

# **ECONOMIC EVALUATION OF STATE CO-OPERATIVE AGRICULTURE AND RURAL DEVELOPMENT BANKS IN INDIA**

**ABSTRACT**

**DISSERTATION**

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## **Abstract**

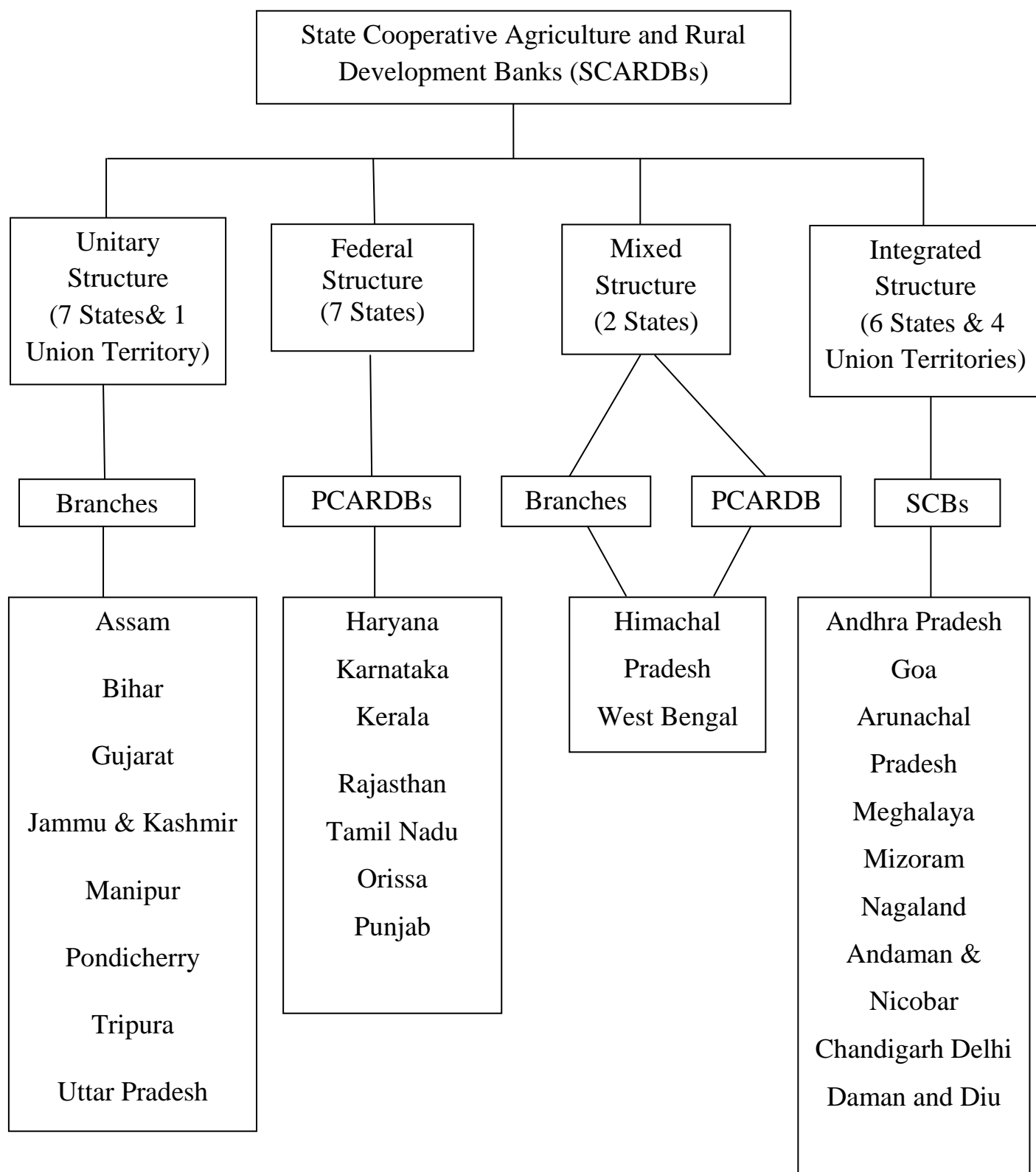
Indian economy has been primarily an agricultural economy. The agricultural credit acquired great significance in agricultural and rural development of India. The requirement of agricultural credit is fulfilled by two sources non-institutional and institutional sources. The demand for long term credit is being provided by the State Co-operative Agriculture and Rural Development Banks. Initially it was Land Mortgage Banks. The name of the land mortgage banks was changed as land development banks and the Land Development Banks has been renamed as Co-operative Agriculture and Rural Development Banks which includes State Co-operative Agriculture and Rural Development Banks and Primary Co-operative Agriculture and Rural Development Banks. The Primary Co-operative Agriculture and Rural Development Banks are working at district level with their branches at taluka level. Whereas the State Co-operative Agriculture and Rural Development Banks are working at the state level operating through its branches and sub-branches at district level. The number of SCARDBs has increased from 5 in 1950-51 to 20 in 2017-18. Out of 20 SCARDBs there are only 13 are fully functional SCARDBs, and 5 banks of Gujarat, Uttar Pradesh, Jammu & Kashmir, Tripura, and Pondicherry are working on a unitary structure, 6 banks of Haryana, Karnataka, Kerala, Punjab, Rajasthan, and Tamil Nadu are working on federal structure while Himachal Pradesh and West Bengal are working on mixed structure. After new economic reforms, the role of the bank has changed as part of financial inclusion. The study focused on analysing the performance of State Co-operative Agriculture and Rural Development Banks (SCARDBs) for agricultural development in India. The performance is estimated in terms of the loan disbursement, loan outstanding, non-performing assets, borrowing of funds, income, expenditure, net profit/loss, share capital, deposit raised, net worth and financial ratios. This study is based on the following objectives. 1. To analyse the functioning and structure of banks and suggest effective strategies for functioning of the banks at a national level for agricultural development. 2. To analyse the performance of State Co-operative Agriculture and Rural Development Banks (SCARDBs) for agricultural development in India in terms of loan disbursement, loan outstanding, non-performing assets, borrowing of funds, income, expenditure, net profit/loss, share capital, deposit raised and net worth. In the light of above objectives, the following set of the hypotheses has been formulated for verification and confirmation: The performance of Banks is inconsistent in the development of agriculture even after new economic reforms.

The main purpose of the study is to analyse the performance of fully functional State Co-operative Agriculture and Rural Development Banks (SCARDBs) in India. This study will be conducted at macro level and state wise analysis will be done. The proposed study will cover the period of last 12 years from 2007-08 to 2018-19 and analyse the changes in the functioning & performance of the bank. The secondary data will be collected from the annual report of the bank at a national level and at state level in particular. It is based on Time series analysis and profitability, efficiency, liquidity ratios will used to analyse the performance of the banks through current year data. Some basic statistical techniques may be used for processing of the current year data. The entire research work is organised into five chapters. Chapter 1- Introduction: It provides a brief overview on State Cooperative Agriculture and Rural Development Banks. Chapter 2 - Theoretical framework of the study. Chapter 3- Functioning and Structure of SCARDBs. Chapter 4 - Performance of State Co-operative Agriculture and Rural Development Banks (SCARDBs) of India. Chapter 5- Summary, Conclusion & Recommendations.

### **Major Findings**

SCARDBs are the apex level agriculture and rural development bank in India especially for the long-term financing in every state. Its principal function is to provide farm credit to the farmers for the long term at a very low rate of interest for the redemption of prior debts or acquisition of new lands, purchase of tractor, pumping sets and agricultural machinery and technology. The banks extended their loan policies to small and marginal farmers under the Small Farmers Development Agency (S.F.D.A.), Marginal Farmers and Agricultural Labourers Development Agency (M.F.A.L.D.A.) and many significant changes have been noticing in the structure of the SCARDBs. The organizational structure of SCARDBs is not uniform all over the country. They are mainly classified into three categories Unitary, Federal and Mixed Structure. Under the unitary structure, the SCARDBs deal with the farmers directly through its branches. In a federal structure, SCARDBs operates through Primary Cooperative Agriculture and Rural Development Banks (PCARDBs). The PCARDBs operates at district, tehsil, taluka and block-level from where they directly contact with the farmers. In mixed-type structure, SCARDBs serviced through both unitary and federal system and incorporated PCARDBs and branches of SCARDBs. The total number of SCARDBs is 16, out of which 13 SCARDBs are functional. 7 States and 1 Union Territory operate under unitary structure, 7 States operate under federal structure and 2 States work on mixed structure.

## Structure of SCARDBs in India



National Cooperative Agriculture and Rural Development Banks' Federation Ltd is the apex level long term cooperative credit institution for Agriculture and Rural Development Banks at national level. It includes State Cooperative Agriculture and Rural Development Banks and Primary Cooperatives Agriculture and Rural Development Banks. The study has evaluated the financial performance of all the 13 fully functional SCARDBs. Time series analysis has done to analyse the performance of the SCARDBs in terms of Income and Interest Income Earned, Expenditure and Interest Income Paid, Aggregate income and expenditure of SCARDBs and their surplus value, Borrowing of SCARDBs from NABARD, State-Wise loan disbursement, borrowing, Non-Performing Assets, Net Profit/Loss, Loan Outstanding, Deposit Raised and Net Worth. It is observed that Uttar Pradesh bank has the highest amount of total income, expenditure and net worth whereas the Kerala bank has the highest amount of borrowing, loan disbursement, loan outstanding and deposits raised. The higher amount of these economic variables indicates good performance of the banks. It is clear that the UP state cooperative bank has been showing good performance in India. But the UP bank has the higher amount of total NPAs which is a bad indicator of the performance. The Gujarat SCARDB has the highest percentage of net profit and maintaining the good financial health. The Haryana SCARDB is making huge loss and has the highest percentage of net loss. It is concluded that the Kerala bank is the top performer bank among all the SCARDBs whereas Jammu & Kashmir, Pondicherry and Tripura banks have a small amount of turnover.

Further the financial performance of the banks have analysed through the various ratios. These ratios were considered to be an effective method for analyses the true scenario of the bank's performance by estimating Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), Credit Deposit Ratio (CDR), Financial Leverage (FL)/Equity Multiplier Ratio (EMR), Efficiency Ratio (ER)/Activity Ratio, Deposit to Total Assets Ratio and NPA to Advance Ratio. All these ratios are used to assess the banks' operational efficiency, liquidity, stability and profitability. We have observed that the Kerala, Punjab, Rajasthan and Tamil Nadu SCARDBs have shown the ideal percentage of return on assets (ROA) and Jammu & Kashmir, Pondicherry and Tripura SCARDBs are showing negative ROA which is indicating the worst performance of these banks. The Himachal Pradesh bank has the highest average ROE and Haryana bank has registered the lowest average return on equity (ROE). In case of net interest margin the Gujarat bank has the highest average ratio and Haryana, Karnataka, Tripura and West Bengal have reported lowest average ratio. But the Haryana, Karnataka, and West Bengal banks have the highest average equity multiplier

ratio whereas Jammu & Kashmir and Tripura banks have reported negative EM ratio. In case of Credit Deposit Ratio (CDR) the Kerala, Punjab, Rajasthan, Uttar Pradesh and West Bengal are showing good results. The rest of the SCARDBs have shown very low value of CDR. Here in deposit to assets ratio the maximum percent of total assets are shown by the Jammu & Kashmir and the rest of the banks have shown zero percent or very low percentage of deposit to assets ratio. In Non-Performing Assets to Advance Ratio the Gujarat bank has maximum percentage and Punjab bank has lowest percentage. In case of efficiency ratios, the maximum banks are showing negative ratio values. The Tamil Nadu bank has the positive lowest average efficiency. It means that the majority of the banks are running with inefficiency and in effective. Hence there is an immediate need to make these banks more effective with more reforms and restructuring of the cooperative banks in India.

The government has taken numerous steps in policies and programmes for the upliftment of farmers and development of agricultural and rural areas. But we have not observed any drastic change in the conditions of farmers. Nearly 80 percent of farmers belongs to small and marginal group and they are financially weak and unable to finance their agricultural activities. The Financial inclusion boosts the agricultural. The problem of financial inclusion can be resolved with the expansion of institutional sources especially in the field of agriculture and rural development but there are some drawbacks in the functioning of the banks. The lengthy procedure for approval of loans by institutions, demand for collateral security and grant crop loans for the short term are the main reasons for farmers seeking loans from non-institutional sources. The insurance companies are not even doing the work honestly and only 6.9 percent reported they had any crop insurance. It is not surprising that only 1.7 percent of agri-households having milch animals reported that they had insurance for their livestock. Over the years, government has attempted various measures to narrow the gap in financial inclusion for its farmers, but only framing policies is not enough but there must be proper implementation at ground level. Even though credit to agriculture has increased manifold over the past one decade, but major reforms are still needed to improve funds availability to the needy people. Merely raise the credit availability to agriculture is not enough. It is equally important to ensure that this credit goes to the needy person. Hence the SCARDBs banks are the most suitable organisation for providing long term loan in rural areas provided the following suggestion are adopted by the banks.

The contribution of Government towards share capital of the bank has decreased by Rs.10.67 crore during 2017-18. Even the borrowing from government had declined from

2.42% to 0.08% during the same period. It shows least interest of the government in the rural development banks. It is not a good sign for development point of view. The state participation should increase in the banks. The executors must execute the plans formulated by the management committee. The present hierarchy system suffers from proper coordination of the institution leaving major of its programmes unsuccessful. There must be strong coordination between Management committee and other executives in bank or with the other branches at District and Tehsil levels. Officers working at the District and Tehsil level banks should submit their necessary business report on time for effective functioning of the SCARDBs. Overdues and poor recoveries of loan are the biggest concern bank. A proper recovery mechanism is to be developed with new technology. SCARDBs should be provided adequate financial assistance. There must be proper planning to work with the available amount of fund. The Banks have to run awareness programmes in village among farmers and motivate them to take loans for productive purposes and inform them about the important programmes launched by the government. The personnel working in the bank in various districts or tehsil levels are in state of doldrums and clear about their roles. The whole staff of the banks should be provided proper training for effective management of the banks.

Further we suggest that the drawing and disbursement power of money should be decentralised at the district or tehsil level branches. The contribution of State Government in the share capital of the bank should increase. There should be an equal participation of the State Government towards the share capital of the banks. The SCARDBs should have to provide functioning freedom to their district and tehsil level branches as per the situation prevailing in their area. This action will boost the efficiency of the particular branch. The credit should be more accessible, at lower interest, safe as well as productive. The banks should have to conduct awareness programs for the illiterate and ignorant farmers about the banking facilities available in their areas. The banks should have to frame different programmes and schemes which explain the important of the agricultural credit. This will play a significant role in the development of both the bank and the beneficiaries.