRK) is situated at Irinjalakuda and is operating in the taluks of Kodungalloor and Mukundapuram in Thrissur district. The bank started functioning on 5-10-1970 and has branches at Mala, Kodungalloor, Kodakara and Chalakudy. The membership of this bank is 42,362 and it has a share capital of Rs.113.67 lakhs. The bank is maintaining a steady increase in profit and has earned a profit of Rs.24.47 lakhs in 1992-93. The number of persons employed in the bank is 32.

The borrowings of the bank is Rs.1,290.12 lakhs and the loan outstanding is Rs.1,236.02 lakhs. The total expenses of the bank is Rs.151.82 lakhs and total income is Rs.176.29 lakhs. The demand and collection for the year 1992-93 is Rs.277.50 lakhs and

Rs.260.03 lakhs respectively. The overdues of the bank is Rs.17.47 lakhs. The loan given by the bank during the year is Rs.176.84 lakhs.

Tirur Primary Bank

The Tirur Primary Bank (TRR) is situated at Tirur in Malappuram district. The operation of the bank is confined to the taluk of Tirur. It started functioning on 30-10-1973 and has branches at Chemmad and Velancherry. The bank has a membership of 30,879 and has a share capital of Rs.72.82 lakhs. During the 10 year period of this study the bank was profitable in first nine years. In the last year it incurred a loss of Rs.0.19 lakhs. The number of employees in the bank is 27.

The borrowings of the bank is Rs.744.26 lakhs and credit is Rs.771.98 lakhs. The total expenses of the bank is Rs.99.28 lakhs and total income of the bank is Rs.99.63 lakhs. The demand and collection stood at Rs.159.78 lakhs and Rs.141.74 lakhs respectively. The overdues of the bank is Rs.18.04 lakhs. The loan given by the bank during the year 1992-93 is Rs.222 lakhs.

Table 2.8
Current Status (on 31-3-1993) of the Selected Primary Banks

(Rs. in lakhs)

Particulars	Name of the bank					
	IRK	TRR	TPZ	EKM	KZD	TVM
Membership	42,362	30,879	16,679	17,792	23,031	22,894
Share capital	113.67	72.82	62.42	66.81	53.17	67.81
No. of employees	32	27	28	22	32	19
Profit	24.47	-0.19	-16.01	5.24	3.27	-17.40
Borrowings	1290.12	744.26	1128.99	948.05	874.55	908.51
Credit	1236.02	771.98	1127.15	955.32	846.56	845.61
Total expenses	151.82	99.28	124.78	109.25	101.12	106.49
Total income	176.29	99.63	118.29	120.06	115.92	102.19
Demand	277.50	159.78	237.30	222.50	350.60	348.70
Collection	260.03	141.74	172.20	171.20	242.25	127.50
Overdues	17.47	18.04	65.10	51.30	108.35	221.20
Loans advanced	176.84	222.00	199.80	194.05	134.39	67.31

Source : Compiled and computed from the Annual Reports of the selected primary banks

Thodupuzha Primary Bank

Thodupuzha Primary Bank (TPZ) is situated at Thodupuzha in Idukki district. The operation of the bank is confined to the taluks of Muvattupuzha, Kothamangalam and Thodupuzha. The bank began functioning on 14-2-1963 and has branches at Muvattupuzha, Kothamangalam and Vazhathoppe. The membership of the bank is 16,679 and has a share capital of Rs.62.42 lakhs. During the period of the study the bank earned profit in five years and incurred losses in five years. In the last year of the study it incurred a loss of Rs.16.01 lakhs. The number of employees in the bank is 28.

The borrowings of the bank is Rs.1,128.99 lakhs and credit is Rs.1,127.15 lakhs. The total expenses of the bank is Rs.124.78 lakhs and total income is Rs.118.29 lakhs. The demand and collection of the bank is Rs.237.30 lakhs and Rs.172.20 lakhs respectively. The overdues of the bank is Rs.65.10 lakhs. The loan given during the year is Rs.199.80 lakhs.

Ernakulam Primary Bank

The Ernakulam Primary Bank (EKM) is situated at Aluva and is operating in the taluks of Aluva, Parur and Kunnathunadu in Ernakulam district. The bank was established on 19-1-1962 and has branches at Angamaly and Perumbavoor. It has a membership of 17,792 and has a share capital of Rs.66.81 lakhs. The bank is continuously working in profit and has a profit of Rs.5.24 lakhs in the current year. The number of persons employed in the bank at present is 22.

The borrowings of the bank is Rs.948.05 lakhs and the credit is Rs.955.32 lakhs. The total expenses of the bank stood at Rs.109.25 lakhs and total income at Rs.120.06 lakhs. The demand and collection of the bank is Rs.222.50 lakhs and Rs.171.20 lakhs respectively. The overdues of the bank is Rs.51.30 lakhs. The loan given by the bank during the year is Rs.194.05 lakhs.

Kozhikode Primary Bank

Kozhikode Primary Bank (KZD) is situated at Kozhikode and its operation is confined to the taluk of Kozhikode. This is

one of the oldest banks and started function on 31-3-1938. It has branches at Mukkom and Thamarassery. The bank has a membership of 23,031 and has a share capital of Rs.53.17 lakhs. The bank incurred loss during all the years in the latter half of the study period except in the last year when it earned a profit of Rs.3.27 lakhs. The number of persons employed in the bank is 32.

The borrowings of the bank is Rs.874.55 lakhs and loan outstanding is Rs.846.56 lakhs. The total expenses of the bank is Rs.101.12 lakhs and total income is Rs.115.92 lakhs. The demand and collection in the year 1992-93 is Rs.350.60 lakhs and Rs.242.25 lakhs respectively. The overdues of the bank is Rs.108.35 lakhs. The loan given by the bank during the year 1992-93 is Rs.134.39 lakhs.

Thiruvananthapuram Primary Bank

The Thiruvananthapuram Primary Bank (TVM) is situated at Thiruvananthapuram and its operation is confined to the taluk of Thiruvananthapuram. The bank started its operation on 30-10-1960 and has branches at Vellanad and Poomkulam. The membership of the bank is 22,894 and has a share capital of Rs.67.81 lakhs. The

bank has been incurring loss throughout the period of study and the loss of the year 1992-93 is Rs.17.40 lakhs. The number of employees in the bank is 19.

The borrowings of the bank is Rs.908.51 lakhs and credit is Rs.845.61 lakhs. The total expenses of the bank is Rs.106.49 lakhs and the total income is Rs.102.19 lakhs. The demand and collection stood at Rs.348.70 lakhs and Rs.127.50 lakhs respectively. The overdues of the bank is Rs.221.20 lakhs. The loan given by the bank during the year 1992-93 is Rs.67.31 lakhs.

CHAPTER III

FUNDS MANAGEMENT — A REVIEW

The importance of funds management and study of profitability in co-operative sector has been keenly felt only in recent years. There is a concept that the co-operative sector stands for mutual service alone and not for profit. But reasonable return on capital is essential for any concern for its growth and development. This chapter, therefore, describes the theoretical structure of:

1. Sources and applications of funds
2. Sources and applications of income and
3. Review of literature.

Conceptual Framework

Before analysing the sources and applications of fund one should examine the concept of 'fund' or 'working capital'. As per the statistical statements relating to the Co-operative

Movement in India¹ till 1969-70, working capital was considered as the total of paid-up share capital, reserve fund and other reserves, debentures, deposits and other borrowings. Thus, it includes all the major items on the liabilities side of the Balance Sheet. But it does not include other sundry liabilities and current year's profit if they are not appropriated.

The Kerala State Co-operative Societies Act 1969 defined it as follows:-

Working capital includes such portion of the reserve fund, other reserves appropriated out of profits, paid-up share capital, loans and deposits received by a society as has not been locked up in buildings and other fixed assets.

This definition, more or less, is the same as the previous one, except that it excludes fixed assets and further it is not clear whether short-term borrowings such as overdraft and cash credit are included.

¹ An Annual Publication, Published by Government of India prior to 1942, which was transferred to Reserve Bank of India, in March 1942, with effect from the issue for the year 1940-41.

Both the definitions take into account that portion of the current year's profit which is added to various reserves, if it is appropriated at the time of preparation of final accounts. However, both the definitions of working capital exclude current liabilities or short-term credit.

These definitions indicate the major source of funds. The first one considers the total funds under the heads identified as working capital. The second one considers the amount available after excluding the amount locked up in fixed assets. This may be relevant and important in some organisations where fixed assets are heavy. But in a banking organisation, especially in Agricultural Development Banks, fixed assets represent only a fraction of total funds.²

The sources of funds according to these definitions consist both short-term and long-term. But they neither represent the financial structure (because short-term credit or current

² Fixed assets represent only 0.55 per cent of working funds (see Appendix III)

liabilities are not taken into account), nor capital structure³ (because short-term source like deposits are not taken into account). They do not even represent the working capital as it is generally understood. In general, working capital has two versions — net or gross. Net working capital is the difference between the current assets and current liabilities whereas gross working capital represent the totality of fluctuating funds invested in the entire current assets. However, working capital is generally understood as net working capital in the financial circles.

In the Statistical Statement relating to the Co-operative Movement in India, published by Reserve Bank of India (RBI) from the 1970-71 issue onwards, "Working capital has been redefined to represent total of all items appearing on the

³ According to Weston and Brigham, Financial Structure refers to the way the firms' assets are financed. It is the entire right hand (liabilities) side of the Balance Sheet. Capital structure is the permanent financing of the firm represented primarily by long-term debt, preferred stock, and common equity, but excluding all short-term credit.

Freg J. Weston and Eugene F. Brigham, Managerial Finance, Illinois, The Dryden Press, 1978, p.663.

liability side of the Balance Sheet excluding the contra items and accumulated losses."⁴

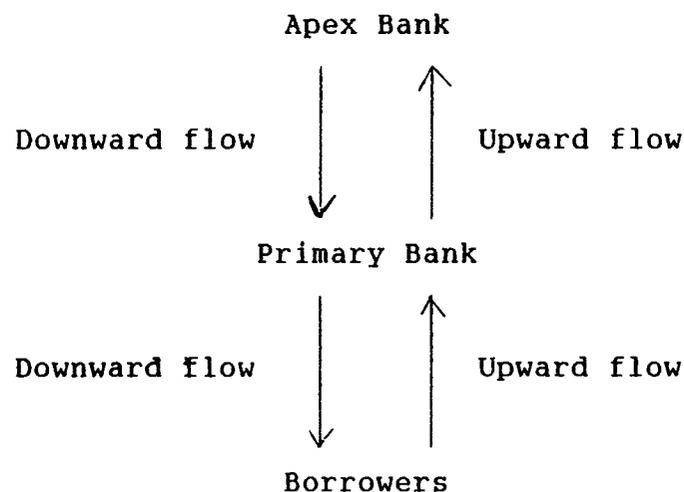
The latest definition of RBI can be considered as improvement over the above two, as it covers the entire liabilities side of the Balance Sheet and thus the total resources of funds⁵, both long-term and short-term. Hence it refers to the financial structure. Financial structure of an organisation gives an idea of the nature/source and size of funds employed in the organisation. Further, this definition indicated the solvency position of the organisation as it takes only the funds sunk in total assets. It, therefore, excludes contra items, which are in the nature of offsetting each other and accumulated losses. Hence it is suggested that the term working/total funds may be used

⁴ Statistical Statements Relating to the Co-operative Movement in India 1970-71, Part I, Credit Societies, RBI, Bombay, 1972 p. opposite to contents page.

⁵ "There is a distinction between cash resources and funds. The former refers to resources in cash only, whereas the latter is wider in its application and covers all arrangements for resources whether in cash or on credit basis".

rather than the term working capital. Thus, in this study, the term working fund has been used in the sense of total resources.

The term funds management in this study includes the entire management of mobilisation of money, its deployment to beneficiaries and its recovery from them. Thus the entire flow of funds and its connected activities are covered in this study. The flow of funds of the entire structure can be depicted by the flow chart given below.



Finances of Primary Banks

As the study is mainly concentrated on primary banks it is worthwhile to have a theoretical analysis of the sources and applications of funds of these institutions. The principal object of a primary bank is to raise funds to be lent to its members. The primary banks are the voluntary associations of farmers who want to borrow long-term loans on mortgage of lands and are registered under the Co-operative Societies Act of the State.

In the beginning each primary bank used to raise funds independently through debentures, deposits, loans etc. This leads to some difficulties. Consequently the central (state level) bank has come into existence to centralise the issue of debentures and to co-ordinate the activities of these banks. After the establishment of the apex bank, the primary banks usually borrow from the apex bank and lend to their member borrowers. Thus the primary bank is an intermediary between the apex bank and the ultimate borrowers. The sources and uses of funds of primary banks are discussed below with the help of a theoretical statement of sources and applications of funds (Table 3.1) and a statement of sources and applications of income (Table 3.2).

Table 3.1

Sources and Applications of Funds^{*}

Sources		Applications	
Share capital	6	Cash and bank balance	3
Reserve fund and other reserves	2	Investments	5
Deposits	1	Credit	82
Borrowings	82	Fixed assets	1
Other liabilities	9	Other assets	9
	100		100
	-----		-----

* Paise rounded to nearest rupee

Sources of Funds

As stated earlier, the sources of funds of primary banks consist of paid-up share capital, reserve fund and other reserves, borrowings from the apex bank, deposits and other current liabilities. The nature of some of the important sources is explained below:

Paid-up Share Capital

The borrowing power of a member is linked to his share capital held in the primary bank. The primary banks are collecting 5 per cent of loan amount as share capital. This amount is not repayable during the period of a loan. This source constitutes nearly Rs.6 for every Rs.100 source.

Reserve Fund and Other Reserves

According to the Kerala State Co-operative Societies Act 1969, not less than 15 per cent of the net profit is to be transferred to reserve fund. The balance of the net profit may be utilised as per their bye-laws. Normally, this amount is allocated to the following:

1. Payment of dividend not exceeding 10 per cent on the paid-up value of each share
2. Co-operative education fund
3. Dividend equalisation fund.
4. Building fund
5. Staff benefit fund

6. Depreciation reserve
7. Bad debt reserve
8. Common good fund
9. Agricultural credit stabilization fund etc.

For every Rs.100 source a sum of Rs.2 is maintained as reserve fund and other reserves.

Deposits

The primary banks are not allowed to accept deposits like other Co-operative Banks. But they may, however, be allowed to accept deposits to a limited extent from special sources and with special objects. The item deposits here represent the amount borrowed from members and non-members — mostly employees. It includes staff security deposits, pending admission to membership and loan deposits. Loan deposits are amounts received from borrowers to be adjusted later against their loan instalments. This constitutes only less than 1 Rupee for every Rs.100 of source.

Borrowings

The major source of fund of primary bank is the borrowings from the apex bank. This constitutes nearly Rs.82 for every 100 rupee fund. This amount is provided by the apex bank at a pre-determined rate. The eligibility of borrowing is subject to change according to the overdue percentage.

Other Liabilities

The other liabilities include interest due for payment to the apex bank, dividend due to shareholders and bonus etc. outstanding. Out of every Rs.100 this constitutes nearly Rs.9.

Applications of Funds

The application of fund consists of loan given to members, investments, cash and bank balance, fixed assets and other assets. The nature of the important applications of funds are explained below:

Cash and Bank Balance

Cash and bank balance represent the idle funds. This consists nearly Rs.3 for Rs.100 of total resources. It must be remembered that major part of the working funds are obtained at a cost and keeping them idle is not a prudent policy. It may be argued that the figure appearing is at the end of the year when the resources are more. Even then, if the recoveries are quickly remitted to the apex bank, it may utilise them for payment of liabilities without resorting to cash credit or, at least, may keep in call deposit with which bank earns reasonable rate of returns.

Investments

This item includes primary banks' contribution towards share capital of apex bank, investment of their reserve fund and other reserves, deposits of surplus funds, if any. The primary banks, generally, invest their reserves in the apex bank as they are precluded from making investments in any other institution. However, the Registrar of Co-operative Societies may permit them to invest in others. Accordingly, they have investment in

Government Securities and other Trustee Securities. Out of every Rs.100 source a sum of Rs.5 is in the form of investments.

Loan Outstanding (Credit)

These are the amounts due from member borrowers at different due dates. Out of Rs.100 this accounts nearly Rs.82. This is the major application of funds.

Fixed Assets

Fixed assets of the bank include land, building, car, furniture etc. The investment in fixed assets in the case of Agricultural Development Banks is less than Rupee 1 for every 100 Rupee application of fund.

All Other Assets

All other current assets are included under this head. This includes interest overdue, interest accrued but not due on loan outstanding etc. Interest items, both overdue and accrued but not due are mainly responsible for their substantial size. It nearly comes to Rs.9 for every Rs.100 fund.

Sources and Applications of Income

The sources of income to primary banks are as follows:

1. Interest on loan outstanding
2. Miscellaneous income

The usual items of expenditure (applications of income) are:

1. Interest on funds borrowed
2. Establishment charges
3. Administrative overheads.

A brief explanation of the items of income and expenditure is given below:

Interest on Loan

This is the major source of income of primary banks. This includes income as interest for the loan given to beneficiaries and the penal interest received for overdue payment. If the total income is Rs.100, the contribution of interest income from loan will be Rs.93.

Table 3.2
Sources and Applications of Income^{*}

Applications of income		Sources of income	
Interest paid and payable	76	Interest received and receivable	93
Establishment charges	10	Miscellaneous income	7
Administrative overheads	4		
Profit	<u>10</u>		
	<u>100</u>		<u>100</u>

* Paise rounded to nearest rupee

Miscellaneous Income (Non-interest Income)

The term miscellaneous income includes all other income other than interest on loan outstanding. Thus it includes interest on investments, dividends, application fee, administration fee and valuation fee. The dividend is received for the share investment in apex bank. An application fee of Rs.5

is collected from each farmer. The administration fee is collected at the rate of Rs.2 per thousand, subject to a maximum of Rs.100. For the valuation of mortgaged property a valuation fee is also charged. A contribution of Rs.7 has come from all these together for every 100 Rupee total income.

The items of expenditure are narrated below:

Interest on Borrowings

This is the interest paid on funds borrowed from the apex bank. This is the major item of expenditure. The rate is fixed by NABARD and subject to variations. Of every Rs.100 income Rs.76 are utilised for payment of interest.

Establishment Charges

This is the second major item of expenditure for primary banks. This includes pay and allowance, bonus, provident fund, gratuity contribution to staff etc. This nearly comes to Rs.10 for every Rs.100 income.

Administration Overheads

Administration overheads include TA and DA to directors, rent, rates, taxes, stationery, maintenance of fixed assets, postage and telephone, telegram and provision etc. Out of 100 Rupee income Rs.4 is spent for administrative overheads.

Thus the total expenses come to nearly Rs.90 and the balance of Rs.10 is available as profit for dividend and reserves. The actual position of the primary banks and changes during the period of study are explained in the subsequent chapters.

Review of Literature

It is relevant to refer briefly the previous studies made in the related areas of the subject. Literature on Agricultural Development Banks can generally be found in books of Co-operation, Agricultural Finance, Rural Credit and Banking. Much of the available literature on Agricultural Development Banks in India are official. The literature available through private publications is not very significant, though much literature is produced in the above fields.

About the official studies on Agricultural Development Banks, various Committees and Commissions on Co-operative Credit, Agricultural Finance and Rural Credit, right from Nicholson (1892) to Khushru Committee (1989), either covered elaborately or touched incidentally depending on their terms of reference. The important recommendations and extracts from these reports are given in the relevant chapters.

About individual studies Laud⁶, Choubey⁷ and Nakkiran⁸ devoted a chapter each in their books on co-operative banking, wherein they have dealt with the theory and practices of land development banking in India. Studies especially on Land Development Banks are few in number. Hussain⁹ studied the working of these banks in Madras State in their early stages. Ghosel¹⁰

⁶ Laud G.M., Co-operative Banking in India, The Co-operators Book Depot., Bombay, 1956.

⁷ Choubey B.N., Principles and Practice of Co-operative Banking in India, Asia Publishing House, Bombay, 1968.

⁸ Nakkiran S., Co-operative Banking in India, Rainbow Publications, Coimbatore, 1980.

⁹ Hussain Syed, Co-operative Land Mortgage Banks, All India Co-operative Institutes Association, Madras, 1941.

¹⁰ Ghosel S.N., Agricultural Financing in India - with Special Reference to Land Mortgage Banks, Asia Publishing House, Bombay, 1968.

studied the working of Land Development Banks in India. Mathur¹¹ reviewed the progress of these institutions in India. Besides these All India Studies, there are a few State level studies. Elavia's¹² study on these banks in Gujarat state examined the problems faced by these banks besides evaluating their performance. Obul Reddy¹³ analysed the working of Agricultural Development Banks in Andhra Pradesh and stated the need of a well-designed management information system. The suggestions and extracts from these studies are also included in relevant chapters.

Regarding articles, the available literature is categorised as:

1. The studies relating to financial performance and profitability,

¹¹ Mathur B.S., Land Development Banking in India, National Publishing House, Delhi, 1974.

¹² Elavia B.H., The Study of Co-operative Land Development Banking in Gujarat, M.S. University of Baroda Press, Baroda, 1979.

¹³ Obul Reddy D., Co-operative Agricultural Development Banks — A Case Study of Andhra Pradesh, B.R. Publishing Corporation, Delhi, 1986.

2. The studies relating to overdues and
3. The studies in Kerala.

Financial Performance and Profitability

Karkal¹⁴ in his study on Profit and Profitability in Banking opined that profitability of banking organisations should be strengthened (increased) to ensure viability of the banking system. He expressed the view that an erosion (reduction) of profitability should not be allowed to take place because such erosions would lead to the stoppage of dynamic development functions of banks.

Varsh and Sampat¹⁵ analysed the profitability performance of Regional Rural Banks and stated that the general profitability of all RRBs improved. They concluded that the future of RRBs lies basically in declining the marginal and average operating cost curves.

¹⁴ Karkal G.L., "Profit and Profitability in Banking", Prajnan, Bombay, Vol.XI, No.1, Jan. - March 1982, pp.19-38.

¹⁵ Varsh S. Varde and Sampat P. Singh, "Profitability Performance of Regional Rural Banks", Prajnan, Bombay, Vol.XI, No.4, Oct-Dec. 1982, pp.247-256.

Bhairav H. Desai¹⁶ conducted a study on the financial performance of Gujarat State Land Development Bank. Based on the study on annual financial statements of the Bank various selected ratios concerning the financial position, profitability and efficiency were worked out for a period of three years. He found that the bank is not working efficiently and profitability position is very poor. He stated that some surplus is essential for the growth of the institution and for meeting contingencies.

In a study conducted by Jivani and Upadhyay¹⁷ they stated that generally the aim of financial management is profit maximisation. However, the Agricultural Development Banks are considered as social banks and, therefore, profit is not the main or the only motive. Agricultural development is the main objective and supply of credit at comparatively lower rate of interest is the policy.

¹⁶ Bhairav H. Desai, "Financial Performance of the State Land Development Bank - A Case Study," Land Bank Journal, Bombay, Vol. XXI, No. 1, Sept. 1983, pp.21-23.

¹⁷ Jivani M.K. and Upadhyay M.C., "Financial management in Land Development Bank Sectors", Land Bank Journal, Bombay, Vol.XXI, No.4, June 1983, pp.1-3.

Prabhu¹⁸ stated that the major problem today is how to improve the capability of the Agricultural Development Banks for undertaking larger and more qualitative lending.

Sant Dass¹⁹, in his study, revealed that keeping idle money might create a chain of problem and, therefore, the banks should take all possible steps to avoid keeping of idle funds.

Narayanaswamy and Ramachandran²⁰ stated that there is scope for increasing the profit and profitability, if proper attention is paid on areas like recovery, deposit mobilisation, branch expansion, reduction in manpower, operating expenses, building up of more owned funds and scientific management of funds.

¹⁸ Prabhu P.V., "Land Development Banking—Some Issues", Land Bank Journal, Bombay, Vol.XXI, No.3, March 1983, p.51.

¹⁹ Sant Dass, "Resource Management by State Land Development Bank", The Banker, New Delhi, Vol. XXXIII, No.11, Jan. 1986, pp.31-33.

²⁰ Narayanaswamy N. and Ramachandran S.R., "Profitability Performance of District Co-operative Bank — A Case Study" Indian Co-operative Review, Delhi, Vol.XXV, No.2, Oct. 1987, p.215.

Krishnaswamy²¹ opined that though a co-operative society is not guided by profit motive it must earn a reasonable rate of profit on capital employed as a measure of efficiency.

According to Madhukar²² there is not enough evidence to indicate that size has anything much to do with operational efficiency and profitability. Some very large and very small public sector banks have registered satisfactory levels of performance.

Kadam²³ conducted a study on the financial position of the State Co-operative Agricultural Development Banks in U.P., Gujarat, Bihar and Maharashtra. The methodology adopted was the computation of average annual growth rate for the selected variables like membership, share capital, reserves, lending,

²¹ Krishnaswamy O.R., "Scientific Approach to the Evaluation of Co-operatives", The Tamil Nadu Journal of Co-operation, Madras, Vol. LXXVIII, No.10, April 1987, p.604.

²² Madhukar R.K., "Evaluation Performance of Commercial Banks—Norms and Techniques", The Banker, New Delhi, Vol. XXXV, No.9 Nov. 1988, p.26

²³ Kadam H.K., "A Study on Financial Position of Land Development Banks", Research and Development Cell, National Co-operative Agricultural and Rural Development Banks Federation, Bombay, 1990, p.49.

interest on borrowings and lending, margin and cost of management. He found that there is no consistency in the growth rate of variables between banks. He opined that in order to maximise the earning the banks need to reduce the cost of funds and, at the same time, deploy the funds where higher margin is available. He also stated that sound financial position of the Agricultural Development Banks is very important for its long run efficient operation.

Mahendra and Desai²⁴ stated that viability of a particular investment is assessed in terms of financial rate of return which obtains on the investment, for the effective life of the asset financed by the investment. It may be noted that only financial analysis, and not economic analysis, is made for the purpose of assessing the return of the investment.

In his study on Fund Management of Regional Rural Banks,

²⁴ Mahendra D. and Desai, "Methodology of Evaluation of Financing Schemes in Priority Sectors in State Bank of India", Indian Co-operative Review, New Delhi, Vol.XXVII, NO.1, July 1989, p.296.

Sinha²⁵ tried to answer how best the funds of Regional Rural Banks were managed by reducing the cost of receiving and managing the same.

Rao²⁶ analysed the cost structure of recovery of overdues and reported that salary and allowances paid to field supervisors formed the major component (50 per cent) and expenses incurred for hiring jeeps for recovery work is the next major component (40 per cent). He also estimated that the cost of recovery is one third of the total cost of management.

In his study on Financial Performance of Co-operative Banks, Indra Sena Reddy²⁷ stated that the overall financial position and performance of Multipurpose Co-operative Rural Bank

²⁵ Sinha S.S., "Fund Management in Regional Rural Banks", Agricultural Banker, New Delhi, Vol. XIV, No.3, July-Sept. 1991, pp.1-5

²⁶ Rao S.P., "Cost Structure of Recovery — A Case Study of PLDBs in Orissa", Land Bank Journal, Bombay, Vol. XXX, No.3, March 1992, pp.63-68.

²⁷ Indra Sena Reddy P., "Financial Performance of Co-operative Banks", Agricultural Banker, New Delhi, Vol. XV, No.2, April-June 1994, pp.17-25.

is satisfactory and opined that it should improve its performance in respect of profitability and turnover.

Studies Relating to Overdues

According to Roy²⁸, repayment ethics forms an integral part of the principles of development banking. He is of the opinion that concerted efforts would be made by all concerned to educate the farming community regarding repayment ethics and repayment culture as a long-term measure.

Mishra and Aswathi²⁹ reported that the accumulation of overdues was due to controllable and noncontrollable factors, which accounted for 35 and 65 per cent respectively.

²⁸ Roy A.K., "Tackling the Problem of Overdues of Agricultural Loans", Agricultural Banker, New Delhi, Vol.IV, No.4, Oct.-Dec. 1981, pp.3-9.

²⁹ Mishra B.C. and Aswathi P.K., "Loaning procedures in Relation to Non-payment of Farm Loans", Agricultural Banker, New Delhi, Vol.IV, No.3, July-Sept. 1981, p.4.

Singh and Sharma³⁰ have indicated that the magnitude for overdues was the lowest with landless labourers. The poor recovery and high overdues in the case of small and marginal farmers could be ascribed to the diversion of funds for consumption purposes. However, the large and medium farmers did not repay in spite of having sound resource base.

Hemachand Jain and Choudhary³¹ have pointed out that the poor performance in the recovery of farm loans was due to maximising disbursement of loan by adopting target-oriented approach and succumbing to outside pressure for sanctioning loans either by ignoring the viability of the proposal or unrealistic assessment of incremental income.

³⁰ Singh C.P. and Sharma S.D., "Farm Finance by Banks in a Rural Development Project", Financing Agriculture, Bombay, Vol.XIV, No.1, Jan-March 1982, p.14.

³¹ Hemachand Jain and Choudhary H., "Recovery Performance of Farm Loans Provided by Central Bank of India in Madhya Pradesh", Financing Agriculture, Bombay, Vol.XV, No.3, July-Sept. 1983, p.15.

Balishter and Roshan Singh³² found that the recovery of loans advanced by the bank under the Integrated Rural Development Programme was satisfactory in all categories of families and this nullified the common impression that advancing of loans to weaker section would lead to accumulation of bad debts.

Raut³³ indicated that the problem of overdues was mainly due to misutilisation of loans by the tribal farmers. The tendency to misutilise loan was due to the fact that the consumption priorities of tribal farmers were of more urgent nature than asset-building priorities.

Gurubachan Singh and Balwanth Singh³⁴ reported that the extent of relative loan default was higher in the case of large farmers as compared to other categories of borrowers.

³² Balishter and Roshan Singh, "Integrated Rural Development Programme — Finance by State Bank of India", Financing Agriculture, Bombay, Vol.XVI, No.3, July-Sept. 1984, p.16.

³³ Raut, "A Study on Scope and Problems of Financing Tribal Farm Development by Land Development Banks". Land Bank Journal, Bombay, Vol.XXII, No.3, March 1984, p.57.

³⁴ Gurubachan Singh and Balwanth Singh, "A Study on Repayment Performance of Borrowers in Punjab", Financing Agriculture, Bombay, Vol.XVII, No.2, April-June 1985, p.17.

Bisallah and Nagaraj³⁵ have observed that the age of the borrowers and farm business income were negatively related to overdues, while the size of holding, family size and non-farm expenditure showed positive relationship.

Raj Kishore Panda³⁶ has observed that the diversion of credit towards nonproductive purposes was more among the medium and large farmers than the small farmers.

Islam³⁷ stated that the repayment behaviour of the pure tenant farmers was excellent, despite the emergence of high cost of capital to this group.

³⁵ Bisallah S. and Nagaraj M., "Production Credit Overdues—A Study of Dryland Small Farmers", Financing Agriculture, Bombay, Vol.XVII, No.1, Jan-March 1985, p.14

³⁶ Raj Kishore Panda, "A Study into the Borrowing and Utilization among the Farmers in Puri District", Financing Agriculture, Bombay, Vol.XVII, No.4, Oct-Dec. 1985, p.17.

³⁷ Islam M.M., "Analysis of Rural Credit Market in West Bengal", Financing Agriculture, Bombay, Vol.XVII, No.3, July-Sept. 1985, p.17.

Bhavani Devi and Sitaraman³⁸ have found that income from farming as well as off-farm income had positive effect on the repayment capacity of the borrowers.

Viswanathan³⁹ stated that the overdues were to a large extent on account of wilful default which was either due to ineffective machinery or because of unfavourable recovery climate.

The study conducted by Ramesh Chand and Sidhu⁴⁰ showed that the application of discriminant function was quite efficient in classifying the borrowers into defaulters and non-defaulters. It was found that the higher the value of the ratio of dependents on the family, the more will be the capital expenditure and total borrowings. This will place the borrowers into defaulters' group and vice versa. On the other hand, the high level of education contributed towards non-default.

³⁸ Bhavani Devi and Sitaraman S., "Analysis of Factors Influencing Repayment Capacity", Agricultural Banker, New Delhi, Vol.VIII, No.4, Oct.-Dec.1985, p.8.

³⁹ Viswanathan B.S., "Rural Co-operative Credit", Land Bank Journal, Bombay, Vol.XXIII, No.1, Sept.1985, p.4.

⁴⁰ Ramesh Chand and Sidhu D.S., "Characteristics of Defaulters of Agricultural Credit in Punjab — A Discriminant Function Approach", Land Bank Journal, Bombay, Vol.XXIII, No.3, March 1985, p.22.

Narayanan⁴¹ observed that inadequate bank staff, vast area of operation entrusted with supervisors, inadequate transport facilities, insufficient travelling and dearness allowances, target-oriented, unscientific deployment of loans, inefficient credit management—all these have accounted for escalating overdues at the individual level.

Lekh Ram Mahlan and Bal⁴² identified the defaulters and non-defaulters on the basis of socio-economic characteristics of borrowers by using discriminant function. The 'extension contracts' and 'technology in use' had positive effect on the repayment behaviour of the borrowers.

Dangat and Radkar⁴³ reported that the medium-and

⁴¹ Narayanan N.V., "Anatomy of Overdues in Co-operative Agricultural Development Banks in Anantapur District", Land Bank Journal, Bombay, Vol.XXIV, No.2, Dec. 1986, p.25.

⁴² Lekh Ram Mahlan and Bal H.S., "Socio Economic Characteristics of Indian Farmers Affecting Repayment of Loan — An Application of Discriminant Function", Financing Agriculture, Bombay, Vol.XVIII, No.3, July-Sept. 1986, p.18.

⁴³ Dangat S.B. and Radkar S.R., "A Micro Level Study into the Borrowing and Utilization of Medium-and Long-term Loans in Ahmednagar District", Land Bank Journal, Bombay, Vol.XXIV, No.3, March 1986, p.13.

long-term loans were diverted for the conduct of marriages, consumption and for construction of residential buildings in all the size groups of holdings in both the developing and the underdeveloped regions. Proper approval of loan proposal, follow-up and supervision after the disbursement of loan were suggested for effective financing of agriculture.

Naidu and Ramodra Reddy⁴⁴ observed that credit users belonging to higher castes of the village, with larger holdings with higher percentage of educated family members and with higher educated status with large borrowed amount of loan and with higher farm and non-farm incomes had greater probability of becoming defaulters.

Balishter and Roshan Singh⁴⁵ found that the lending of money borrowed from co-operatives to others was the major cause for the nonrepayment of loan among the large farmers. Lack of

⁴⁴ Naidu M.R. and Ramodra Reddy, "Defaulters Characteristics in Agricultural Credit Use", Financing Agriculture, Bombay, Vol.XVIII, No.4, Oct.-Dec. 1986, p.18

⁴⁵ Balishter and Roshan Singh, "Crop Loan Overdues in Co-operatives—A Study of Agra District in U.P", Financing Agriculture, Bombay, Vol.XIX, No.3, July-Sept. 1987, p.19.

supervision by the society and noninsistence of timely repayment were the next important causes for wilful default.

Munikrishna Reddy and Ramesh Kumar Reddy⁴⁶ suggested that the banks should give utmost importance to education, farm size, social participation, urban contact, scientific orientation, economic motivation and innovativeness of the farmers while granting credit; because those characters had considerable bearing on the repayment performance of peasants.

Muniraj⁴⁷ in his study on improving recovery performance through effective financing of agriculture stated that the mounting overdues is one of the reasons for the erosion of profitability of banks, as it impairs banks' ability to recycle funds and restrict their access to refinance agencies like NABARD.

⁴⁶ Munikrishna Reddy M. and Ramesh Kumar Reddy, "Repayment Performance of Agricultural Credit Users", Land Bank Journal, Bombay, Vol.XXV, No.4, June 1987, p.25.

⁴⁷ Muniraj R., "Improving Recovery Performance Through Effective Financing of Agriculture", Agricultural Banker, New Delhi, Vol.XI, No.2, April-June 1988, pp.12-20.

Bosale⁴⁸ et al. conducted a study about the repayment position and factors responsible for overdues in Maharashtra. A sample of 120 farmers are randomly selected from eight villages of Kolhapur district. A functional analysis is conducted to estimate the contribution of different factors affecting the amount of overdues. They found that there is positive and direct relationship between overdues and amount borrowed and family expenditure. They also ascertained that one of the leading factors in increasing the amount of overdues is misutilisation of loan.

Balishter⁴⁹ et al. in their study selected 150 farmers from 10 villages of Etah district in Uttar Pradesh to assess the extent of overdues and to examine the reasons for default. They stated that the main reason for overdues is the low increase in income and diversion of loan for unproductive purposes.

⁴⁸ Bosale S.R., Dangat S.B. and Hinge B.J., "Repayment Performance — A Case Study in Maharashtra", Land Bank Journal, Bombay, Vol.XXVI No.4, June 1988, pp.45-50.

⁴⁹ Balishter, Umesh Chandra and Singh A.K., "IRDP Loan Overdues — A Study in Etah District of U.P.", Agricultural Banker, New Delhi, Vol.XIII, No.2, April-June 1990, pp.15-20.

Balishter⁵⁰ et al. in their study selected 175 defaulters from six villages of Agra district who had received loans from Land Development Bank. They analysed the extent of current and old overdues and wilful default in different farm size group. They stated that the main reason for wilful default is the slackness on the part of bank officials who do not insist on timely repayment. They also found that the wilful default is high in medium and large farmers.

Marvar⁵¹ et al. analysed the overdues on agricultural credit in Yavatmal district in Maharashtra and reported that the main reason for overdues are crop failure, low income and fall in agricultural prices. They also found that there is positive and significant relationship between amount of loan, repayment capacity and overdues. Their analysis proved that per hectare amount of overdues increased with the increase in sizeholding because of misutilisation of loan.

50 Balishter, Singh and Sivakumar, "Overdues of loan in Agriculture", Agricultural Banker, New Delhi, Vol.XIV, No.1, Jan.- March, 1991, pp.13-16.

51 Marvar S.S., Deshmukh R.G. and Rathod A.B., "An Analysis of Overdues of Agricultural Credit", Land Bank Journal, Bombay, Vol.XXX, No.4, June 1992, pp.1-9.

Khatkar⁵² et al. conducted a study on the trend of agricultural credit and overdues in Haryana and expressed the view that the higher growth rate of overdues is an alarming situation for the co-operative institutions. He further stated that to overcome this problem there is an urgent need to avoid the underfinancing and to curb political interference for better recovery of loans.

Kerala Studies

Jose⁵³ conducted a study on Tellichery Primary Bank and observed that there is discrimination in giving bank finance to small cultivators in all the schemes of the bank.

Suresh⁵⁴ is of the opinion that the composition of loan

⁵² Khatkar R.K., Hasija R.C. and Pradeep Kumar, "Trend of Agricultural Credit and Overdues in Haryana", Agricultural Banker, New Delhi, Vol.XV, No.2, April-June 1994, pp.27-28.

⁵³ Jose A.M., "Development Banking—Study of an Agricultural Development Bank in Kerala", Land Bank Journal, Bombay, Vol. XXVII, No.2, Dec.1989, pp.25-38.

⁵⁴ Suresh K.A., "The increasing Importance of Long-Term Credit in Kerala Economy", Land Bank Journal, Bombay, Vol.XXVII, No.4, June 1989, pp.37-40.

operations of co-operatives in Kerala is not conducive to the changing pattern of land utilisation and cropping behaviour in the economy. The study shows the increasing importance of long-term credit in Kerala and new challenges of co-operatives.

Harikumar⁵⁵ conducted a study on Quilandy Agricultural Development Bank to know the procedural impediments in the long-term agricultural credit. He opined that there is lot of unnecessary procedural impediments which keep the farmers away from the bank.

Venkiteswaran⁵⁶ and Janardhanan Pillai have observed in their study that the multiple structure of credit had led to a circular flow of cash from one financial agency to another agency, and it is doubtful whether the real income of the rural community increases with the increase in the flow of credit. They continued that diversion of loan can be controlled to a great extent by

55 Harikumar S. and Krishnan C., "Procedural Impediments in the Long-Term Agricultural Credit—A Case Study of Agricultural Development Banks in Kerala", Agricultural Banker, New Delhi, Vol.XIII, No.4, Oct.-Dec. 1990, pp.28-30.

56 Venkiteswaran S. and Janardhanan Pillai, "Utilization of Long-Term Loans", Land Bank Journal, Bombay, Vol.XXIX, No.3, March 1991, pp.47-53.

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providing loan to nonagricultural purposes like rural housing.

Dharmapalan⁵⁷ analysed the reasons for mounting overdues in Kerala and opined that the recovery position can be improved if the employees of the bank sincerely attempt for it and the Board of Directors and other policy-makers help the employees properly.

It is thus clear that the studies on funds management on Primary Agricultural and Rural Development Banks in general are few and on primary banks in Kerala are very rare. Barring a few, almost all the studies suffer from the following deficiencies:

1. The available studies are in the form of case studies pertaining to a single organisation or a single aspect. Hence the findings of such studies cannot be generalised.
2. The studies do not cover the entire flow of funds.

The present study is an improvement over the earlier studies in the following respects:

1. This is an attempt to study the funds management of

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Dharmapalan C. "Personal Contact is Better than Legal Action", Land Bank Journal, Bombay, Vol.XXX, No.4, June 1992, pp.11-13.

Primary Agricultural and Rural Development Banks drawing samples from banks having different levels of overdues and different volume of funds from the entire state of Kerala.

2. The study is attempted at both micro and macro level and the term funds has been given a wider definition and includes all items in the liability side of the Balance Sheet excluding contra items and accumulated losses.
3. The funds management in this study gives a broader definition. It includes not only mobilisation and deployment of funds, but also the recovery of funds and thus cover the entire cycle of funds.
4. The study examines the intra variations (variations for the same bank over the years) and inter variations (variations between banks).
5. A standard is also developed for the comparison of efficiency and profitability of these primary banks.

CHAPTER IV

EFFICIENCY ANALYSIS

In any sphere of activity efficiency is the ratio of the result achieved to the means used. In other words it is the ability of an organisation to produce the desired effects with the minimum of efforts, expenses or wastes. It is the shortest way or the cheapest means towards the desired goal. Action without delay is the secret of efficiency. In most situations efficiency is a relative concept. There cannot be a state of efficiency without someone having declared a standard or a target. The state of operational efficiency shows the quality of skills and the degree of success achieved in the performance of different operations and management of an organisation.

Efficiency and Profitability

The term profitability is not the same as efficiency. No doubt profitability is an important yardstick of efficiency of an organisation, but the extent of profitability cannot be taken as a final proof of efficiency. Sometimes satisfactory profits can mask inefficiency and conversely a proper degree of efficiency

can be accompanied by an absence of profit. In this chapter it is proposed:

1. To examine the efficiency of the selected banks in mobilisation and deployment of funds and
2. To evaluate the banks' ability in controlling the expenses and improving their overall efficiency.

The primary banks mobilise a substantial portion of their resources by borrowing from the apex bank. The share capital and reserves of the banks contribute to the balance of the total resources. A considerable share of the total funds is utilised for giving loans to the beneficiaries of the banks. Three per cent of the borrowings is to be invested in the shares of the apex bank and balance, if any, is invested in securities.

The proper management of the components of inflow and outflow of funds is essential for maintaining stability and growth of these banks. The success of this organisation also depends on the ability to control its expenses and to increase its overall efficiency.

Ratios are used for analysing the efficiency of banks in mobilisation, deployment and controlling their expenses. Though ratio analysis forms only a part of the total analysis they may be used as analytical technique for assessing the performance of the concern. In a limited sense the ratio analysis is capable of analysing trends towards better or poorer performance. It also helps in finding out significant deviation from any average or relatively applicable standard ratio. It is stated that the ratios, if discriminately calculated and wisely interpreted, can be useful tools of financial analysis¹.

Development of Standard

Analysis of financial statements based on ratios will be meaningful only when it is compared with a reasonable standard. For this type of long-term lending institutions no such specific standards are developed so far. In this study three types of standard ratios are developed based on three different criteria.

¹ Kauveri V.S., Financial Ratios as Predictors of Borrowers Health, Sultan Chand and Sons Publications, New Delhi, 1982, p.51.

The first type of standard ratios is developed by considering the data of all the primary banks in the universe during the years 1990-91 and 1991-92. The relevant ratios are computed for each bank and the median is taken as the standard ratio. But it is found that certain ratios show either a declining trend or an upward trend during the period of study. So the standard developed based only on two years of the period of study will not be accurate for comparison and interpretation.

The second type of standard ratios is developed by taking the averages of all the sample banks selected for the period of study. But this sample includes high overdue and loss making banks also. So the standard developed is only an average of both the efficient and inefficient groups. Thus this standard is also not ideal for comparison.

The third type of standard ratios is developed by taking two banks in the sample (IRK and EKM) which were profitable and showed efficiency in the effective management of funds throughout the study period. This standard is attainable and avoids the limitations of the previous standards. So this standard is used as a basis for comparison of these ratios. These three standards

with their formulae and the data used for various computations in the analysis are given in Appendix-IV.

Efficiency in Mobilisation and Deployment

The ability of the sample banks in mobilising resources and its effective deployment to different channels is analysed here. For this purpose two ratios each were computed and compared with the standards developed. For the computation of these ratios certain variables were used. As these variables have no standard definitions their working definitions are given below:

Borrowings

This is the total amount borrowed from the apex bank for lending to the beneficiaries.

Working Fund

It is the total of all items appearing on the liability side of the Balance Sheet excluding contra items and accumulated losses.

Owned Fund

Owned fund is the total of share capital, reserve fund and undistributed profit.

Credit

Credit is the amount of loan outstanding at the end of the year.

Analysis of Mobilisation of Funds

The proportion of different sources of funds to the total working funds of these banks is analysed here. For this two ratios are used. They clearly indicate the percentage composition of each source.

Borrowings to Working Fund Ratio

The proportion of borrowings in the total working fund of the primary banks are given by this ratio. This ratio clearly indicates the extent of external dependence. A lower ratio shows

the ability of the banks in mobilising their resources. The standard ratio developed for this is 78.62 per cent.

The actual ratios obtained for the sample banks are given in Table 4.1. The ratios for IRK, TRR and KZD are 76.03 per cent, 78.45 per cent and 78.87 per cent respectively. For EKM, TVM and TPZ they are 81.30 per cent, 82.95 per cent and 83.12 per cent respectively. The ratios for IRK and TRR are better than the standard and for other banks it is below the standard. This ratio shows a declining trend from 82.60 per cent in 1983-84 to 80.40 per cent in 1992-93. This ratio does not show much variation between different years for all the banks as it is clear from the behaviour of Coefficient of Variation (C.V).

Owned Fund to Working Fund Ratio

The owned fund to working fund ratio shows the volume of self resources in the working fund of these selected banks. A higher ratio shows the efficiency of the banks. The standard ratio developed for this is 7.54 per cent. A high volume of owned fund helps the banks to have minimum dependence on external sources. It also helps the banks for temporary adjustments.

Table 4.1

Borrowings to Working Fund Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	81.72	81.29	81.65	83.28	80.64	87.22	82.60
1984-85	80.54	80.90	80.93	82.61	78.64	88.49	81.96
1985-86	80.87	79.06	81.45	82.95	77.58	87.12	81.45
1986-87	77.63	80.87	82.05	76.78	75.46	83.88	79.39
1987-88	76.09	77.59	83.27	79.69	75.21	78.54	78.35
1988-89	72.25	76.57	82.49	79.31	76.43	80.54	77.86
1989-90	73.78	74.01	84.46	80.57	77.39	79.97	78.27
1990-91	72.50	76.98	85.10	81.76	80.91	83.33	79.98
1991-92	73.28	78.48	84.00	82.85	85.38	80.57	80.66
1992-93	72.53	79.01	85.92	83.49	81.60	80.54	80.40
Average	76.03	78.45	83.12	81.30	78.87	82.95	80.08
C.V.	4.74	2.76	1.93	2.56	3.84	4.05	1.93

Source : Compiled and computed from the Annual Reports of the selected primary banks

The actual ratios obtained for the selected primary banks are shown in Table 4.2. The ratios for TRR, IRK and EKM are 8.10 per cent, 7.59 per cent and 7.49 per cent respectively. The TVM, TPZ and KZD show this ratio as 6.10 per cent, 6.05 per cent and 5.42 per cent respectively. The IRK and TRR have a better owned fund position in comparison with the standard ratio. This ratio shows a slight declining trend from 6.98 per cent in 1983-84 to 6.65 per cent in 1992-93. This ratio is consistent for all the banks during the period of study as is evident from the behaviour of coefficient of variation.

Analysis of Deployment of Funds

After discussing the efficiency in mobilisation of resources, an attempt is made here to analyse how this resources are deployed. The efficiency of an organisation depends on the quickness in transacting its business and keeping minimum idle resources. For analysing the banks' efficiency in deploying the funds the amount of loan (credit) given is related to working fund and amount borrowed for the purpose of lending. Maximum utilisation of resources either in the form of credit or investment in securities shows the efficiency of the bank. The following ratios are selected to comment on the above factors.

Table 4.2

Owned Fund to Working Fund Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	8.02	8.36	6.94	7.65	4.99	6.52	6.98
1984-85	7.14	8.27	7.34	7.45	4.58	6.30	6.73
1985-86	6.96	7.60	6.78	7.89	4.94	6.25	6.66
1986-87	7.69	7.41	7.07	7.67	5.11	6.26	6.80
1987-88	6.94	7.01	6.12	8.03	5.50	5.67	6.49
1988-89	7.73	7.23	5.92	8.71	6.09	5.76	6.83
1989-90	7.58	7.67	5.86	6.49	6.13	5.81	6.55
1990-91	8.39	8.70	5.15	7.01	5.72	6.30	6.75
1991-92	7.46	10.13	4.94	6.59	5.80	6.08	6.65
1992-93	8.15	9.16	4.99	6.78	5.60	6.14	6.65
Average	7.59	8.10	6.05	7.49	5.42	6.10	6.71
C.V.	6.17	11.33	13.90	9.04	9.06	4.30	2.01

Source : Compiled and computed from the Annual Reports of the
selected primary banks

Credit to Working Fund Ratio

Credit to working fund ratio shows the proportion of working fund given as loan to beneficiaries. To find this ratio loan outstanding is related to total resources. The very purpose of Agricultural Development Banks is to provide finance to agriculturists to the maximum extent and so a higher ratio shows the efficiency of the banks in discharging their obligations. The standard ratio obtained for this is 80.31 per cent.

The actual ratios obtained for the sample banks are given in Table 4.3. The ratios for TPZ, EKM and TVM are 84.76 percent, 83.02 per cent and 82.30 per cent respectively. They are 78.74 per cent, 78.45 per cent and 77.68 per cent respectively for TRR, KZD and IRK. The TPZ, EKM and TVM are lending more than the standard and other banks below the standard ratio. This ratio shows a declining trend from 84.37 per cent in 1983-84 to 79.02 per cent in 1992-93. This declining trend is shown by all the banks except TRR and TPZ.

Table 4.3
Credit to Working Fund Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	85.16	79.82	82.84	87.88	81.19	89.77	84.37
1984-85	85.77	78.69	83.84	86.62	79.22	88.61	83.71
1985-86	83.24	77.06	83.50	83.36	78.07	87.68	82.07
1986-87	82.48	82.72	85.32	76.61	76.39	85.32	81.39
1987-88	79.36	77.08	85.86	80.17	76.45	78.43	79.50
1988-89	76.27	76.37	82.89	80.17	75.71	80.36	78.58
1989-90	73.40	76.27	86.98	83.36	75.73	79.14	79.01
1990-91	73.39	76.47	86.26	84.88	79.17	82.87	80.37
1991-92	70.45	81.37	84.43	83.06	83.91	77.28	79.93
1992-93	69.49	81.95	85.78	84.13	78.99	75.01	79.02
Average	77.68	78.74	84.76	83.02	78.45	82.30	80.78
C.V.	7.44	3.02	1.65	3.73	3.19	5.95	2.38

Source : Compiled and computed from the Annual Reports of the selected primary banks

Credit to Borrowings Ratio

This ratio shows the efficiency of the banks in converting the borrowings to lending. The Agricultural Development Banks are not subject to the normal banking regulations regarding maintenance of reserves, liquidity ratio etc. They can lend to the maximum fund available with them without keeping reserves. Out of the total mobilised resources from borrowings, reserves and share capital, they have to invest only 3 per cent of the borrowings on the share capital of the apex bank. So these banks can lend the entire amount of borrowings and the balance portion of the owned fund. The standard ratio developed for this is 101.92 per cent.

Credit to borrowings ratio of the selected primary banks is presented in Table 4.4. The ratios for EKM, TPZ and IRK are 102.10 per cent, 101.93 per cent and 101.75 per cent respectively. In the case of TRR, KZD and TVM they are 100.38 per cent, 99.47 per cent and 99.21 per cent respectively. During the study period this ratio shows a declining trend from 102.12 per cent to 98.27 per cent. The EKM, IRK and TPZ are performing better than the standard and others are below it. As is evident from the

Table 4.4
Credit to Borrowings Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	104.20	98.20	101.45	105.43	100.68	102.93	102.12
1984-85	106.49	97.27	103.60	104.86	100.73	100.13	102.13
1985-86	102.93	97.47	102.52	100.50	100.64	100.65	100.77
1986-87	106.25	102.28	103.98	99.78	101.24	101.71	102.52
1987-88	104.30	99.35	103.11	100.60	101.65	99.86	101.46
1988-89	101.35	99.73	100.49	101.76	99.06	99.78	100.36
1989-90	99.48	103.04	102.60	103.47	97.86	98.96	100.88
1990-91	101.22	99.34	101.30	103.82	97.85	99.44	100.48
1991-92	96.14	103.68	100.52	100.25	98.34	95.92	99.11
1992-93	95.81	103.72	99.84	100.76	96.80	93.07	98.27
Average	101.75	100.38	101.93	102.10	99.47	99.21	100.80
C.V.	3.53	2.40	1.32	1.94	1.63	3.67	1.27

Source : Compiled and computed from the Annual Reports of the selected primary banks

coefficient of variation this ratio is consistent for all the years.

Ability in Controlling Expenses and Improving Overall Efficiency

The ability of the primary banks in controlling their expenses and improving their overall efficiency is analysed here. Efficiency implies that all resources are being used to their potential. Efficiency relates to an activity performed with the lowest consumption of resources.

The success of an organisation depends on its ability to control the expenditure. The cost of establishment and administration should not exceed a reasonable sum it can afford. The uninterrupted flow of funds is essential for the successful functioning of these types of long-term lending institutions. Proper recovery of loans is important for the flow of funds and for refinancing from the apex bank. The ratios selected under this category are broadly classified into two heads, viz., expense ratios and overall efficiency ratios. For the computation of these ratios the following variables were used and their working definitions are given below:

Establishment Charges

This is the total expenses incurred in respect of the employees of the bank.

Cost of Management

Cost of management (non-interest expense) is the sum of establishment charges and administrative overheads.

Interest Expense

It is the interest paid and payable for the funds borrowed from the apex bank. This is also known as interest paid.

Non-interest Income

It is the sum of all miscellaneous income received by the bank. It also includes interest income from investments made in securities by the bank.

Interest Income

This is the interest received and receivable from the beneficiaries for the loan given to them. This is also known as interest received.

Total Expense

It is the sum of the amount of interest expense and non-interest expense.

Total Income

Total income includes the amount of interest income and non-interest income.

Returns

Returns are obtained by deducting the non-interest expense and specific reserves from the credit total (excluding loss) of profit and Loss Account.

Demand

This is the demand made by the bank on the beneficiaries during a particular year.

Collection

It is that portion of demand received from the beneficiaries of the bank.

Expense Ratios

The total expenses of the bank include the interest expenditure and expenditure incurred for the establishment and administration of the bank. Any control and reduction in these items will have a direct impact on the profitability. These important items of expenditure to the related variables are analysed here. The interest expenditure is related to borrowings to know the cost of the borrowed funds. The cost of management is related to credit to examine the cost incurred for managing credit. The establishment charges is compared to the cost of management to find the proportion of establishment cost to the

total cost of management. These ratios will help to identify the managerial ability of the banks in regulating and controlling their expenses.

Interest Expense to Borrowings Ratio

The interest expense for the borrowed funds from the apex bank is the major item of expenditure for the primary banks. The interest rate for different schemes and for different loan amounts is subject to revision according to the notification of NABARD (details given in Appendix V). This ratio shows the interest cost of borrowings. The standard ratio obtained for comparison is 8.45 per cent.

Table 4.5 presents the interest expense to borrowings ratio of the sample banks. The ratios for KZD, IRK and TPZ are 9.27 per cent, 8.73 per cent and 8.71 per cent respectively. They are 8.37 per cent, 8.17 per cent and 8.07 per cent for TRR, EKM and TVM respectively. Compared to the standard ratio the cost of interest is high in the case of KZD, IRK and TPZ. This ratio shows an increasing trend from 7.35 per cent in 1983-84 to 9.95 per cent in 1992-93. The variations between different years is

Table 4.5

Interest Expense to Borrowings Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	6.51	6.81	8.79	6.66	9.42	6.43	7.35
1984-85	7.35	6.30	8.61	6.91	10.49	8.36	7.89
1985-86	7.73	7.10	8.24	8.00	9.23	7.75	7.98
1986-87	9.11	6.74	9.62	8.00	8.60	8.12	8.31
1987-88	8.55	8.39	8.12	8.31	9.24	7.03	8.25
1988-89	9.47	10.03	9.01	8.23	9.53	8.99	9.36
1989-90	9.50	9.25	8.31	7.87	9.36	7.23	8.54
1990-91	10.03	8.90	7.61	8.21	8.50	7.66	8.45
1991-92	9.56	10.98	9.65	10.09	9.31	8.90	9.73
1992-93	10.34	10.77	9.34	10.11	9.13	10.09	9.95
Average	8.73	8.37	8.71	8.17	9.27	8.07	8.57
C.V.	13.45	19.31	7.38	12.98	5.54	14.10	9.29

Source : Compiled and computed from the Annual Reports of the
selected primary banks

high in the case of TRR (19.31 per cent), TVM (14.10 per cent) and IRK (13.45 per cent).

Cost of Management to Credit Ratio

Proper control over expenses is very important for the successful running of any organisation. The cost of management to credit ratio shows the extent of efficiency in controlling expenses incurred in managing the credit. The standard ratio for this is 1.13 per cent.

The cost of management to credit ratio is presented in Table 4.6. The ratio for TRR is high (2.30 percent) and it is low for IRK (0.94 per cent). The ratios for KZD, TPZ, TVM and EKM are 1.97 per cent, 1.80 per cent, 1.45 per cent and 1.35 per cent respectively. The high ratio for TRR is due to large number of employees than what is needed as per the standard norms (Appendix VI). The IRK has succeeded in enhancing the volume of business and at the same time controlling the cost of management. In comparison with the standard, all the banks except IRK incur cost of management higher than the standard ratio. Regarding inter year variations it is high in the case of IRK (27.52 per cent) and

Table 4.6

Cost of Management to Credit Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	0.87	2.28	2.07	1.34	1.34	1.32	1.46
1984-85	0.80	2.35	2.08	1.54	1.61	1.57	1.57
1985-86	0.75	2.05	2.02	1.29	1.72	1.54	1.48
1986-87	0.73	2.36	1.87	1.25	1.87	1.44	1.49
1987-88	0.83	2.42	1.70	1.30	1.77	1.33	1.48
1988-89	0.80	2.17	1.79	1.32	2.17	1.23	1.49
1989-90	0.86	2.10	1.63	1.23	2.19	1.19	1.45
1990-91	1.16	2.47	1.70	1.32	2.69	1.53	1.73
1991-92	1.42	2.37	1.50	1.49	2.21	1.68	1.74
1992-93	1.49	2.48	1.71	1.41	2.51	1.75	1.84
Average	0.94	2.30	1.80	1.35	1.97	1.45	1.57
C.V.	27.52	6.24	10.37	7.10	19.80	12.24	8.60

Source : Compiled and computed from the Annual Reports of the
selected primary banks

KZD (19.80 per cent). This ratio shows an increasing trend from 1.46 per cent to 1.84 per cent during the study period. This is mainly due to the increase in the establishment charges.

Establishment Charges to Cost of Management Ratio

Establishment charges is the major component of cost of management. To control the cost of management the establishment charges should be regulated. The proportion of establishment charges in cost of management is given by this ratio. The standard ratio developed for this is 70.27 per cent.

The actual ratios of the sample banks are presented in Table 4.7. The ratios for IRK, TVM and EKM are 67.76 per cent, 71.88 per cent and 72.87 per cent respectively. They are 73.16 per cent, 73.24 per cent and 73.77 per cent for KZD, TPZ and TRR. IRK is the only bank less than the standard ratio and all other banks are above. The reason for the high ratio for TRR and low ratio for IRK is already explained in cost of management to credit ratio. This ratio shows an increasing trend from 65.54 per cent to 76.37 per cent. This increase is mainly due to the revision of salary scale in the co-operative sector.

Table 4.7

Establishment Charges to Cost of Management Ratio of the Selected
Primary Banks from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	61.06	67.24	65.28	67.63	66.08	66.18	65.54
1984-85	62.28	74.71	70.21	74.37	70.39	67.12	69.71
1985-86	60.74	78.88	68.76	71.98	70.89	70.31	70.05
1986-87	69.18	77.10	75.97	69.34	70.87	69.84	71.98
1987-88	63.27	70.44	68.87	69.28	70.17	72.58	69.04
1988-89	74.84	73.52	72.91	72.51	75.88	72.33	73.65
1989-90	68.35	73.88	73.33	72.84	73.01	79.54	73.42
1990-91	78.48	71.63	79.90	76.44	79.58	72.99	76.43
1991-92	67.10	76.44	81.01	76.44	79.24	71.53	75.10
1992-93	74.91	74.58	77.78	78.58	76.78	76.36	76.37
Average	67.76	73.77	73.24	72.87	73.16	71.88	72.01
C.V.	8.85	4.37	6.73	4.47	5.72	5.25	4.65

Source : Compiled and computed from the Annual Reports of the
selected primary banks

Overall Efficiency Ratios

The primary banks acquire a major portion of their working fund through borrowings from the apex bank. Therefore the quick deployment of the borrowed funds is necessary for the banks to avoid shouldering of interest and consequent losses. The effective management of inflow and outflow of funds is one of the most important factors for the banks' survival. Therefore an attempt is made in this section to analyse the overall efficiency of the selected primary banks by using the following ratios.

Interest Expense to Interest Income Ratio

The interest expense to interest income ratio shows the percentage of interest income which is utilised for interest payment. The rates of interest paid and received on different schemes vary as per the regulations and revisions of interest rates by NABARD. A reasonable margin between the lending rate and receiving rate is essential for the survival of these institutions. The banks cannot have any discretion in the interest rates, but they can decide on which schemes they can lend and with what amounts so that they can plan their returns. The

standard ratio developed for this is 81.94 per cent. A lower ratio is more advantageous to the banks.

The actual ratio obtained for the selected primary banks is presented in Table 4.8. This ratio has increased from 80.06 per cent to 88.06 per cent during the study period. This increase resulted in low margin received by these banks.

KZD (80.45 per cent) and EKM (81.68 per cent) are performing better than the standard. In the case of TVM, TPZ, IRK and TRR the ratios obtained are 81.99 per cent, 82 per cent, 82.21 per cent and 84.37 per cent respectively and are above the standard.

Total Expense to Total Income Ratio

For every organisation a reasonable margin is needed after meeting all the expenses for its survival and growth. The Agricultural Development Banks are also not exempted from this rule. They should have a sufficient sum for meeting their contingencies and for future development. But from Table 4.9 it is found that the total expense to total income ratio has

Table 4.8

Interest Expense to Interest Income Ratio of the Selected
primary Banks from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	76.76	77.45	83.57	76.78	83.89	82.26	80.06
1984-85	76.02	72.53	78.53	76.26	90.41	84.36	79.47
1985-86	78.59	92.84	79.87	78.89	83.11	81.71	82.36
1986-87	82.03	80.72	84.78	77.90	76.58	75.42	79.51
1987-88	81.39	84.95	79.23	87.38	76.61	82.35	81.91
1988-89	84.15	84.96	83.51	74.12	77.25	75.83	79.85
1989-90	89.49	80.92	80.90	82.22	83.65	73.56	81.65
1990-91	89.49	81.27	75.96	80.47	76.86	87.58	81.78
1991-92	94.11	96.04	84.18	97.71	85.81	86.03	90.48
1992-93	92.36	95.27	90.41	87.75	72.02	92.72	88.06
Average	82.21	84.37	82.00	81.68	80.45	81.99	82.44
C.V.	7.36	8.75	4.71	8.28	6.57	6.89	4.32

Source : Compiled and computed from the Annual Reports of the
selected primary banks

increased from 88.93 per cent to 95.28 per cent during the study period. It is clear from the table that in the last year of the study period the expenses are exceeding the income in the case of TPZ and TVM. The standard ratio developed is 84.35 per cent.

The ratios for TPZ, TVM and TRR are 95.75 per cent, 92.21 per cent and 92.06 per cent respectively. In the case of KZD, EKM and IRK the ratios are 91.84 per cent, 86.66 per cent and 82.11 per cent respectively. The IRK is the only bank performing better than the standard (82.11 per cent). This better performance is due to the high non-interest income (refer Table 5.2) and less cost of management (refer Table 4.6).

Interest Income to Credit Ratio

The interest received from the beneficiaries of the bank is the return on the loan given by the banks. The rate of return is different for different schemes and for different amounts of loans. The banks can plan the outlay in different schemes to some extent and assure a reasonable return for their activities. As already stated the rates of interest is fixed by NABARD and the Agricultural Development Banks cannot exercise a discretion on it.

Table 4.9

Total Expense to Total Income Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	77.48	90.99	97.16	86.37	89.03	93.94	88.93
1984-85	79.90	88.44	94.43	87.30	97.43	95.13	90.24
1985-86	80.98	94.13	96.54	86.57	92.12	93.35	90.46
1986-87	81.85	89.99	98.40	82.63	85.60	84.89	87.05
1987-88	81.15	92.92	91.95	89.20	86.13	90.91	88.62
1988-89	84.17	88.66	97.98	78.62	89.35	82.70	86.70
1989-90	83.54	90.60	92.06	82.07	98.92	80.34	87.68
1990-91	86.57	88.04	90.86	85.37	93.23	101.87	90.84
1991-92	79.79	97.99	93.52	99.11	100.78	97.91	94.56
1992-93	86.12	99.65	105.49	90.90	87.23	104.21	95.28
Average	82.11	92.06	95.75	86.66	91.84	92.21	89.99
C.V.	3.36	4.15	4.28	6.13	5.65	8.15	3.10

Source : Compiled and computed from the Annual Reports of the
selected primary banks

They can only exercise their freedom on the type of schemes and amounts of loans. The standard ratio obtained is 10.02 per cent.

The interest received to credit ratio is shown in Table 4.10. The ratios of EKM, TVM and TRR are 9.79 per cent, 9.93 per cent and 10.06 per cent respectively. They are 10.26 per cent, 10.42 per cent and 11.50 per cent for IRK, TPZ and KZD respectively. The EKM and TVM are below the standard ratio and other banks are above it. A higher ratio indicates the efficiency of the banks. This ratio shows an increasing trend over the years from 8.98 per cent to 11.49 per cent. A conclusion regarding this cannot be made without considering the interest expense to borrowings ratio. The interest expense to borrowings ratio (Table 4.5) has increased by 2.60 per cent (9.95 per cent-7.35 per cent) during the reference period while this ratio has increased by 2.51 per cent (11.49 per cent-8.98 per cent) during the same period, i.e., the cost ratios are increasing at a higher rate than the income ratios.

Returns to Working Fund Ratio

The returns to working fund ratio gives the extent of

Table 4. 10
Interest Income to credit Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	8.13	8.95	10.37	8.19	11.16	7.59	8.98
1984-85	9.08	8.93	10.58	8.64	11.52	9.90	9.72
1985-86	9.55	9.33	10.06	10.09	11.04	9.42	9.90
1986-87	10.45	8.17	10.92	10.29	11.10	10.58	10.20
1987-88	10.07	9.94	9.94	9.45	11.86	10.54	10.32
1988-89	11.10	11.98	10.73	10.91	11.59	11.21	11.25
1989-90	10.67	11.09	10.09	9.26	11.43	9.93	10.39
1990-91	11.08	11.02	9.88	9.83	11.28	8.80	10.28
1991-92	11.42	11.03	11.40	10.30	11.04	10.79	10.99
1992-93	11.68	10.90	10.35	11.43	12.67	11.69	11.49
Average	10.26	10.42	10.42	9.79	11.50	9.93	10.31
C.V.	10.33	11.63	4.39	9.53	5.10	15.37	7.40

Source : Compiled and computed from the Annual Reports of the selected primary banks

benefit received by the use of total resources. Higher returns show the efficiency of banks. The standard ratio developed for comparison is 7.58 per cent. The actual percentage of return on the working fund for the selected primary banks is presented in Table 4.11.

The IRK and EKM have the highest returns as 7.65 per cent and 7.51 per cent. The lowest returns is received by TVM and KZD as 6.19 per cent and 6.67 per cent. The ratios of TRR and TPZ are 7.13 per cent 7.39 per cent respectively. Compared to the standard ratio, the IRK is receiving a return higher than the standard. The ratio shows an upward trend from 6.67 per cent in 1983-84 to 7.84 per cent in 1992-93. This is due to upward revision of interest rate as mentioned in the earlier paragraphs. The return is not consistent for TVM (14.51 per cent) and KZD (13.03 per cent).

Interest Coverage Ratio

Interest coverage ratio shows the relation between returns and interest expense. It gives the debt servicing capacity of the banks. The higher the ratio, the safer the

Table 4. 11
Returns to Working Fund Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	6.22	6.15	7.65	6.95	7.36	5.89	6.67
1984-85	6.83	6.01	7.43	6.86	7.48	7.42	6.98
1985-86	7.11	7.30	6.91	7.65	7.42	6.69	7.17
1986-87	8.06	6.28	7.90	7.37	6.90	6.63	7.16
1987-88	7.41	7.10	7.46	7.42	7.24	5.39	6.96
1988-89	8.07	7.77	6.96	7.40	5.14	6.94	7.13
1989-90	7.92	6.97	8.85	7.34	5.42	5.17	6.82
1990-91	8.20	7.00	6.43	6.81	5.91	5.26	6.54
1991-92	8.17	8.72	7.72	8.65	6.67	5.52	7.48
1992-93	8.88	8.49	6.82	8.90	7.75	6.59	7.84
Average	7.65	7.13	7.39	7.51	6.67	6.19	7.07
C.V.	9.70	12.28	8.77	8.94	13.03	14.51	5.11

Source : Compiled and computed from the Annual Reports of the selected primary banks

position of the banks. The standard ratio developed for comparison is 113.80 per cent. This ratio shows the cushion available for cost of management and returns for the owners.

The actual ratios received by the selected primary banks are presented in Table 4.12. In the case of IRK and EKM the ratios are 114.56 per cent and 113.04 per cent. The ratios for TRR and TPZ are 106.67 per cent and 101.93 per cent. The KZD and TVM have a lowest ratio of 92.44 per cent and 92.32 per cent. Here also the IRK has the highest ratio and performs above the standard. The EKM has also reached near the standard ratio. All other banks especially KZD and TVM have a lesser debt servicing capacity as they are below 100 per cent. This ratio shows a declining trend from 109.99 per cent in 1983-84 to 98.12 per cent in 1992-93.

Performance Recovery Ratio

The overall efficiency of the primary banks depends not only on controlling their expenses, but also on recovering the loans on due date. The promptness in recovering the loan has a wide impact on the flow of fund. The refinancing eligibility of

Table 4. 12
Interest Coverage Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	116.92	111.11	106.48	125.70	96.84	105.13	109.99
1984-85	115.43	117.81	106.68	120.16	90.66	100.24	107.97
1985-86	113.74	109.28	102.90	115.31	103.71	99.07	107.17
1986-87	114.03	115.09	100.03	120.05	106.35	97.31	108.49
1987-88	113.88	109.07	110.24	112.08	104.20	97.72	107.72
1988-89	113.22	101.18	93.65	113.41	70.63	98.61	97.28
1989-90	113.05	101.74	124.62	115.71	74.79	89.40	101.74
1990-91	112.74	102.20	99.40	101.37	97.95	82.40	99.26
1991-92	114.29	101.22	95.27	103.53	83.90	76.99	95.96
1992-93	118.40	99.76	84.96	105.52	104.03	81.02	98.12
Average	114.56	106.67	101.93	113.04	92.44	92.32	103.11
C.V.	1.51	5.76	9.94	6.58	13.12	9.84	4.97

Source : Compiled and computed from the Annual Reports of the selected primary banks

these banks also depends on the recovery percentage. So a prompt recovery of the loans is all the more important in every aspect. The standard ratio developed for comparison is 89.75 per cent.

The performance recovery ratio is obtained by dividing the collection by demand during the period. The performance recovery ratios of the selected banks are presented in Table 4.13. The IRK and TRR have the highest recovery percentage as 96.58 per cent and 94.40 per cent. In the case of TPZ and EKM the percentages of recovery are 86.60 and 83.40 per cent. The KZD and TVM have this ratio as 72.06 per cent and 60 per cent. Comparing with the standard, the IRK and TRR perform better than the standard. This ratio shows a sharp declining trend from 92.32 per cent in 1983-84 to 69.97 per cent in 1992-93. During the latter half of the study period the recovery position has further worsened. There is also a wide variation in the recovery ratios of TVM (26.93 per cent) and KZD (15.67 per cent) during the study period.

The measurement of overall efficiency cannot be completed without analysing the profitability of these primary banks. So the profitability is analysed in the following chapter.

Table 4. 13
 Performance Recovery Ratio of the Selected Primary Banks
 from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	99.42	99.50	95.70	90.92	87.25	82.46	92.32
1984-85	99.34	99.52	95.61	91.31	86.47	81.81	92.11
1985-86	99.48	99.36	96.10	91.44	80.45	77.20	90.22
1986-87	99.33	99.22	94.43	90.70	80.23	73.58	89.04
1987-88	99.15	99.08	94.63	92.10	79.03	70.22	88.34
1988-89	99.07	97.67	89.59	87.62	76.00	68.05	85.53
1989-90	92.54	85.94	83.48	74.68	58.69	44.58	71.15
1990-91	90.75	88.31	72.29	67.00	56.52	50.03	69.19
1991-92	93.58	88.38	76.95	76.08	56.30	40.51	69.27
1992-93	93.70	88.71	72.60	76.94	69.10	36.56	69.97
Average	96.58	94.40	86.60	83.40	72.06	60.00	81.10
C.V.	3.46	5.88	10.83	10.45	15.67	26.93	12.03

Source : Compiled and computed from the Annual Reports of the selected primary banks

CHAPTER V

PROFITABILITY ANALYSIS

The general health of a firm is very much reflected in the quantum of its earnings. This is true in the case of Agricultural and Rural Development Banks also. This type of co-operatives are not rigidly profit-oriented, but they cannot afford losses. Though the bye-laws of the banks are silent about the level of profit earnings, they deal with the distribution of net profits. "This clearly indicates that the profit is neither the yardstick for measuring the efficiency and achievement of the co-operatives nor the profit motive is new to co-operatives. Rather the surplus earned enables the co-operatives both to eat the cake and have it."¹

At the same time these institutions have to take up great social responsibilities. To fulfil this and function as economically viable units, a sufficient return on capital is

¹ Anjaneyalu G. and Dakshinamurthy D., "Profitability in Co-operatives", The Co-operator, New Delhi, Vol.XXIII, No.1, Dec.1985, p.289.

necessary. Thus the profitability concept should be viewed with a new meaning in co-operatives and should aim at reasonable profit maximisation in view of the following² :

1. The attainment of social and economic welfare of members
2. A reasonable rate of return on the sum invested must accrue to the society
3. The rate of return should be higher than the cost of capital or cost of loan
4. The invested money must be recovered giving scope for expansion.

After analysing the efficiency in mobilisation, deployment and overall performance of the selected primary banks, the profitability is analysed in this chapter. Profit is the motivating force behind every organisational activity and in view of its importance, it is being used to measure the operational efficiency.

² Ibid.

Profit and Profitability

The term profit is defined in various ways. From the accounting view it refers to the excess of income over expenses for a given period.

According to Howard and Upton³ profitability is the ability of a given investment to earn a return from its use. In the opinion of Khan and Jain⁴ profitability refers to a situation where output exceeds input, i.e., the value created by the use of resources is more than the total of the input resources. The goal of an enterprise should not be the maximisation of profit but the maximisation of profitability. Profitability is a relative concept and to measure it, profit is to be related to some variables affecting the profit or relating to profit in some form or other. In this study profit and other related variables are divided by working fund to have the relativity and comparability.

³ Howard Bion B. and Upton Miller, Introduction to Business Finance, Mc Graw Hill Book Co., New York, 1953, p.147.

⁴ Khan M.V. and Jain P.K., Financial Management, The Mc Graw Hill Publishing Co. Ltd., New Delhi, 1983, p.10.

Profitability is the result of financial as well as operational efficiency. The importance of measuring profitability has been stressed by Hingorani and Ramanathan in these words "A measure of profitability is the overall measure of efficiency."⁵ Profitability is measured with the help of key ratios and equations given in the following paragraphs:

Part	Expenditure	Income	Difference
I	K=Interest expense	R=Interest income	S=Spread (R-K)
II	M=Man power expense	C=Non-interest income	B=Burden (M+O-C)
	O=Other expense		
	N=Non-interest expense (M+O)		
III	E=Total expense	I=Total income	P=Profit (I-E) or (S-B)

For the purpose of analysis the following working definitions are framed:

⁵ Hingorani N.L. and Ramanathan A.R., Management Accounting, Sultan Chand and Sons, New Delhi, 1980, p.123.

Spread

Spread is the difference between interest income and interest expense.

Burden

The difference between non-interest expense and non-interest income is known as burden.

Gross Profit

Gross profit refers to the excess of income over expenses in a given period, i.e., the excess of spread over burden.

Net Profit

Net profit is the profit given in the Profit and Loss Account after charging all expenses and providing reserves for overdues.

The components of spread and burden is related to total income to know the proportion of each in relation to total income. The profitability is analysed by relating the spread, burden and profit to working fund and net profit to owned fund. Here also the computed ratios are compared with the standards developed (details given in Chapter IV).

Components of Spread and Burden

The components of spread and burden are analysed in this section. As per the working definition the components of spread are interest income and interest expense and the components of burden are non-interest income and non-interest expense. Each component is compared to total income to ascertain the proportion of each in relation to total income. This will help the banks to make a proper plan in channelising the resources into the right direction so as to have a reasonable return.

Interest Income to Total Income Ratio

Interest income is the major share of the total income of Agricultural Development Banks. Any change in the rate of

interest will have a wide impact on the income and profit position of these institutions. The standard ratio developed for comparison is 89.67 per cent.

The actual ratios obtained are presented in Table 5.1. In the case of TPZ, TVM and KZD the ratio is 96.38 per cent, 95.50 per cent and 94.15 per cent respectively. The EKM, IRK and TRR have this ratio as 90.73 per cent, 88.61 per cent and 85.82 per cent. The TPZ, TVM, KZD and EKM have a better ratio than the standard. But this does not mean that they are efficient in the collection of interest income. This only gives an idea about the portion of interest income in the total income.

Non-interest Income to Total Income Ratio

The non-interest income to total income ratio explains the above situation more clearly. This ratio shows the proportion of non-interest income in the total income of the banks. The standard ratio developed for this is 10.33 per cent.

From Table 5.2 it is found that the portion of non-interest income is high in the case of TRR (14.18 per cent),

Table 5.1

Interest Income to Total Income Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	88.56	88.39	93.85	92.75	92.87	94.30	91.78
1984-85	94.14	89.51	96.11	92.77	93.37	94.87	93.46
1985-86	93.67	82.00	96.57	94.45	93.33	95.43	92.59
1986-87	92.00	82.14	96.54	91.76	93.79	95.57	91.97
1987-88	90.58	85.00	95.48	88.18	94.12	93.11	91.13
1988-89	92.09	86.84	97.82	91.20	94.26	97.38	93.27
1989-90	85.64	91.07	94.87	85.94	96.20	94.10	91.30
1990-91	86.62	84.78	97.73	90.95	92.55	97.06	91.62
1991-92	80.83	84.04	96.19	88.33	95.26	96.41	90.18
1992-93	81.92	84.46	98.61	90.95	95.70	96.77	91.40
Average	88.61	85.82	96.38	90.73	94.15	95.50	91.87
C.V.	5.07	3.37	1.41	2.67	1.23	1.40	1.08

Source : Compiled and computed from the Annual Reports of the
selected primary banks

Table 5.2

Non-interest Income to Total Income Ratio of the Selected
Primary Banks from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	11.44	11.61	6.15	7.25	7.13	5.70	8.22
1984-85	5.86	10.49	3.89	7.23	6.63	5.13	6.54
1985-86	6.33	18.00	3.43	5.55	6.67	4.57	7.41
1986-87	8.00	17.86	3.46	8.24	6.21	4.43	8.03
1987-88	9.42	15.00	4.52	11.82	5.88	6.89	8.87
1988-89	7.92	13.16	2.18	8.80	5.74	2.62	6.73
1989-90	14.36	8.93	5.13	14.06	3.80	5.90	8.70
1990-91	13.38	15.22	2.27	9.05	7.45	2.94	8.38
1991-92	19.17	15.96	3.81	11.67	4.74	3.59	9.82
1992-93	18.08	15.54	1.39	9.05	4.30	3.23	8.60
Average	11.39	14.18	3.62	9.27	5.85	4.50	8.13
C.V.	39.47	20.41	37.57	26.12	19.81	29.75	12.38

Source : Compiled and computed from the Annual Reports of the
selected primary banks

IRK (11.39 per cent) and EKM (9.27 per cent). The percentage of non-interest income for KZD, TVM and TPZ are 5.85 per cent, 4.50 per cent and 3.62 per cent respectively. In comparison with the standard it is found that the TRR and IRK have more non-interest income than the standard and the EKM has a ratio almost equal to the standard. There is no specific trend of increase or decrease in the ratio during the reference period, but there is wide variation in the ratio of all these banks.

Interest Expense to Total Income Ratio

The substantial portion of the expenditure of the Agricultural Development Banks is in the form of interest expense for the loan taken from the apex bank. The rate of interest to be paid is revised by NABARD from time to time. Table 5.3 shows the portion of total income to be paid as the interest expense for the selected banks. The interest expenditure is high in the case of TPZ (79.02 per cent), TVM (78.29 per cent) and KZD (75.74 per cent) when compared to the standard ratio (73.99 per cent). The ratios for EKM, IRK and TRR are 74.08 per cent, 73.89 per cent and 72.27 per cent. This ratio shows an increasing trend from 73.46 per cent in 1983-84 to 80.30 per cent in 1992-93. This is one of

Table 5.3

Interest Expense to Total Income Ratio of the Selected
Primary Banks from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	67.98	68.46	78.43	71.21	77.91	77.57	73.46
1984-85	71.56	64.92	75.47	70.75	84.41	80.03	74.25
1985-86	73.61	76.13	77.13	74.51	77.65	77.98	76.15
1986-87	75.46	66.20	81.84	71.48	71.82	72.08	73.00
1987-88	73.72	72.21	75.64	77.05	72.11	76.67	74.54
1988-89	77.50	72.92	81.69	67.60	72.82	73.84	74.27
1989-90	76.64	73.69	76.74	70.66	80.47	69.22	74.47
1990-91	77.52	68.90	74.23	73.18	71.14	85.00	74.82
1991-92	69.80	80.70	80.97	86.30	81.74	82.93	80.24
1992-93	75.75	80.47	89.15	79.80	68.92	89.73	80.30
Average	73.89	72.27	79.02	74.08	75.74	78.29	75.51
C.V.	4.21	7.19	5.32	7.01	6.51	7.47	3.29

Source : Compiled and computed from the Annual Reports of the selected primary banks

the major reasons for the declining of profitability in these institutions.

Non-interest Expense to Total Income Ratio

The non-interest expense is another major item of expenditure of these primary banks. A proper control on this will help these institutions to maintain a reasonable return. Normally, this ratio will come down when the volume of business increases. The standard ratio obtained for this is 10.04 per cent.

The actual ratio obtained for the selected banks is shown in Table 5.4. In aggregate this ratio showed a declining trend during the middle period (1985-1990) and increased during the later years of the study. This ratio is high in the case of TRR (19.37 per cent), TPZ (16.59 per cent) and KZD (15.99 per cent). Almost the same result was obtained in the case of cost of management to credit ratio (Table 4.6). In the case of TVM, EKM and IRK the ratios are 13.91 per cent, 12.47 per cent and 8.09 per cent respectively. Compared to the standard ratio, only the IRK has attained a position above the standard. The reason for the

Table 5.4

Non-interest Expense to Total Income Ratio of the Selected
Primary Banks from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	9.51	22.53	18.73	15.16	11.12	16.37	14.93
1984-85	8.34	23.52	18.96	16.55	13.02	15.09	15.15
1985-86	7.37	16.97	19.42	12.06	14.57	15.56	13.71
1986-87	6.39	23.69	16.56	11.25	15.82	12.97	13.40
1987-88	7.43	20.71	16.31	12.25	14.02	14.45	13.55
1988-89	6.67	15.74	16.28	11.03	16.44	9.13	11.89
1989-90	6.90	16.90	15.31	11.42	18.45	11.31	12.73
1990-91	9.05	19.13	16.62	12.19	22.10	16.87	15.35
1991-92	9.98	17.28	12.55	12.80	19.05	14.97	14.11
1992-93	10.47	19.18	16.34	11.19	18.31	14.48	14.61
Average	8.09	19.37	16.59	12.47	15.99	13.91	13.90
C.V.	16.95	14.16	11.40	13.89	19.01	15.95	7.55

Source : Compiled and computed from the Annual Reports of the
selected primary banks

high ratio in the case of TRR is already explained in cost of management to credit ratio.

Spread, Burden and Profit

The relation of spread, burden and gross profit to working fund and net profit to owned fund is analysed here.

Spread Analysis

The spread analysis measures and examines the causes of changes in the difference between gross interest received on earning assets and gross interest paid on interest costing liabilities. The difference is called net interest spread. Non-financial business has used spread and margin concepts for centuries. When a merchant purchases goods, he adds to the cost of sales an amount to cover expenses and to earn a reasonable profit and the difference between the cost of goods and the selling price is called spread or margin. Banks act in a similar manner but they deal in rupee and not in goods. The primary banks acquire funds mainly by borrowings, in return they promise to pay interest. These banks acquire assets such as loans and

investments for which they receive interest. The difference between what the banks pay for fund and what they get for fund is spread.

Burden Analysis

The burden analysis examines the impact of non-interest income and non-interest expenditure. The net result of spread and burden is termed as the gross profit. It is also related to the working fund to compare profitability of the different selected banks.

Net profit is the real accounting profit after providing all expenses and reserves for overdues. This is the amount available to shareholders. To find out whether a reasonable return obtains on the capital it is essential to relate the net profit to owned fund.

Spread to Working Fund Ratio

As stated earlier spread is the difference between interest income and interest expenditure. It is the margin

available to the banks in interest transactions. The higher the margin, the safer the position of the banks. A final conclusion can be taken only after considering the burden ratio also. The standard ratio developed for comparison is 1.24 per cent.

Table 5.5 presents the spread to working fund ratio. The highest ratio is obtained by KZD (1.69 per cent) followed by TPZ (1.54 per cent) and TVM (1.37 per cent). The ratio for EKM, IRK and TRR are 1.27 per cent, 1.22 per cent and 1.03 per cent respectively. In comparison with the standard the TRR and IRK are below the standard. This is due to more investments outside as in securities or in other banks rather than loans to farmers. The interest received from this is included in non-interest income. So a judgement cannot be taken about the profitability or efficiency without considering the other ratios also.

This ratio in general, shows a decreasing trend from 1.49 per cent in 1983-84 to 0.89 per cent in 1992-93. This results in low margin and a decline in profitability. This ratio is also showing an inter year variation among the banks as is evident from coefficient of variation which ranges from 20.07 per cent to 45.01 per cent.

Table 5.5

Spread to Working Fund Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	1.61	1.61	1.41	1.67	1.46	1.21	1.49
1984-85	1.87	1.93	1.93	1.78	0.88	1.37	1.57
1985-86	1.70	0.51	1.69	1.78	1.45	1.51	1.34
1986-87	1.55	1.30	1.42	1.74	1.99	2.22	1.67
1987-88	1.49	1.15	1.77	0.96	2.12	1.18	1.39
1988-89	1.34	1.47	1.47	2.28	2.14	2.57	1.82
1989-90	0.82	1.61	1.68	1.37	1.42	2.08	1.44
1990-91	0.85	1.58	2.05	1.63	2.07	0.90	1.42
1991-92	1.11	0.36	1.52	0.20	1.31	1.16	0.75
1992-93	0.62	0.42	0.85	1.18	2.90	0.64	0.89
Average	1.22	1.03	1.54	1.27	1.69	1.37	1.34
C.V.	30.98	45.01	20.07	37.24	30.87	39.38	22.59

Source : Compiled and computed from the Annual Reports of the
selected primary banks

Burden to Working Fund Ratio

Burden is the net difference between non-interest income and non-interest expenditure. The banks should earn sufficient non-interest income to meet the non-interest expenditure (cost of management). Then only they can maintain a reasonable level of profitability. But in the case of all the banks except IRK the non-interest expense is more than non-interest income. The standard ratio developed for comparison is -0.02 per cent.

The burden to working fund ratio is presented in Table 5.6. The IRK shows a better position (-0.31 per cent) followed by EKM (0.28 per cent), TRR (0.47 per cent) and TVM (0.82 per cent). The ratios for KZD and TPZ are 1.01 per cent and 1.19 per cent respectively. Though the spread ratio is high for KZD and TPZ, the burden ratio is also high for them. So an ultimate conclusion can be derived only after finding the gross profit to working fund ratio. In aggregate there is no much variation in this ratio during the study period. But regarding individual banks the ratio is fluctuating widely from year to year.

Table 5.6

Burden to Working Fund Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	-0.15	0.88	1.15	0.61	0.39	0.77	0.61
1984-85	0.21	1.02	1.39	0.75	0.62	0.92	0.82
1985-86	0.09	0.09	1.39	0.58	0.73	0.95	0.64
1986-87	-0.15	0.48	1.26	0.25	0.87	0.81	0.59
1987-88	-0.18	0.51	1.05	0.03	0.78	0.54	0.46
1988-89	-0.11	0.27	1.28	0.21	1.07	0.71	0.57
1989-90	-0.68	0.74	0.94	-0.24	1.32	0.45	0.42
1990-91	-0.41	0.39	1.25	0.29	1.41	1.05	0.66
1991-92	-0.92	0.14	0.88	0.11	1.39	0.98	0.43
1992-93	-0.76	0.39	1.35	0.23	1.52	1.02	0.63
Average	-0.31	0.47	1.19	0.28	1.01	0.82	0.58
C.V.	115.99	67.53	13.89	99.66	36.40	23.63	19.83

Source : Compiled and computed from the Annual Reports of the
selected primary banks

Gross Profit to Working Fund Ratio

This ratio gives the net result of spread ratio and burden ratio. This ratio is an indicator of profitability. The higher the ratio, the safer is the position of the bank. The standard ratio developed for this is 1.32 per cent.

The gross profit to working fund ratio obtained for the selected banks is presented in Table 5.7. The highest ratio is obtained by IRK (1.60 per cent) and EKM (1.18 per cent). This is followed by KZD (0.73 per cent) and TRR (0.72 per cent). The ratio obtained for TVM and TPZ is 0.67 per cent and 0.48 per cent respectively. Compared to the standard IRK and EKM are performing satisfactorily. In aggregate this ratio shows a declining trend from 0.89 per cent in 1983-84 to 0.65 per cent in 1992-93. So it is evident from this ratio that the primary banks' profitability is declining year after year. Again the ratio for different banks is subject to high fluctuations from year to year.

Net Profit to Owned Fund Ratio

Net profit is the profit available to the owners after

Table 5.7

Gross Profit to Working Fund Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	1.76	0.73	0.26	1.06	1.07	0.44	0.89
1984-85	1.66	0.91	0.54	1.02	0.25	0.45	0.81
1985-86	1.61	0.61	0.30	1.20	0.72	0.56	0.83
1986-87	1.70	0.82	0.15	1.49	1.12	1.41	1.12
1987-88	1.66	0.64	0.72	0.93	1.34	0.64	0.99
1988-89	1.46	1.20	0.18	2.06	1.07	1.86	1.31
1989-90	1.50	0.87	0.73	1.61	0.10	1.63	1.07
1990-91	1.26	1.19	0.80	1.34	0.65	-0.14	0.85
1991-92	2.03	0.21	0.65	0.09	-0.08	0.18	0.51
1992-93	1.38	0.04	0.49	0.95	1.39	-0.38	0.65
Average	1.60	0.72	0.48	1.18	0.73	0.67	0.90
C.V.	12.81	49.18	17.98	41.91	66.86	106.30	24.35

Source : Compiled and computed from the Annual Reports of the
selected primary banks

providing all expenses and reserves for overdues. This ratio is a real indicator of the profitability of the bank. It indicates the ultimate result of the activities of the bank in monetary terms. The standard ratio obtained for comparison is 11.93 per cent.

The net profit to owned ratio of the selected banks is presented in Table 5.8. The best result is given by IRK (12.92 per cent) followed by EKM (11.02 per cent) and TRR (4.54 per cent). The ratios for TPZ, KZD and TVM are -2.06 per cent, -8.48 per cent and -8.93 per cent respectively. The TPZ, KZD and TVM are running in loss. This ratio shows a decreasing trend from 6.43 per cent in 1983-84 to -3.44 per cent in 1992-93. This indicates the general declining of profitability of these institutions. If this situation continues, it may even endanger the existence of these types of institutions. Regarding the individual banks IRK and EKM are running in profit throughout the period of study. The TRR showed loss only in the last year. The TPZ showed loss only in recent years. The KZD showed loss in majority of the years. During the period of study the TVM was running in loss. The ratios of different banks showed wider variations from year to year.

Table 5.8

Net Profit to Owned Fund Ratio of the Selected Primary Banks
from 1983-84 to 1992-93

Year	Name of the bank						Average
	IRK	TRR	TPZ	EKM	KZD	TVM	
1983-84	11.29	7.46	6.66	18.30	-4.96	-0.18	6.43
1984-85	12.75	8.78	6.34	15.45	-0.42	-0.29	7.10
1985-86	12.34	5.14	2.87	12.88	5.37	-0.95	6.28
1986-87	12.89	11.14	-3.90	16.05	8.06	-2.90	6.89
1987-88	13.01	6.37	7.93	9.97	5.30	-2.18	6.73
1988-89	12.20	1.27	-7.99	10.01	-35.11	-2.09	-3.62
1989-90	12.07	1.55	0.94	15.43	-29.79	-10.57	-1.73
1990-91	10.62	1.74	-0.89	1.24	-16.73	-17.74	-3.63
1991-92	15.12	2.12	-8.13	4.09	-21.97	-27.25	-6.00
1992-93	16.89	-0.22	-24.42	6.80	5.45	-25.13	-3.44
Average	12.92	4.54	-2.06	11.02	-8.48	-8.93	1.50
C.V.	13.43	19.43	449.46	48.39	180.39	113.23	351.61

Source : Compiled and computed from the Annual Reports of the
selected primary banks

The net profit received by the selected banks during the reference period is presented in Table 5.9 and Graph 5.1

Determinants of Profit

From the above ratio analysis it is found that the profitability of these banks are deteriorating year after year. So an attempt is made here to identify the factors affecting profitability. For this purpose regression* is used and the following independent variables were identified:

* The general linear regression model with k explanatory variables is of the form,

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_k X_k + U$$

There are k parameters and the coefficients are, $\alpha, \beta_1, \beta_2, \dots, \beta_k$. Let the estimated equation be

$$Y = \hat{\alpha} + \hat{\beta}_1 X_1 + \hat{\beta}_2 X_2 + \dots + \hat{\beta}_k X_k + e$$

making the usual assumptions,
 $\sum e_i = 0$ and $\sum e_i x_j = 0$ ($j=1, 2, \dots, k$)

the parameters can be estimated with the help of OLS method. In the case of a k model,

$$R^2 = \frac{\hat{\beta}_1 \sum Y X_1 + \hat{\beta}_2 \sum Y X_2 + \dots + \hat{\beta}_k \sum Y X_k}{\sum Y^2}$$

$$R^{-2} = 1 - \left[\frac{\sum e^2 / (n-k)}{\sum Y^2 / (n-1)} \right]$$

Table 5.9

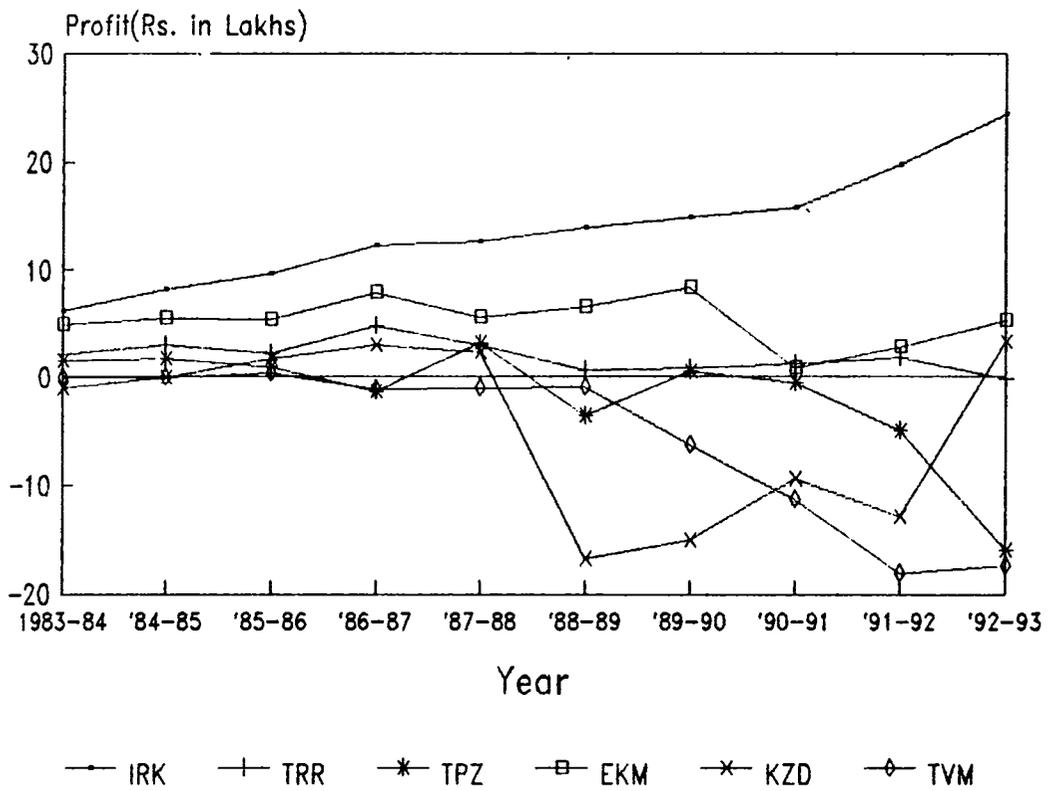
Net profit of the selected Primary Banks
from 1983-84 to 1992-93

(Rs. in lakhs)

Year	Name of the bank					
	IRK	TRR	TPZ	EKM	KZD	TVM
1983-84	6.22	2.14	1.51	4.92	-1.05	-0.05
1984-85	8.11	3.03	1.71	5.44	-0.10	-0.09
1985-86	9.59	2.20	0.90	5.40	1.68	-0.34
1986-87	12.26	4.79	-1.38	7.84	2.98	-1.11
1987-88	12.67	3.00	3.23	5.56	2.28	-1.03
1988-89	14.00	0.59	-3.61	6.59	-16.81	-1.10
1989-90	14.93	0.78	0.49	8.32	-15.05	-6.29
1990-91	15.87	1.20	-0.51	0.85	-9.38	-11.33
1991-92	19.80	1.81	-5.05	2.83	-12.97	-18.05
1992-93	24.47	-0.19	-16.01	5.24	3.27	-17.40

Source : Compiled and computed from the Annual Reports of the selected primary banks

PROFITS OF THE SELECTED PRIMARY BANKS FROM 1983-84 TO 1992-93



GRAPH 5.1

- X_1 = Overdues in rupees
 X_2 = Non-interest income in rupees
 X_3 = Interest income in rupees
 X_4 = Cost of management (Non-interest expense) in rupees
 X_5 = Interest expense in rupees

In order to determine the impact of various factors and to derive the coefficients, variables are regressed and the final regression coefficients are given in Table 5.10.

Irinjalakuda Primary Bank

In the case IRK 98.90 per cent variations were explained by independent variables. Among the variables X_1 and X_3 showed negative influence and X_2 , X_4 and X_5 showed positive influence. In all the variables except X_2 there is significant relationship with profit, i.e., overdues and interest income showed negative influence and other variables showed a positive influence.

Tirur Primary Bank

The independent variables explained 73.90 per cent

variations on dependent variable in the case of TRR. Regarding the individual variables X_1 , X_3 and X_5 showed a negative influence and X_2 and X_4 showed positive influence. The regression coefficients do not show any significant relationship between variables. The overdues influence the profit negatively to a great extent.

Thodupuzha Primary Bank

In the case of TPZ, 95.40 per cent variations were explained by independent variables. There is negative influence by all the variables except X_3 . From the regression coefficients it is found that the variables X_1 , X_3 and X_5 showed a significant relationship, i.e., overdues and interest expense negatively influence the profit and the interest income positively influences the profit position of this bank. Thus in the case of this bank also overdues significantly influence the profit.

Ernakulam Primary Bank

The independent variables explained 76.30 per cent variation in the case of this bank. The variables X_1 , X_4 and X_5

Table 5.10

Results of the Regression Analysis

Regression Coefficients						
Name of the bank	Overd- dues X ₁	Non- interest income X ₂	Interest income X ₃	Non- interest expense X ₄	Interest expense X ₅	R ²
IRK	-0.355* (0.076)	0.134 (0.113)	-0.315* (0.106)	0.665* (0.251)	0.424* (0.119)	0.989
TRR	-0.026 (0.100)	0.221 (0.345)	-0.096 (0.138)	0.359 (0.339)	-0.057 (0.141)	0.739
TPZ	-0.284* (0.100)	-0.448 (0.990)	0.873* (0.243)	-0.334 (0.882)	-0.859* (0.192)	0.954
EKM	-0.990 (0.075)	0.741* (0.351)	0.151 (0.119)	-1.269 (1.363)	-0.048 (1.933)	0.763
KZD	0.007 (0.376)	1.986 (5.438)	0.965 (1.091)	-2.418 (4.497)	-0.920 (1.432)	0.373
TVM	-0.087* (0.025)	0.489 (0.743)	0.081 (0.116)	-0.535 (0.794)	-0.016 (0.175)	0.980

Note : Figures in the bracket indicate standard error of estimates

* : Coefficient is statistically significant at 5 per cent level of significance

showed negative variation and X_2 and X_3 showed positive influence. The standard error is high in case of all variables except X_2 . Thus non-interest income significantly influences the profit position of this bank and help the bank to maintain profitability throughout the period of study. Here also the overdues negatively influence profit, though not significantly.

Kozhikode Primary Bank

The independent variables explained only 37.30 per cent variations on dependent variable. Regarding the individual variables X_1 , X_2 and X_3 showed positive influence and X_4 and X_5 showed negative influence. From the regression coefficients it is found that the variables do not show any significant influence on profit in the case of this bank.

Thiruvananthapuram Primary Bank

In the case of TVM 98 per cent variation in dependent variable were explained by independent variables. Among the variables X_1 , X_4 and X_5 showed a negative influence and X_2 and X_3

showed a positive influence. The only variable significantly influencing the profit is overdues, i.e., when overdues increased profit declines. The other variables do not show any significant influence on profit in the case of this bank.

Thus from the regression it is found that the only variable influencing the profit for all the banks is overdues. So a proper control of overdues will help all these banks to maintain and enhance the profitability. The improvement in non-interest income and control of cost of management will also help to improve the profitability of these banks. These results almost tally with the ration analysis and other numerical excercises. However in one or two cases minute deviations were observed in the behaviour and magnitude of the coefficients and this is probably due to slight fluctuations in data and little reporting errors which are unavoidable in any statistical treatment.

Growth Rate of Profit Factors

From the regression results it is evident that profit is influenced by overdues, non-interest income, interest income, cost of management and interest expenditure. The growth rates of the

factors affecting profit on the selected primary banks are computed here to identify the impact of the growth of these factors on profitability. While computing the Average Annual Growth (A.A.G.^{*}) rates it is clear that the cost components are growing at a higher rate than the income factors (Table 5.11).

The interest expense is growing at the rate of 16.01 per cent, while the interest income is growing only at the rate of 14.76 per cent. The total expense is growing at a higher rate (15.82 per cent) than that of total income (14.88 per cent). Compared to the growth rate of cost of management (15.01 per cent) the establishment charges is growing at a higher rate of 16.93 per cent. The non-interest income is growing at the rate of 16.19 per cent.

$$* \text{ A.A.G.} = r = \text{Antilog} \left[\frac{\log p_n - \log p_1}{n-1} \right] \times 100$$

p_n = Value of the variable at the n^{th} year

p_1 = Value of the variable at the initial year

r = relative increase per year expressed as percentage

n = number of years

Table 5.11
Growth Rate of Profit Factors in the Selected Primary Banks
during 1983-84 and 1992-93

Profit factors	1983-84	1992-93	Average annual growth rate
Share capital	157.62	436.13	11.97
Owned fund	181.81	502.91	11.97
Borrowings	2106.16	5895.31	12.12
Credit	2156.71	5781.42	11.58
Interest expenditure	154.09	586.52	16.01
Interest income	192.41	664.24	14.76
Non-interest expenditure (cost of management)	30.23	106.31	15.01
Non-interest income	17.71	68.32	16.19
Establishment charges	19.81	80.94	16.93
Total expenditure	184.32	692.83	15.82
Total income	210.12	732.56	14.88
Demand	302.41	1596.44	20.31
Collection	281.69	1115.47	16.52
Overdues	20.72	480.97	41.86

Source : Compiled and computed from the Annual Reports of the selected primary banks

The borrowings show the growth rate as 12.12 per cent, while the credit shows only 11.58 per cent. The share capital and owned fund are growing at the rate of 11.97 per cent. The demand shows a high growth rate of 20.31 per cent compared to the growth rate of collection (16.52 per cent). This resulted in the high growth rate of overdues at 41.86 per cent. Thus the high growth rate of cost factors and overdues results in the decline of profit.

Comparative Analysis of the Financial Statements

The reasons for the deterioration of profitability were identified with the help of the growth rate of profit factors. This can be further clarified by comparing the financial statements of these selected banks between 1984 and 1993.

Sources of Income and Items of Expenditure

The relative position of the selected primary banks regarding the sources of income and expenditure are presented in Table 5.12.

Table 5.12

Statement Showing the Sources of Income and Expenditure

(in Rupees)					
Expenses	1984	1993	Income	1984	1993
Interest expense	73.46	80.28	Interest income	91.78	91.40
Establishment charges	9.72	11.04	Miscellaneous income	8.22	8.60
Administration overheads	5.35	3.47	(Non-interest income)		
Reserve for overdues	1.09	6.08			
Profit	10.38	-0.87			
	100.00	100.00		100.00	100.00

Source: Compiled and computed from the Annual Reports of the selected primary banks.

During 1984, on an average of every Rs.100 of income generated Rs.91.78 is accounted for by interest income and Rs.8.22 by non-interest income, in 1993, Rs.91.40 from interest income and

Rs.8.60 from non-interest income. So there is no much variations in the income side. Of every Rs.100 of expenditure in 1984, Rs.73.46 were utilised for interest payment, Rs.9.72 for establishment charges and Rs.5.35 for administration overheads. Out of the balance amount Rs.1.09 was kept as reserve for overdues and Rs.10.38 was available for dividend and for other appropriations. In 1993 the interest expenditure increased to Rs.80.28 and establishment charges to Rs.11.04. The administrative overheads declined to Rs.3.47. The reserve for overdues had substantially increased to Rs.6.08. There is no balance available and expenditure is more than income. It is clear that the reasons for this change is the increase in interest expenditure, establishment charges and heavy overdues.

Sources and Applications of Fund

Table 5.13 presents the sources and applications of fund during these periods (1984 and 1993). During 1984, the sources of Rs.100 were Rs.6.10 as share capital, Rs.0.94 as reserves, Rs.0.34 as deposits and Rs.82.60 as borrowings. Rs.0.93 was from reserve for overdues and the balance Rs.9.09 from other liabilities. The applications of Rs.100 were, cash Rs.1.68, investments Rs.3.27 and

Table 5.13

Statement Showing the Sources and Applications of Funds

Sources	1984	1993	Applications	1984	1993
Share capital	6.10	5.87	Cash and bank balance	1.68	3.23
Reserve fund and other reserves	0.94	0.91	Investments	3.27	6.53
Deposits	0.34	0.73	Credit	84.30	79.02
Borrowings	82.60	80.40	Fixed assets	0.64	0.54
Reserve for overdues	0.93	4.44	Other assets	10.11	10.68
Other liabilities	9.09	7.65			
	100.00	100.00		100.00	100.00

Source: Compiled and computed from the Annual Reports of the selected primary banks.

credit Rs.84.30. The investment in fixed assets was Rs.0.64 and in other assets Rs.10.11.

In 1993 the sources of Rs.100 were from share capital Rs.5.87, reserves Rs.0.91, deposits Rs.0.73 and borrowings

Rs.80.40. The reserve for overdues was Rs.4.44 and other liabilities constituted Rs.7.65. Regarding applications, Rs.3.23 was in cash, Rs.6.53 in investment and Rs.79.02 as credit. Rs.0.54 was invested in fixed assets and the balance Rs. 10.68 in other assets.

The major changes in sources are the decline in share capital from Rs.6.10 to Rs.5.87 and borrowings from Rs.82.60 to Rs.80.40. The reserve for overdues increased from Rs.0.93 to Rs.4.44. In the application side the cash and investments were increased from Rs.1.68 to Rs.3.23 and Rs.3.27 to Rs.6.53 respectively. The credit had declined from Rs.84.30 to Rs.79.02. The other liabilities declined from Rs.9.09 to Rs.7.65 and other assets increased to Rs.10.68 from Rs.10.11.

Thus the major changes revealed are the interest expenditure, establishment charges and reserve for overdues have increased and the administration overheads declined. The applications in cash and investments have increased and the credit declined. In source, the cash, borrowings and other liabilities have declined and reserve for overdues increased. Thus the increase in the interest expenditure, establishment charges and

overdues resulted in the decline of profit. This substantiate the earlier finding that the increase in the growth rate of cost factors and overdues resulted in the deterioration of profitability. As the profitability of these banks are largely affected by overdues, the structure and reasons are analysed in the subsequent chapters.

Margin of Profit

The earlier discussions clearly indicate that profitability of these banks are deteriorating year by year. Here an attempt is made to find out the gross and net margin available to the primary banks. The profit of primary banks depends on the margin available to them in interest transactions. Thus it is the spread or the difference between interest paid on borrowings and interest received on credit. The average interest paid on borrowings is Rs.8.57 (Table 4.5) and average interest received on credit is Rs.10.31 (Table 4.10) for every Rs.100. So the average spread is Rs.1.74 (10.31-8.57) for every hundred rupee transaction. From this they have to meet the cost of managing credit. It is Rs.1.57 (Table 4.6) for Rs.100. Hence the net margin is only Rs.0.17 (1.74-1.57) for every hundred rupee of

business. From this they have to give dividend and set apart a sum for future growth and development.

Similarly, the apex bank also receives the difference between interest received from the primary banks and interest paid for the debentures. As stated earlier, interest paid by the primary banks (received by the apex) is Rs.8.57 for Rs.100 and the average interest paid for the debentures is Rs.7.05 (Appendix VII). So the margin available is Rs.1.52 for Rs.100. From this the bank has to meet the cost of management of Rs.0.57 (Appendix VII) per Rs.100. The balance available is Rs.0.95 ($1.52 - 0.57$) for every hundred rupee business, while the primary banks earn only Rs.0.17.

So it is necessary to revise the division of margin between apex and primary banks. The primary banks should be given a substantial portion as they have to incur high cost of management for managing credit. This redistribution creates confidence in primary banks, i.e., they can run profitably if they manage the funds properly.

The Madhava Das Committee (1975) was also of the opinion

that the primary banks are required a higher margin to meet the increased expenditure incurred on appraisal and supervision work.⁶

Intra Bank and Inter Bank Variations

From the earlier discussions, it is found that the IRK and EKM possess certain unique features compared to other banks. These two banks are running in profit and managing efficiently throughout the period of study. Similarly, over the reference period, certain years showed some variations. Hence, the objective of this section is to examine whether there is significant intra bank and inter bank variations and for this purpose ANOVA (RBD type) and critical difference test were used (details given in appendix VIII). The results are presented in Tables 5.14 and 5.15. From Table 5.14 it is found that the F ratio is significant for all the variables except borrowings, share capital, interest paid and loans given. This indicates that there is significant difference in the behaviour of majority of variables over the years.

⁶ Report of the Committee on Co-operative Land Development Banks, Agricultural Credit Department, Reserve Bank of India, Bombay, 1975, p.116.

Table 5.14

Results of Two-way ANOVA Test

Particulars	F.ratio	
	Block	Treatment
1. Borrowings	0.064	1.612
2. Share capital	1.243	1.713
3. Reserve funds	6.321 [*]	8.214 [*]
4. Working fund	12.531 [*]	56.942 ^{**}
5. Credit	8.613 [*]	99.153 [*]
6. Interest paid	0.011	1.243
7. Non-interest expenses	2.432 ^{**}	5.941 [*]
8. Interest received	14.711 [*]	26.532 [*]
9. Non-interest income	14.931 [*]	54.813 ^{**}
10. Overdues	42.113 ^{**}	33.59 [*]
11. Net profit	61.94 ^{**}	43.58 ^{**}
12. Establishment charges	26.98 [*]	44.71 [*]
13. Loan given	0.641	0.982

Note : Years are treated as blocks and banks are treated as treatments.

* : Significant at 1 per cent level.

** : Significant at 5 per cent level

Table 5.15
Critical Difference Analysis

Particulars	Homogeneous Group (except)	
	Blocks	Treatments
1. Borrowings	Single group	IRK, KZD
2. Share capital	Y_6, Y_7	KZD
3. Reserve fund	Y_3, Y_4, Y_6, Y_7	IRK, EKM, KZD
4. working fund	Y_6, Y_7, Y_9	IRK, EKM
5. Credit	Single group	IRK
6. Interest paid	Single group	IRK
7. Non-Interest expenses	Y_5, Y_6, Y_7, Y_9	IRK, EKM, KZD
8. Interest received	Y_6, Y_7	IRK, TRR
9. Non-interest income	Y_1, Y_6, Y_7, Y_{10}	IRK, TRR
10. Overdues	$Y_1, Y_6, Y_7, Y_8, Y_{10}$	IRK, TRR, EKM
11. Net profit	Y_1 to Y_{10}	IRK, TRR, TPZ EKM
12. Establishment charges	Y_1, Y_7, Y_8, Y_{10}	IRK, KZD
13. Loans given	Single group	-----

Note : Y_1 = 1983-84, Y_2 = 1984-85, Y_{10} = 1992-93

The insignificant values of F ratio for borrowings, share capital, interest paid, and loans given indicate that there is no considerable change in these variables over these years in any of the banks.

The above argument is further strengthened with the help of critical difference test which reveals that the entire reference period formed a homogeneous group with regard to variables like borrowings, credit, interest paid and loans given. Even in the case of share capital and interest received the size of homogeneous group is very large barring the years 1988-89 and 1989-90.

Similarly it is worth to examine whether there are any significant variations between the banks. From Table 5.15 it is found that in the case of majority of the variables TRR, TPZ, KZD and TVM form a homogeneous group. In other words the IRK and EKM were seemed to be unique in respect of almost all the variables because they maintained an overall efficiency and earned profit during the entire period of study.

CHAPTER VI

STRUCTURAL ANALYSIS OF OVERDUES

One of the important tests for evaluating the efficiency of any system of credit is the recovery of loans on due date. Nowadays almost all the lending institutions are facing the problem of overdues and Agricultural Development Banks are no exception to it. The term 'overdues' refers to the amount due for payment but not yet paid by the borrowers. It is a matter of concern that the overdues of these banks are rising steadily in recent years, in the wake of the expansion of their loan operations. This trend has already assumed such proportions in certain banks that it threatens to affect the further flow of long-term credit.

The Borrowings-Working Fund Ratio (Table 4.1) of these banks showed their heavy dependence on external finance. If the banks are not able to collect the instalments due for payment in time they may not be able to meet the repayment schedules to their higher financing agencies. This will in turn, restrict their lending operations in view of the financial discipline imposed by

NABARD and RBI. Recovery of loans advanced, therefore, is as important as lending.

The refinancing eligibility of the primary banks is linked with the overdue percentage. From the earlier discussions in Chapter V it is also found that the quantum of overdues and the rate of profit are inversely related. So the profitability can be improved by controlling overdues.

The structural analysis of overdues is important from the point of view of control of overdues. The structural analysis depicts the scheme which is continuously contributing the highest percentage of overdues and also the age composition of overdues. The control of overdues can be exercised by the banks only by knowing its composition. This chapter proposes to dissect the overdues to facilitate the regulation and control of overdues. The structure of overdues was analysed by taking the purpose-wise and age-wise classification of overdues.

Purpose-wise Analysis

The purpose-wise classification shows the quantum of

overdues in each scheme. The important schemes are minor irrigation, farm mechanisation, plantation, dairy/poultry, other diversified activities like copra, gobar gas etc., other non-productive activities like cattle shed, roller shed etc., non-farm and rural housing. Among these schemes the non-farm and rural housing are introduced only in recent years.

Age-wise Analysis

Age-wise classification of overdues gives a detailed break-up of overdues on the basis of the number of years for which it is due for payment.

Overdues in the Selected Primary Banks

The fact that overdues of the selected primary banks are steadily increasing in recent years, especially from 1988-89 is evident from Table 6.1 and Graph 6.1.

The overdues of IRK was 0.93 per cent in 1988-89, increased to 9.25 per cent in 1990-91 and decreased to 6.30 per cent in 1992-93. In the case of TRR it increased from 2.33 per cent to 14.06 per cent and decreased to 11.29 per cent in 1992-93.

Table 6. 1
Overdues in the Selected Primary Banks
from 1983-84 to 1992-93

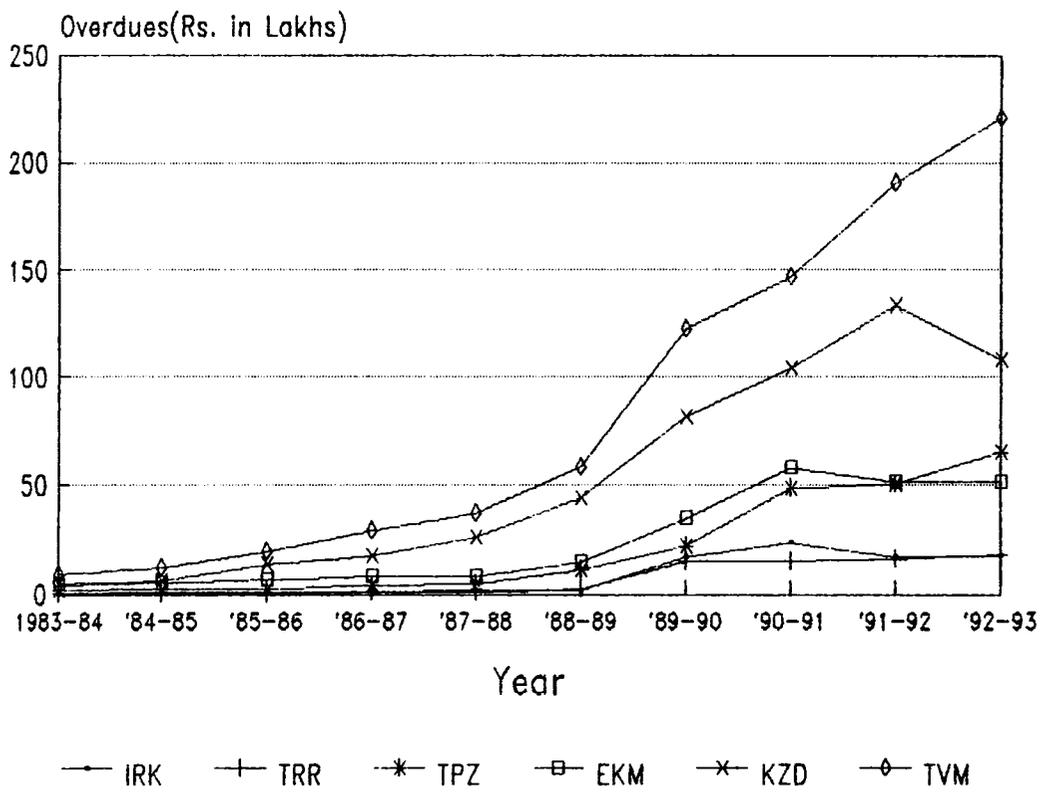
(Rs. in lakhs)

Year	Name of the bank					
	IRK	TRR	TPZ	EKM	KZD	TVM
1983-84	0.47 (0.58)	0.20 (0.50)	1.99 (4.30)	4.32 (9.08)	4.49 (12.75)	9.21 (17.54)
1984-85	0.76 (0.66)	0.22 (0.48)	2.33 (4.39)	5.43 (8.69)	6.42 (13.53)	12.12 (18.19)
1985-86	0.78 (0.52)	0.38 (0.64)	2.39 (3.90)	6.57 (8.56)	13.62 (19.55)	19.68 (22.80)
1986-87	1.14 (0.67)	0.52 (0.78)	4.10 (5.57)	8.42 (9.30)	17.57 (19.77)	29.14 (26.42)
1987-88	1.63 (0.85)	0.85 (0.92)	4.76 (5.37)	8.12 (7.90)	26.11 (20.97)	36.69 (29.78)
1988-89	1.95 (0.93)	2.36 (2.33)	11.32 (10.41)	14.49 (12.38)	43.79 (24.00)	58.11 (31.95)
1989-90	16.84 (7.46)	14.97 (14.06)	21.83 (16.52)	34.20 (25.32)	81.22 (41.31)	122.30 (55.42)
1990-91	23.76 (9.25)	15.28 (11.69)	48.17 (27.71)	57.51 (33.00)	104.33 (43.48)	146.50 (49.97)
1991-92	17.28 (6.42)	16.14 (11.62)	50.14 (23.05)	51.09 (23.92)	133.49 (43.70)	190.49 (59.49)
1992-93	17.47 (6.30)	18.04 (11.29)	65.10 (27.40)	51.30 (23.06)	108.35 (30.90)	221.20 (63.44)

Note : Figures in brackets denote the percentage of overdues to demand

Source : Compiled and computed from the Records of the selected primary banks

OVERDUES IN THE SELECTED PRIMARY BANKS FROM 1983-84 TO 1992-93



GRAPH 6.1

In the case of TPZ the overdues increased from 10.41 per cent in 1988-89 to 27.40 per cent in 1992-93. The overdues of EKM was 12.38 per cent in 1988-89 and increased to 33.00 per cent in 1990-91 and decreased to 23.06 per cent in 1992-93.

The overdues of KZD increased to 43.70 per cent in 1991-92 from 24.00 per cent in 1988-89 and decreased to 30.90 per cent in 1992-93. It increased from 31.95 per cent in 1988-89 to 63.44 per cent in 1992-93 in the case of TVM. Thus it is clear that the overdues of these banks are continuously increasing.

Purpose-wise Classification of Overdues

The purpose-wise classification of overdues can be analysed only by understanding the general lending pattern of the primary banks in recent years. As per the directions of NABARD the primary banks have to give more loan for easily identifiable productive purposes. So there is a shift in the lending pattern from ordinary loans to schematic loans. Now the banks are also lending for rural housing and non-farm sector.

The following analysis discusses the structure of

overdues in terms of the purpose for which it is given in the selected primary banks.

Irinjalakuda Primary Bank

Table 6.2 reveals the purpose-wise classification of overdues in the case of IRK. The overdues in minor irrigation increased from 34.87 per cent in 1988-89 to 38.29 per cent in 1992-93. In the case of plantation the overdues varied between 8.21 per cent and 16.09 per cent. In land development the percentage of overdues decreased from 47.18 (1988-89) to 34.00 (1992-93). Other schemes like dairy and poultry, other diversified activities etc. did not contribute much to the percentage of overdues. The percentage of overdues in non-farm and rural housing has also increased during the reference period. Thus the major share of overdues is contributed by minor irrigation and land development.

Tirur Primary Bank

Table 6.3 shows the purpose-wise structure of overdues in the case of TRR. The overdues in minor irrigation had

Table 6.2

Purpose-wise Classification of Overdues in Irinjalakuda
Primary Bank from 1988-89 to 1992-93

(Rs. in lakhs)

Particulars	1988-89	1989-90	1990-91	1991-92	1992-93
Minor irrigation	0.68 (34.87)	6.29 (37.35)	8.72 (36.70)	6.48 (37.50)	6.69 (38.29)
Farm mechanisation	--	0.27 (1.60)	0.31 (1.30)	0.23 (1.33)	0.48 (2.74)
Plantation	0.16 (8.21)	1.95 (11.58)	2.83 (11.92)	2.78 (16.09)	2.51 (14.37)
Land development	0.92 (47.18)	7.45 (44.24)	10.27 (43.22)	6.36 (36.80)	5.94 (34.00)
Dairy and poultry	0.08 (4.10)	0.15 (0.89)	--	0.16 (0.93)	0.11 (0.63)
Other diversified activities	--	0.03 (0.18)	0.28 (1.18)	0.13 (0.75)	0.19 (1.09)
Other non-productive activities	--	--	--	--	--
Non-farm	0.11 (5.64)	0.70 (4.16)	1.29 (5.43)	0.94 (5.44)	1.10 (6.30)
Rural housing	--	--	0.06 (0.25)	0.20 (1.16)	0.45 (2.58)
Total	1.95 (100)	16.84 (100)	23.76 (100)	17.28 (100)	17.47 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

increased from 19.07 per cent in 1988-89 to 60.93 per cent in 1990-91 and declined to 21.34 per cent in 1992-93. In the case of farm mechanisation the percentage of overdues decreased from 35.16 to 8.48. This was due to less lending in that scheme in recent years. In the case of plantation the percentage of overdues varied between 7.74 and 25.07. In land development the overdues was 19.07 per cent in 1988-89 and 28.07 per cent in 1991-92 and decreased to 18.13 per cent in 1992-93. The schemes dairy and poultry, other diversified activities and other non-productive activities did not contribute much to the structure of overdues except in the last year. The contribution of non-farm towards overdues increased from 2.12 per cent in 1988-89 to 8.70 per cent in 1992-93. The scheme rural housing, which introduced recently, had overdues of 15.69 per cent in 1992-93. Thus it is evident that minor irrigation contributed the highest percentage of overdues.

In the case of both these banks the amount of overdues was less compared to other banks and the norms fixed by NABARD for relending eligibility. Among these banks IRK succeeded in controlling its overdues and reduced its quantum from Rs.23.76 lakhs in 1990-91 to Rs.17.47 lakhs in 1992-93. But in the case of

Table 6.3

Purpose-wise Classification of Overdues in Tirur
Primary Bank from 1988-89 to 1992-93

(Rs. in lakhs)

Particulars	1988-89	1989-90	1990-91	1991-92	1992-93
Minor irrigation	0.45 (19.07)	8.95 59.79	9.31 (60.93)	7.10 (43.99)	3.85 (21.34)
Farm mechanisation	0.83 (35.16)	0.34 (2.27)	--	1.16 (7.19)	1.53 (8.48)
Plantation	0.58 (24.58)	2.98 (19.91)	3.83 (25.07)	1.25 (7.74)	2.05 (11.36)
Land development	0.45 (19.07)	2.59 (17.30)	1.35 (8.84)	4.53 (28.07)	3.27 (18.13)
Dairy and poultry	--	--	--	--	0.09 (0.50)
Other diversified activities	--	0.11 (0.73)	0.57 (3.72)	--	1.51 (8.37)
Other non-productive activities	--	--	--	--	1.34 (7.43)
Non-farm	0.05 (2.12)	--	0.22 (1.44)	0.85 (5.27)	1.57 (8.70)
Rural housing	--	--	--	1.25 (7.74)	2.83 (15.69)
Total	2.36 (100)	14.97 (100)	15.28 (100)	16.14 (100)	18.04 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

TRR the quantum of overdues increased constantly from Rs.2.36 lakhs in 1988-89 to Rs.18.04 lakhs in 1992-93.

Thodupuzha Primary Bank

The total amount of overdues in the case of TPZ increased continuously from Rs.11.32 to Rs.65.10 lakhs during the reference period (Table 6.4). With regard to the composition the overdue percentage in minor irrigation increased from 7.42 in 1988-89 to 14.56 in 1991-92 and decreased to 6.90 in 1992-93. Overdues in the case of plantation varied between 21.34 per cent and 39.07 per cent. In land development the percentage of overdues decreased from 46.64 to 14.52. Dairy and poultry, non-productive activities and other diversified activities contributed 10 per cent each. In non-farm the percentage of overdues increased continuously from 3.45 to 13.49. Rural housing also showed a rising trend from 8.10 per cent in 1990-91 to 12.17 per cent in 1992-93. The continuous increase of the overdues percentage of these two schemes was because of more lending in recent years. The plantation and land development contributed the major share of overdues in the case of this bank.

Table 6.4

Purpose-wise Classification of Overdues in Thodupuzha
Primary Bank from 1988-89 to 1992-93

(Rs. in lakhs)

Particulars	1988-89	1989-90	1990-91	1991-92	1992-93
Minor irrigation	0.84 (7.42)	0.79 (3.62)	1.91 (3.97)	7.30 (14.56)	4.49 (6.90)
Farm mechanisation	0.49 (4.33)	1.98 (9.07)	2.37 (4.92)	2.19 (4.37)	1.36 (2.07)
Plantation	4.12 (36.40)	8.53 (39.07)	16.74 (34.75)	10.69 (21.32)	13.89 (21.34)
Land development	5.28 (46.64)	2.97 (13.61)	12.58 (26.12)	10.63 (21.20)	9.45 (14.52)
Dairy and poultry	--	0.94 (4.31)	2.18 (4.53)	6.13 (12.23)	5.51 (8.46)
Other diversified activities	--	0.66 (3.02)	--	--	8.09 (12.43)
Other non-productive activities	0.20 (1.76)	5.96 (27.30)	3.76 (7.81)	7.19 (14.33)	5.61 (8.62)
Non-farm	0.39 (3.45)	--	4.73 (9.80)	6.01 (11.99)	8.78 (13.49)
Rural housing	--	--	3.90 (8.10)	--	7.92 (12.17)
Total	11.32 (100)	21.83 (100)	48.17 (100)	50.14 (100)	65.10 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

Ernakulam Primary Bank

The structure of overdues in the case of EKM is given in Table 6.5. The overdues of this bank increased from Rs.14.49 lakhs in 1988-89 to Rs.57.51 lakhs in 1990-91 and decreased to Rs.51.30 lakhs in 1992-93. In terms of percentage also this bank made a remarkable progress in recent years. Regarding the composition of overdues minor irrigation contributed around 25 per cent during all these years. In plantation the overdues increased from 17.67 per cent to 25.03 per cent. The percentage of overdues in farm mechanisation increased from 10.49 in 1988-89 to 11.44 in 1990-91 and decreased to 6.86 in 1992-93. The percentage of overdues in land development decreased from 25.05 in 1988-89 to 9.57 in 1992-93. The overdues in dairy and poultry ranged from 6.90 per cent to 12.31 per cent. The other diversified activities and other non-productive activities showed a fluctuating tendency in this period. Non-farm and rural housing showed a rising trend upto 8.06 per cent and 5.24 per cent respectively in 1992-93. Thus the substantial portion of overdues is contributed by minor irrigation and plantation in the case of this bank.

While comparing these two banks it is clear that the

Table 6.5

Purpose-wise Classification of Overdues in Ernakulam
Primary Bank from 1988-89 to 1992-93

(Rs. in lakhs)

Particulars	1988-89	1989-90	1990-91	1991-92	1992-93
Minor irrigation	3.56 (24.57)	9.52 (27.83)	14.70 (25.60)	12.75 (24.96)	11.94 (23.27)
Farm mechanisation	1.52 (10.49)	2.22 (6.49)	6.58 (11.44)	2.63 (5.15)	3.52 (6.86)
Plantation	2.56 (17.67)	8.17 (23.89)	12.74 (22.15)	11.62 (22.74)	12.84 (25.03)
Land development	3.63 (25.05)	7.53 (22.02)	9.70 (16.87)	5.44 (10.65)	4.91 (9.57)
Dairy and poultry	1.53 (10.56)	2.42 (7.08)	3.97 (6.90)	6.29 (12.31)	5.99 (11.68)
Other diversified activities	1.69 (11.66)	2.22 (6.49)	4.49 (7.81)	5.34 (10.45)	3.35 (6.53)
Other non-productive activities	--	1.43 (4.18)	4.28 (7.44)	1.42 (2.78)	1.93 (3.76)
Non-farm	--	0.69 (2.02)	1.05 (1.83)	3.26 (6.38)	4.13 (8.06)
Rural housing	--	--	--	2.34 (4.58)	2.69 (5.24)
Total	14.49 (100)	34.20 (100)	57.51 (100)	51.09 (100)	51.30 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

overdues in TPZ increased continuously and the steps for recovery of overdues were found to be ineffective. But the EKM succeeded in controlling its overdues in the Year 1992-93.

Kozhikode Primary Bank

The overdues of KZD increased continuously from Rs.43.79 lakhs in 1988-89 to Rs.133.49 lakhs in 1991-92. But in the year 1992-93 it had succeeded in reducing its overdues to Rs.108.35 lakhs (Table 6.6). In the structure of overdues minor irrigation contributed only 6 per cent and the share of farm mechanisation was only 1 per cent. Plantation showed a continuous increase from 49.50 per cent to 60.38 per cent. This was due to more lending in that scheme. Due to restricted lending the overdues in land development decreased from 30.44 per cent to 14.29 per cent in the reference period. The schemes dairy and poultry contributed nearly 7 per cent. The non-farm and rural housing showed a rising trend as usual. Thus in the case of this bank major portion of overdues is contributed by plantation.

Table 6.6

Purpose-wise Classification of Overdues in Kozhikode
Primary Bank from 1988-89 to 1992-93

(Rs. in lakhs)

Particulars	1988-89	1989-90	1990-91	1991-92	1992-93
Minor irrigation	3.02 (6.90)	4.73 (5.82)	6.04 (5.79)	7.39 (5.54)	5.84 (5.39)
Farm mechanisation	2.08 (4.75)	2.31 (2.84)	1.17 (1.12)	0.86 (0.64)	0.69 (0.64)
Plantation	21.68 (49.50)	46.55 (57.31)	62.49 (59.90)	80.80 (60.53)	65.42 (60.38)
Land development	13.33 (30.44)	16.81 (20.70)	18.82 (18.04)	19.88 (14.89)	15.48 (14.29)
Dairy and poultry	2.81 (6.42)	3.75 (4.63)	4.37 (4.19)	11.50 (8.62)	7.10 (6.55)
Other diversified activities	0.87 (1.99)	4.43 (5.45)	6.22 (5.96)	0.15 (0.11)	0.13 (0.12)
Other non-productive activities	--	--	--	--	--
Non-farm	--	2.64 (3.25)	4.71 (4.51)	9.86 (7.39)	11.24 (10.37)
Rural housing	--	--	0.51 (0.49)	3.05 (2.28)	2.45 (2.26)
Total	43.79 (100)	81.22 (100)	104.33 (100)	133.49 (100)	108.35 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

Thiruvananthapuram Primary Bank

TVM showed a sharp increase in overdues from 1988-89 (Rs.58.11 lakhs) to 1992-93 (Rs.221.20 lakhs). The overdues of this bank exceeded its collection. Table 6.7 gives the purpose-wise composition of overdues. The overdues in plantation varied between 14.30 per cent (1990-91) and 22.28 per cent (1992-93). The overdues in the scheme of land development showed an increasing trend unlike other banks and contributed 29.33 per cent in 1992-93. Dairy and poultry showed a fluctuating trend between 1.70 per cent and 10.79 per cent. The percentage of overdues decreased from 20.19 in 1989-90 to 8.43 in 1992-93 in minor irrigation. There were no overdues in other diversified and other non-productive activities in recent years. The highest percentage of overdues is contributed by non-farm (31.78). Rural housing showed a rising trend from 0.76 per cent to 1.42 per cent.

When comparing these two banks the overdues position of TVM was very critical and the steps for recovering the overdues were found to be ineffective. But the KZD has succeeded partially in controlling its overdues in the year 1992-93. Thus from the above analysis it is clear that the major share of overdues in the



Table 6.7

Purpose-wise Classification of Overdues in Thiruvananthapuram
Primary Bank from 1988-89 to 1992-93

(Rs. in lakhs)

Particulars	1988-89	1989-90	1990-91	1991-92	1992-93
Minor irrigation	8.59 (14.78)	24.69 (20.19)	21.18 (14.46)	21.62 (11.36)	18.65 (8.43)
Farm mechanisation	--	--	--	0.08 (0.04)	0.14 (0.06)
Plantation	12.50 (21.51)	21.81 (17.83)	20.95 (14.30)	40.50 (21.26)	49.28 (22.28)
Land development	16.66 (28.67)	26.63 (21.78)	35.87 (24.48)	56.10 (29.45)	64.87 (29.33)
Dairy and poultry	5.47 (9.42)	13.20 (10.79)	2.49 (1.70)	10.19 (5.35)	14.81 (6.70)
Other diversified activities	14.89 (25.62)	9.27 (7.58)	27.54 (18.80)	--	--
Other non-productive activities	--	12.02 (9.83)	--	--	--
Non-farm	--	14.68 (12.00)	37.36 (25.50)	59.48 (31.22)	70.32 (31.78)
Rural housing	--	--	1.11 (0.76)	2.52 (1.32)	3.13 (1.42)
Total	58.11 (100)	122.30 (100)	146.50 (100)	190.49 (100)	221.20 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

case of high overdue banks was contributed by plantation and non-farm. The scheme minor irrigation constituted the major share of overdues in the case of low overdue banks.

Age-wise Classification of overdues

The age-wise analysis of overdues is very important to control the overdues in a bank. This analysis shows the age-wise structure of overdues. The higher the age of overdues, the less efficient will be the bank in recovering its overdues. When the age of overdues increases the chances of recovering them through normal procedures will become difficult.

For the purpose of the analysis, overdues are grouped into five categories as those below one year, one to two years, two to three years, three to four years, four to five years and above five years. The age-wise classification of overdues from 1988-89 to 1992-93 of the selected primary banks are described in the following paragraphs.

Irinjalakuda Primary Bank

A detailed break-up of overdues of IRK is given in Table 6.8. Major portion of overdues of this bank (74 to 92 per cent) is below one year. The percentage of overdues between one and two years varied from 5.83 to 18.14. It ranged from 1.35 per cent to 5.50 per cent in between two and three years. The percentage of overdues more than three years (2.50) was considerably less in the case of this bank. Though this bank was very efficient in collecting its overdues, in recent years the overdues above one year has increased.

Tirur Primary Bank

Table 6.9 gives the age-wise distribution of overdues in TRR. The major portion of (75 per cent) overdues in this bank was also below one year. The percentage of overdues between one and two years was 17 and between two and three years was five. Between three and four years the overdues was only 2 per cent and less than 1 per cent between four and five years. There was no overdues more than five years. In the case of this bank the portion of overdues less than one year was decreasing and it

Table 6.8

Age-wise Classification of Overdues in Irinjalakuda
Primary Bank from 1988-89 to 1992-93

(Rs. in lakhs)

Particulars	1988-89	1989-90	1990-91	1991-92	1992-93
Below 1 year	1.48 (75.90)	15.44 (91.68)	18.98 (79.88)	14.19 (82.12)	12.90 (73.84)
1-2 years	0.34 (17.44)	0.98 (5.83)	4.31 (18.14)	2.21 (2.79)	3.76 (18.09)
2-3 years	0.09 (4.62)	0.29 (1.72)	0.32 (1.35)	0.78 (4.51)	0.96 (5.50)
3-4 years	0.03 (1.54)	0.10 (0.59)	0.14 (0.59)	0.10 (0.58)	0.38 (2.18)
4-5 years	0.01 (0.50)	0.02 (0.12)	0.01 (0.04)	--	0.04 (0.23)
Above 5 years	--	0.01 (0.06)	--	--	0.03 (0.16)
Total	1.95 (100)	16.84 (100)	23.76 (100)	17.28 (100)	17.47 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

Table 6.9

Age-wise Classification of Overdues in Tirur
Primary Bank from 1988-89 to 1992-93

(Rs. in lakhs)

Particulars	1988-89	1989-90	1990-91	1991-92	1992-93
Below 1 year	2.05 (86.86)	12.59 (84.10)	10.99 (71.92)	9.29 (57.56)	13.13 (72.78)
1-2 years	0.23 (9.75)	1.32 (8.82)	3.28 (21.47)	4.41 (27.32)	3.35 (18.57)
2-3 years	0.08 (3.39)	0.66 (4.41)	0.92 (6.02)	1.81 (11.22)	1.02 (5.65)
3-4 years	--	0.29 (1.94)	--	0.63 (3.90)	0.46 (2.55)
4-5 years	--	0.11 (0.73)	0.09 (0.59)	--	0.08 (0.45)
Above 5 years	--	--	--	--	--
Total	2.36 (100)	14.97 (100)	15.28 (100)	16.14 (100)	18.04 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

showed an increasing trend (from 9.75 per cent to 27.32 per cent) between one and two years.

Thodupuzha Primary Bank

TPZ showed a continuous decrease in overdues below one year from 78.64 per cent in 1989-90 to 41.18 per cent in 1992-93 (Table 6.10). The overdues between one and two years increased from 8.04 to 30.95 per cent. Similarly the percentage of overdues between two and three years had increased from 4.42 in 1988-89 to 21.52 in 1992-93. It had also increased between three and four years (1.59 to 4.62). The only satisfactory feature was that the overdues between four and five years decreased except in the last year and in recent years there were no overdues above five years. This bank is inefficient in the recovery of overdues especially in recent years. Not only the quantum, but also the age-wise composition of overdues of this bank became very worse, and the overdues more than one year has increased steadily.

Ernakulam Primary Bank

The percentage of overdues below one year decreased from 56.21 in 1988-89 to 44.49 in 1989-90. But in 1992-93 it increased

Table 6.10

Age-wise Classification of Overdues in Thodupuzha
Primary Bank from 1988-89 to 1992-93

(Rs. in lakhs)

Particulars	1988-89	1989-90	1990-91	1991-92	1992-93
Below 1 year	8.58 (75.80)	17.16 (78.64)	32.43 (67.32)	24.42 (48.69)	26.80 (41.18)
1-2 years	0.91 (8.04)	2.56 (11.73)	11.25 (23.35)	16.71 (33.32)	20.10 (30.95)
2-3 years	0.50 (4.42)	0.15 (0.68)	1.14 (2.30)	6.82 (13.60)	14.00 (21.52)
3-4 years	0.18 (1.59)	0.80 (3.67)	3.30 (6.85)	2.12 (4.23)	3.00 (4.62)
4-5 years	0.34 (3.00)	0.20 (0.93)	0.03 (0.06)	0.08 (0.16)	1.20 (1.73)
Above 5 years	0.81 (7.16)	0.95 (4.35)	0.02 (0.04)	--	--
Total	11.32 (100)	21.83 (100)	48.17 (100)	50.14 (100)	65.10 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

to 58.43 per cent. The overdues between one and two years increased from 18.21 in 1988-89 to 36.96 per cent in 1990-91 and decreased to 21.18 per cent in 1992-93 (Table 6.11). But the overdues between two and three years showed an increasing trend from 4.53 in 1988-89 to 8.12 per cent in 1992-93. After 1990-91 the overdues between three and four years and four and five years also showed an upward trend. However, the bank has succeeded in collecting the overdues above five years in the year 1992-93. In general, the bank had 30 per cent overdues between one and three years and 10 per cent between three and five years.

Kozhikode Primary Bank

From Table 6.12 it is clear that the overdues of KZD below one year increased from 23.18 per cent in 1988-89 to 30.51 per cent in 1990-91 and decreased to 24.63 per cent in 1992-93. The percentage of overdues between one and two years also showed a fluctuating trend (34.57 per cent to 27.15 per cent). The overdues between two and three years showed an increasing tendency from 13.75 to 17.79 per cent. Similarly, the overdues between three and four years and four and five years also increased and account for nearly 30 per cent together. The only favourable

Table 6.11
Age-wise Classification of Overdues in Ernakulam
Primary Bank from 1988-89 to 1992-93

(Rs. in lakhs)

Particulars	1988-89	1989-90	1990-91	1991-92	1992-93
Below 1 year	8.15 (56.21)	15.23 (44.49)	32.79 (57.00)	27.92 (54.66)	30.01 (58.43)
1-2 years	2.64 (18.21)	12.65 (36.96)	18.55 (32.25)	9.33 (18.27)	10.88 (21.18)
2-3 years	1.02 (7.03)	1.55 (4.53)	3.23 (5.62)	4.63 (9.06)	4.17 (8.12)
3-4 years	0.57 (3.93)	1.11 (3.24)	0.41 (0.71)	1.65 (3.23)	2.30 (4.48)
4-5 years	0.35 (2.41)	1.24 (3.62)	0.43 (0.75)	3.22 (6.30)	4.00 (7.79)
Above 5 years	1.77 (12.21)	2.45 (7.16)	2.10 (3.67)	4.23 (8.48)	--
Total	14.49 (100)	34.20 (100)	57.51 (100)	51.09 (100)	51.30 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

Table 6.12
Age-wise Classification of Overdues in Kozhikode
Primary Bank from 1988-89 to 1992-93

Particulars	(Rs. in lakhs)				
	1988-89	1989-90	1990-91	1991-92	1992-93
Below 1 year	10.15 (23.18)	26.08 (32.11)	31.83 (30.51)	25.48 (19.09)	26.68 (24.63)
1-2 years	15.14 (34.57)	28.14 (34.65)	36.88 (35.35)	37.83 (28.34)	29.42 (27.15)
2-3 years	6.02 (13.75)	11.55 (14.22)	19.13 (18.34)	34.71 (26.00)	19.28 (17.79)
3-4 years	5.22 (11.92)	6.77 (8.34)	9.39 (9.00)	18.39 (13.73)	16.10 (14.86)
4-5 years	3.76 (8.59)	4.77 (5.87)	4.34 (4.15)	8.43 (6.31)	16.87 (15.51)
Above 5 years	3.50 (7.99)	3.91 (4.81)	2.76 (2.65)	8.65 (6.48)	--
Total	43.79 (100)	81.22 (100)	104.33 (100)	133.49 (100)	108.35 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

thing was that the bank was capable of collecting the overdues of more than five years. However, the recovery position of overdues was very weak for this bank. About 75 per cent of overdues of this bank was due for more than one year.

Thiruvananthapuram Primary Bank

TVM also showed a similar trend like KZD (Table 6.13). The overdues below one year increased from 14.40 in 1988-89 to 42.94 in 1990-91 and decreased to 21.18 per cent in 1992-93. The overdues between one and two years showed a continuous increase from 9.03 in 1988-89 to 36.77 per cent in 1992-93. A similar trend was also shown by the overdues between two and three years. The overdues between three and four years showed a declining trend from 30.67 to 9.51 per cent and increased to 15.08 per cent in 1992-93. A similar trend was also shown by the overdues between four and five years. In the year 1992-93, 3.35 per cent of the overdues of this bank was above five years. About 75 per cent of the overdues of this bank was more than one year and 25 per cent more than three years.

Table 6.13

Age-wise Classification of Overdues in Thiruvananthapuram
Primary Bank from 1988-89 to 1992-93

(Rs. in lakhs)

Particulars	1988-89	1989-90	1990-91	1991-92	1992-93
Below 1 year	8.37 (14.40)	35.30 (28.86)	62.90 (42.94)	53.50 (28.09)	46.85 (21.18)
1-2 years	5.25 (9.03)	29.78 (24.35)	39.55 (27.00)	75.13 (39.44)	81.34 (36.77)
2-3 years	5.67 (9.76)	17.70 (14.47)	24.00 (16.38)	32.04 (16.82)	37.84 (17.11)
3-4 years	17.82 (30.67)	17.78 (14.54)	12.73 (8.68)	18.12 (9.51)	33.36 (15.08)
4-5 years	15.72 (27.05)	13.44 (10.99)	4.39 (3.00)	6.65 (3.49)	14.39 (6.51)
Above 5 years	5.28 (9.09)	8.30 (6.79)	2.93 (2.00)	5.05 (2.65)	7.42 (3.35)
Total	58.11 (100)	122.30 (100)	146.50 (100)	190.49 (100)	221.20 (100)

Note : Figures in brackets denote percentage to total

Source : Compiled and computed from the Records of the bank

Thus in the case of low overdue banks the major portion of overdues is less than one year old and have only very little portion of overdues due for more than three years. The substantial portion (70 per cent) of overdues in high overdue banks is due for more than one year and one fourth is due for more than three years.

Changes in Hard Core Overdues

Overdues above three years are termed as hard core overdues. Hard core overdues must be handled carefully since it has a significant effect on the banks' future workings. The presence of high percentage of hard core overdues is a very critical factor as far as the banks' objectives are concerned.

Table 6.14 clearly gives the changes in the hard core overdues of the selected primary banks. In the case of IRK the percentage of hard core overdues was 2.04 per cent in 1988-89 and it decreased to 0.58 per cent in 1991-92. But it again increased to 2.57 per cent in 1992-93. Compared to other selected primary banks this percentage was very low and this shows the banks' efficiency in controlling its hard core overdues.

Table 6. 14

Details of Hard Core Overdues in the
Selected Primary Bank from 1988-89 to 1992-93
(Rs. in lakhs)

Year	Name of the bank					
	IRK	TRR	TPZ	EKM	KZD	TVM
1988-89	0.04 (2.04)	--	1.33 (11.75)	2.69 (18.55)	12.48 (28.50)	38.82 (66.81)
1989-90	0.13 (0.77)	0.40 (2.67)	1.95 (8.95)	4.80 (14.02)	15.45 (19.02)	39.52 (32.32)
1990-91	0.15 (0.63)	0.09 (0.59)	3.35 (6.95)	2.94 (5.13)	16.49 (15.80)	20.05 (13.68)
1991-92	0.10 (0.58)	0.63 (3.90)	2.20 (4.39)	9.20 (18.01)	35.47 (26.57)	29.82 (15.65)
1992-93	0.45 (2.57)	0.54 (3.00)	4.20 (6.35)	6.30 (12.27)	32.97 (30.43)	55.17 (24.94)

Note : Figures in brackets denote the percentage to total

Source : Compiled and computed from the Records of the selected primary banks

TRR also showed a low percentage of overdues for more than three years. In 1989-90 the percentage of hard core overdues was 2.67, decreased to 0.59 in 1990-91 and increased to 3.00 in 1992-93. The bank had succeeded in controlling its hard core overdues.

The percentage of hard core overdues in TPZ was reduced from 11.75 in 1988-89 to 4.39 in 1991-92 and increased to 6.35 in 1992-93. In the case of EKM the hard core overdues was 18.55 per cent in 1988-89, decreased to 5.13 per cent in 1990-91 and increased to 12.27 per cent in 1992-93.

The hard core overdues of KZD had declined to 15.80 per cent in 1990-91 from 28.50 per cent in 1988-89. But in 1992-93 it increased to 30.43 per cent. TVM had heavy hard core overdues of 66.81 per cent in 1988-89. It came down to 13.68 per cent in 1990-91 and again increased to 24.94 per cent in 1992-93.

In short the hard core overdues of all these selected primary banks have increased continuously in recent years especially KZD (30.43 per cent) and TVM (24.94 per cent). The reasons for this heavy overdues are analysed in chapter VII.

CHAPTER VII

DETERMINANTS OF OVERDUES — A BENEFICIARY LEVEL ANALYSIS

The financial strength and profitability of the primary banks are negatively affected by mounting overdues. Hence the profitability and financial strength can be improved by restricting the accumulation of overdues. Policy formulations in this direction is possible only by analysing the structure and the reasons responsible for mounting overdues. The structural analysis of overdues was already discussed in the earlier chapter. Here, in this chapter it is proposed to analyse the factors determining overdues in its various aspects.

For analysing the reasons for overdues a primary survey was conducted. For this purpose altogether 300 defaulters were selected from the six sample banks. The sample was taken by categorising the defaulters into three: small farmers with land area of less than 1.50 acres, medium farmers with 1.51 to 2.50 acres and large farmers having more than 2.50 acres. Landholding in Kerala is comparatively low in relation to other states in India and large number of lending is to farmers below 1.50 acre.

So the number of defaulters selected from small farmers was 150, medium farmers 90 and large farmers 60. Thus from each bank a sample of 50 defaulters were selected maintaining the same proportion of different farm size of defaulters. For the selection of the sample, a list of defaulters dividing them into small, medium and large were taken from the selected banks as on 30th June 1992. The primary level survey was conducted during the year 1992-93 through a pretested structured schedule (Appendix IX). While drawing the sample due care was given to select the defaulters who have taken loan under different schemes through stratified random sampling. The defaulters in the schemes of non-farm and rural housing were not included in the survey as they were introduced recently and not directly related to agricultural activities. A detailed discussion with the presidents and other top officials of the selected banks was also conducted to identify the problems connected with the recovery of overdues.

The data obtained from the survey was analysed with the help of various statistical tools. The impact of socio-economic variables on the nature of default was analysed with the help of chi-square test. To identify the determinants influencing the amount of overdues step wise regression was used.

For the purpose of the study the defaulters were classified as wilful and non-wilful on the basis of their repayment capacity. This classification will help the banks to control their overdues.

The working definitions of the terms used in the study are given below.

Defaulter

A beneficiary who did not repay the loan instalments in time is defined as a defaulter.

Wilful Defaulters

Wilful defaulters are those who did not repay the loan even after having the capacity to repay.

Non-wilful Defaulters

The defaulters who do not have the capacity to repay the loan is termed as non-wilful defaulters.

Repayment capacity

Repayment capacity is considered to be an important prerequisite for the issue of long-term loans. Basically, repayment capacity, in so far as Agricultural Development Banks are concerned, is taken as the ability of the farmer to repay the instalments on the due date out of the additional income derived as a result of the development effected with the aid of the loan. The repayment capacity is generally worked out taking into consideration the income from the crop raised and income from other sources. This is, however, done after deducting agricultural expenses for raising the crop, family expenses, land revenue assessment payable and other commitments including the short-term loans.

The bye-laws of the primary banks generally prescribe that the loan amount should not exceed three-fourth of the net annual income multiplied by the number of years for which the loan is advanced. As it is difficult to generalise the formula for determining the repayment capacity, individual cases are decided on their merits. But it is generally estimated that 15 to 20 per cent of the gross income of the farmer would be available for discharge of the long-term loan.

In some cases, though normally repayment capacity based on the borrower's total income is taken into account, his non-agricultural income is inflated merely to make him eligible for a substantially larger loan than he would have otherwise qualified for. The very fact that a uniform period of repayment is laid down for all loans for a particular purpose or of a particular amount is itself an evidence of the failure to assess repayment capacity. The All India Rural Credit Review Committee (1969) has therefore rightly pointed: "The manner which a borrower's repayment capacity is computed and the period of a loan is determined has to be rationalised on a scientific basis if long-term credit has to be placed on a satisfactory footing and the scarce long-term resources available for lending are to be put to optimum use".¹

The All India Rural Credit Review Committee has suggested that in calculating the repayment capacity, assumptions will have to be made on a realistic basis and in consultation with the agricultural authorities as well as knowledgeable farmers

¹ All India Rural Credit Review Committee, Agricultural Credit Department, Reserve Bank of India, Bombay, 1969, p.774.

about the cropping pattern which is likely to be adopted as a result of the proposed investment, the probable addition to yield, the prices likely to be fetched and so on. While assessing the repayment capacity it is also suggested that some margin for the unforeseen calamities such as drought, floods etc. should also be made and a little gestation period allowed. The repayment of loan should not be correlated only with the life of the improvement or asset, but the ability of the borrower to repay the loan in the specific time should also be taken into consideration.

The assessment of repayment capacity by considering all these factors is very difficult. However, the following method is applied in this study for the computation of repayment capacity.

Repayment capacity is defined as 60 per cent of the amount remaining after deducting the total expenses from the total income earned during the year. Income means the amount of net agricultural income, net income from business, net income from employment and other receipts and expenses include family expenses and other payments.

Thus the repayment capacity (R) is defined as the 60 per

cent of the excess of income or receipts (I) over the payments and expenditures (P).

Symbolically,

$$R = (I-P) \times \frac{60}{100}$$

The 40 per cent is meant for incremental consumption and reserve for contingency and liquidity. This method is also not free from limitations as the percentage provided for contingency and liquidity is arbitrary and the computation of income and expenditure may not be accurate as the beneficiaries do not have the habit of keeping proper accounts.

Socio-economic Characteristics and Nature of Default

Before analysing the causes of default it would be desirable to analyse the impact of socio-economic variables on the nature of default. The socio-economic status is taken to be a deciding factor, that has a direct bearing on the nature of default, i.e., wilful and non-wilful. Socio-economic status related to a variety of factors like education, age, occupation,

landholding, income, family expenditure, amount of loan taken from the bank etc.

Size of Farm and Nature of Default

The sample defaulters were analysed on the basis of their size of landholding and examined whether the size of farm has any association with the nature of default. Table 7.1 presents the nature of default on the basis of their farm size. Out of the selected 300 farmers 41.33 per cent are wilful defaulters and 58.67 per cent non-wilful defaulters. When the total amount of overdues of the selected defaulters are taken 53.86 per cent are from wilful defaulters and only 46.14 per cent from non-wilful defaulters. On further analysis among the 60 large farmers 71.67 per cent are wilful and only 28.33 per cent non-wilful. Out of 90 medium farmers the percentage of wilful defaulters are 45.56 and that of non-wilful 54.44. Only 26.67 per cent are wilful defaulters and 73.33 per cent non-wilful among the 150 small farmers. From this it is clear that the percentage of wilful defaulters are more in large farmers and less in small farmers. Similar findings were also reported by Viswanathan

Table 7.1

Size of Farm and Nature of Default

Size of farm	Nature of default		Total
	W.D.	N.W.D.	
Small	40 (26.67)	110 (73.33)	150 (100)
Medium	41 (45.56)	49 (54.44)	90 (100)
Large	43 (71.67)	17 (28.33)	60 (100)
Total	124 (41.33)	176 (58.67)	300 (100)

$$X^2 = 36.26^*$$

Note: In the following tables

W.D. denotes wilful default

N.W.D. denotes non-wilful default

* denotes statistical significance at 5 per cent level

Figures in brackets denote percentage to total

Source: Calculated on the basis of data collected from the primary survey

(1985). This was tested by applying chi-square test .^{*} It is found to be significant at 5 per cent level, which means that there exists an association between the farm size and the nature of default.

Level of Education and Nature of Default

The data relating to the level of education and the nature of default is given in Table 7.2. Wilful defaulters are less in beneficiaries having primary level education (32.86 per cent) and high in beneficiaries having education above pre-degree (64.29 per cent). The percentage of wilful default is also high in the case of farmers having pre-degree (60.00) and secondary (62.50) level education. Majority of non-wilful defaulters are farmers with primary level education (67.14 per cent) and less in farmers having education above the pre-degree level (35.71 per cent). That is, the percentage of wilful default is high with the defaulters having higher level of education. The association between the level of education and nature of default was tested by

$$* X^2 = \sum \frac{(O-E)^2}{E}$$

Where O refers to the observed frequencies

E refers to the expected frequencies

applying chi-square test. It is found to be significant, i.e., there is relation between the level of education and the nature of default of the farmers. Dadhich (1977) also reported that wilful defaulters are increasing with the level of education.

Table 7.2
Level of Education and Nature of Default

Level of education	Nature of default		Total
	W.D.	N.W.D.	
Primary	70 (32.86)	143 (67.14)	213 (100)
Secondary	30 (62.50)	18 (37.50)	48 (100)
Pre-degree/ITI	15 (60.00)	10 (40.00)	25 (100)
Above pre-degree	9 (64.29)	5 (35.71)	14 (100)
Total	124 (41.33)	176 (58.67)	300 (100)

$$X^2 = 21.64^*$$

Occupation and Nature of Default

Table 7.3 examines the association between the occupation (purely agriculturists and agriculturists with other income) and the nature of default of the farmers. It is clear from this table that majority of the wilful defaulters (52.22 per cent) are from beneficiaries having non-agricultural income also. In pure agriculturists the percentage of wilful default is only 25 per cent. Among the non-wilful defaulters the percentage of

Table 7.3

Occupation and Nature of Default

Occupation	Nature of default		Total
	W.D.	N.W.D.	
Defaulters who have only agricultural income	30 (25.00)	90 (75.00)	120 (100)
Defaulters who have non-agricultural income and agricultural income	94 (52.22)	86 (47.78)	180 (100)
Total	124 (41.33)	176 (58.67)	300 (100)

$$X^2 = 22.89^*$$

defaulters who have only agricultural income is 75 and that of defaulters who have other income is 47.78. From this it is clear that genuine farmers who depend on agriculture are willing to pay even though they are in difficulty. This relation is also found to be significant when applying chi-square test, which means, there is association between occupation and nature of default.

Age and Nature of Default

The distribution of selected defaulters by age and nature of default is presented in Table 7.4. Among the defaulters below 30 years of age the percentage of wilful default is 63.64 and that of non-wilful default 36.36. In the 30-40 age group, the percentage of wilful defaulters is 55.56 and non-wilful defaulters 44.44. This position is reversed in the 40-50 age group, i.e., the percentage of non-wilful defaulters (60.61) is high compared to the percentage of wilful defaulters (39.39). 29.82 per cent of the defaulters in the 50-60 age group are wilful and 70.18 per cent non-wilful. In the age group of 60 and above, only 23.08 per cent are wilful and 76.92 per cent non-wilful defaulters. This shows, when age increases people become more prompt in repayment. This association has been tested by applying chi-square test and

found to be significant at 5 per cent level. Similar findings were also reported by Bisallah and Nagaraj (1985).

Table 7.4
Age and Nature of Default

Age group (in years)	Nature of default		Total
	W.D.	N.W.D.	
Below 30	14 (63.64)	8 (36.36)	22 (100)
30-40	35 (55.56)	28 (44.44)	63 (100)
40-50	52 (39.39)	80 (60.61)	132 (100)
50-60	17 (29.82)	40 (70.18)	57 (100)
60 and above	6 (23.08)	20 (76.92)	26 (100)
Total	124 (41.33)	176 (58.67)	300 (100)

$$\chi^2 = 17.58^*$$

Amount of Loan and Nature of Default

The relation between the amount of loan taken and nature of default is examined in Table 7.5. It is found that when the amount of loan taken increases the number of wilful defaulters also increases. Among the defaulters who have taken loan below Rs.5,000, the percentage of wilful defaulters is only 25 and in the group of Rs. 5,000-10,000 it is 36.02. The percentage of wilful default is 62.96 in the group of Rs.10,000-15,000. The percentage of wilful default is high (76.19) in the farmers who have taken loan above Rs.15,000. The percentage of non-wilful defaulters (75.00) is high in low amount group. It is 63.98 per cent and 37.04 per cent in the groups of Rs.5,000-10,000 and Rs.10,000-15,000 respectively. This percentage is very low (23.81) in the group of above Rs.15,000. Thus there is a positive relation between the amount of loan taken and the number of wilful defaulters.

Statistically the association between the amount of loan taken by the defaulters and nature of default is significant.

Table 7.5

Amount of Loan and Nature of Default

Amount of loan taken by the defaulters (in rupees)	Nature of default		Total
	W.D.	N.W.D.	
Below 5,000	16 (25.00)	48 (75.00)	64 (100)
5,000-10,000	58 (36.02)	103 (63.98)	161 (100)
10,000-15,000	34 (62.96)	20 (37.04)	54 (100)
Above 15,000	16 (76.19)	5 (23.81)	21 (100)
Total	124 (41.33)	176 (58.67)	300 (100)

$$X^2 = 29.12^*$$

Family Size and Nature of Default

The distribution of members in the family and nature of default is given in Table 7.6. In the case of families having members below five, the percentage of wilful defaulters is 55.00 and that of non-wilful defaulters 45.00. The percentage of wilful and non-wilful defaulters is 42.60 and 57.40 respectively in the

case of families having five members. Among the 89 families having six members the percentage of wilful defaulters is only 39.33 and that of non-wilful 60.67. The percentage of wilful defaulters (27.27) is less compared to non-wilful defaulters (72.73) in the case of families having more than six members. Statistically the association between family size and nature of default is not significant.

Table 7.6

Family Size and Nature of Default

Family size	Nature of default		Total
	W.D.	N.W.D.	
Below 5	11 (55.00)	9 (45.00)	20 (100)
5	72 (42.60)	97 (57.40)	169 (100)
6	35 (39.33)	54 (60.67)	89 (100)
Above 6	6 (27.27)	16 (72.73)	22 (100)
Total	124 (41.33)	176 (58.67)	300 (100)

$$X^2 = 4.53$$

Family Expenditure and Nature of Default

The family expenditure and its association with the nature of default is analysed in Table 7.7. The average family expenditure for the selected defaulters is Rs.16,237 per annum. Among the 50 defaulters whose family expenditure is below Rs.10,000, the percentage of non-wilful defaulters is 84.00 and that of wilful defaulters 16.00. 37.70 per cent of the defaulters are wilful and 62.30 per cent non-wilful whose family expenditure are in between Rs.10,000-20,000. Among the defaulters, whose expenditure are more than Rs.20,000, 70.15 per cent are wilful and 29.85 per cent non-wilful. Thus the percentage of wilful defaulters is high with the defaulters having high family expenditure.

Chi-square test was applied to examine the association between family expenditure and nature of default. The relation is being significant at 5 per cent level, i.e., there is an association between the family expenditure and nature of default.

Table 7.7

Family Expenditure and Nature of Default

Family expenditure (in rupees)	Nature of default		Total
	W.D.	N.W.D.	
Below 10,000	8 (16.00)	42 (84.00)	50 (100)
10,000-20,000	69 (37.70)	114 (62.30)	183 (100)
Above 20,000	47 (70.15)	20 (29.85)	67 (100)
Total	124 (41.33)	176 (58.66)	300 (100)

$$X^2 = 37.13^*$$

Total Income and Nature of Default

Income is an economic variable which indicates one's socio-economic status. The computation of an individual's income is complex. The income of the farmers cannot be assessed accurately because its component from agriculture depends on various factors like yield, price of the products, storage, marketing facilities etc. Table 7.8 presents the distribution of

defaulters by their income level. The average annual income of the sample defaulter is Rs.26,764 per annum. The percentage of non-wilful defaulters, whose income is below Rs.20,000, is 96.84 and that of wilful defaulters is 3.16. The percentage of wilful and non-wilful defaulters whose income is between Rs.20,000-30,000 are 71.19 and 28.81 respectively. Among the 83 defaulters, whose income are more than Rs.30,000, the percentage of wilful defaulters are high (92.77) compared to non-wilful defaulters (7.23).

Table 7.8

Total Income and Nature of Default

Total income (in rupees)	Nature of default		Total
	W.D.	N.W.D.	
Below 20,000	5 (3.16)	153 (96.84)	158 (100)
20,000-30,000	42 (71.19)	17 (28.81)	59 (100)
Above 30,000	77 (92.77)	6 (7.23)	83 (100)
Total	124 (41.33)	176 (58.66)	300 (100)

$$X^2 = 208.96^*$$

The association between income and nature of default was tested and found to be significant. That means the higher income group tends to be wilful defaulters.

Time Lag in Receiving the Loan Amount and Nature of Default

The relation between the time lag in receiving the loan amount and the nature of default is presented in Table 7.9. Among the 83 defaulters who received the loan within four weeks, the percentage of wilful defaulters is low (7.23) compared to non-wilful defaulters (92.77). The defaulters who received the loan amount within 5 weeks time, the percentage of wilful and non-wilful defaulters are 32.99 and 67.01 respectively. The defaulters who received the loan amount in 6 weeks and more the percentage of wilful defaulters is 71.67 and non-wilful defaulters is only 28.33. From this it is clear that as the time taken to receive the loan amount increases, the number of wilful defaulters also increases.

This association was tested by applying chi-square and found to be significant, and meant that the time lag in receiving the loan amount has an influence on the nature of default.

Table 7.9

Time Lag in Receiving the Loan Amount and Nature of Default

Time taken to receive the loan amount in weeks	Nature of default		Total
	W.D.	N.W.D.	
4 weeks and below	6 (7.23)	77 (92.77)	83 (100)
5 weeks	32 (32.99)	65 (67.01)	97 (100)
6 weeks and above	86 (71.67)	34 (28.33)	120 (100)
Total	124 (41.33)	176 (58.67)	300 (100)

$$X^2 = 86.21^*$$

Degree of Satisfaction and Nature of Default

During the survey an enquiry was made on the degree of satisfaction of the defaulters in the overall services of the bank. For this purpose the defaulters were categorised into three as fully satisfied, partially satisfied and not satisfied with the services of the bank. The variables used for the measurement of satisfaction were:

1. Delay in receiving the loan amount,
2. Expenses incurred for receiving the loan amount,
3. Guidance in implementing the project and adequate supervision and
4. Behaviour of the employees and other authorities.

The relation between the degree of satisfaction and the nature of default is presented in Table 7.10. From this table it is clear that, among the 300 defaulters selected 219 are fully satisfied, 60 partially satisfied and 21 not satisfied with the services of the selected banks. Among the 219 fully satisfied defaulters only 35.16 per cent are wilful defaulters and 64.84 per cent non-wilful. The percentage of wilful and non-wilful defaulters are 51.67 and 48.33 respectively in the case of partially satisfied defaulters. Majority of the not satisfied group are wilful (76.19 per cent) and only 23.81 per cent non-wilful defaulters.

Here also an association has been proved between the degree of satisfaction and the nature of default when applying chi-square test.

Table 7.10

Degree of Satisfaction and Nature of Default

Degree of satisfaction	Nature of default		Total
	W.D.	N.W.D.	
Fully satisfied	77 (35.16)	142 (64.84)	219 (100)
Partially satisfied	31 (51.67)	29 (48.33)	60 (100)
Not satisfied	16 (76.19)	5 (23.81)	21 (100)
Total	124 (41.33)	176 (58.67)	300 (100)

$$X^2 = 15.18^*$$

Nature of Default in the Selected Primary Banks

The break up of wilful and non-wilful defaulters in respect of each selected bank is presented in Table 7.11. The percentage of wilful defaulters is low in the case of IRK (11.28), TRR (13.71) and EKM (16.13). It is high in TVM 20.97 per cent, KZD 19.35 per cent and TPZ 18.55 per cent. The IRK, TRR and EKM have a high percentage of non-wilful defaulters 20.45, 18.75 and

17.05 respectively. It is low in TVM 13.64 per cent. Thus the percentage of wilful defaulters is high in the case of high overdue banks.

Table 7.11

Nature of Default in the Selected Primary Banks

Name of the bank	Nature of default	
	W.D.	N.W.D.
IRK	14 (11.28)	36 (20.45)
TRR	17 (13.71)	33 (18.75)
TPZ	23 (18.55)	27 (15.34)
EKM	20 (16.13)	30 (17.05)
KZD	24 (19.35)	26 (14.77)
TVM	26 (20.97)	24 (13.64)
Total	124 (100)	176 (100)

Degree of Satisfaction/Dissatisfaction of the Defaulters

A detailed break up of the degree of satisfaction of the defaulters in respect of each of the selected banks is given in Table 7.12. The percentage of fully satisfied defaulters is 20.09, 18.72 and 17.35 in the case of IRK, TRR and EKM respectively. The satisfaction of defaulters is less in the case of TVM (11.87 per cent), KZD (15.07 per cent) and TPZ (16.89 per cent). Among the partially satisfied beneficiaries the highest percentage is in TVM (25.00), followed by KZD (18.33), TPZ (16.66), EKM (16.66), TRR (13.33) and IRK (10.00). In IRK not even a single beneficiary opined that he is dissatisfied with the services of the bank. The percentage of dissatisfaction is high in TVM (42.86) followed by KZD (28.57), TPZ (14.28), EKM (9.52) and TRR (4.76).

Thus it is clear that the percentage of overdues is high in the case of banks where the degree of satisfaction of the defaulters is less. Thus the approach and services of the bank indirectly affect the repayment attitude of the beneficiaries.

Table 7.12

Degree of Satisfaction in the Selected Primary Banks

Name of the bank	Degree of satisfaction		
	Fully satisfied	Partially satisfied	Not satisfied
IRK	44 (20.09)	6 (10.00)	--
TRR	41 (18.72)	8 (13.33)	1 (4.76)
TPZ	37 (16.89)	10 (16.66)	3 (14.28)
EKM	38 (17.35)	10 (16.66)	2 (9.52)
KZD	33 (15.07)	11 (18.33)	6 (28.57)
TVM	26 (11.87)	15 (25.00)	9 (42.86)
Total	219 (100)	60 (100)	21 (100)

Degree of Satisfaction in relation to Selected Variables

The degree of satisfaction of the defaulters in relation to the following selected variables were also analysed during the survey. The variables selected are :

1. Amount of loan received,
2. Rate of subsidy,
3. Formalities in getting the loan amount,
4. Getting instalments in time,
5. Time given for repayment and
6. Rate of interest charged.

The level of satisfaction (fully, partially and not satisfied) in relation to the above variables is presented in Table 7.13.

1. Amount of Loan

Among the selected defaulters 53.33 per cent are fully satisfied, 24 per cent partially satisfied and 22.67 per cent not satisfied with the amount of loan received from the bank. That is, majority of the defaulters are satisfied with the loan amount received from the bank. But the dissatisfied defaulters complained that the insufficient amount of loan forced them to borrow from other sources at higher rate of interest. This finally results in nonrepayment of loans due to the Agricultural Development Banks.

Table 7.13

Degree of Satisfaction in Relation to Selected Variables

Variables selected	Degree of satisfaction			Total
	Fully satisfied	Partially satisfied	Not satisfied	
Amount of loan received	160 (53.33)	72 (24.00)	68 (22.67)	300 (100)
Rate of subsidy	17 (5.67)	97 (32.33)	186 (62.00)	300 (100)
Type of formalities in getting the loan	72 (24.00)	98 (32.67)	130 (43.33)	300 (100)
Getting instalments in time	133 (44.33)	100 (33.33)	67 (22.34)	300 (100)
Time given for repayment	149 (49.67)	115 (38.33)	36 (12.00)	300 (100)
Rate of interest	152 (50.67)	112 (37.33)	36 (12.00)	300 (100)

2. Rate of Subsidy

The system providing interest subsidy is modified by the Government in the year 1990. Formerly, the Government provided 50 per cent (5 per cent out of 10 per cent interest) interest as subsidy on the loans. Equated yearly (monthly) instalments are computed in such a way that, in the initial year, the due amount consists of a large portion of interest and a small portion of principal. So the beneficiaries will get a good benefit if they pay the amount on the due date. Now this system has changed and 5 per cent incentive is providing on the principal paid back. This meagre sum will not attract the beneficiaries for prompt payment. Majority of the defaulters (62 per cent) are not satisfied with the new system of subsidy. Only 5.67 per cent are fully satisfied with the present system and 32.33 per cent partially satisfied with this modification.

3. Formalities in Getting the Loan Amount

The procedure in getting the loan from the Agricultural Development Banks is difficult when compared to Commercial Banks. From the study it is clear that four to seven weeks is needed

(Table 7.9) for obtaining the loan amount. It also needs a number of certificates and property mortgage. Among the defaulters 24 per cent are fully satisfied, 32.67 per cent partially satisfied and 43.33 per cent not satisfied with the formalities of the bank. From this it is clear that majority of them are not satisfied with the formalities in getting the loan amount and they are of the opinion that the procedure should be further simplified. However, the bank is now simplifying the procedure by introducing 'Gehan' instead of registered mortgage. Under the new system the beneficiary need not register the mortgage, instead a certificate is given by the beneficiary to the bank and the bank gets it recorded in the Registrar's office which is equivalent to registered mortgage.

4. Getting Instalments in time

Timely receiving of instalments of loan is very important for the prompt completion of the project. The bank provides loans to the beneficiaries according to different stages of completion of the project. Major share of the defaulters are either fully satisfied (44.33 per cent) or partially satisfied (33.33 per cent) in receiving the instalments in time. Only

22.34 per cent are dissatisfied with this variable. The beneficiaries expressed their view that they have to temporarily adjust the money for the completion of different stages of the project. If there is delay in paying subsequent instalments it will affect the financial position of the beneficiaries.

5. Time Given for Repayment

The repayment period is linked with the life of the project implemented. Majority of the defaulters are either fully satisfied (49.67 per cent) or partially satisfied (38.33 per cent) with the time given for repayment. Only 12 per cent of the defaulters are not satisfied with this variable. The partially satisfied and not satisfied beneficiaries opined that the bank is not willing to extend the time given for repayment even in the case of genuine difficulties.

6. Rate of Interest

As stated earlier, the rate of interest is fixed by NABARD and is subject to revision from time to time. Formerly the beneficiaries were receiving 50 per cent of interest as subsidy.

But, at present, this system of interest subsidy has been withdrawn by the Government. Only 12 per cent of the defaulters are of the opinion that the rate of interest is high. 50.67 per cent of the defaulters are fully satisfied and 37.33 per cent partially satisfied. Hence majority of the defaulters are dissatisfied with the new system of subsidy and are of the opinion that the formalities in receiving the loan amount should be further simplified.

Thus it is found that the majority of the socio-economic variables have an impact on the nature of default. It is also evident that wilful default is high in the case of dissatisfied defaulters which coincides with high overdue banks.

Determinants of Overdues

The regression analysis examined the impact of various determinants of overdues. The dependent variable is overdues and the following independent variables were identified:

- X_1 - Amount of loan in rupees
- X_2 - Agricultural income in rupees

X_3 - Total income in rupees

X_4 - Family consumption expenditure in rupees

While examining the impact of various factors the problem of multicollinearity was tested and appropriate changes were made. The overdues are influenced by the cumulative effect of different variables and hence the problem of multicollinearity cannot be eliminated to the full extent. In order to derive the coefficients each variable was regressed step wise and totally insignificant variables were dropped subsequently and the final regression coefficients are given on the basis of bank and farm size in Tables 7.14 and 7.15.

Irinjalakuda Primary Bank

In the case of IRK all the identified variables together examined 37.20 per cent variations on the dependent variable. All the variables except X_2 had positive influence. From the results it is found that the variable X_4 alone seems to be significant. That is, there is positive correlation between family expenditure and overdues. Thus in the case of IRK the beneficiaries may default in their loan repayment due to constantly growing family

expenditure. The same thing is also proved by Table 7.11, i.e., majority of the defaulters in IRK are non-wilful defaulters.

Tirur Primary Bank

The identified variables together examined 39.20 per cent variations on the dependent variable in the case of TRR. Regarding individual variables all the variables except X_2 had a positive influence. From the regression results it is found that the variables did not show any significant relationship. But there is positive and significant correlation between family expenditure and overdues. From this it is clear that like IRK, in this bank also the beneficiaries are defaulted in their loan repayment due to constantly growing family expenditure and majority of them are non-wilful defaulters.

Thodupuzha Primary Bank

In the case of TPZ the identified variables together examined 53.30 per cent variations on the dependent variable. Here, except X_4 all other variables showed positive relationship. From the results it is evident that X_1 and X_3 showed significant

Table 7.14

Results of the Regression Analysis — Bankwise

Name of the bank	Regression Coefficients				R ²
	Amount of loan	Agricult- ural income	Total income	Family expenditure	
	X ₁	X ₂	X ₃	X ₄	
IRK	0.0025 (0.0073)	-0.0176 (0.0130)	0.0106 (0.0144)	0.0584* (0.0231)	0.372
TRR	0.0145 (0.0087)	-0.0129 (0.0111)	0.0073 (0.0082)	0.0175 (0.0189)	0.392
TPZ	0.1231* (0.0291)	0.0032 (0.0208)	0.0192* (0.0084)	-0.0021 (0.0064)	0.533
EKM	0.0350* (0.0162)	-0.0573* (0.0213)	-0.0461* (0.0162)	0.0730* (0.0339)	0.469
KZD	0.2671* (0.0560)	0.0130 (0.0300)	-0.0503* (0.0178)	-0.0376 (0.0269)	0.724
TVM	0.2103* (0.0482)	-0.0608* (0.0234)	-0.0177 (0.0148)	0.2458* (0.0488)	0.843

Note: Figures in the bracket indicate standard errors of estimates

* Coefficient is statistically significant at five per cent level of significance.

relationship. That is, amount of loan and total income are positively correlated to overdues. Hence, it is clear that, even though the beneficiaries have sufficient income they are not repaying the loan dues. There is a chance of misutilisation of loan amount, as the amount of loan increases the overdues also increases.

Ernakulam Primary Bank

From Table 7.14 it is clear that all the variables together examined 46.90 per cent variations in the case of EKM. The variables X_2 and X_3 showed negative relationship and X_1 and X_4 showed positive relationship. The results showed that all the four variables indicated significant relationship with overdues. The significant negative relationship of the X_2 and X_3 clarified that the beneficiaries are repaying their loans due when they have sufficient income. The positive and significant relationship of X_1 meant that there is misutilisation and X_4 showed that the heavy family expenditure results in overdues. This is also supporting the earlier observations as per Table 7.11 that majority of the defaulters in EKM are non-wilful defaulters.

Kozhikode Primary Bank

In the case of KZD 72.40 per cent variations are explained by independent variables. The variables X_1 and X_2 showed positive relationship and X_3 and X_4 showed negative relationship. It is evident from the results that the variables X_1 and X_3 showed significant relationship. From this it is clear that there is misutilisation and at the same time the beneficiaries are paying their dues when they have sufficient income.

Thiruvananthapuram Primary Bank

84.30 per cent variations on the dependent variable are explained by all the independent variables in the case of TVM. The variables X_1 and X_4 showed positive relationship and X_2 and X_3 showed negative relationship. It is clear from the results that except the variable X_3 all other variables are significant. The positive and significant relationship of X_1 showed that there is misutilisation of loan, i.e., as the loan amount increases the amount of overdues also increases. Negative relationship between X_2 and dependent variable showed that when agricultural income

increases the overdues are repaid. The positive relation of X_4 (family expenditure) indicated that heavy family expenditure is responsible for nonrepayment of loans.

Thus family expenditure is the crucial variable influencing overdues. The attitude of beneficiaries also strongly influenced the repayment ethic and it is evident that even though the majority of them have sufficient income they are not repaying their dues.

The same regression has been done by grouping the defaulters on the basis of farm size as small, medium and large.

Small Farmers

In the case of small farmers all the identified variables together examined 97.64 per cent variations on the dependent variable. All the variables except X_3 showed positive influence. Regression analysis indicated that X_2 and X_4 are significant. That is, when the agricultural income and family expenditure increase overdues increases. Thus in the case of small farmers the main reason for default is the constantly

growing family expenditure and majority of them are non-wilful defaulters. The influence of the variable X_2 showed that some of the small farmers are not repaying with the increase in the agricultural income.

Table 7.15

Results of the Regression Analysis — Farm Wise

Farm size	Regression Coefficients				R^2
	Amount of loan	Agricultural income	Total income	Family expenditure	
	X_1	X_2	X_3	X_4	
Small	0.613 (0.423)	0.023* (0.001)	-0.034 (0.415)	0.0061* (0.001)	0.9764
Medium	0.843 (0.621)	-0.173 (0.161)	-0.963 (0.594)	0.743* (0.332)	0.7210
Large	0.964 (0.642)	-1.623 (1.131)	-0.841* (0.0027)	2.64* (1.11)	0.6913

Note: Figures in the bracket indicate standard errors of estimates

* Coefficient is statistically significant at five per cent level of significance.

Medium Farmers

72.10 per cent variations on the dependent variable are explained by independent variables in the case of medium farmers. The variables X_2 and X_3 showed negative influence and X_1 and X_4 showed positive influence. From the regression results it was clear that the only variable significant is X_4 . That is, overdues of medium farmers are largely influenced by constantly growing family expenditure and majority of them are non-wilful defaulters. The same result has been obtained earlier in Table 7.1

Large Farmers

In the case of large farmers 69.13 per cent variations on dependent variable are explained by independent variables. The variables X_1 and X_4 showed positive influence and the variables X_2 and X_3 showed negative influence. The regression results showed that X_3 and X_4 are significant. Thus in the case of large farmers the overdues decreases when the income increases. They are also influenced by heavy family expenditure since the overdues increases when the family expenditure goes up.

Thus from this regression also it is found that the family expenditure (X_4) is the only variable influencing overdues irrespective of the category of farmers. Moreover all the categories of farmers are not willing to pay back the dues, even though there is sufficient income in all the category in different proportions.

Reasons for Default

The regression results identified that the ever increasing family expenditure and wilful neglect of the beneficiaries are the crucial factors influencing overdues. This can be further clarified by analysing the reasons for overdues. The identification of the reasons for default will help the bank to take corrective action for controlling its overdues. For this purpose the sample defaulters were requested to give their major reasons for nonrepayment of loans. On analysing these reasons it is found that both the institution and the beneficiaries are equally responsible for mounting overdues. So the causes are analysed at the borrower's level and at the institution's level. The reasons stated by the beneficiaries are also cross checked with the opinion of the bank authorities.

Reasons for Default — Borrowers' Level

The reasons expressed by the defaulters for nonrepayment are analysed on the basis of their farm size and bank-wise are presented in Tables 7.16 and 7.17. It is clear from these tables that the main reasons for nonrepayment of loan amount are the modification of subsidy on interest, wilful neglect, high family expenditure, low income, misutilisation of income from the project, Government's loan waiver policy etc. A detailed analysis of each of these reasons will give a better idea about it.

Modification of Subsidy on Interest

One of the major reasons for default is the change in the subsidy system. As stated earlier, the present system of subsidy is not attractive for prompt repayment. This can be illustrated by an example. Suppose the beneficiary takes a loan of Rs.6,000 at 10 per cent interest for a period of 10 years. The total amount to be paid as interest and principal is Rs.9,750 within this period. The equated annual instalment will come to Rs.975. This includes principal and interest. In the initial years the portion of interest will be more compared to principal.

The interest in the first instalment is Rs. 600 and principal is Rs.375. In the former system the Government provided 50 per cent (5 per cent out of 10 per cent interest) of interest as subsidy. Then he had to pay only Rs.675 (Rs.300 as interest and Rs.375 as principal). In the present system the subsidy is 5 per cent of the principal paid back. That is, the beneficiary has to pay Rs.956.25 (Rs.600 + Rs.356.25). This clearly makes an additional burden of Rs.281.25 (956.25-675) for the beneficiary in the first year. Again, formerly the subsidy was adjusted to the loan instalment and the beneficiary had to pay only the balance amount. Now he has to pay the full amount and gets only a meagre sum as subsidy only after two or three years as per the sanction received from the Government.

55.33 per cent of the small farmers, 33.33 per cent of the medium farmers and 26.67 per cent of the large farmers are affected by this change in the subsidy system. The defaulters of all the selected banks are largely affected by the modification of the subsidy system as in KZD 48 per cent, TVM 46 per cent, TPZ 44 per cent, TRR 44 per cent, EKM 38 per cent and IRK 38 per cent.

Table 7.16

Reasons for Default by the Beneficiaries on the basis of
Size Group of Farms

Reasons for default	Size group of farms			Total
	Small	Medium	Large	
No. of defaulters	150 (50.00)	90 (30.00)	60 (20.00)	300 (100)
Project failure	15 (10.00)	5 (5.56)	2 (3.33)	22 (7.33)
Natural calamity	18 (12.00)	8 (8.89)	4 (6.66)	30 (10.00)
High family expenditure	68 (45.33)	34 (37.78)	11 (18.33)	113 (37.67)
Low income	70 (46.67)	32 (35.56)	4 (6.66)	106 (35.33)
Lack of marketing facility	26 (17.33)	15 (16.67)	1 (0.31)	42 (14.00)
Mishap	18 (12.00)	9 (10.00)	5 (8.33)	32 (10.67)
Modification of subsidy system	83 (55.33)	30 (33.33)	16 (26.67)	129 (43.00)
Government policy of loan waiver	53 (35.33)	28 (31.11)	4 (6.66)	85 (28.33)
Misutilisation of loan amount	14 (9.33)	8 (8.89)	7 (11.66)	29 (10.33)
Diversion of income from the project	49 (32.67)	30 (40.00)	20 (33.33)	105 (35.00)
Wilful neglect	40 (26.67)	41 (45.56)	43 (71.67)	124 (41.33)

Note : Figures in brackets denote percentage to total

Source : Primary survey

Table 7.17

Reasons for Default by the Beneficiaries on the basis of
Selected Primary Banks

Reasons for default	Name of the bank					
	IRK	TRR	TPZ	EKM	KZD	TVM
No. of defaulters	50 (100)	50 (100)	50 (100)	50 (100)	50 (100)	50 (100)
Project failure	2 (4.00)	2 (4.00)	3 (6.00)	6 (12.00)	5 (10.00)	4 (8.00)
Natural calamity	7 (14.00)	4 (8.00)	7 (14.00)	5 (10.00)	3 (6.00)	4 (8.00)
High family expenditure	24 (48.00)	21 (42.00)	16 (32.00)	19 (38.00)	17 (34.00)	16 (32.00)
Low income	26 (52.00)	17 (34.00)	18 (36.00)	15 (30.00)	18 (36.00)	12 (24.00)
Lack of marketing facility	5 (10.00)	8 (16.00)	7 (14.00)	6 (12.00)	6 (12.00)	10 (20.00)
Mishap	5 (10.00)	7 (14.00)	5 (10.00)	6 (12.00)	3 (6.00)	6 (12.00)
Modification of subsidy system	19 (38.00)	22 (44.00)	22 (44.00)	19 (38.00)	24 (48.00)	23 (46.00)
Government policy of loan waiver	8 (16.00)	16 (32.00)	14 (28.00)	15 (30.00)	16 (32.00)	16 (32.00)
Misutilisation of loan amount	2 (4.00)	3 (6.00)	5 (10.00)	4 (8.00)	5 (10.00)	10 (20.00)
Diversion of income from the project	15 (30.00)	16 (32.00)	17 (34.00)	15 (30.00)	20 (40.00)	22 (44.00)
Wilful neglect	14 (28.00)	17 (34.00)	23 (46.00)	20 (40.00)	24 (48.00)	26 (52.00)

Note : Figures in brackets denote percentage to total

Source : Primary survey

Wilful Neglect

Another important reason for the nonrepayment of loan amount is the wilful neglect of the farmers. Though the farmers have the capacity to repay they are not willing to repay; because they expect the Government will write off the loan raised through co-operatives. Again as the rate of interest of the loan is comparatively less, the defaulters will prefer to clear off the debts due to other agencies. The influential beneficiaries know how to withstand the proceedings of primary banks for the repayment of loan through political influence. The large farmers contribute the highest percentage (71.67) of wilful default followed by medium (45.56 per cent) and small (26.67 per cent) farmers.

The reason for high overdues in TVM and KZD is due to the wilful default of the beneficiaries of these banks as 52 per cent and 48 per cent respectively. It is less in the case of IRK and TRR as 28 per cent and 34 per cent. 46 per cent and 40 per cent of the beneficiaries of TPZ and EKM made default due to wilful neglect. The wilful default of the beneficiaries can be controlled by prompt action of the concerned bank.

The banks are adequately armed with the powers to recover the dues. In the context of increasing overdues the Madhava Das Committee (1975) opined that "it is not so much the absence of adequate legal provisions which comes in the way of effecting overdues from defaulters, as the delay in taking action by the primary banks and the will to initiate necessary action promptly against influential parties. The management of the banks would, therefore, do well to take prompt and effective legal action against all defaulters."² If the default is wilful no time should be lost in taking coercive action or otherwise. It is simply lack of fear of the consequences on the part of the defaulters that accounts for the wilful default.

High Family Expenditure

The life pattern in Kerala is slightly different from other states. The people are highly interested in conspicuous consumption and like to live at a higher level than that they can afford. The expenses on education, marriage, festivals, house

² Report of the committee on Co-operative Land Development Banks, Reserve Bank of India, Bombay, 1975, pp.255-256.

construction etc. are very high. From the survey it is clear that even the small farmers have all the modern facilities like T.V., fridge and other equipments. The expenditure on education, medicine, festivals etc. are also high among the sample defaulters. 45.33 per cent of the small farmers and 37.78 per cent of the medium farmers are affected by high family expenditure. Only 18.33 per cent of the large farmers are affected by this.

The family expenditure is an influencing factor for increasing overdues for all the selected banks as in IRK (48 per cent), TRR (42 per cent), EKM (38 per cent), KZD (34 per cent), TPZ (32 per cent) and TVM (32 per cent).

Low Income

Another important factor identified by the defaulters is their low income from agricultural activities. The amount of income earned by them in one period will be sufficient only for re-investing in the same crop in the next period. The cost of fertilizers, pesticides, labour etc. are very high and the farmers will not get much from the agricultural activities. During the

harvest season they do not get sufficient prices for their farm products. The small and medium farmers cannot retain the products and have to sell them at the available market price. So the small (46.67 per cent) and medium (35.56 per cent) farmers are largely affected.

Among the selected banks the defaulters of IRK (52 per cent) are largely affected by low income compared to other banks. It is 36 per cent each in TPZ and KZD, 34 per cent in TRR, 30 per cent in EKM and 24 per cent in TVM.

The biggest single cause of poor repayment was and still is the impoverished condition of the numerous small farmers whom the banks are called upon to serve. It is a fact that the needs of a large section of agriculturists have exceeded their income. So the additional income generated may be utilised more to meet their immediate or pressing needs than repaying to the banks and thus causing overdues to the bank. The ultimate solution to the problem is, therefore, ensuring reasonable standard of living by such measures that will increase their income.

Diversion of Income from the Project

The income from the project is meant for repayment of the loan amount. But many of the defaulters (35 per cent) have utilised this income for their personal needs, instead of clearing off the instalments due. About 40 per cent of the medium farmers, 33.33 per cent of the large farmers and 32.67 per cent of the small farmers diverted the income received from the project.

Diversion of income from the project is very high in TVM (44 per cent) and KZD (40 per cent). It is comparably less in TPZ (34 per cent), TRR (32 per cent), EKM (30 per cent) and IRK (30 per cent). The defaulters utilised this income from the project for meeting their personal consumption expenses like construction and modification of house, marriages and festivals.

The misutilisation of the income from the project can be controlled to a great extent by linking the marketing of the products with credit. The scheme of lending co-operative credit with marketing has assumed great importance during recent years. There should be proper linking between Agricultural Development Banks and marketing societies. A portion of the price due to

beneficiaries from the marketing societies should be channeled to Agricultural Development Banks for clearing off their dues. In this connection some law is required to be enforced whereby it should become binding on the market man to deposit the whole or part of the sale proceeds of farmers with the concerned banks.

Government Policy of Loan Waiver

The policy of the Government to write off the loans due made a wider impact on the recovery climate. The farmers find that only defaulters are benefited by this policy. The genuine and honest farmers who repay the loan instalments in time are not benefited by this policy of the Government. So they expect future write off and remain in default. 35.33 per cent of the small farmers, 31.11 per cent of the medium farmers and 6.66 per cent of the large farmers expected future write off and defaulted. 32 per cent of the defaulters of TVM, KZD and TRR expect future write off and remain in default. The expectation of write off among the defaulters in other banks was comparatively less: 30 per cent in EKM, 28 per cent in TPZ and 16 per cent in IRK. The survey result shows that the writing off the loans will increase the number of

wilful defaulters. So the Government should not resort to such practice instead of giving incentive to honest repayers.

Lack of Marketing Facilities

Another reason pointed out by the defaulters during the survey is the lack of marketing facilities for the farm products. 17.33 per cent of the small farmers and 16.67 per cent of the medium farmers are affected by this. The large farmers have the ability to retain the products and the facility to market their products. The increase in overdues due to lack of marketing facilities is high in TVM (20 per cent), TRR (16 per cent) and TPZ (14 per cent). This factor is not much influenced in EKM (12 per cent), KZD (12 per cent) and IRK (10 per cent).

There should be proper organisation in the form of co-operatives for the marketing of the products of the farmers. These marketing societies can be linked with the Agricultural Development Banks which facilitate repayment.

Mishap

Death, accidents or disease to the family head or any of the family members are termed as mishap and have a serious impact on the repayment of loan. 12 per cent of the small farmers, 10 per cent of the medium farmers and 8.33 per cent of the large farmers are affected by this. The nonrepayment due to mishap is high in TRR (14 per cent), EKM (12 per cent) and TVM (12 per cent) compared to other banks. This is not a controllable factor, and so, if it occurs, it will be a severe blow to the family of the beneficiary.

Natural Calamities

Natural calamities like drought, flood, storm etc. will result in crop failure and it is difficult for the farmers to repay the loan instalments in time. This also ultimately leads to mounting of overdues. 12 per cent of the small farmers, 8.89 per cent of the medium farmers and 6.66 per cent of the large farmers are affected by this. When comparing with other banks the increase in overdues due to natural calamities is high in IRK (14

per cent) and TPZ (14 per cent). This can be controlled by proper crop insurance.

Misutilisation of Loan Amount

Another reason for the default is the misutilisation of loan amount. This is not high in the case of long-term financing compared to short-term loans. This is because of lending to specific projects and the amount of loan is given in instalments according to the different stages of project completion. Still, there is misutilisation of a portion of the loan amount due to lack of proper follow-up by the bank authorities. The misutilisation is comparatively less in the case of medium farmers (8.89 per cent) compared to large (11.66 per cent) and small (9.33 per cent) farmers.

Diversion of loan amount is very high in TVM (20 per cent) compared to KZD (10 per cent), TPZ (10 per cent), EKM (8 per cent), TRR (6 per cent) and IRK (4 per cent). The diverted amount is used for personal purposes like house construction, marriage and for purchasing consumption articles.

Project Failure

The failure of the project financed by the bank due to lack of experience is high in small farmers (10 per cent), compared to medium (5.56 per cent) and large (3.33 per cent) farmers. Compared to the other sample banks, project failure is found to be high in EKM (12 per cent) and KZD (10 per cent). This has a serious impact on the repayment capacity of the medium and small farmers. Usually, project failure occurs in projects like dairy, poultry etc. It is due to lack of experience in the concerned projects. The impact of project failure can be controlled to a great extent by way of insurance and by giving proper training to the beneficiaries.

Reasons for Default — Institution's Level

As stated earlier the bank authorities are also found to be responsible for increasing overdues. From the reasons analysed, the following factors are identified to be responsible for increasing overdues.

Lack of Effective Supervision

The importance of supervision has been recognised almost from the very beginning of the co-operative movement in India. The Macdagan Committee (1915), The Royal Commission on Agriculture (1928), The All India Rural Credit Review Committee (1969) etc. stressed the importance of supervision. The All India Rural Credit Review Committee has rightly pointed out that "Bad supervision makes it possible for loans to be diverted to non-productive purposes. All this, in turn increases overdues."³ The test of an efficient supervision lies in:

- a. Supply of adequate credit,
- b. Check over the diversion of credit,
- c. Linking of credit with marketing and
- d. Timely repayment of loans.

If there is efficient supervision, that will minimise diversion and will help to repay the loans in time. There are

³ All India Rural Credit Review Committee, Agricultural Credit Department, Reserve Bank of India, Bombay, 1969, p.504.

instances during the field survey that some of the defaulters have either misutilised or not utilised the loan amount for the purpose meant for. There is also diversion of income from the projects implemented by the sample defaulters which results in an increasing of overdues. These matters are discussed earlier, while analysing the reasons for default at borrowers' level.

The supervisory staff should allot only specific number of loanees within a definite area. This will help for effective supervision which results in adequate supply of credit, minimum diversion and timely repayment of loans.

Lack of Personal Contact

The personal contact of the members of the managing committee, field supervisors and employees of the bank, with the borrowers will persuade them for repayment. The defaulters opined that they have no contact with the bank except at the time of taking the loan amount and repayment of the instalments.

57.23 per cent of the defaulters opined that their board member has no contact with them. From the survey it is clear that

only 21.32 per cent of the defaulters are attending the General Body Meeting and 32 per cent of them are participating in the election of the Board of Directors. Majority (56.42 per cent) of the defaulters are not aware of the ownership of the bank. This personal contact of the bank authorities with the beneficiaries is found to be less in the case of high overdue banks.

The employees and the members of the managing committee should try to develop personal contact with the beneficiaries of the bank. They should be capable of understanding the problems of the beneficiaries and must stand with them in their difficulties. The personal relationship with the beneficiaries to a certain extent will help for prompt payment.

Lack of Right Type of Leadership

The importance of leadership in co-operatives can be well judged from the following statement, 'Co-operatives are like dog team, they can only work, if there are leaders.'⁴ In almost

⁴ Dadhich C.L., Overdues in Farm Co-operative Credit — A Study of Rajasthan, Popular Prakashan, Bombay, 1977, p.116.

all the selected primary banks the leadership is in the hands of politicians. Many of them lack the qualities of right leadership and only motivated by political considerations. There are several instances where failure on the part of the managing committees to take prompt steps in the matter of recovery of loan has led to large overdues in the selected banks.

Even though the leadership of IRK, EKM and TRR is in the hands of politicians, they have idea in co-operation and they maintain close contact with the beneficiaries. But in the case of TPZ, KZD and TVM the leadership is purely political. In TPZ there is conflict in the Director Board for the post of president which results in the non-cooperation of the members of the Board for collection drive. This may resulted in heavy overdues in the last year. In TVM the beneficiaries opined that not only the directors but also the secretary are inefficient and incompetent. They also complained about the services and attitude of the employees of this bank (48 per cent of the defaulters are not satisfied with the services of the bank). Though the leadership of KZD is in the hands of politicians, in the last year there was concerted effort for recovery of overdues which showed positive signs. From this it is clear that one of the major reasons for the mounting

overdues is the ineffective leadership of the bank.

The person who becomes the president of the Board should be one having sufficient knowledge in finance, management, agriculture and co-operation. A study undertaken by the V.L. Mehta National Institute of Co-operative Management suggested that "Legislation allowing only functional experts as chairman of developed co-operative institutions, namely, banking expert as chairman of central co-operative bank, marketing expert as chairman of marketing society etc. would be a good beginning."⁴

Heavy Workload

The heavy workload of the supervisory staff and employees has an impact in the recovery of overdues. The heavy workload of the supervisory staff will result in the lack of effective direction and supervision of the implementation of the projects and ultimately result in misutilisation and consequently

⁴ Dinesh C., Co-operative Leadership and Management, Studies in Co-operation, V.L Mehta National Institute of Co-operative Management, Puna, No.9, 1969, p.54.

overdues. The excess workload of employees hinder prompt notices and continued action in the case of default. The workload of employees also have a bearing on their approach and attitude towards borrowers and ultimately results in less degree of satisfaction to beneficiaries. Among the selected banks two have deficiency in staff, resulting in heavy workload to employees. One of them (EKM) manages the situation by doing extra work. But in the case of the other bank (TVM) the degree of satisfaction on the part of the beneficiaries is very less and only 52 per cent are satisfied with the services of the bank. This results in increasing overdues.

Defective Loan Policy

The Study Team on Overdues (1974) appointed by the Reserve Bank of India pointed out the following defects in the loan policy of the co-operatives. "There were many instances of the scales of finance not being fixed on a realistic basis. Very often the scales were too high or too low. In the former there was the danger of excess loan amount being utilised for non-productive purposes with the consequent difficulty in repayment. In latter case, the cultivators would be forced to

take recourse to money lenders for loans at exorbitant and uneconomic rates of interest."⁵

The survey results show that only 53.33 per cent are fully satisfied with the amount of loan received. Others are of the opinion that the amount of loan is not sufficient for the completion of the project and leads to additional borrowing from other sources at higher rates of interest. This will result in additional burden on the beneficiaries for the repayment of loan from the bank and consequently overdues. So it is high time to revise and fix the scale of finance for the different projects according to the needs of different areas.

⁵ Report of the Study Team on Overdues of Co-operative Credit Institutions, Agricultural Credit Department, Reserve Bank of India, Bombay, 1974, p.124.

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.

The Agricultural and Rural Development Banks are the

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 a 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.

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 eventhough many defaulters have the capacity to repay, they are not repaying their loans and remain in default.

Reasons for Default

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:

The primary banks having a low recovery percentage are found to be inefficient in mobilisation and deployment of funds. The owned fund position is also weak in these banks.

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

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

The growth rate of cost components are high compared to the income factors.

The establishment charges constitute the major component of cost of management and the growth rate of establishment charges is higher than the growth rate of cost of management. This reassures the hypothesis that the cost of management continuously increases due to constant increase in the establishment charges.

The cost of management is also high in these banks and it

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.

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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.

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