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# STUDY ON SOURCES OF FUND OF PRIMARY CO-OPERATIVE AGRICULTURE AND RURAL DEVELOPMENT BANKS IN COMPOSITE TO THANJAVUR DISTRICT

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## ABSTRACT

Agriculture and rural development banks are one of the oldest institution for rural credit. ARDBs had their beginning in early 1920s as land mortgage banks. The objectives of land mortgage banks was to give long term loans farmers to redeem prior debts. In eighties, the LDBs further diversified their activities to cover non-farm sector financing and then came to known as primary co-operative agricultural rural development bank (PCARDB) in most of the states. Tamilnadu state is the pioneer in establishing of central land mortgage bank. The state occupies the forth place in the country, which continues to maintain in the same rank. In this study, an attempt is made to study the sources of fund of primary co-operative agriculture rural development Banks. It can be classified into two viz. Owned and borrowed funds. Borrowed funds consist of deposits and amount borrowed from SCARDB, NABARD and other financing agencies. In short, the capital structure of PCARDBs consists of share capital, reserves, deposits and borrowings. The composite Thanjavur District is chosen as the area of study which covers 3 Revenue districts viz, Nagapattinam, Thanjavur and Thiruvavur. The study covers the period of eleven years from 2001-2002 to 2011-2012. The PCARDBs in composite Thanjavur district has generated more funds from reserve rather than share capital and sample PCARDBs have largely depending on external borrowings. Therefore it is highly imperative to augment their resources through deposits, share capital and reserve and thereby the cost of capital can be minimised to a considerable extent.

## KEYWORDS

Rural bank, Sources of fund, working capital.

## INTRODUCTION

Agriculture and rural development banks are one of the oldest institution for rural credit. ARDBs had their beginning in early 1920s as land mortgage banks. The objectives of land mortgage banks was to give long term loans farmers to redeem prior debts. In eighties, the LDBs further diversified their activities to cover non-farm sector financing and then came to known as primary co-operative agricultural rural development bank (PCARDB) in most of the states. Tamilnadu state is the pioneer in establishing of central land mortgage bank. The state occupies the forth place in the country, which continues to maintain in the same rank. In this study, an attempt is made to study the sources of fund of primary co-operative agriculture rural development Banks. It can be classified into two viz. Owned and borrowed funds. The share capital collected from the member and amount set aside out of the net surplus every year and accumulated as reserves constitute owned funds. Borrowed funds consist of deposits and amount borrowed from SCARDB, NABARD and other financing agencies. In short, the capital structure of PCARDBs consists of share capital, reserves, deposits and borrowings.

## STATEMENT OF THE PROBLEM

A financial and banking institution, dealing in money and providing service to members /clients mostly by means of loans and advances, has to be endowed with adequate resources either raised or borrowed. banking institution thus depend mostly on deposit resources for lending. Though PCARDBs are permitted to accept fixed deposits for a period of one of two years, they have not been successful in tapping savings from the public, mainly because they are not banking institutions and cannot provide normal banking service to the depositors. Thus they face the problem of resource crunch. Therefore Researcher interested to study from what sources the PCARDBs raise funds.

## AREA OF STUDY

The composite Thanjavur District is chosen as the area of study which covers 3 Revenue districts viz, Nagapattinam, Thanjavur and Thiruvavur.

## OBJECTIVES

- To analyse the sources of raising funds.
- To identify the financial strengths and weaknesses of selected sample banks
- To offer suitable suggestion for strengthening the financial position of the sample banks.

## METHODOLOGY

The study is based upon secondary data. The secondary data are collected from audit reports and office records. Co-operative perspective, Indian co-operative review, RBI Bulletin and other published information pertaining to this aspect.

## STATISTICAL TOOL

Mean, standard deviation, co-efficient of variation were used for analysis.

## SAMPLE DESIGN

The proportionate random sampling method is used to select PCARDBs in composite to Thanjavur district. A sample of 33% of the banks has been chosen in each district. By selecting 3banks out of Thanjavur district, 2 banks out of Thiruvavur district and 1 bank out of Nagai district, thus making the total number of banks six.

## PERIOD OF STUDY

The study covers the period of eleven years from 2001-2002 to 2011-2012.

**Sources of funds of PCARDBs:** PCARDBs raise funds from the following sources:

### 1. SHARE CAPITAL

PCARDBs collect **share capital** from members. The membership of PCARDB is of two kinds viz A class and B class members. Rs.10 is the value of each A class share and Rs.5 is the value for each B class share for associate member. A person who owns lands within the area of operation of the bank and who has

completed 18 year of age can become "A" class members by purchasing "A" class shares of the bank. "B" class members are associate members who give guaranteed to the person borrowing loans from the bank.

## 2. RESERVE

Reserve form an important component of owned capital. If the share capital is a source and difficult to obtain, the bank has to give special attention to building up reserve. Reserves serve as long-term capital for investment and expansion. This will increase the borrowing power of the bank and act as better for protection of the member liabilities. Here the term "Reserves" include statutory reserve fund, dividend, equalisation fund, common goods fund, building fund, depreciation reserves, provision for NPA etc.,

The owned fund position of sample PCARDBs during the study period has been analysed and results are presented in Table 1.

**TABLE 1: OWEND FUND (Rs in lakhs)**

YEAR	Mayiladuthurai			Thiruvavur			Kodavasal			Kumbakonam			Thiruvaidaimaruthur			Papanasam		
	S.C	RESERVE	O.F	S.C	RESERVE	O.F	S.C	RESERVE	O.F	S.C	RESERVE	O.F	S.C	RESERVE	O.F	S.C	RESERVE	O.F
2001-02	65.25	410.15	475.4	34.29	115.46	149.75	33.58	102.54	136.12	43.29	147.12	190.41	34.84	106.23	141.07	34.83	58.43	93.26
2002-03	75.25	480.38	555.6	36.57	154.23	190.8	36.94	126.43	163.37	47.23	153.26	200.49	37.99	106.35	144.34	30.27	227.89	258.18
2003-04	63.75	498.01	561.7	33.37	178.12	211.49	38.83	120.99	159.82	44.35	193.78	238.13	36.40	134.75	71.11	33.30	229.90	263.20
2004-05	57.56	533.75	591.3	31.00	148.19	179.19	32.30	131.57	163.87	41.48	210.80	252.28	34.17	167.46	202.63	30.67	236.21	266.88
2005-06	50.62	636.78	687.4	28.58	168.41	196.99	28.93	163.88	192.81	39.74	233.15	272.89	32.24	187.66	219.90	28.32	220.65	248.97
2006-07	47.97	525.96	573.9	28.31	187.15	225.46	28.19	217.71	245.90	38.93	750.09	789.02	31.65	203.46	235.11	27.76	207.93	235.69
2007-08	44.98	395.04	440.0	27.36	214.01	241.37	27.64	246.15	273.79	37.95	757.42	795.37	29.23	202.9	231.88	26.23	227.29	253.53
2008-09	44.96	457.43	502.3	27.36	216.93	244.29	27.10	256.70	283.7	37.92	763.04	800.96	28.79	217.25	246.04	26.30	277.29	303.59
2009-10	44.58	531.03	575.6	27.25	193.34	220.59	27.10	252.70	279.8	37.90	739.12	77702.	28.20	108.26	136.46	13.25	124.67	137.92
2010-11	44.58	191.57	236.1	26.27	188.25	214.52	25.77	262.10	287.87	37.58	769.94	807.52	28.26	108.25	136.51	14.33	198.32	212.65
2011-12	44.58	144.92	189.5	26.27	180.63	206.9	25.78	272.17	297.25	37.56	658.09	696.06	28.19	120.63	148.82	15.16	199.43	214.59
MEAN	53.09	436.83	489.91	29.69	122.70	207.39	30.19	195.72	225.91	40.35	488.74	529.10	31.81	151.26	183.07	25.98	195.27	221.25
SD	10.74	148.35	151.87	3.56	29.97	27.54	4.54	66.66	62.65	3.29	290.71	283.87	3.58	45.65	44.40	8.02	54.76	54.05
CV	20.22	33.14	30.90	11.99	24.42	13.27	15.03	34.05	27.73	8.15	59.46	53.65	11.25	29.78	24.25	30.80	28.04	24.42

Sources: Audit reports of sample banks.

The PCARDBs in composite Thanjavur district has generated more funds from reserve rather than share capital. The position of share capital registered as sloped downward in respect of all sample banks during the study period. The owned fund maintained by the Thiruvavur PCARDBs is very poor. The co-efficient of variance on for share capital is 11.99 and reserve is 24.42. The causes of poor and inadequate share capital are the number of share holders is limited to the resident of the area of operation and no member shall take more than two hundred shares.

## THE SOURCES OF BORROWED FUND OF PCARDBs AS GIVEN BELOW

The PCARDBs may collect deposits from its members and non-members as per the provisions laid down in this regard in the bye-laws of the respective constitution. Deposits are the cheaper source of working capital compared to borrowing as higher rates of interest are payable on borrowings. The scheme of rural savings mobilisation has not been effective due to certain restrictions in respect of accepting deposits whose business activities completely are of long term nature. PCARDBs are not deposit oriented since they are mainly meant for advancing loans for development activities.

The borrowings from agencies, such as SCARDB, NABARD and other financing agencies constitute an important sources of funds of PCARDBs. PCARDB are eligible to borrow from the NABARD through SCARDB for meeting the funds required for lending.

The borrowed fund position of sample PCARDBs, during the study period has been analysed and results are presented in Table 2.

**TABLE 2: BORROWED FUND (Rs in lakhs)**

YEAR	Mayiladuthurai			Thiruvavur			Kodavasal			Kumbakonam			Thiruvaidaimaruthur			Papanasam		
	Depo sit	borrowings	B.Funds	Depo sit	borrowing	B.Funds	Depo sit	borrowing	B.Funds	Depo sit	borrowing	B.Funds	Depo sit	borrowing	B.Funds	Depo sit	borrowing	B.Funds
2001-02	51.78	1184.51	1236.29	16.31	443.72	460.03	10.14	413.76	423.9	0.29	649.03	649.32	6.99	492.90	499.89	05.70	429.23	434.93
2002-03	60.13	1178.81	1238.94	20.16	474.73	494.89	11.10	489.02	500.12	0.29	696.92	697.21	5.82	535.67	541.49	07.93	563.96	571.89
2003-04	69.16	1042.89	1112.05	17.04	451.08	468.12	13.13	471.38	484.51	0.29	667.86	668.15	6.58	522.59	529.17	09.30	482.99	492.29
2004-05	73.81	928.80	1002.61	18.99	404.50	423.49	10.51	401.96	412.47	0.29	627.23	627.52	7.17	481.92	489.09	11.38	448.17	459.55
2005-06	72.62	808.70	881.3	11.85	378.71	390.56	11.5	347.54	359.04	0.29	569.18	569.18	9.38	445.91	455.29	12.35	412.12	424.47
2006-07	42.42	760.78	803.	06.60	54.74	61.34	12.50	28.44	40.94	0.29	520.50	520.79	11.68	586.46	598.14	14.24	441.76	456
2007-08	40.28	980.19	1020.47	07.86	395.57	403.43	13.89	100.23	114.12	0.29	412.66	412.95	10.97	485.90	496.87	13.23	582.30	595.53
2008-09	46.03	1965.22	2011.2	09.00	215.82	224.82	15.32	126.04	141.36	0.29	273.68	273.9	12.76	538.91	551.67	15.30	585.79	601.09
2009-10	46.25	812.90	859.15	05.79	315.09	320.88	16.33	126.64	142.97	0.29	116.20	116.49	13.36	318.21	331.57	13.25	347.80	361.05
2010-11	44.48	189.33	233.81	11.11	315.09	326.2	18.67	273.46	292.13	0.29	116.7.	112.4	14.46	219.85	234.31	14.33	847.80	862.13
2011-12	44.48	216.38	260.86	13.26	210.05	223.31	20.05	291.24	311.29	0.29	161.67	161.96	15.54	315.13	330.67	15.16	124.64	139.8
MEAN	53.76	915.31	969.06	12.54	332.64	345.18	13.92	269.06	292.98	0.29	469.09	437.4	12.01	449.10	459.83	12.01	478.72	490.83
SD	12.79	482.30	484.1	5.02	128.18	131.58	3.24	161.43	160.22	0.02	216.50	249.45	3.43	179.68	112.64	3.13	178.1	178.1
CV	23.79	52.65	49.94	40.03	38.53	38.11	23.27	59.99	54.68	6.89	46.15	56.98	28.55	40.08	24.49	28.06	37.20	36.28

Sources: audit reports of sample banks.

It is obvious from the above analysis that the funds position of sample PCARDBs in regard to borrowing was not satisfactory, because borrowing increase the cost of capital and thereby profit will go down, affecting adversely the wealth of banks. It is obvious that all sample PCARDBs have largely depending on external borrowings. Hence from the results of the above analysis, a conclusion can be arrived that the most of the borrowed funds of the Kumbakonam PCARDB is constituted by the borrowing from the external higher financing agencies because of the poor deposit mobilisation.



TABLE 3: WORKING CAPITAL (Rs in lakhs)

YEAR	Mayiladuthurai			Thiruvavur			Kodavasal			Kumbakonam			Thiruvudaimaruthur			Papanasam		
	O.F	B.F	W.C	O.F	B.F	W.C	O.F	B.F	W.C	O.F	B.F	W.C	O.F	B.F	W.C	O.F	B.F	W.C
2001-02	475.4	1186.29	1661.69	149.71	1060.03	1209.74	136.12	153.9	290.02	190.41	649.32	938.73	141.07	499.89	640.96	93.26	434.93	528.10
2002-03	555.63	1238.94	1794.57	191.1	494.89	685.99	163.37	500.12	663.49	200.49	697.21	897.70	144.34	541.49	685.83	258.18	571.89	830.07
2003-04	561.76	1112.5	1674.26	211.49	468.12	679.61	159.82	484.51	644.33	238.13	668.15	906.28	171.11	529.17	700.28	263.29	492.29	755.49
2004-05	591.31	1002.61	1593.92	179.19	422.49	602.68	163.87	412.47	576.33	252.28	627.52	879.80	202.63	489.09	691.72	266.88	459.55	726.43
2005-06	687.4	881.32	1568.72	196.99	390.56	587.55	192.81	358.69	551.50	272.89	569.47	842.36	219.9	455.29	675.19	248.97	424.47	673.44
2006-07	573.93	803.2	1377.13	225.46	48.147	288.93	245.9	40.94	286.84	789.02	520.79	1309.81	235.11	398.14	633.25	235.69	456.0	691.69
2007-08	440.02	1020.47	1460.49	241.37	403.43	288.8	273.79	114.12	387.91	795.02	412.95	1207.97	231.88	496.87	728.75	253.53	595.53	849.06
2008-09	502.39	2011.85	2514.24	244.24	2758.18	3002.42	279.86	141.36	421.16	800.96	273.97	1074.93	246.04	551.70	797.74	253.32	600.92	854.22
2009-10	575.61	859.15	1434.76	220.59	320.88	541.47	279.8	142.97	422.7	777.02	116.49	893.51	136.46	331.57	468.03	151.55	361.05	512.6
2010-11	236.09	233.81	469.9	703.71	326.2	1029.91	287.87	292.13	580.0	807.52	112.49	920.01	136.51	234.31	370.82	209.10	862.13	1072.23
2011-12	189.50	260.86	450.36	711.22	223.31	934.53	297.95	311.29	609.24	696.06	167.96	864.02	147.82	330.67	178.49	210.25	140.38	350.63
MEAN	489.91 (34)	964.63 (66)	454.54 (100)	297.73 (23)	688.74 (77)	895.6 (100)	265.5 (46)	268.40 (54)	493.95 (100)	529.07 (55)	437.87 (45)	975.92 (100)	182.98 (26)	441.65 (74)	598.36 (100)	221.74 (31)	490.83 (69)	713.45 (100)
SD	151.88	481.76	578.49	204.43	748.46	754.34	62.30	158.79	137.20	290.02	231.25	153.94	44.48	503.89	183.70	54.54	178.01	197.42
CV	31.00	46.94	1454.54	68.66	119.9	84.22	23.46	59.16	24.77	54.16	52.81	15.77	24.30	114.09	30.70	9.11	63.08	0.68

Sources: audit reports of sample banks.

SD =Standard deviation

CV=co-variance, Figures in brackets indicate indices.

The Table 3 amply illustrates that the working capital of sample PCARDBs comprises of owned fund and borrowed fund. Among two funds the level of borrowed fund has been high (CV = Mayiladuthurai -46.94, Thiruvavur -119, Kodavasal -59.16, Kumbakonam -52.81, Thiruvudaimaruthur-114.09, Papanasam -63.08) compared to that owned fund. Invariably the working capital of the entire sample PCARDBs was entitled to more than 60 percent by borrowed funds.

## FINDINGS

1. The position of the share capital slope downward during the study period and thin share capital was observed in PCARDBs in composite Thanjavur district.
2. It is observed that the mobilisation deposits in Kumbakonam PCARDBs in poor and meagre. Large dependence on borrowing from higher financing agency for observed in PCARDBs.
3. Among the two funds the level of borrowed fund has been high compared to that owned fund.

## SUGGESTION

To raise the share capital, the following suggestions are:

- All the state government and the central government have to increase the maximum shareholding of an individual member.
- All the state government and the central government have to remove the restriction on payment of dividends by the PCARDBs.

## CONCLUSION

PCARDBs in composite Thanjavur district have much relied on borrowing from higher financial institution for their business operations. The generations of fund from borrowing will increase the cost of capital and the profitability of the banks impaired. Therefore it is highly imperative to augment their resources through deposits, share capital and reserve and thereby the cost of capital can be minimised to a considerable extent. "Rural credit is the real credit". So the state Governments have a major role to play in raising the sources funds of the banks in rural sector for which they should create a favourable climate and show political will. If institutions become weak, the state will suffer as also its rural economy.

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