



## **ANALYSIS ON FINANCIAL STATEMENT OF PRIMARY AGRICULTURAL CO-OPERATIVE CREDIT SOCIETY IN SIVAGANGAI DISTRICT**

**M Sri Buvaaneswari\* Dr.S.Ganesan\*\***

*\*Full Time Research Scholar, PG & Research Department of Commerce,  
Raja Doraisingam Government Arts College, Sivagangai Alagappa University, Karaikudi, Sivagangai,  
Tamil Nadu.*

*\*\*Associate Professor and Head, PG & Research Department of Commerce,  
Raja Doraisingam Government Arts College, Sivagangai, Alagappa University, Karaikudi, Sivagangai,  
Tamil Nadu.*

### **Abstract**

*The purpose of this paper is to assess the level of banking penetration in a sample village and to find the relationship between bank accounts and related factors, such as, occupation, income and asset-holding status. The findings indicate that 75.2 per cent of the respondents have bank accounts and 26.7 per cent of the respondents avail credit facilities. Two – thirds of the respondents have inclination to avail credit facilities for dairy and for other business activities. Using chi square analysis, significant relationships were established between bank account and relevant factors, such as, occupation, income and asset-holding pattern. While using logistic regression, we find that having a bank account has a significant correlation with income. The findings provide practical implications for bankers in terms of providing banking services in rural areas. The existing gap in credit facilities offers manifold opportunities to bankers for providing various credit facilities. Since the findings indicate that majority of the respondents show an inclination for availing credit for dairy activities, suggestions are offered for tapping potential customers.*

*The article offers not only valuable suggestions to bankers and academicians but also to the government and policy bodies for designing and monitoring financial inclusion targets.*

**Keywords : Banking Penetration, Financial Inclusion, Strategic Alliance, Credit Facilities.**

### **Introduction**

The necessity of financial inclusion is urgent, particularly in the rural hinterland, where the vast majority of the population of developing countries resides, but these areas continue to remain excluded from formal banking facilities. Despite the various attempts made by the government, the policy makers and also credit institutions, most of the financial inclusion studies reveal that vast majority of the population remain outside the purview of the formal banking system. The objective of the present study, based on respondent's perception, is to find out the extent of financial inclusion. As financial inclusion is concerned with provision of credit facilities, the study also covers the penetration of credit facilities. In addition to assessing the current level of credit facilities, the study probes the potential for facilitating the introduction (if absent) and deepening (if already present) of credit facilities in the future. The study captures the customers' profile indicators, such as occupation, income levels, types of dwelling, asset-holding status and education. The study also seeks to find out whether any correlation exists between the respondents' profile factors and their holding any type of bank account.

### **The Following areas are explored in the study**

1. The status of financial inclusion in the sample village.
2. The gap between the various banking facilities, such as deposit and credit facilities.

3. The scope for intake of credit facilities in the future. For this purpose, the study captures various customer profile parameters and verifies the relationship between these factors and the bank account holding pattern.

### Literature Review

Basu and Shrivastava (2005) indicate that India's rural poor have very little access to credit from formal sources. The findings are based on an exhaustive survey of 6,000 rural households, conducted by the National Council of Applied Economic Research. The need for access to banking services has been emphasized since long. The first Survey on Rural Indebtedness, conducted by the Reserve Bank of India in the year 1951, documented that moneylenders and other informal sources met 90 per cent of the rural credit needs. The share of banks was just 1 per cent of the total rural household debt during the period. A study by Bose (1998) indicates that majority of the small cultivators in the less-developed countries are not regarded as creditworthy by the formal financial institutions and are, therefore, forced to borrow from moneylenders operating in the informal credit market, resulting in a vicious cycle of debt trap. Hence, since the 1950s efforts were made to provide basic banking service to people in the rural areas. However, these efforts have not led to desired banking service to people in the rural areas. However, these efforts have not led to desired results (Murty 2008; Sura 2006). The nationalization of several Indian commercial banks in 1969 and again a few in 1980 was effected with the major objective of providing financial assistance to people, especially in rural areas. Bank nationalization resulted in the opening of branches even in remote rural areas. Thus, between 1973 and 1985, the growth in the number of branches was 15 per cent. The liberalization of the Indian economy in the 1990s witnessed fresh developments, which included increased competition in the banking industry, deregulation of the financial sector and new approaches to microfinance, leading to the emergence of self-help groups.

The World Bank Rural Finance Access Survey (RFAS) of 2003 indicated that 41 per cent of the rural households have bank accounts and 21 per cent have some access to formal credit avenues. Among formal credit sources available to rural households, the commercial banks occupy the dominant position. The RFAS further indicated that 66 per cent of the large farmers had fixed deposit accounts and 44 per cent of them availed of bank credit facility. However, 70 per cent of the marginal/landless farmers did not have bank accounts and 87 per cent did not have any access to credit from formal source. The lack of access to financial sources is acute for the poor households. Wide regional disparities do exist with regard to the accessibility to banking services. The uneven spread of branches appears to be closely related with the geographical dispersion of population. Infact, the Eastern and Central regions have more population per branch and therefore, despite their low share in income, occupy the second and third positions respectively in terms of bank branch presence. The lesser developed and low income Eastern, Central and North – eastern regions of India account for 54 per cent of the population, have 40.5 per cent of the total branches, but account only for 20 per cent of the credit availed and 29 per cent of the deposits. Around 44 per cent of the respondent households, according to the survey, have borrowed money from moneylenders. The major reasons for availing informal loans are to meet family emergencies (29 per cent) and social emergencies (19 per cent). The interest charged by moneylenders for loans averaged at 48 per cent per annum. While the tenure of the informal loan appears to be short, the major attractions are the flexibility of its repayment and the ease of its availability. Various factors were identified for the limited banking access to rural customers. From the perspective of rural banking, advances to the rural customers posed high credit risk and also involved high cost to a bank. The transaction cost is high due to several factors, such as small loan sizes, high frequency of transactions, large geographical spread and widespread illiteracy.

## Methodology

The study concentrated on perceptions of banking service on the basis of a randomly selected village in Gujarat State. The respondents were carefully chosen by contacting the villagers living in different localities. Accordingly, the main focus of the research was to examine the perceptions of selected customers about the various banking services in the village. It was decided to use a questionnaire for collection of detailed information from the sample customers. Hence, a questionnaire was carefully drawn up, covering various aspects of banking services in the rural areas. Questions also included aspects to capture the profile of the samples. Initially, a pilot study was carried out on a small sample of individuals in order to test the validity of questions and the capacity of the respondents to understand and respond to them.

Questions were also shared with field experts and necessary modifications were incorporated in the final questionnaire.

- The study was conducted in Ras Village of Gujarat State, India.
- The profile of Ras Village :
  - Total Population - 6,555 (2001 Census)
  - Scheduled Castes - 442
  - Total Households - 2,300 Nos.
  - Total Land under Village - 1,281 hectares
  - Irrigated Land - 1,114 hectares

The Ras Village contributes much to the progress of the cooperative movement. The village has a Government Community Health Centre and a branch of a public sector bank. As on 31 March 2007, the total deposit base was ₹250 million. The branch has, in fact, doubled the agriculture credit during the last three years (2004-07). Non Resident Indians (NRIs) constitute 50 per cent of the bank's deposit case.

The profile of the Village Cooperative Milk Society is given below.

Recipient of ISO 991 certification, indicating the Quality Management system.

No. of Members	- 58
No. of female members	- 850
Artificial insemination / annum	- 4000 (Nos.)
Engaged in selling cattle feed	

The sample village can be categorized as a progressive village as per Indian standards, where its dairy activity has significantly helped in improving the standard of living of the members and the general well being of the villagers. The questionnaire sought information on the following aspects: 'Having bank account', 'Credit facilities availed', 'Future propensity for credit facilities', Level of satisfaction on various services and 'Customer Profile'. These aspects were recorded on the basis of parameters such as: gender, monthly household income, education, asset-holding status, occupation and type of dwellings.

As regards assetholding status, the classification proposed by the National Council of Applied Economic Research (NCAER) was selected for the study. Based on asset-holding, the NCAER's major classifications are as follows: Affluent, Well-Off, Climbers, Aspirants and Destitute.

While considering the various parameters for customer's bank satisfaction, studies of bank selection factors provided a major help. In all, 22 factors were included during the pilot study. Respondents showed difficulty in comprehending these factors, hence, these were reduced to seven major factors for the study. The 'Satisfaction' index was rated by the respondents for the following aspect: adequacy, timeliness, cost, security, convenience, friendly staff and banking transaction.

The respondents were contracted at three major localities / habitat centres of the village. On the basis of demographic information. Stratified sampling was used and 110 respondents were selected to be contracted and 104 responded. Based on the information gathered during the survey, data analysis was undertaken using SPSS statistics 17.0.

### Sample Profile

The demographic profile reveals interesting aspects. The average age of the respondents was 42 years – with a minimum of 21 and a maximum of 70 years of age. Majority (91.4 per cent) of the respondents were male.

The income classification of respondents is given in Table 1.

**Table – 1, Income**

Income Breakup	Per cent (%)
Less than 7500	44.8
7500-15000	28.6
15000-30000	15.2
30000-50000	4.8
50000	6.7
Total	100.3

**Source :** Field Study.

The majority of the respondents fall in the monthly income category of less than ₹ 750 (44.8 per cent); this was followed by those who earn between ₹7500-15000 (28.06 per cent) and ₹ 15000 – 30000 (15.2 per cent) monthly incomes. It is matching with the rural profile – maximum individuals are generally to be found in the lower-income bracket. Since respondents gave details of their household incomes, there is a possibility of understating the amount. This is also the reason for including the other demographic dimensions in the study.

Majority of the respondents are general graduates (38.1 per cent). indicating the higher number of educated people in the village (see Table 2). This is followed by 31.4 per cent of the respondents who have studied up to fifth and ninth standards.

**Table – 2, Education**

Education Breakup	Per cent (%)
Illiterate	14.3
Upto 4 <sup>th</sup> standard	13.3
5 <sup>th</sup> – 9 <sup>th</sup> standard	31.4
Graduate (General)	38.1
Graduate (Professional)	2.9
Total	100.0

**Source :** Field Study.

In rural areas, agriculture is the major source of income. The occupation closely related to agriculture is cultivation. Other occupations listed in the above table are associated with non-agriculture activities. As shown in Table 3, wage earners (46.7 per cent) constitute the major segment of respondents, followed by cultivators (17.1 per cent).

**Table – 3, Occupation**

Occupation Breakup	Per cent (%)
Cultivator	17.1
Wage Earner	46.7
Salary earner	6.7
Petty Shopkeeper	12.4
Businessman / Professional	7.6
Others	9.5
<b>Total</b>	<b>100.0</b>

**Source :** Field Study.

The classification suggested by the NCAER is adopted by this study to group respondents according to their asset hold. As observed from Table 4, the majority of the respondents fall into ‘aspirants’ category (38 per cent) followed by the well-off (22.9 per cent).

**Table – 4, Asset Holding**

Asset – Holding Breakup	Per cent (%)
Affluent	2.9
Well-off	22.9
Climbers	16.2
Aspirants	38.1
Destitute	20.0
Total	100.0

**Source :** Field Study.

**Table – 5, Bank Account**

Bank Account	Per cent (%)
Yes	75.2
No	24.8
Total	100.0

**Source :** Field Study.

**Table – 6, Avail Credit**

Borrowed	Per cent (%)
Yes	26.7
No	73.3
Total	100.0

**Source :** Field Study.

The above tables indicate that 75.2 per cent of the respondents have bank accounts and 26.7 per cent have availed credit. The above data can be compared with the RFAS study findings which reveal that 41 per cent of the rural house-holds have bank accounts and about 21 per cent have availed credit

facilities from formal (bank) sources. The comparative analysis indicates that the level of penetration of banking facilities in the rural area is much more than the RFAS findings. The comparison confirms that the sample village can be considered as a ‘progressive village’. Furthermore, the findings indicate that there is a wide gap between customers holding bank accounts and those availing credit facilities from them. Financial inclusion also means making available the financial services to the disadvantaged group at an affordable price. There is ample scope for providing credit services in rural areas. The dearth of financial inclusion can be acute in remote villages, because of which the majority of the population largely depends on informal sources for their credit requirements.

Hence, the following hypotheses may be tested :

**Hypothesis L a**

There is no significant difference when we compare the data of respondents holding bank accounts with that of RFAS’s finding. We conducted test to find out whether any significant difference exists with the RFAS benchmark. The results of t test are as follows (see Table 7).

**Table – 7, One-Sample Test for Bank Account**

Test Value = 1.59						
					95% Confidence Interval of the Difference	
	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Bank Account	-8.089	104	.0000	-.342	-.43	-.26

Source : Data Analysis.

The above results indicate that there is a significant difference when we compare the results of the respondents holding bank accounts with that of RFAS findings.

Similarly, we may test the following hypothesis.

**Hypothesis l b**

There is no significant difference when we compare the data of respondents availing credit facilities with that of REAS findings.

The results of t test are as follows (see Table 8) :

**Table – 8, One-Sample Test for Availing Credit Facilities**

Test Value = 1.79						
					95% Confidence Interval of the Difference	
	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Borrowed	-1.307	104	.194	-.057	-.14	.03

Source : Data Analysis.

The above results confirm that there is no significant difference when we compare the findings with that of RFAS’s study. It indicates that there is no significant improvement in the credit facilities despite the fact that respondents hold bank account.

We may now assess whether significant differences exist between respondents holding bank account and those availing credit facilities.

Hence, the following hypothesis may be tested.

**Hypothesis I c**

Based on our study, there is no significant difference between respondents holding bank accounts and those availing credit facilities.

The result of t test is as follows (see Table 9) :

**Table – 9, One-Sample Test for Bank Account and Availing Credit Facilities**

Test Value = 1.59						
					95% Confidence Interval of the Difference	
	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Borrowed	3.305	104	.001	.143	.06	.23

Source : Data Analysis.

Alternate hypothesis is accepted, indicating that there is a significant difference in respondents holding bank accounts and those availing credit facilities. It is confirmed that there is a wide gap between basic deposit services and credit facilities. Does it indicate that respondents do not need credit facilities?

We may also test the following hypotheses :

Null Hypothesis :

**H2a** There is no significant relationship between gender and bank account.

**H2b** There is no significant relationship between household income and bank account.

**H2c** There is no significant relationship between education and bank account.

**H2d** There is no significant relationship between occupation and bank account.

**H2e** There is no significant relationship between asset-holding and bank account.

**H2f** There is no significant relationship between house holding status and bank account.

Results of chi-square test are shown in the tables (A1-A12) given in the Annexure.

Results obtained from Tables A1 to A12 indicate that alternate hypothesis H2b, H2d, and H2e are accepted at a significance level of 0.05, which proves that there is a relationship between (a) household income and bank account; (b) occupation and bank account and (c) asset – holding status and bank account. Furthermore, we used these measures to find the strength of relationships. From the afoer mentioned, the relationship strength was observed to be moderate [for example, household income (0.346); occupation (0.351); and asset-holding status (0.302).

We also analyze the relation between bank account and other variables using logistic regression. The results are given in Tables 10 and 12.

As observed from Table 11, the omnibus test of model coefficient has a low significance value. We can, therefore, conclude that the above model is valid. The analysis on logistic regression indicates that, with the p value 0.005, bank account has a significant relationship with income.

**Table – 10, Omnibus Tests of Model Coefficients**

	Chi-square	df	sig.
Step 1	12.522	1	.000
Block	12.522	1	.000
Model	12.522	1	.000

**Source :** Data Analysis.

**Table – 11, Variables in the Equation**

		B	S.E.	Wald	df	Sig.	Exp (B)
Step 1*	Income	-.964	.340	8.044	1	.005	.381
	Constant	.480	.550	.759	1	.384	1.615

\* Variable (s) entered on Step 1 : income.

**Table – 12, Satisfaction Scores**

Satisfaction Index	N	Minimum	Maximum	Mean	Std. Deviation
Adequacy	79	1	5	4.01	0.792
Timelines	79	1	5	4.01	0.870
Cost	79	1	5	4.03	0.800
Security	79	1	5	4.14	0.796
Convenience	79	1	5	4.08	0.764
Staff	79	1	5	3.94	0.952
Transaction	79	1	5	4.05	0.799

**Source :** Data Analysis.

Customers' perceptions of satisfaction in having bank accounts are shown in Table 12.

Table 12 clearly indicates that customers have given higher satisfaction ratings, which were rated on various parameters such as adequacy, timeliness, cost, security, convenience, staff and transaction. Satisfaction scores were obtained on a Likert scale of 1 to 5, where 1 indicated the least and 5 indicated the highest satisfaction levels.

## Conclusion

Attempts have been made to provide banking services for rural customers since a very long time. The government, regulators and banks have taken various initiatives in this regard. However, these measures have not been able to really bring about the desired changes in the banking habits of the rural people. Our survey indicates that 75 per cent of the respondents have bank accounts. Opening/having a bank account is considered as the beginning of the relationship with a bank. Bank offer a bouquet of services to the rural customers. However, the study reveals that only 26 per cent of respondents have borrowed money from the formal banking system. There is a significant disparity between the respondents holding bank accounts and those availing loans from the bank.

The results of the current study clearly indicate that there is ample scope for further penetration by banks into rural areas and various avenues to market credit products to the customers. The reasons for the low credit intake by the rural people can stem from two major factors: (a) the supply side and (b) the demand side. The supply side can be due to the inertia or lack of initiative on the part of the bank staff in making an effort to extend facilities and/or due to the reduced interest on deposits offered by the bank. The demand side can be due to the lack of interest on deposits offered by the bank. The demand side can be due to the lack of interest on deposits offered by the bank.



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