AN ENQUIRY INTO THE NON-PERFORMING ADVANCES OF PRIMARY CO-OPERATIVE AGRICULTURAL AND RURAL DEVELOPMENT BANKS IN SOUTHERN KERALA

By

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Declaration

DECLARATION

I hereby declare that the thesis entitled **"AN ENQUIRY INTO THE NON-PERFORMING ADVANCES OF PRIMARY COOPERATIVE AGRICULTURAL AND RURAL DEVELOPMENT BANKS IN SOUTHERN KERALA"** is a bonafide record of research work done by me during the course of research and that the thesis has not previously formed the basis for the award to me of any degree, diploma, fellowship, associateship or other similar title, of any other University or society.

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Certified that the thesis entitled **"AN ENQUIRY INTO THE NON-PERFORMING ADVANCES OF PRIMARY COOPERATIVE AGRICULTURAL AND RURAL DEVELOPMENT BANKS IN SOUTHERN KERALA"** is a record of the research work done independently by **Mr. SALI, P.S.** under my guidance and supervision and that it has not previously formed the basis for the award of any degree, diploma, fellowship or associateship to him.

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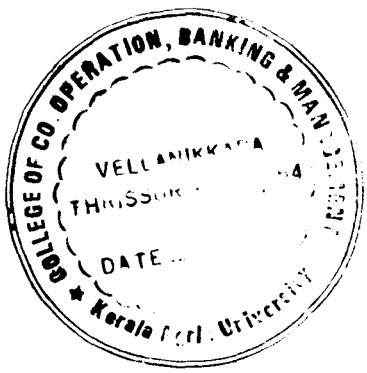

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CHAPTER I

DESIGN OF THE STUDY

1.0 Introduction

The agrarian sector occupies a vital position in Indian economy and the development of institutional credit is a sine-quo-non for agricultural progress. The Co-operative Land Development Banks currently known as the Agricultural and Rural Development Banks prove to be of great importance and is continued to be the vital institutional agency catering to the long-term financial requirements of the overwhelming farming community. These banks have a two-tier structure in Kerala, comprising of Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) at grassroot level and the apex bank at the state level. The commercialisation of agriculture has resulted in an increased demand for long-term finance and the PCARDBs have made substantial progress in catering to the financial needs of farmers more so in recent years. In Kerala, their advances to farm sector has increased from Rs.3061.14 lakhs during 1984-85 to Rs.15400.00 lakhs during 1995-96 (KSCARDB, 1995-96).

Notwithstanding the impressive performance of these banks with respect to agricultural advances, the problem of non-repayment of loans has become a cause of great concern

to the policy makers. Together with the increasing volume of agricultural credit, the problem of non-performing advances (NPAs) is aggravating at a faster rate. The NPAs reflect the foul play regarding the loan accounts after their disbursement either relating to bank's negligence and natural factors or due to the borrowers bad intention towards meeting their timely repayment obligation.

The credit institutions in rural and agricultural credit sector have reached a crisis stage when viewed from the qualitative aspects of repayment of loans. The occurrence of NPAs in most institutions have reached an alarming proportion which is obviously above the containable limits. Though, certain institutions are exceptions, the problem is of great concern. The long term co-operative credit agencies are worst affected with the problem and the commercial banks which have entered the field of agricultural credit particularly after nationalisation of major banks are no exception. Despite the fact that the commercial banks are choosy and selective in their approach and have flexibility to meet the total credit needs of the borrowers covering both investment credit and production and working capital. However, they are better placed to absorb the impact of NPAs and maintain their profitability and viability as

their agricultural lending is only a meagre per cent. The PCARDBs, on the other hand, are not in a position to coverup their NPAs and they are in need of immediate solutions to the problem of NPAs.

1.1 Agricultural sector in Kerala

The agricultural sector in Kerala is obviously heterogeneous in nature. The recent trend in the state's agricultural output depicts stagnation in the vital sector during the decade, especially in the case of foodgrains and vegetables (Table 1.1.1).

It is also evident from Table 1.1.1, that, the area under production and productivity of principal crops and their index between 1979-80 and 1995-96 shows a rising trend except in the case of rice, drugs and narcotics and fruits and vegetables. It emphasises that the area, production and productivity of food grains and vegetables are declining continuously and the cultivators are turning to cash crops and other non-food crops, expecting more economic benefits.

The major crops cultivated in the state especially in the area under study include rice, coconut, banana and other plantains, tapioca, etc. Rice, the principal food crop of Kerala has been subjected to elaborated pressure for replacement by other more remunerative crops for the

Table 1.1.1 Index of area, production and productivity of principal crops in Kerala between 1979-80 and 1995-96

Crops	Area		Production		Productivity	
	Average of triennium ending 1979-80	1995-96	Average of triennium ending 1979-80	1995-96	Average of triennium ending 1979-80	1995-96
All crops (A+B)	101.48	106.59	100.17	146.68	98.71	121.59
A. Food grains (1+2)	102.55	58.38	98.67	74.25	96.22	126.83
1. Cereals	102.59	58.84	98.85	74.11	96.35	126.09
2. Pulses	101.53	47.93	87.06	83.47	85.75	174.27
B. Non-food grains (3+8)	101.00	128.77	100.52	163.47	99.52	120.37
3. Oil seeds	101.66	144.48	103.48	189.88	101.79	129.18
4. Plantation crops	95.04	180.38	93.84	261.91	98.74	152.69
5. Condements and spices	100.65	136.87	89.40	160.51	88.82	118.38
6. Drugs and narcotics	82.29	32.18	89.57	28.89	108.85	96.61
7. Fruits and vegetables	103.20	78.99	105.94	72.52	102.65	91.80
8. Miscellaneous crops	103.59	150.65	93.02	116.51	94.62	67.39

Source: Government of Kerala (1997), Economic Review, 1995-96; State Planning Board, Trivandrum

last one and half decade. The crop which had a coverage of 8.0 lakh hectares in 1980-81, suffered serious setback and came down to 4.71 lakh hectares during 1995-96 (Table 1.1.2).

With regard to the production of rice, it was 12.71 lakh tonnes in 1980-81 and declined to 9.53 lakh tonnes during the year 1995-96. Eventhough, the productivity of the crop was continuously rising during this period (1587 kg/ha in 1980-81 to 2023 kg/ha in 1995-96), the improvement in productivity was inadequate to compensate the loss in production on account of the steep fall in the area under cultivation. The factors attributed to the rising trend in productivity are the use of high yielding varieties of seeds, modern machineries and fertilizers for cultivation.

Coconut, the chief support of Kerala's rural economy contributes in many ways to the income and employment of rural masses. The coir industry which provides direct employment to a large volume of workers depend on this crop for their raw material needs. As per the estimates, the area under production was accounted as 6.66 lakh ha during 1980-81 which increased to 9.82 lakh hectares in 1995-96. The production was accounted as 3008 million nuts during 1980-81 and came upto 5906 million nuts during 1995-96 (Table 1.1.2).

Table 1.1.2 Area, production and productivity of major crops in Kerala

Crops	Area (in Lakh ha)	Production (In lakh tonnes)	Productivity (in kg/ha)
1. Rice			
1980-81	8.0	12.71	1587
1995-96	4.71	9.53	2023
2. Coconut			
1980-81	6.66	3008 (million nuts)	5020 nuts/ha
1995-96	9.82	5906 (million nuts)	5890 nuts/ha
3. Tapioca			
1980-81	2.45	36.9	17020
1994-95	1.31	25.8	19682
4. Banana			
1984-85	0.51	3.31	6490
1994-95	0.72	5.73	7970

Source: 1. Govt. of Kerala (1994), Statistics for Planning, 1993

2. Govt. of Kerala (1997), Economic Review, 1996

3. CMIE (1997), Review of Indian Agriculture, 1996

The area under cultivation and production of tapioca, the staple food of Kerala shows a negative trend. Its area declined from 2.45 lakh hectares in 1980-81 to 1.31 lakh hectares and production from 36.9 lakh tonnes to 25.8 lakh tonnes. However, productivity has improved to a great extent during this period (Table 1.1.2).

Regarding banana cultivation, the production area under cultivation and productivity showed a rising trend during the reference period (Table 1.1.2).

1.2 Agricultural work force in Kerala

Agriculture is the mainstay of thousands of people in Kerala and the statistics on agricultural work force of Kerala reveals that 39.03 lakhs of workers depends on agricultural and allied sectors for their livelihood, of which, 10.16 lakhs are cultivators, 21.20 lakhs are agricultural labourers and the rest 7.67 lakhs belongs to allied activities (Government of Kerala, 1994).

It can also be absorbed from Table 1.2.1 that, the structural changes in the work force between 1961 and 1991 are characterised by a marginal decline in the proportion of workers in the primary sector, a more rapid decline in the secondary sector and a substantial increase in that of tertiary sector. There has been little change in the

Table 1.2.1 Changing structure of income and work force in Kerala 1961 to 1991

Sector	Sectoral share of SDP (%) (1970-71 prices)				Sectoral share of workforce (%)			
	1961	1971	1981	1991	1961	1971	1981	1991
Primary	54.74	49.44	40.27	32.85	54.26	55.97	51.65	48.02
Secondary	14.57	16.32	20.57	26.48	20.54	17.46	15.88	14.17
Tertiary	30.69	34.24	39.16	40.67	25.20	26.57	32.47	37.81
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: 1. Govt. of Kerala, Statistics for Planning, 1993
2. Govt. of Kerala, Economic Review, 1996

importance of agriculture as the source of livelihood for the bulk of Kerala work force. The percentage of work force depended on agriculture was 54.26 in 1961 which has only marginally declined over a period of three decades to 48.02 in 1991 (Table 1.2.1). Despite that the sectoral contribution of agriculture to the SDP has declined from 54.75 per cent to 32.85 per cent during the same period. It means that there was no notable decline in the work force depending on agriculture even when the sectoral share of agriculture in SDP has considerably declined. This situation is in contrast with the other two sectors. In the secondary sector, inspite of the decline in the dependence of work force there was considerable increase in its contribution to the SDP during the reference period. Again in the service sector the increase in the dependence of work force was almost in tandom with the increase in the sectoral share of SDP (Table 1.2.1). It implies that a weak agricultural sector is still supporting bulk of its work force which naturally lead to poor income and employment levels for millions. Testifying to that the National Sample Survey 1993-94 reveals that there were 56 lakhs of people living below poverty line in the rural areas of Kerala which was about 25.9 per cent of its total population.

Thus, it can be inferred that the agricultural and allied sector in Kerala is experiencing a setback with regard to area, production and income of workers engaged in

the sector. Hence, a revitalisation of this sector is needed by the optimum utilisation of the available resources and by giving adequate attention to the productive forces. In addition to the optimum use of land and labour, the institutional structure for the provision of capital has to be strengthened towards achieving the desired results. In this regard, the role of co-operative banks are inevitable, in order to provide financial assistance for agricultural development. As an important agency satisfying the longterm capital needs of agriculturists . the PCARDB's performance has to be improved further.

1.3 The long term cooperative credit scenario in Kerala

In Kerala, the long term credit requirements of the agricultural and allied sector are largely met by the organised sector comprising of co-operatives and commercial banks. The credit operations of the sector include the funds raised by these banks and the refinance facility from NABARD. The refinance facilities acquired by these banks from NABARD has steadily increased from Rs.58.06 crores in 1987-88 to Rs.126.94 crores in 1995-96, of which the Kerala State Co-Operative Agricultural and Rural Development Bank (KSCARDB) has absorbed the biggest share (62 per cent) of the total (Government of Kerala, 1996).

The long term co-operative credit structure in Kerala is having a two-tier structure. It is a widespread and well-knit system today with 44 primary banks and an apex bank at state level (KSCARDB) with 12 regional offices at various centres. They raise resources in two ways viz., by way of subscriptions from members towards their share capital and through flotation of debentures, ordinary and special, against the security of unencumbered effective mortgages, in addition to refinance facilities from NABARD. These debentures are guaranteed by the state government in respect of payment of interest and repayment of principal and are usually subscribed by state government, LIC, commercial banks etc.

As their main function is to grant loans to agriculturists, which run for several years, strict rules are laid down with regard to the security against which they can advance loans. Generally, these banks restricted their loans to first mortgage of agricultural property, though in a few cases they may advance loans against the security of second mortgage as well.

The various developmental activities covered by PCARDBs lending include minor irrigation, farm mechanisation, land development, soil conservation, cultivation of horticultural crops and plantation crops like coconut, rubber, cashew, coffee, pepper, cardamom etc.

The bank also provides non-farm loans comprising of composite loan, Small Road Transport Operations Scheme (SRTO), and integrated loan scheme with 100 per cent assistance from NABARD. In addition they caters to the housing needs of rural people by providing rural housing loan with full support from National Housing Bank (NHB). During 1995-96 the bank had disbursed a sum of Rs.154.0 crores as against Rs.111.30 crores in 1994-95 as loans and advances (KSCARDB, 1994-95 and 1995-96).

There is little doubt that, unless credit is made available to the farmers, almost at their door steps, at a reasonable cost and suitable terms and conditions, the tempo of agricultural growth cannot be stepped up. As such the availability and utilisation of agricultural credit in time and in adequate quantity tends to become pre-requisite for a sustained agricultural growth. In this regard the functions and working of PCARDBs has to be analysed, since they are an important agency among those catering to the financial needs of farm community through different schemes, aiming at the overall development of agricultural and allied sectors in Kerala.

1.4 The problem of NPAs

The mounting NPAs in PCARDBs have crippled the structure badly, in recent years. It has caused

innumerable financial problems besides limiting the capacity of PCARDBs to lend and operate as viable units. PCARDBs with large volume of NPAs have suffered in terms of both institutional viability and their capacity to increase the volume of credit operations effectively. The NPAs adversely affect the liquidity position of these banks and made them financially weak. If this tendency is not checked, it would adversely affect the capacity of the institutions to provide adequate and timely credit to agriculture and thus hamper the economic development of the area.

It is obvious that NPAs have tended to rise sharply in recent years for a variety of reasons especially in long term credit system. In Kerala also, particularly in the southern region, the problem has affected the long term credit system which in turn affected the efficient recycling funds. It also inhibits the refinance facilities available to PCARDBs from NABARD and weaken them before their creditors. Although, Kerala is a co-operatively developed state, NPAs continue to be an uncured malady as yet. As in 1994, the NPAs of PCARDBs in Kerala stood at Rs.3647.35 lakhs, which is about 6 per cent of all India figure of Rs.54155.00 lakhs (KSCARDB, 1994-95). These banks at present virtually have only a minimum teeth in their machinery for recovery of dues so as to exert

meaningful pressure on the defaulters. In most of the cases, they have to go to co-operative tribunal, which involves considerable delay. Because of this, the bank's position become awkward as they are not able to recover the loan in time and the defaulter has ample opportunities to resort to some foul plays.

Just as providing finance is very important, the amount so advanced should be recovered in time. The credit needs of farmers continue to expand day-by-day and to meet the same, the banks should be able to recycle the funds. The situation in PCARDBs arising out of non-repayment of loans has not received the attention it deserves. A thorough investigation of the various aspects of the problem of NPAs of PCARDBs is of utmost importance both for policy makers and the lending institutions, with a view to take corrective measures, adequately. Hence, a study of the reasons for NPAs at borrowers level is expected to be worth and is taken up with the following objectives.

1.5 Objectives of the study

The objectives of the present study are to examine the causes of Non-Performing Advances of Primary Co-operative Agricultural and Rural Development Banks and to inquire into the present loan recovery system of these banks in southern Kerala.

1.6 Scope of the study

The scope of the study mainly includes an examination of the causes of NPAs of PCARDBs in southern Kerala. The study is conducted for a period of 10 years from 1986-87 to 1995-96. It discloses the extent of NPAs, its causes and effects on the performance of PCARDBs. It further explores the present loan recovery system of these Banks. Altogether the study is expected to find out the problems and constraints faced by the borrowers to repay their obligations to the banks and its effect on the banks. The study is expected to facilitate a better recovery management among PCARDBs in Kerala.

1.7 Practical utility

Academically, the study is expected to explore the reasons, both internal and external to the organisation that lead to non-performing advances at primary level and realises which among them is having more impact. It may also indicate whether the socio-economic conditions of the defaulters are having any relationship with the NPAs. Since the study is analysing the present loan recovery system prevailing in these banks, it will be of practical utility to the policy makers and banks to frame an appropriate system for better recovery of loans in future.

1.8 Limitations

Since the period under reference is estimated to 10 years, a detailed analysis of the problem could not be possible. The first objective was studied through a field level survey in which only 150 sample borrowers were included, hence the conclusions arrived at have to be understood from this limited perspective.

The second objective is analysed mainly by resorting to the data collected from the responses of secretaries and staff members of the banks under consideration. Therefore, the findings of this analysis are not tenable for a broader generalisation. Again, it may not be appropriate to fully rely upon the responses of the sample borrowers as there can be a room for biased and prejudiced opinions from their part. This amounts to yet another limitation of the study. Probably, the most serious limitation of the study is that it confined only to three banks and hence the generalisation of the results may be restricted.

1.9 Plan of the study

The report is divided into seven chapters and the chapterisation is as follows. The second chapter deals with the review of literature relevant to the topic. The third chapter explains the concepts used, and materials and methods employed for the analysis. The fourth chapter

examines the extent and magnitude of Non-Performing Advances of sample PCARDBs. The reasons for Non-Performing Advances at borrower level is analysed in the fifth chapter and the sixth chapter is devoted for analysing the present loan recovery system in PCARDBs. The major inferences and policy implications are summarised in the last chapter.

Review of Literature

CHAPTER II

REVIEW OF LITERATURE

2.0 Introduction

There are immense works reported in the bank management literature on the reasons or causes and effects and management of NPAs. These literature ranges from the literature on the early warning signals to trace the emerging NPAs of banks to the literature on the formulation of strategies for effective recoveries. However, the available literature on NPAs generally focus on short-term credit structure. The issue of NPAs is relevant even with long-term co-operative credit structure, although studies relating to it are relatively scanty. To enliven this, an attempt is, therefore, made in this chapter to review the studies relating to the dimensions, magnitude and impact of NPAs and reasons for high NPAs. Management of NPAs also form part of the review and all these are presented under separate sections.

2.1 Dimensions, magnitude and impact of NPAs

NPAs are rather a curse to the entire credit system. It is generally stated that co-operative credit institutions suffer largely in terms of both institutional viability and capacity to increase the volume of credit on

account of their mounting NPAs. To corroborate, here in this section an earnest attempt is made to review the dimensions and magnitude of NPAs and the consequent impact it makes on the effective functioning of these institutions.

The study on the magnitude and dimensions of NPAs conducted by Singh and Sharma (1982) indicated that the magnitude of NPAs was lowest with agricultural labourers especially with landless labourers when compared to small, marginal and large farmers. In this regard, Sharma and Khar (1995) in their study revealed that NPAs tend to increase with the size of holding and that large farmers are causing more chronic NPAs. However, the large and medium farmers are reluctant to repay the loans, inspite of having adequate financial base.

To support these inferences, Wali (1980) also opined that a large part of overdues is due to wilful default which is committed quite often by the upper class of farmers. Balishter *et al.* (1991) opined the same while analysing the NPAs of LDBs in Agra district.

But, Singh Surjeet (1990), inorder to determine the variations in the overdues by different categories of farmers, quoted ACRC's sample survey covering commercial bank branches, RRBs, PACS and PLDBs and pointed out that

among different types of credit agencies the variations between different classes of borrowers are only marginal. This indicates that NPAs are neutral to the classes of borrowers as well as to the type of organisation.

While analysing the parameters determining the magnitude of NPAs, Rao and Sathyanarayanan (1991) opined that education, annual income, socio-economic status, land holding and irrigation potentiality are the crucial variables that positively influences the repayment behaviour of the borrowers. Bosale *et al.* (1988) also opined that there is a positive and direct relationship between overdues and socio-economic conditions of farmers, amount borrowed and family expenditure.

Contrary to that, Kahlon and Kumar (1978) in their study of farmers indebtedness in Ludhiana district concluded that there is no relationship between formal education and NPAs. Pandey and Muraleedharan (1979), Ray and Samantha (1981) also expressed the same opinion. But Mohan (1985), pointed out that the chances of becoming a wilful defaulter were high if higher the percentage of illiterates in the family. This also implies the other side that, the literate farmers are capable of committing mistakes with regard to repayment of loans by taking advantage of loopholes in loan administration and management.

Expressing grave concern over the increasing NPAs and its impact on financial institutions, the Economic Survey of Government of India (1993) mentioned that despite phenomenal increase in overall agricultural credit, there is the serious problem of NPAs which will inhibit credit expansion on one hand and economic viability of lending institutions on the other.

Sharma and Khar (1995) in a comparative analysis found that, institutional agencies especially co-operatives were more prone to the disease. Saying so, Anand (1994) remarked that the soundness of co-operative credit structure depends on prompt recovery of loan and that heavy NPAs acts as a constraint to the efficiency of institutions and flow of credit. Wali (1980) also opined that, default in repayment, choke the credit line, denying further flow of credit to all members, though all members may not be defaulters.

Supporting the inferences above, it was found that, The Agricultural Credit Review Committee of RBI (1989) also viewed that the incidence of NPAs restricts the expansion and smooth delivery of credit and that is a great concern especially for co-operatives. Chowdhary (1989) also had the same opinion.

Commenting on the effects of NPAs, the Committee on CLDBs (1985) added that, a high level of NPAs in a central Land Development Bank not only erodes its owned funds, but also affects its reputation before institutional investors which lend support to the debentures floated by the bank. Besides, the rising trend of NPAs over a period of years will compel the bank to make good out of its owned funds.

It is clear from these literature that, the NPAs is a syndrome affecting the co-operatives, negatively in their financial operations and weaken them before their creditors as well as refinancing agencies. Hence, it is of great importance to frame a new policy to check this malady.

2.2 Reasons for high NPAs

The reasons for the growing volume of NPAs of credit institutions are of internal and external in nature. While the NPAs stemming from defective lending policies, lack of supervision of loans, forms the internal reasons, the external reasons are attributed to the causes like failure of schemes, natural calamities, fall in prices of produces, etc. A thorough scan of available literature relating to those issues is made so as to high light all possible reasons for high NPAs in co-operatives.

In a study conducted by Mallya (1984) on recovery of bank advances, identified the reasons for bank NPAs as

defective lending policies, lack of supervision of loans advanced, inadequate staff position, political interference in sanctioning of loans and conduct of `loan melas'. In this regard Bedi (1985), quoting the findings of the study team on West Bengal CLDBs, also had the same opinion for the occurrence of bad performing advances,

The Committee on CLDBs (1985) in their report added that, lack of will on the part of the bank's board of directors and staff to recover the loans, forms an important reason for the problem in addition to the above aspects. Ghosh (1995) also found the same reason in his study on overdues in rural credit and added that the lack of consumption credit, tight repayment schedule and non-existence of assets/schemes are also important reasons.

While analysing the agricultural credit situation in India, Vardha and Varsha (1993) attributed NPAs to multifarious reasons for which the lending institutions themselves are solely responsible. He found that besides agricultural and rural debt relief scheme of 1990's, unsound lending policies, lack of adequate supervision, lack of adequate linkage between marketing and lending institutions,uncertainty of agricultural income are factors breeding NPAs. Nadder (1994) also had the same opinion after studying the agricultural credit overdues in Himachal Pradesh. Anand (1994) also found that unsound and unscientific lending policies and inefficient supervision are the most important causes for NPAs.

As these are some internal factors to the credit organisation, it can be controlled to a great extent by framing a better recovery management system. Equally important are the external reasons. Regarding external factors, though it is known that most of them are beyond the control of the co-operatives, the wilful default from part of borrowers also contributes to a certain extent to NPAs.

It was evident from the report of the All India Rural Credit Review Committee of RBI (1969) that, the relatively lower rates of interest charged by co-operatives induce the cultivators to repay the co-operative dues, last among all his obligations, and in some cases, to re-lend such funds to others at higher rates of interest. Wali (1980) also opined that the large part of overdues is attributable to wilful default, often committed by the upper class of farmers.

It was also found in the report of the study team on overdues of co-operatives credit institutions (1974) that the lack of will and discipline among the cultivators to repay is the principal factor contributing to the prevalence of overdues in co-operative credit institutions. The report of the committee on CLDBs (1985), stated that while there are various factors leading to default, the major reason for default and consequently for the prevalence of overdues was lack of will to repay the loans by the borrowers.

At the same time there are some other factors such as misutilisation of bank loans and diversion of funds for other purposes, which forms a part of wilful neglect. Kaveri (1993) in her study about SSI advances by banks found that inaddition to poor marketing of produces and lack of followup by branches, the main reason for overdues is diversion of bank funds for unproductive purposes. A study on the repayment performance of LDBs by Bosale *et al.* (1988) also mentioned the same reason for high NPAs.

The external factors, other than wilful default by borrowers, were also studied by many. For instance, Wali (1980) in his study on institutional credit for rural poor, stated that overdues have been one of the abiding problems of co-operatives and it is mainly due to fall in price of agricultural product, glut in the market, natural calamities, power and diesel shortage, etc. along with other internal factors.

Balishter *et al.* (1991) has expressed that low operational size of holding, low repayment capacity, low cropping intensity, and high family expenditure are the important factors affecting overdues. Krishnakumari (1988) has also observed that the common causes of overdues are natural calamities, uneconomic prices of commodities, inadequate supportive facilities by banks, diversion of loans, delay in sanctioning and disbursement of loans, multiple credit allocation and over financing to borrowers.

Review made by the Agricultural Credit Review Committee of RBI (1989) has also viewed that the reasons which influence the level of overdues are natural calamities, absence of forward and backward linkage, defective legal frame work, lack of governmental assistance, socio-political environment, improper supervision of loans and apathy of management. The committee has also opined that the mass programmes like `loan meals' are also having deleterious effect on the functioning of credit agencies. Singh Surjeet (1990) also expressed the same opinion. Equally validity, the systematic deficiency of the machinery for credit delivery also do partly account for the high NPAs. Rajkishore Paney (1985) in his work about the institutional credit for agriculture in India, expressed so and stated that laxity among the official and staff in collecting dues from borrowers stand above all. Bhuanendran (1994) in their study about the recovery trends in land development banks also support the inference mentioned above.

But the study conducted by Singh (1991) concluded that, in addition to natural calamities, low crop yield and low farm income, the diversion of income by borrowers and uncertainty to get fresh loans plays a pivotal role in the occurrence of high level of NPAs. They added that, manipulative local influence and improper supervision of

loan utilisation have to be checked at any cost. Patel (1995) also stated the same in his study on overdues problem of co-operative credit.

It has also been found by Kaveri (1993) from the survey of borrowers that the default in repayment of loans and clearly attributed to the reasons such as demand recession, non-availability of needed inputs, labour problems, inadequate bank funds and managerial problems.

Ghosh (1995) revealed that, from the opinion of West Bengal Government experts, NPAs are alarming due to the low recovery position of government sponsored schemes such as, IRDP, DPAP etc. It shows that the government machinery for the supervision of these programmes and bank officials are equally responsible for the malady.

Apart from all, the examination of reasons for NPAs by Andrew Howe Browne (1991) revealed that, the causes of personal overdues can be attributed to unemployment of self or partner, fall or loss of earnings, took on too many commitments, sickness of family members, over spending and marital and family problems. He opined that, perhaps 70 per cent of the debt problems arose from sudden changes in circumstances. Hence a psychological and sociological analysis of individual who committed default in repayment is of worth and is lacking in available studies. Towards that, the satisfaction of borrowers as well as bank

officials on various functions of co-operative banks and its recovery management has to be analysed and is of having utmost importance in the present day world.

After examining the magnitude, impact and reasons for NPAs, the management of recovery machinery should also be given the attention it deserves. How this problem can be tackled and how can we form a new machinery for recovery management is an important area where researchers have to make substantial enquiries.

2.3 Management of NPAs

It is worthwhile to examine the avenues open to credit institutions to tackle the problem of NPAs. The management of NPAs becomes an indispensable proposition after an effort to review the magnitude and reasons for NPAs have been effected. Promotion of financial discipline among borrowers, coercive action against wilful defaulters, educating the farming community etc. include some of the suggested measures for the management of NPAs. Here, in this section available studies conducted along this is reviewed so as to highlight all possible suggestions for the effective management of mounting NPAs.

The study conducted by Roy (1981) opined that the repayment ethics forms an integral part of the principles of development banking and that concerted efforts would be made by all concerned to educate the farming community

regarding the repayment ethics and repayment culture as a long term measure. Krishnakumari (1988) in her study of NPAs also mentioned the need for promoting financial discipline among borrowers and creating a good recovery climate. She had again stressed the inevitable need for an efficient legal framework towards that end.

In that regard, Bhat (1993) recommended that, in addition to the removal of legal impediments, the fixation of recovery target, proper credit appraisal, optional financing and incentive for prompt repayment can be initiated as a preventive measures against NPAs. The study conducted by Patel (1995) is also supporting these measures.

Goyal and Pandey (1987) stated that, the loans must be provided only to those farmers who satisfy the best of technical feasibility and financial viability in order to ensure the end use. In addition appropriate steps should be taken to educate the farmers on proper utilisation of credit and proper repayment. Sharma and Khar (1995), also suggested the same remedies besides advancement of small amounts as consumption credit for family maintenance.

Highlighting the need for incentives, Renga Reddy (1987) opined that the borrowers who repay their dues promptly should be allowed a rebate in the rate of interest normally charged to them. The need for publishing the list of defaulters, who deliberately refrain from paying their

dues to co-operatives is also stressed by him. The suggestions made by Kaveri (1993) explicits that in addition to this, quick decisions on compromise proposals should be enacted.

But Raveendran (1988) proposes that the repayment schedule should be fixed in coincidence with the marketing of products and adequate provision should be made for contingencies. He expressed the need and importance of proper supervision on loans and creation of good rapport to help effectuate timely repayment.

Mallya (1984) suggests that, the bank dues should be treated at par with any other government dues. The power should be given to those banks to posses the securities of loanee and the right to dispose-off the same at need. Bosale (1988) expressed the same opinion adding that unproductive loans should be discouraged at any cost.

Yet another opinion put forward by Ghosh (1995) is that the NPAs can be managed and tackled through comprehensive ventures like postponing further lending in areas where bank dues are heavy, fixing targets for sponsoring authorities under government sponsored programmes in respect of collection of dues and further loaning should be based on target achievement. He expressed the need for a co-ordinated effort by every one working in the development sphere. But it is quiet understandable that, postponing lending in a particular

area is not scientific as the proper borrowers would be suffered due to the consequences created by some one else.

While analysing the need for coercive action against wilful defaulters, Jhakhar and Kotaiah (1995) emphasised that while non-wilful defaulters should be ensured relief by way of re-scheduling and re-phasing of loan, wilful defaulters must be dealt with strict measures through policy action. Prabhu (1981) also has the same opinion and added that the supervisory machinery should be sufficiently strengthened for follow-up actions.

In a study on personal overdues, Andrew Howe Brown (1991) suggests that, the prevention measures should be enacted as, credit insurance by borrowers themselves or through banks, and proper follow-up of loans and operations.

Though many have made substantial suggestions for efficient recovery, the ineffectiveness and need for strengthening the legal machinery has not been given the thrust it required. In the case of co-operative financial institutions, as the last resort, they can depend for recovering dues is the legal machinery viz. the co-operative tribunal. Hence, it is of much importance to analyse the need for strengthening the legal frame work in addition to initiating promotional measures among members and creating good member-banker relations.

From the foregoing literature, it is observed that heavy NPAs are deleterious to the working of the credit system. The repayment of loans together with interest there on by the borrower is central to the smooth functioning of institutional credit. The credit can be said to be effective only if this basic postulate is borne out. The increasing NPAs will restrict the smooth flow of credit and will affect the further investment in agricultural and non-agricultural sector.

It should also be noted that whether the small farmers or the big farmers are committing more dues, by that the nature of default, either wilful or non-wilful, can be analysed. The major reasons, results in NPAs have fallen under two categories ie., internal and external. An action towards both is an only solution to the problem as they are equally contributing to the problem. However, the studies established certain reasons, causes, and effects of NPAs and opined certain management techniques. Though, much research efforts had gone on the issue of NPAs, the implications are yet to be studied with the seriousness that it deserves in the field of long term credit in our state. The present study is an effort towards that end.

Materials and Methods

CHAPTER III

MATERIALS AND METHODS

3.0 Introduction

The study is a micro level examination of the causes of non-performing advances (NPAs) of long term co-operative credit system (PCARDBs) in southern Kerala. The NPAs are generally measured in relation to the demand for the years. The study has been carried out in two ways viz., one is to probe into the reasons and causes of NPAs at borrowers level and the other is on the satisfaction of borrowers as well as the management and staff towards the present loan recovery system of PCARDBs. The present chapter discloses how the study has been done.

3.1 Conceptual clarification

The terms and concepts used in the study are as follows:

i) Non Performing Advances (NPAs): NPAs are defined as those advances which cease to yield any return. It reflects that something has gone wrong with the loan accounts after their disbursement either due to Bank's negligence or due to borrower's bad intension towards meeting timely repayment obligation and other external factors. As far as financial institutions like Co-operative Banks and Regional Rural

Banks are concerned, they do not have an elaborate system of classifying their advances into various health code categories as advised by the Reserve Bank of India. Hence for the present study, it considers entire overdues to demand as Non Performing Advances. They encompass the entire gamut ranging from banker's complacency to borrowers ingenuity.

ii) Hard-core NPAs: The Non Performing Advances above the age of three years are defined as Hard Core NPAs.

iii) Wilful defaulters: Those borrowers who did not repay the loan even after having adequate income and the capacity to repay are termed as wilful defaulters.

iv) Non-wilful defaulters: The defaulters who do not have adequate income and capacity to repay the loan dues are defined as non-wilful defaulters.

v) Ordinary loans: Ordinary loans are provided for the purposes such as construction of farm houses, cattle sheds, smoke houses, land reclamation, levelling, fencing, construction of biogas plants etc. These are generally given for 10 years and the maximum amount permissible is Rs.10,000/- and the rate of interest is 12 per cent.

vi) Schematic loans: These are the advances backed by the special refinance scheme of NABARD. These loans are generally deployed for the purposes viz., minor irrigation, soil conservation, farm mechanisation, land development, development of cash crops, plantation and horticulture and animal husbandry.

vii) Non-farm sector loans: These loans are provided for business, sericulture, small scale industries, setting up of bio-gas plants etc. The maximum repayment period admissible under the category is 7 years and the upper ceiling for such loan is Rs.10 lakhs.

viii) Rural Housing Loans: For setting up of new houses and renovating old one such loans are deployed by banks. The upper ceiling is Rs.3 lakhs and maximum repayment period permissible is 20 years. These loans are refinanced by National Housing Bank.

ix) Demand: Demand means the quantum of loans which have fallen due and not those which are yet to become due for repayment.

x) Agricultural labourers: People who are employed in agricultural sector on a wage basis.

xi) Non-agricultural labourers: Represent people who are employed in non-agricultural sector on a wage basis.

3.2 Study area and reference period

For the present study, Kerala is divided into two regions, viz., southern and northern. The present study is confined to the southern region as the problem of non-performing advances (NPAs) has mostly affected this region of the state (41.38 per cent as against the state average of 34.50 per cent (KSCARDB, 1994-95). Southern Kerala consists of eight districts ranging from Thiruvananthapuram to Thrissur. There are 25 primary banks (PCARDBs) functioning in the region, out of which 5 banks were excluded from the study as they started functioning only after 1985 and hence it is difficult to compile adequate details for the period under reference. The reference period of the study are the years from 1986-87 to 1995-96.

3.3 Sampling procedure

For the present study, the PCARDBs in southern Kerala are grouped into three as: those having an NPAs above 40 per cent (Group I), those between 20-40 per cent (Group II) and those less than 20 per cent (Group III). Accordingly, there were 7 banks in Group I, 10 banks in Group II and 3 banks in Group III. From these, one bank from each group was selected by using simple random sampling. The banks selected are, Neyyattinkara PCARDB (B-1), Cherthala PCARDB (B-2) and Irinjalakkuda PCARDB (B-3) respectively from each group.

For the study, a sample of 50 borrowers from each bank has been compiled from the list of borrowing members at random. Such that 80 percent of them were defaulters and the rest were proper repayers as a control group. Again for analysing the satisfaction on the present loan recovery and management system, 10 officials comprising of five board members and five employees (including Secretaries) from each bank were selected.

3.4 Data collection procedure

The data required for the study have been collected from primary as well as secondary sources of information. The primary data regarding the information on loans taken, repayments made, cost and returns from farm business, income from other sources, and reasons for non-repayment of loans etc. have been collected from the sample borrowers by administering a pre-tested structured schedule (Appendix 1) during the year 1995-96. The Board of management and employees of the bank were also been interviewed with the help of a schedule (Appendix 2) to work out the degree of banker-member relations, and further on their opinion about NPA management and present system of loan recovery practices. The data on loans disbursed, demand and NPAs, loan-wise NPAs and age-wise NPAs of sample banks have been compiled from the secondary sources such as annual reports, DCB statements and other published statistical statements for a period from 1986-87 to 1995-96.

3.5 Methods and techniques of analysis

The growth rate of important indicators such as membership, loans and advances, NPAs to demand etc. of sample banks has been worked out by using multiple regression logarithmic models. It was also used to determine the influence of independent variable on the dependent variable NPA.

ie., $Y= a+b_1 x_1+b_2x_2+b_3 x_3+.....b_n x_n$

Where Y = NPA

a = intercept

b_n = regression coefficients

x_1 = membership

x_2 = loan advanced

x_1 = demand

The value for dependent and independent variable were found of hetrogeneous in size and hence a logarithmic transformation was made before analysis. In order to assess the impact of each independent variables on the dependent variable and based on the nature of data, a multiple regression analysis was applied. Here independent variables are memebership loansadvanced and demand and the dependent variable is NPA. This analysis helped to infer the significances of each independent variables on the dependent variable and statistical tests were used to understand the significance of regression coefficient. Coefficient of determination (R^2) was also found out in each case to validate the efficiency of the independent variables taken to define the dependent variable NPA.

The simple correlation between the variables were found out to understand the degree of relationship. The normal test criterion was used to discriminate between

non-defaulters and defaulters.

The growth rate of variables considered were found in an abnormal increasing trend during the study period. Therefore period of study has been subdivided and proportional change of growth (subdivided periodical growth rate) has also been worked for separate periods within the study period.

The chi-square test was used to understand the influence of socio-economic characters such as educational level, land holding, loan size etc. on different levels of NPAs, using the formula

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

Where O = Observed Value

E = Expected Value

Simple averages, bivariate tables, weighted mean etc. were also prepared for the analysis.

The efficiency indices on the present loan recovery and management system were prepared on a three point scale by using the method of summated rating . The formula employed for these indices was:

$$E.I = \frac{\sum_{i=1}^{n} eij}{\sum_{i=1}^{n} \max. Eij} \times 100$$

Where,

E.I= Efficiency index

I= Respondent

j= Character

The repayment capacity of each borrower has been determined by using the formula:

R= Y- (C+ L+ K)

Where,

R= Repayment capacity

Y= Total farm and non-farm income

C= Total farm and non-farm expenditure

L= Pre-existing liabilities to be met within a year

K= Risk allowences (It was taken as 5% of total income)

Based on the repayment capacity study, a borrower level comparative analysis has been carriedout between defaulter and non-defaulter to understand whether the parameters such as average land holding ,size of loan ,average annual income ,average annual expenditure are influential to the level of NPA occurrences. For this purpose ,average and standard errors have been workedout and normal test is used to compare the reults.(page 94).

Results and Discussion

CHAPTER IV

RESULTS AND DISCUSSION

THE EXTENT AND DIMENSIONS OF NON-PERFORMING ADVANCES

4.0 Introduction

In this part an attempt is made to traceout the extent of NPAs and other important aspects such as membership, loans advanced, and profit position of sample PCARDBs. Consequently, three banks, viz. PCARDB Neyyattinkara; PCARDB Cherthala and PCARDB Irinjalakuda were examined with the help of the secondary information.

4.1 PCARDB, Neyyattinkara (B1)

It is evident from Table 4.1.1 that, the membership of the bank was increasing at an annual compound growth rate of 7.11 per cent between 1986-87 and 1995-96. The data on loans advanced show an increase between 1986-87 and 1988-89 at an average growth rate of 41 per cent. It declined between 1989-90 and 1992-93 at 3.5 per cent with a marginal increase between 1993-94 and 1995-96 at an average growth rate of 1.4 per cent. However, the overall loan disbursement for the study period seems to increase at an annual compound growth rate of 3.03 per cent, between 1986-87 and 1995-96.

Table 4.1.1 The organisational profile of PCARDB, Neyyattinkara during 1986-87 to 1995-96

(Rs. in lakhs)

Year	Membership	Loans disbursed	Demand	NPAs	Percentage of NPAs to demand	Profit
1986-87	12649	90.78	119.96	57.83	48.20	1.35
1987-88	13895	160.51	181.36	107.63	59.35	2.04
1988-89	16442	127.97	225.63	115.89	51.36	1.90
1989-90	17713	182.90	300.37	116.14	38.67	0.64
1990-91	18751	121.71	357.58	196.36	54.91	-71.76
1991-92	19642	149.67	416.07	255.0	61.29	-99.19
1992-93	20431	176.50	483.20	302.26	62.55	-138.55
1993-94	20900	117.16	567.98	334.28	58.85	-126.33
1994-95	22178	176.94	565.30	396.02	52.37	-128.42
1995-96	23468	118.76	585.43	301.08	51.42	-107.30
Compound growth rate per annum	7.11	3.03	19.26	20.12	-	-3.6
Subdivided periodic average growth rate between:						
1. 1986-87 to 1989-90	30.0	41.0	88.0	100.0	-	41.0
2. 1989-90 to 1992-93	15.3	-3.5	61.0	160.0	-	-215.0
3. 1993-94 to 1995-96	12.3	1.4	3.1	-10.0	-	15.0

Source: Annual reports and financial statements of NPCARDB and KSCARDB Ltd.

With regard to demand, an increase over the years at an average growth rate of 88 per cent (1986-87 to 1988-89), 61 per cent (1989-90 to 1992-93) and 3.1 per cent (1993-94 to 1995-96) was exhibited. The data on NPAs reflects that, it has been increasing at an average growth rate of 100 per cent and 160 per cent between 1986-87 to 1988-89 and 1989-90 to 1992-93 respectively and declined marginally between 1993-94 and 1995-96 at 10 per cent. The compound growth rate of NPAs to demand stood at 20.12 per cent per annum between 1986-87 and 1995-96.

The performance of the bank during the study period revealed that the bank was running in profit till 1989-90. The average growth rate being 41 per cent (1986-87 to 1988-89). On contrary, however, from 1990 onwards the bank incurred loss and the growth rate was estimated to be 215 per cent and 15 per cent respectively between 1989-90 to 1992-93, and 1993-94 to 1995-96. The compound growth rate has been found as -3.6 per cent per annum between 1986-87 and 1995-96. At present, the bank is running at a loss of Rs.107.30 lakhs and with an NPA of 51.42 per cent to demand. This awkward position prevented the bank from providing rural housing finance and was put into the category of restricted category of refinancing.

The relationship between the parameters such as membership, loans advanced, NPAs and profit were examined

and the results revealed that these exists a negative correlation (r = -0.937) between NPAs and profit and a significant influence between them (R^2 = 0.877). It reveals that along with the increase in NPAs, loss is also aggravating. The correlation between NPAs with loans disbursed, NPAs with membership and loans and membership were found positive.

4.1.1 Loan-wise NPAs

Data pertaining to the loan-wise classification of NPAs is presented in Table 4.1.2. It is evident that scheme loans are causing more NPAs, both in terms of percentage of demand and in absolute figures, when compared to ordinary loans and non-farm loans. The NPAs to demand for scheme loans in the year 1986-87 was 54.86 per cent which rose to 64.45 per cent during 1995-96. It constitutes about 47.03 per cent of the total NPAs of the bank in the year 1995-96, followed by ordinary loans (40.33 per cent) and non-farm loans (12.64 per cent). The NPAs to demand for ordinary loans and non-farm loans has been found to be 47.40 per cent and 34.74 per cent respectively during the year 1995-96. But the annual compound growth rate between 1986 and 1996, was found higher with non-farm loan NPAs at 26.08 per cent as against the total NPAs growth rate of 20.12 per cent.

Table 4.1.2 Loan-wise Demand and NPAs of PCARDB, Neyyattinkara during 1986-87 to 1995-96

(Rs. in lakhs)

Year	Ordinary Loans			Scheme Loans			Non-farm Loans			Total		
	DD	NPA	% of NPA	DD	NPA	% of NPA	DD	NPA	% of NPA	DD	NPA	% of NPA
1986-87	79.51	35.64	44.82	40.45 (33.70)	22.19 (38.37)	54.86	-	-	-	119.96 (100.0)	57.83 (100.0)	48.20
1987-88	113.18	61.01	53.91	68.18 (37.59)	46.62 (43.32)	68.38	-	-	-	181.36 (100.0)	107.63 (100.0)	59.35
1988-89	132.18	64.29	48.64	93.45 (41.42)	51.60 (44.52)	55.22	-	-	-	225.63 (100.0)	115.89 (100.0)	51.36
1989-90	163.20	47.85	29.32	120.65 (40.15)	58.82 (50.65)	48.75	16.5 (5.53)	9.47 (8.15)	57.33	300.37 (100.0)	116.14 (100.0)	38.64
1990-91	178.15	98.90	55.52	146.63 (41.01)	80.29 (40.89)	54.76	32.80 (9.17)	17.17 (8.74)	52.35	357.58 (100.0)	196.36 (100.0)	54.91
1991-92	195.83	107.06	54.67	164.77 (39.60)	113.37 (44.46)	68.81	55.47 (13.33)	34.57 (13.56)	62.32	416.07 (100.0)	255.00 (100.0)	61.29
1992-93	216.60	119.36	55.11	195.45 (40.45)	135.38 (44.79)	69.27	71.15 (14.72)	47.52 (15.72)	66.79	483.20 (100.0)	302.26 (100.0)	62.55
1993-94	235.16 (41.40)	128.42 (38.42)	54.61	228.97 (40.31)	153.20 (45.83)	66.91	103.85 (18.28)	52.66 (15.75)	50.71	567.98 (100.0)	334.28 (100.0)	58.85
1994-95	245.17 (43.37)	113.06 (38.19)	46.11	208.64 (36.91)	125.15 (42.28)	59.98	111.49 (19.72)	57.81 (19.53)	51.85	565.30 (100.0)	296.02 (100.0)	52.37
1995-96	256.19 (43.76)	121.43 (40.33)	47.40	219.71 (37.53)	141.60 (47.03)	64.45	109.53 (18.71)	38.05 (12.64)	34.74	585.43 (100.0)	301.08 (100.0)	51.43
Compound growth rate per annum (%)	13.88	14.59		20.68	22.86		37.00	26.08		19.26	20.12	

Source: KSCARDB Annual Reports and DCB statements of NPCARDB Ltd. from 1986-87 to 1995-96

* Figures in the parentheses shows the percentage to total demand and NPAs

Table 4.1.3 Age-wise NPAs of PCARDB, Neyyattinkara during 1991-92 to 1995-96

(Rupees in lakhs)

Year	< 1 year	1-2 years	2-3 years	> 3 years (Hard-core NPAs)	Total
1991-92	42.56 (16.32)	86.89 (33.32)	68.72 (26.35)	62.59 (24.00)	255.00 (100.0)
1992-93	53.46 (17.28)	86.07 (27.82)	94.47 (30.54)	75.34 (24.36)	302.26 (100.0)
1993-94	65.43 (19.57)	84.78 (25.36)	90.14 (26.97)	93.93 (28.10)	334.28 (100.0)
1994-95	51.26 (17.32)	84.69 (28.61)	91.78 (31.00)	68.29 (23.07)	296.02 (100.0)
1995-96	55.53 (18.44)	81.24 (26.98)	93.87 (31.18)	70.44 (23.40)	301.08 (100.0)

Source: KSCARDB Annual Reports and DCB statements of NPCARDB Ltd. from 1986-87 to 1995-96

* Figures in the parentheses denotes the percentage to total NPAs

4.1.2 Age-wise NPAs

Table 4.1.3 reveals the change in age-wise NPAs at bank level. It indicates that the NPAs above three years ie., hardcore NPAs, shows a marginal decrease in percentage to total NPAs between 1992 and 1996. It was 24 per cent in 1991-92 and declined to 23.40 per cent in 1995-96 after a hike during 1993-94 as 28.1 per cent. This cannot be attributed as a substantial change and efforts need to be taken to ease this situation with regard to hardcore NPAs, as it may create deleterious effect on the recycling of funds due to the heavy chances of becoming bad and doubtful debts.

4.2 PCARDB, Cherthala (B2)

The bank's organisational profile, depicts that, the membership and loaning operations had increased considerably during the study period (Table 4.2.1). It was at 7292 and Rs.35.92 lakhs respectively during 1986-87 and increased to 9445 and Rs.152.72 lakhs respectively in 1995-96. The annual compound growth rate of membership and loans disbursed stood at 2.91 per cent and 17.4 per cent respectively, between 1986-87 and 1995-96. The split up analysis of data with regard to loans disbursement reveals that the average growth rate between 1986-87 and 1988-89 rose to as high as 85 per cent and came down as to 34 per cent increase between 1989-90 and 1992-93 and at 1.09 per cent between 1993-94 and 1995-96.

Table 4.2.1 The organisational profile of PCARDB, Cherthala during 1986-87 to 1995-96

(Rs. in lakhs)

Year	Membership	Loans disbursed	Demand	NPAs	Percentage of NPAs to demand	Profit
1986-87	7292	35.92	59.47	5.22	8.78	3.74
1987-88	7346	64.08	77.36	13.28	17.17	4.61
1988-89	7528	66.57	95.59	15.87	16.6	2.78
1989-90	7736	106.33	96.90	38.25	39.47	-9.33
1990-91	7946	125.59	148.49	68.00	45.79	-13.84
1991-92	8288	132.5	182.92	64.71	35.51	-10.25
1992-93	8494	142.75	192.46	74.75	38.84	-15.23
1993-94	8739	151.08	244.3	93.73	38.37	-25.23
1994-95	8962	142.84	270.93	97.17	35.86	-26.46
1995-96	9445	152.72	299.9	111.84	37.29	-27.87
Compound growth rate per annum	2.91	17.4	19.7	40.6	-	-25.0
Subdivided periodic average growth rate between:						
1. 1986-87 to 1988-89	3.23	85.33	60.74	204.02	-	-25.70
2. 1989-90 to 1992-93	9.8	34.25	98.62	95.42	-	63.24
3. 1993-94 to 1995-96	8.1	1.09	22.80	19.32	-	10.46

Source: Annual reports and financial statements of CPCARDB and KSCARDB Ltd.

With every increase in loan disbursement, the results establish that, the NPAs are also keep rising, that too at a faster pace. When it was only Rs.5.22 lakhs (8.78% to demand) in 1986-87, it rose to Rs.111.84 lakhs (37.29% to demand) in 1995-96 at an annual compound growth rate of 40.6 per cent. The average growth rate of NPAs between 1986-87 and 1988-89 was 204 per cent and this declined to 95 per cent and 19 per cent increase between 1989-90 and 1992-93 and 1993-94 to 1995-96 respectively. The spurt in NPAs to demand was reported in the year 1989-90 which may be due to the loan-waiver policy of the government which led the borrowers to contemplate another loan write-off policy in the succeeding years and to decide against repaying the present dues. To add to it, it was also found that, the bank enjoyed profit upto 1988-89 and suffered losses during 1989-90 onwards. The profit has declined at the rate of 25.0 per cent per annum during the study period.

The relationship between different variables such as membership, loans advanced, demand and NPAs established a positive correlation between membership and loans advanced ($r = 0.465$).

4.2.1 Loan-wise NPAs

While looking at the loan-wise classification of NPAs, it was found that ordinary loans and schematic loans

Table 4.2.2 Loan-wise Demand and NPAs of PCARDB, Cherthala for the year 1986-87 to 1995-96

(Rs. in lakhs)

Year	Ordinary Loans			Scheme Loans			Non-farm Loans		
	DD	NPA	% of NPA	DD	NPA	% of NPA	DD	NPA	% of NPA
1986-87	41.96 (70.57)	3.79 (72.47)	9.03	17.50 (29.43)	1.44 (27.53)	8.23	-	-	-
1987-88	46.16 (59.67)	7.29 (54.85)	15.80	30.90 (39.94)	5.98 (45.00)	19.35	-	-	-
1988-89	52.04 (54.44)	7.64 (48.14)	14.68	37.16 (38.87)	7.85 (49.46)	21.12	4.75 (4.97)	0.16 (1.01)	3.50
1989-90	48.64 (50.20)	21.86 (55.38)	44.94	36.16 (37.32)	12.56 (31.82)	34.73	6.95 (7.17)	2.25 (5.70)	32.37
1990-91	61.96 (41.73)	26.92 (39.58)	43.45	59.08 (39.79)	31.85 (46.82)	53.91	14.78 (9.95)	4.82 (7.09)	32.61
1991-92	70.12 (38.48)	24.24 (36.89)	34.57	65.12 (35.74)	25.85 (39.34)	39.70	24.76 (13.59)	7.05 (10.73)	28.47
1992-93	64.98 (33.76)	28.24 (37.78)	43.46	64.95 (33.75)	30.97 (41.43)	47.68	38.94 (20.23)	12.31 (16.47)	31.61
1993-94	67.36 (27.55)	27.70 (29.55)	41.12	75.66 (30.95)	32.57 (34.75)	43.05	68.69 (28.10)	21.07 (22.48)	30.76
1994-95	57.44 (21.20)	24.41 (25.12)	42.50	82.78 (30.55)	35.35 (36.38)	42.70	91.78 (33.87)	26.52 (27.30)	28.90
1995-96	48.51 (16.12)	20.88 (18.67)	43.04	94.65 (31.56)	40.89 (36.56)	43.20	113.31 (37.78)	39.28 (35.12)	34.67
Compound growth rate per annum (%)	1.62	21.0		20.62	45		57.32	119.50	

Contd.....

Table 4.2.2 contd.....

(Rs. in lakhs)

Year	Rural Housing Loans			IRDP Loans			Total		
	DD	NPA	% of NPA	DD	NPA	% of NPA	DD	NPA	% of NPA
1986-87	-	-	-	-	-	-	59.47 (100.0)	5.22 (100.0)	8.78
1987-88	-	-	-	0.30 (0.39)	0.02 (0.15)	6.67	77.36 (100.0)	13.29 (100.0)	17.17
1988-89	-	-	-	1.64 (1.72)	0.22 (1.39)	13.41	95.59 (100.0)	15.87 (100.0)	16.60
1989-90	3.14 (3.24)	1.68 (4.26)	53.50	2.01 (2.07)	1.12 (2.84)	55.72	96.90 (100.0)	39.47 (100.0)	39.47
1990-91	8.32 (5.60)	0.93 (1.37)	11.18	4.35 (2.93)	3.50 (5.15)	80.46	148.49 (100.0)	68.02 (100.0)	45.79
1991-92	16.24 (8.91)	2.36 (3.59)	14.53	5.99 (3.29)	6.21 (9.45)	86.98	182.23 (100.0)	65.71 (100.0)	35.51
1992-93	23.59 (12.26)	3.23 (4.32)	13.69	-	-	-	192.46 (100.0)	74.75 (100.0)	38.84
1993-94	25.78 (10.54)	6.11 (6.52)	23.70	7.00 (2.86)	6.29 (6.71)	89.86	244.49 (100.0)	93.74 (100.0)	38.37
1994-95	32.38 (11.95)	4.74 (4.88)	14.64	6.56 (2.42)	6.14 (6.32)	93.60	270.94 (100.0)	97.16 (100.0)	35.86
1995-96	37.13 (12.38)	5.30 (4.74)	14.27	6.31 (2.10)	5.49 (4.91)	87.00	299.90 (100.0)	111.84 (100.0)	37.29
Compound growth rate per annum (%)	51.0	21.10		46.34	101.75		19.7	40.6	

Source: KSCARDB Annual Reports and DCB statements of CPCARDB Ltd. from 1986-87 to 1995-96

* Figures in the parentheses shows the percentage to total demand and NPAs

established highest NPAs during 1995-96, as 43.04 per cent and 43.20 per cent respectively (Table 4.2.2), when it was only 9.03 per cent and 8.23 per cent respectively in the year 1986-87. The percentage contribution of ordinary loan NPAs to total NPAs was comparatively lower (18.67 per cent), when compared to scheme loans (36.56 per cent) and non-farm loans (35.12 per cent) in the year 1995-96. Eventhough IRDP loans have an NPA to demand of 87 per cent during 1995-96, its contribution to total NPAs was meagre (4.91 per cent). This can be attributed to the fact that, the demand of IRDP loans was lower when compared to other types of loans. On analysing the annual compound growth rate of loanwise NPAs, it was found that non-farm loans have the highest growth rate (119.5%) followed by IRDP loans (101.75 per cent) and scheme loans (45 per cent, between the years 1986-87 and 1995-96.

4.2.2 Age-wise NPAs

The age-wise classification of NPAs reveals that hardcore NPAs constitute 27 per cent of total NPAs during the year 1995-96 (Table 4.2.3). It was about 33.90 per cent in the year 1986-87 and had a moderate decline in the succeeding years. Hardcore NPAs need to be carefully handled considering the high chances of they become bad and doubtful debts which consequently will negatively affect the bank's profitability and future operations.

Table 4.2.3 Age-wise classification of NPAs of PCARDB, Cherthala during 1986-87 to 1995-96

(Rupees in lakhs)

Year	< 1 year	1-2 years	2-3 years	> 3 years (Hard-core NPAs)	Total
1986-87	1.88 (36.02)	0.94 (18.01)	0.63 (12.07)	1.77 (33.90)	5.22 (100.0)
1987-88	5.58 (42.00)	2.26 (17.00)	2.26 (17.00)	3.19 (24.00)	13.29 (100.0)
1988-89	5.71 (36.00)	3.02 (19.03)	2.38 (15.00)	4.76 (29.70)	15.87 (100.0)
1989-90	14.15 (35.85)	6.50 (16.47)	5.74 (14.54)	13.08 (33.14)	39.47 (100.0)
1990-91	25.16 (37.00)	10.88 (16.00)	11.56 (17.00)	20.42 (30.00)	68.02 (100.0)
1991-92	26.53 (40.37)	14.88 (22.64)	9.71 (14.78)	14.59 (22.21)	65.71 (100.0)
1992-93	29.90 (40.00)	9.72 (13.01)	8.97 (12.00)	26.16 (34.99)	74.75 (100.0)
1993-94	39.37 (42.00)	21.56 (23.00)	9.37 (10.00)	23.44 (25.00)	93.74 (100.0)
1994-95	37.89 (39.00)	19.43 (20.00)	11.66 (12.00)	28.18 (29.00)	97.16 (100.0)
1995-96	44.74 (40.00)	20.13 (18.00)	16.78 (15.00)	30.19 (27.00)	111.84 (100.0)

Source: KSCARDB Annual Reports and DCB statements of CPCARDB Ltd. from 1986-87 to 1995-96

* Figures in the parentheses denotes the percentage to total NPAs

4.3 PCARDB, Irinjalakuda (B3)

It is evident from the organisational profile of the bank that, their membership and loans and advances are fast increasing. The annual compound growth rate of these variables between 1986-87 and 1995-96 showed 3.33 per cent and 15.10 per cent respectively (Table 4.3.1). The results of the splitted analysis of data on loan disbursement showed a negative average growth rate between 1986-87 and 1988-89 (-30.65 per cent) and between 1989-90 and 1992-93 (7.7 per cent). However, between 1993-94 and 1995-96, the average growth rate increased at a higher rate of 163.78 per cent. The membership of the bank, which during 1986-87 was only 15806 rose to 21235 by 1995-96. Likewise, loan disbursement increased from Rs.177.44 lakhs during 1986-87 to Rs.629.17 lakhs in 1995-96. It emphasis a positive relationship between these aspects (r = 0.709); which highlights the bank's outstanding performance.

It is also evident that though demand shows an increasing trend over the years, the NPAs remains inconsistent in the said period. The average growth rate of demand between 1986-87 and 1988-89 was found to be 23.63 per cent and between 1989-90 to 1992-93 and 1993-94 to 1995-96, it was 23.02 per cent and 20.8 per cent respectively. But regarding NPAs, it increased at 71.05 per cent between

1986-87 to 1988-89 and at 3.74 per cent between 1989-90 and 1992-93. From 1993-94 to 1995-96, it declined further at the rate of -51 per cent. This is rather a good sign of efficiency of the bank relating to recovery of dues.

It can be well inferred that, the profit position of the bank is continuously increasing at an annual compound growth rate of 12.81 per cent. This establishes that unlike other two banks (B1 and B2) B3 is functioning in a befitting manner and can be considered as a model for others.

The correlation analysis shows that the membership and NPAs are not significantly correlated ($r = 0.547$). This means that corresponding to an increase in membership NPAs are not proportionately changing. It is further understood that, while membership increases the loans disbursed are also increasing. As a result, there are chances of demand and NPAs to increase. It can also be found that, the absolute figure of NPAs are meagre when compared to the figures of loans disbursed and membership. Hence it may be worthwhile to analyse the correlation between loans disbursed and NPAs, and results established that the correlation was insignificant ($r = 0.125$). This means that, though their loan disbursement is increasing, the NPAs tends to be declining. Ultimately it implies that, the recovery management of the bank is appreciable.

Table 4.3.1 The organisational profile of PCARDB, Irinjalakuda during 1986-87 to 1995-96

(Rs. in lakhs)

Year	Membership	Loans disbursed	Demand	NPAs	Percentage of NPAs to demand	Profit
1986-87	15806	177.44	170.22	1.14	0.67	12.26
1987-88	17476	203.07	191.07	1.63	0.85	12.27
1988-89	17939	123.04	210.45	1.95	0.93	13.42
1989-90	18380	191.59	225.59	16.84	7.46	14.93
1990-91	18613	204.97	256.75	23.76	9.25	15.87
1991-92	18472	159.93	269.31	17.28	6.41	17.79
1992-93	19035	176.80	277.54	17.47	6.29	20.43
1993-94	19067	238.55	284.33	12.52	4.40	28.00
1994-95	20926	306.44	290.49	9.19	3.16	30.18
1995-96	21235	629.17	343.43	6.19	1.80	36.28
Compound growth rate per annum	3.33	15.10	8.10	20.68	-	12.81
Subdivided periodic average growth rate between:						
1. 1986-87 to 1988-89	13.5	-30.65	23.63	71.05	-	9.50
2. 1989-90 to 1992-93	3.60	-7.70	23.02	3.74	-	37.50
3. 1993-94 to 1995-96	11.4	163.78	20.80	-51.00	-	29.60

Source: Annual reports and financial statements of IPCARDB and KSCARDB Ltd.

It was understood from the analysis that the NPAs to demand has marked a spurt in the year 1989-90. This may also be attributed to the loan waiver policy of the then central government. However, stern actions were taken by the bank to manage the NPA situation and as a result it declined to Rs.6.19 lakhs in the year 1995-96 from Rs.16.84 lakhs (1989-90) and Rs.23.76 lakhs (1990-91).

4.3.1 Loan-wise NPAs

It can be inferred from Table 4.3.2 that, in terms of absolute figures, percentage of NPAs to demand as well as percentage to total NPAs, scheme loans NPAs was found highest at an annual compound growth rate of 23.35 per cent as against 9.15 per cent of ordinary loans NPAs and -0.9 per cent of non-farm loan NPAs. With regard to rural housing loans, though its annual compound growth was 70.32 per cent, the absolute figures of NPAs was found meagre. During the year 1995-96, it was found that scheme loans NPAs contributes 52.34 per cent to the total NPAs.

4.3.2 Age-wise NPAs

Table 4.3.3 reveals that NPAs above 3 years or hardcore NPAs constitute only a meagre percentage (0.65%) to total NPAs during the year 1995-96. The highest percentage contribution was found with NPAs below 1 year and it was estimated as 90.81 per cent in 1995-96. During

Table 4.3.2 Loan-wise Demand and NPAs of PCARDB, Irinjalakuda during 1986-97 to 1995-96

(Rs. in lakhs)

Year	Ordinary Loans			Scheme Loans			Non-farm Loans		
	DD	NPA	% of NPA	DD	NPA	% of NPA	DD	NPA	% of NPA
1986-87	100.50 (59.04)	0.65 (57.02)	0.65	69.71 (40.96)	0.49 (42.98)	0.70	-	-	-
1987-88	106.33 (55.65)	0.98 (59.76)	0.92	84.73 (44.35)	0.66 (40.24)	0.78	-	-	-
1988-89	105.13 (49.95)	1.07 (54.87)	1.02	105.32 (50.05)	0.88 (45.13)	0.84	-	-	-
1989-90	105.76 (46.88)	7.45 (44.24)	7.04	111.87 (49.59)	8.69 (51.60)	7.77	7.95 (3.52)	0.70 (4.16)	8.81
1990-91	108.90 (42.41)	10.44 (43.94)	9.60	130.36 (50.77)	11.98 (50.42)	9.19	10.21 (3.98)	1.28 (5.39)	12.54
1991-92	102.02 (37.88)	6.36 (36.81)	6.23	138.05 (51.26)	9.78 (56.60)	7.08	12.16 (4.52)	0.94 (5.44)	7.73
1992-93	96.00 (34.59)	5.94 (34.00)	6.19	141.74 (51.07)	9.99 (57.18)	7.05	15.69 (5.65)	1.10 (6.30)	7.01
1993-94	87.16 (30.65)	4.26 (34.03)	4.89	130.00 (45.72)	7.01 (55.99)	5.39	32.14 (11.30)	0.49 (3.91)	1.52
1994-95	74.63 (25.70)	2.94 (31.99)	3.94	120.36 (41.43)	4.97 (54.08)	4.13	48.73 (16.78)	0.65 (7.07)	1.33
1995-96	61.24 (17.83)	1.43 (23.10)	2.34	125.82 (36.64)	3.24 (52.34)	2.58	73.11 (21.29)	0.66 (10.66)	0.90
Compund growth rate per annum (%)	-5.35	9.15		6.78	23.35		44.74	-0.9	

Contd.....

Table 4.3.2 contd.....

(Rs. in lakhs)

Year	Rural Housing Loans			Total		
	DD	NPA	% of NPA	DD	NPA	% of NPA
1986-87	-	-	-	170.22 (100.0)	1.14 (100.0)	0.67
1987-88	-	-	-	191.07 (100.0)	1.63 (100.0)	0.85
1988-89	-	-	-	210.45 (100.0)	1.95 (100.0)	0.93
1989-90	-	-	-	225.59 (100.0)	16.84 (100.0)	7.46
1990-91	7.28 (2.84)	0.06 (0.25)	0.82	256.75 (100.00)	23.76 (100.0)	9.25
1991-92	17.08 (6.34)	0.20 (1.16)	1.17	269.31 (100.0)	17.28 (100.0)	6.41
1992-93	24.11 (8.69)	0.44 (2.52)	1.82	277.54 (100.0)	17.47 (100.0)	6.29
1993-94	35.03 (12.32)	0.76 (6.07)	2.17	284.33 (100.0)	12.52 (100.0)	4.40
1994-95	46.75 (16.09)	0.63 (6.36)	1.35	290.49 (100.0)	9.19 (100.0)	3.16
1995-96	83.26 (24.24)	0.86 (13.39)	1.03	343.43 (100.0)	6.19 (100.0)	1.80
Compound growth rate per annum (%)	62.80	70.32		8.1	20.68	

Source: KSCARDB Annual Reports and DCB statements of IPCARDB Ltd. from 1986-87 to 1995-96

* Figures in the parentheses shows the percentage to total demand and NPAs

Table 4.3.3 Age-wise NPAs of PCARDB, Irinjalakuda during 1986-87 to 1995-96

(Rupees in lakhs)

Year	< 1 year	1-2 years	2-3 years	> 3 years (Hard-core NPAs)	Total
1986-87	0.78 (68.42)	0.31 (27.19)	0.04 (3.51)	0.01 (0.88)	1.14 (100.0)
1987-88	1.15 (70.12)	0.30 (18.29)	0.15 (9.15)	0.04 (2.44)	1.63 (100.0)
1988-89	1.47 (75.38)	0.34 (17.44)	0.10 (5.13)	0.04 (2.05)	1.95 (100.0)
1989-90	15.44 (89.95)	0.99 (7.16)	0.30 (2.17)	0.10 (0.72)	16.84 (100.0)
1990-91	18.98 (80.08)	4.31 (18.19)	0.32 (1.35)	0.09 (0.38)	23.76 (100.0)
1991-92	14.19 (82.12)	2.21 (12.79)	0.78 (4.51)	0.10 (0.58)	17.28 (100.0)
1992-93	12.90 (73.88)	3.18 (18.21)	0.98 (5.61)	0.40 (2.29)	14.47 (100.0)
1993-94	10.28 (82.11)	1.56 (12.46)	0.42 (3.35)	0.26 (2.08)	15.52 (100.0)
1994-95	7.88 (85.84)	1.10 (11.98)	0.14 (1.53)	0.06 (0.65)	9.19 (100.0)
1995-96	5.63 (90.81)	0.45 (7.26)	0.08 (1.29)	0.04 (0.65)	6.19 (100.0)

Source: KSCARDB Annual Reports and DCB statements of IPCARDB Ltd. from 1986-87 to 1995-96

* Figures in the parentheses denotes the percentage to total NPAs

1986-87 it was only 68.42 per cent and showed an increasing trend. The declining trend in hardcore NPAs reflects the efficiency and time bound action by the bank towards recovering the dues.

It can be well inferred from the foregoing analysis that, with regard to all sample banks (B1, B2 and B3), the sudden increase in the NPAs was found after the year 1988-89. This situation can be attributed to the loan write-off policy of the government which ultimately resulted in loanees expecting another round of write-off. This might have discouraged even the proper repayers from making timely repayment, leave alone the case of defaulters. Hence, before going for these sort of populistic policies, much more scientific thinking should be put into and the matter should be studied interms of its long term effects also. with regard to hardcore NPAs, though, the sample banks are not much affected by the problem of hard-core NPAs at present, it is always better that the banks focus their recovery efforts on this category of NPA, before they turn out to be bad debts. If it is not controlled at this stage, it would effect the credit re-cycling process much and may lead to a resource crunch ultimately. In that case the bank may find it difficult to further finance the genuine farmers and repayers. Also, it is found that schematic and non-farms loans result in high rate of NPA.

CHAPTER V

THE REASONS FOR NON-PERFORMING ADVANCES - AN ANALYSIS

5.0 Introduction

It is known that NPAs of PCARDBs have tended to grow for a variety of reasons. Though the reasons are heterogeneous in nature, it is worthwhile to analyse these reasons at grassroot level or borrower level. In this regard a field level study was conducted covering three sample banks in southern Kerala Viz. PCARDB-Neyyattinkara (B1), PCARDB-Cherthala (B2) and PCARDB-Irinjalakkuda (B3). Consequently 50 borrowers each (40 defaulters and 10 Non-defaulters) from these banks were interviewed to examine the reasons effecting high NPAs. The results of the analysis are enumerated in the following sections.

5.1 Socio-economic profile of sample borrowers

The socio-economic characteristics of sample respondents of the selected banks (B1, B2, B3) are set out in Tables 5.1.1, 5.1.2 and 5.1.3 respectively.

5.1.1 PCARDB-Neyyattinkara(B1)

Among the 50 sample respondents under B1, 23 depend on agricultural and allied sectors; 7 belong to services, 8 agricultural labourers, five businessmen, four industrial

Table 5.1.1 Socio-economic profile of sample borrowers of PCARDB, Neyyattinkara

Sl. No.	Particulars	Occupational class						Total
		Agricultural and allied activities	Industry	Services	Business	Agrl. labourers	Non-agrl. labourers	
1	Households	23	04	07	05	08	03	50
2	Family population	137	22	35	30	45	14	282
3	Average size of family	5.96	5.5	5.0	6.0	5.63	4.33	5.64
4	SC/ST households	04	-	-	01	05	02	12
5	% of SC/ST households to total	17.39	-	-	20.0	62.5	66.67	24.0
6	Total women loanees	07	01	04	02	03	-	17
7	Percentage of women loanees to total	30.43	25.0	57.14	40.0	37.5	-	34.0
8	Total size of land (in cents)	4920	458	756	1090	369	215	7808
9	Average size of land (in cents)	214.00	114.5	108	218	46.13	71.67	156.16

Contd....

Table 5.1.1 contd...

10	Total annual income (in Rs.)	544600	98000	127800	180000	81800	31200	1063400
11	Average annual income (in Rs.)	23678	24500	18257	36000	10225	10400	21268
12	Samples having primary level education	08	02	03	01	03	02	19
13	Secondary and above level education	15	02	04	04	05	01	31
14	Defaulters	20	03	06	03	06	02	40
15	Proper repayers	03	01	01	02	02	01	10

Source: Data collected through field survey

sector dependents and three non-agricultural labourers. The average size of family was found higher in the case of business people (6.0), followed by agriculturists (5.9) and agricultural labourers (5.63). The total number of scheduled caste/scheduled tribe households were 12 and it came to 24 per cent of total sample. Women loanees represented 34 per cent of total sample.

With regard to average land holdings of sample borrowers it was found that the highest level of land holding was with the business people (218 cents) followed by agriculturists (214 cents). The average of total respondents was found as 156.16 cents. The agricultural labourers possessed an average of 46.13 cents and non-agricultural labourers 71.6 cents.

Moreover, the selected borrowers except agricultural labourers and non-agricultural labourers were living above the subsistence level with an annual income of Rs.11,000/- and above. It was also found that majority of the sample respondents have education above secondary and degree level, ie., 62 per cent (Table 5.1.1.).

5.1.2 PCARDB-Cherthala (B2)

Of the 50 respondents covered under B_2, 11 belonged to agricultural and allied sector, 12 business people including those engaged in coirmat and matting business and

Table 5.1.2 Socio-economic profile of sample borrowers of PCARDB, Cherthala

Sl. No.	Particulars	Occupational class						Total
		Agricultural and allied activities	Industry	Services	Business	Agrl. labourers	Non-agrl. labourers	
1	Households	11	06	10	12	08	03	50
2	Family population	72	40	65	70	45	15	307
3	Average size of family	6.5	6.6	6.5	5.8	5.6	5.0	6.1
4	SC/ST households	01	01	02	02	07	03	16
5	% of SC/ST households to total	9.1	16.67	20.0	16.67	87.5	100.0	32.0
6	Total women loanees	03	02	02	04	03	-	14
7	Percentage of women loanees to total	27.27	33.33	20.0	33.33	37.5	-	28.0
8	Total size of land (in cents)	1383	517	482	1391.2	224	60	4057.2
9	Average size of land (in cents)	125.731	86.17	48.2	116.0	28.0	20.0	81.14

Contd....

Table 5.1.2 contd...

10	Total annual income (in Rs.)	280700	168980	246000	295000	71300	30600	1092580
11	Average annual income (in Rs.)	25518	28163	24600	24583	8913	10200	21852
12	Samples having primary level education	04	01	02	03	08	03	21
13	Secondary and above level education	07	05	08	09	00	00	29
14	Defaulters	08	05	09	10	05	03	40
15	Proper repayers	03	01	01	02	03	00	10

Source: Data collected through field survey

eight agricultural labourers (Table 5.1.2). Service personnel and industrial dependents constituted 10 and 6 respectively. Industrial dependents were mainly engaged in coir industry and sea-food/peeling industry. The average size of family of these respondents was found as 6.1 and it was found highest with industrial sector dependents (6.6) followed by agricultural and services sector (6.5).

Among the total respondents, 16 belong to SC/ST class and 14 are women loanees. The average size of land of total respondents was found to be 81.14 cents and the highest average holding was found with agriculturists (125.73 cents) followed by business people (116 cents). The land size of non-agricultural labourers and agricultural labourers was very small and it was found as 20 and 28 cents respectively. In the case of average annual income too, they are much below subsistence level and was found to be Rs.10,200/- and Rs.8,913/- respectively. The other classes live above the poverty line.

With regard to the educational level of sample borrowers, it is quite clear from Table 5.1.2 that 29 out of 50 are having an educational status above secondary level.

5.1.3 PCARDB-Irinjalakkuda (B3)

It is evident from Table 5.1.3 that out of 50 respondents of B3, 17 belongs to business class followed by 15 agriculturists and 7 each from services and non-agricultural labour class. Though the area is traditionally an agricultural region, most of the people are now engaged in business activities followed by agriculture and allied activities. As a result, their economic and social situation is well-off when compared to other two sample areas under B1 and B2. The average size of family of sample borrowers was found as 6.3. About 22 per cent of samples covered belongs to SC/ST category. The women loanees come around 22 per cent and the coverage was found less when compared to other two banks.

With regard to the average size of land holding of sample borrowers, it was ascertained as 116.56 cents. The highest average was identified with business class (177.6 cents) followed by services (119.14 cents) and agriculturalists (91.9 cents). It is interesting to note that almost all sample borrowers are living above the subsistence level and their average annual income was found to be above Rs.11,000/-. The highest average annual income was noted with business class (Rs.32,294/-) followed by industry (Rs.28333/-) and service personnels (Rs.27428/-).

Table 5.1.3 Socio-economic profile of sample borrowers of PCARDB, Irinjalakuda

Sl. No.	Particulars	Occupational class						Total
		Agricultural and allied activities	Industry	Services	Business	Agrl. labourers	Non-agrl. labourers	
1	Households	15	03	07	17	07	01	50
2	Family population	99	20	37	110	41	08	315
3	Average size of family	6.6	6.6	5.29	6.47	5.86	8.0	6.3
4	SC/ST households	03	-	-	-	07	01	11
5	% of SC/ST households to total	20.0	-	-	-	100.0	100.0	22.0
6	Total women loanees	06	-	01	03	01	-	11
7	Percentage of women loanees to total	40.0	-	14.29	17.64	11.11	-	22.0
8	Total size of land (in cents)	1379	226	834	3019	290	80	5828
9	Average size of land (in cents)	91.9	75.33	119.14	177.60	41.43	80.0	116.56

Contd....

Table 5.1.3 contd...

10	Total annual income (in Rs.)	328400	85000	192000	549000	83000	11000	1248140
11	Average annual income (in Rs.)	21893	28333	27428	32294	11857	11000	24958
12	Samples having primary level education	08	02	00	00	07	00	17
13	Secondary and above level education	07	01	07	17	00	01	33
14	Defaulters	12	02	06	13	06	01	40
15	Proper repayers	03	01	01	04	01	00	10

Source: Data collected through field survey

In the case of the educational level of sample borrowers, it was found that 33 out of 50 borrowers are having secondary and above level education. As a result, it is understood from the analysis that the socio-economic condition of the sample borrowers under B3 is much above the level which we observed as in the other two cases of B1 and B2.

5.2 NPAs and occupation of sample defaulters

A comparison of NPAs among different occupational classes was made to know which among the occupational classes are having more NPAs. As a result, it is evident from Table 5.2.1 that among the 40 sample defaulters under B_1, 10 were having NPAs above 60 per cent level, and out of which 5 belong to agricultural and allied class. two business class, and one each from other classes. For the analysis chi-square technique was applied to understand the relation of NPAs with different occupational status at specified levels. It was found that significant relationship exist between occupational classes like industry ($\chi^2 = 4.6734$), services ($\chi^2 = 5.3314$), business ($\chi^2 = 4.3909$) and agricultural labourers ($\chi^2 = 3.7715$) and otherwise in the case of agricultural and allied class and non-agricultural labourer class (Table 5.2.1).

With regard to B2, it can be inferred from table 5.2.2 that, 45 per cent of total defaulters were found with a

Table 5.2.1 NPAs and occupational status of sample defaulters of PCARDB, Neyyattinkara (B1)

NPAs	Occupational class						Total
	Agricultural and allied activities	Industry	Services	Business	Agrl. labourers	Non-agrl. labourers	
01 - 20%	03	01	00	00	00	00	04
20 - 40%	05	00	04	01	01	01	12
40 -6 0%	07	02	01	00	04	00	14
60% and above	05	00	01	02	01	01	10
Total	20	03	06	03	06	02	40
χ^2 value	1.4025^{NS}	4.6734*	5.3314*	4.3909*	3.7715*	1.9973^{NS}	

Source: Data collected through field survey

Table 5.2.2 NPAs and occupational status of sample defaulters of PCARDB, Cherthala (B2)

NPAs	Occupational class						Total
	Agricultural and allied activities	Industry	Services	Business	Agrl. labourers	Non-agrl. labourers	
01 - 20%	00	01	00	01	00	00	02
20 - 40%	04	01	01	02	00	01	09
40 -6 0%	02	01	05	01	01	01	11
60% and above	02	02	03	06	04	01	18
Total	08	05	09	10	05	03	40
χ^2 value	4.5705*	3.1509^{NS}	5.2777*	3.4276^{NS}	3.5314^{NS}	0.6177^{NS}	

Source: Data collected through field survey

Table 5.2.3 NPAs and occupational status of sample defaulters of PCARDB, Irinjalakuda (B3)

NPAs	Occupational class						Total
	Agricultural and allied activities	Industry	Services	Business	Agrl. labourers	Non-agrl. labourers	
01 - 20%	02	01	03	06	02	01	15
20 - 40%	03	00	02	02	03	01	11
40 -6 0%	02	01	01	03	01	00	08
60% and above	04	00	00	02	00	00	06
Total	11	02	06	13	06	02	40
χ^2 value	6.4937*	2.8097^{NS}	1.6335^{NS}	1.6077^{NS}	2.5639^{NS}	1.3407^{NS}	

Source: Data collected through field survey

NPA above 60 per cent to demand (18 defaulters) of which six were business people and 4 were agricultural labourers. The chi-square analysis on the same revealed that agricultural and allied class (χ^2 = 4.5705) and services class (χ^2 = 5.2777) are significantly related with percentage of NPAs to demand (Table 5.2.2).

In the case of B3, it can be observed from Table 5.2.3 that unlike other two banks (B1 and B2), B3 shows an advantageous position as NPAs above 60 per cent is present only with 6 defaulters. Highest number of defaulters were found in the NPA classification of 1-20 per cent (15 defaulters) and 20-40 per cent (11 defaulters). It shows the bank's ability to recoup the loans and advances rendered with in a short span of time. The defaulters with NPAs of 60 per cent and above were higher with the class of agricultural and allied activities. Eventhough, the business people were more in the defaulters list, most of them (08) were having an NPA to demand below 40 per cent only. The chi-square analysis revealed that agricultural and allied class is significantly related with percentage NPAs (χ^2 = 6.4937) and others are not related. It means that the number of defaulters in agricultural and allied class are increasing along with increase in percentage NPAs.

It is quiet evident from the foregoing analysis that, in the case of sample banks B1 and B2, the defaulters having NPA above 60 per cent are more and belongs to the category of agriculturists and business class. As has been already hinted in the previous chapter, they are having more land holdings, and live above the subsistence level. Yet they are committing serious NPAs. In the case of B3 NPAs above 40 per cent are relatively less; but those with NPAs above 60 per cent constitute agriculturalists to a major extent. Thus a homogeneity can be observed here that, agriculturalists and business people are responsible for more overdues inspite of having higher socio-economic conditions when compared to other classes. Unless the banks make efforts to ensure timely repayment from these classes, their efficiency in recycling of credit will be adversely affected.

5.3 NPAs and annual income of defaulters

It was observed that the NPAs are closely related to the annual income of both the farm and non-farm income groups. It can be assumed that those having higher income will have less dues. To explore this, an attempt was made to relate the level of annual income and percentage NPAs of sample defaulters under B1, B2 and B3. The results of the analysis are presented below.

Table 5.3.1 reveals that the defaulters under B1 whose income is above subsistence level have a higher NPAs. Of the 23 defaulters eight have NPAs above 60 per cent level. However, regarding defaulters belonging to income class below Rs.11,000/-, there were only 2 defaulters with the level of NPAs default above 60 per cent. The chi-square analysis on the same reveals that a statistically significant relationship exist between annual income and percentage NPAs (χ^2 = 9.005), which is an indication of wilful default.

Interestingly enough, B_2 also shows the same tendency as highlighted in Table 5.3.2. Defaulters with an income level above Rs.11,000/- are comparatively numerous (22 out of 40). In the case of NPAs above 60 per cent level more defaulters fall in the category of those having income above subsistence level. The chi-square (X^2 = 6.3390) also indicates the existence of a statistically significant relation between NPAs and income classes.

Even though a major share of defaulters of B_3 fall in the category of above subsistence level (31), 12 of them have an NPA only between 1-20 per cent, and eight are having an NPA between 20-40 per cent (Table 5.3.3). The chi-square analysis reveals that there is no significant relation between the levels of NPAs and income class (χ^2 = 0.34321). This obviously rules out the question of wilful default from the part of the defaulters in the case of B3.

Table 5.3.1 NPAs and annual income of defaulters of PCARDB Neyyattinkara (B1)

NPAs	Annual income levels		Total
	< 11000	> 11000	
01 - 20%	00 (0)	04 (100.0)	04 (100.0)
20 - 40%	07 (58.3)	05 (41.7)	12 (100.0)
40 - 60%	08 (57.1)	06 (42.9)	14 (100.0)
60% and above	02 (20.0)	08 (80.0)	10 (100.0)
Total	17 (42.5)	23 (57.5)	40 (100.0)

Source: Data collected through field survey

χ^2 value = 9.0055* ($P \leq 0.05$)

Figures in parentheses denotes the percentage to total (row-wise)

Table 5.3.2 NPAs and Annual Income of defaulters of PCARDB, Cherthala (B2)

NPAs	Annual income levels		Total
	< 11000	> 11000	
01 - 20%	00 (0)	02 (100.0)	02 (100.0)
20 - 40%	07 (78.0)	02 (22.0)	09 (100.0)
40 - 60%	04 (36.4)	07 (63.6)	11 (100.0)
60% and above	07 (39.0)	11 (61.0)	18 (100.0)
Total	18 (45.0)	22 (55.0)	40 (100.0)

Source: Data collected through field survey

χ^2 value = 6.3390* ($P \leq 0.05$)

Figures in parentheses denotes the percentage to total (row-wise)

Table 5.3.3 NPAs and Annual Income of defaulters of PCARDB, Irinjalakuda (B3)

NPAs	Annual income levels		Total
	< 11000	> 11000	
01 - 20%	03 (20.0)	12 (80.0)	15 (100.0)
20 - 40%	03 (27.3)	08 (72.7)	11 (100.0)
40 - 60%	02 (25.0)	06 (75.0)	08 (100.0)
60% and above	01 (16.7)	05 (83.3)	06 (100.0)
Total	09 (22.6)	31 (77.4)	40 (100.0)

Source: Data collected through field survey

χ^2 value = 0.34321^{NS} ($P \leq 0.05$)

Figures in parentheses denotes the percentage to total (row-wise)

5.4 NPAs and land holding level of defaulters

It is generally believed that there exists a direct relationship between the size of land holdings and incremental income thereby making it possible for the timely clearance of any accruing debt by the borrower. With this assumption in mind, an attempt was made to find out the relationship between NPAs and landholding size of sample defaulters of B_1, B_2 and B_3.

With regard to B1, Table 5.4.1. depicts that those with landholdings above 1 acre comprised the major share of defaulters (24) followed by respondents having 50-100 cents of land (10 defaulters). The remaining defaulters fall in the category of those having only less than 50 cents of land. Defaulters with NPAs above 60 per cent mainly comprises of those individuals, about 7, having more than an acre of land. Moreover, 9 defaulters with more than one acre of land fall in the category of those having 40-60 per cent of NPAs. Correspondingly, the chi-square result highlights the fact that NPAs and landholding level of defaulters are significantly related ($\chi^2 = 5.522$). There is however a certain degree of inconsistency in the sense that those borrowers having a relatively larger size of landholdings, and thereby higher income exhibited the highest percentage of NPAs which rightly calls for

Table 5.4.1 NPAs and land holdings of defaulters of PCARDB Neyyattinkara (B1)

NPAs	Land holding levels			Total
	< 50 cents	50-100 cents	> 100 cents	
01 - 20%	00 (0)	01 (25.0)	03 (75.0)	04 (100.0)
20 - 40%	01 (8.3)	06 (50.0)	05 (41.7)	12 (100.0)
40 - 60%	04 (28.6)	01 (7.1)	09 (64.3)	14 (100.0)
60% and above	01 (10.0)	02 (20.0)	07 (70.0)	10 (100.0)
Total	06 (15.0)	10 (25.0)	24 (60.0)	40 (100.0)

Source: Data collected through field survey

χ^2 value = 5.522*

Figures in parentheses denotes the percentage to total (row-wise)

including them under the category of wilful defaulters. This highlights the urgent need for taking stern action against the said category for effective recovery of their dues.

In sharp contrast to the above, Table 5.4.2 reveals that with regard to B_2 more number of defaulters fall in the category of those respondents having landholdings below 50 cents (23 defaulters). However, only 7 defaulters shared the above 100 cents category. In terms of defaulters with NPA above 60 per cent, 9 comprised the first category (<50 cents) 4 to the category owning between 50-100 cents of land and 5 defaulters belonged to `the above 100 cents' group. The result indicates that borrowers with a larger landholding size are better-off in terms of repayment of their dues. The chi-square analysis also reveals that there does not exist a statistically significant relationship between percentage NPAs and landholding levels of defaulters in B2.

It can be inferred from Table 5.4.3 that regarding B3, 20 defaulters fall in the category of individuals with landholdings above 100 cent. However, majority of them have committed only an NPA level below 40 per cent (12). In this category, those defaulters who have committed more than 60 per cent of NPA's are relatively less ie., 2 in number. The chi-square analysis depicted a statistically

Table 5.4.2 NPAs and size of land holding of defaulters of PCARDB, Cherthala (B2)

NPAs	Land holding levels			Total
	< 50 cents	50-100 cents	> 100 cents	
01 - 20%	00 (0)	02 (100.0)	00 (0)	02 (100.0)
20 - 40%	07 (77.8)	01 (11.1)	01 (11.1)	09 (100.0)
40 - 60%	07 (63.6)	03 (27.3)	01 (9.1)	11 (100.0)
60% and above	09 (50.0)	04 (22.2)	05 (27.8)	18 (100.0)
Total	23 (57.5)	10 (25.0)	07 (17.5)	40 (100.0)

Source: Data collected through field survey

χ^2 value = 2.53445 ^{NS}

Figures in parentheses denotes the percentage to total (row-wise)

Table 5.4.3 NPAs and size of land holding of defaulters of PCARDB Irinjalakuda (B3)

NPAs	Land holding levels			Total
	< 50 cents	50-100 cents	> 100 cents	
01 - 20%	03 (20.0)	05 (33.50	07 (46.7)	15 (100.0)
20 - 40%	02 (18.2)	04 (36.4)	05 (45.4)	11 (100.0)
40 - 60%	01 (12.5)	01 (12.5)	06 (75.0)	08 (100.0)
60% and above	02 (33.3)	02 (33.3)	02 (33.3)	06 (100.0)
Total	08 (20.0)	12 (30.0)	20 (50.0)	40 (100.0)

Source: Data collected through field survey

χ^2 value = 8.6404*

Figures in parentheses denotes the percentage to total (row-wise)

significant relationship between landholding levels and NPAs (χ^2 = 8.6404). This connotes that along with the increase in land holding size, NPAs were found high in percentage.

Yet another observation is that, even though a greater number of defaulters share the category of above 1 acre, it is a consolation that unlike B_1, their percentage of NPA's was found to be comparatively lower.

5.5 NPAs and educational level of defaulters

An apriori reasoning is that better educational standards and thereby awareness of the problems and consequences of non-repayment of financial obligations have a direct bearing in the repayment of loans and advances by borrowers. With this reasoning, an attempt was made to analyse the relationship between these variables in B1, B2 and B3 and the results are exhibited in the succeeding paragraphs.

Most of the defaulters under B1, B2 and B3 are educationally forward (above secondary and degree level) Table 5.5.1 depicts that, in the case of B1, it was found that out of 25 defaulters, having education above secondary and degree levels, 8 committed NPAs above 60 per cent and nine defaulters had NPA's between 40-60 per cent. The chi-square analysis indicated that there does not exists

a statistically significant relationship between these variables (χ^2 = 2.5123). It can thus be inferred that higher education does not have any impact on the occurrence NPAs.

With regard to B2, 26 defaulters were having an educational qualification above secondary and degree level (Table 5.5.2). In that category, 11 defaulters have committed more than 60 per cent NPAs to demand whereas there were only 7 defaulters in the category of education below primary level. Here too, educational level seems to make no influence on the higher rate of NPAs (χ^2 = 1.28).

In the case of B3, 27 defaulters come under the higher education level category; of which 11 defaulters have committed only around 1-20 per cent of NPAs and only four come under the category of NPAs above 60 per cent. This infers that even though the number of defaulters are more with the higher educational level category, the percentage NPAs due to them are less when compared to B1, and B2. The chi-square analysis also indicated that there is no statistically significant relationship between educational level and NPAs of defaulters under B3 (χ^2 = 0.5025).

From the field study it is thus found that the NPAs do not have any significant relation with educational standard even though there are instances from the study that higher the educational standard, more are the defaulters causing higher NPAs.

Table 5.5.1 NPAs and educational level of defaulters of PCARDB, Neyyattinkara (B1)

NPAs	Educational level		Total
	Primary and below	Secondary, degree and above	
01 - 20%	02 (50.0)	02 (50.0)	04 (100.0)
20 - 40%	06 (50.0)	06 (50.0)	12 (100.0)
40 - 60%	05 (35.7)	09 (64.3)	14 (100.0)
60% and above	02 (20.0)	08 (80.0)	10 (100.0)
Total	15 (37.5)	25 (62.5)	40 (100.0)

Source: Data collected through field survey

χ^2 value = 2.5123^{NS}

Figures in parentheses denotes the percentage to total (row-wise)

Table 5.5.2 NPAs and educational level of defaulters of PCARDB Cherthala (B2)

NPAs	Educational level		Total
	Primary and below	Secondary, degree and above	
01 - 20%	00 (0)	02 (100.0)	02 (100.0)
20 - 40%	03 (33.3)	06 (66.7)	09 (100.0)
40 - 60%	04 (36.4)	07 (63.6)	11 (100.0)
60% and above	07 (39.0)	11 (61.0)	18 (100.0)
Total	14 (35.0)	26 (65.0)	40 (100.0)

Source: Data collected through field survey

χ^2 value = 1.28^{NS}

Figures in parentheses denotes the percentage to total (row-wise)

Table 5.5.3 NPAs and educational level of defaulters of PCARDB, Irinjalakuda (B3)

NPAs	Educational level		Total
	Primary and below	Secondary, degree and above	
01 - 20%	04 (26.6)	11 (73.4)	15 (100.0)
20 - 40%	04 (36.4)	07 (63.6)	11 (100.0)
40 - 60%	03 (37.5)	05 (62.5)	08 (100.0)
60% and above	02 (33.3)	04 (66.7)	06 (100.0)
Total	13 (32.5)	27 (67.5)	40 (100.0)

Source: Data collected through field survey

χ^2 value = 0.5025^{NS}

Figures in parentheses denotes the percentage to total (row-wise)

5.6 Comparative analysis on non-defaulters and defaulters

A borrower level comparative analysis has been carried out for defaulters and non-defaulters to assess whether there is any difference between them with regard to their average land holding, average size of loan, average, annual income and average annual expenditure. The results are tabulated as follows:

Regarding B1 and B3, the average land holdings are more for defaulters whereas in B2 it was non-defaulter who possessed more average land holdings. With regard to size of loans it was seen that the loan size is larger with non-defaulters except in B1. In the case of average annual income, it shows that average annual income is higher with non-defaulters in all the cases (Table 5.6.1 and 5.6.2).

The comparative analysis indicates that in the case of average land holding, no statistically significant difference (at $P \leq 0.05$) exist between defaulters and non-defaulters in all the sample banks. In the case of average size of loan, there exists statistically significant difference between defaulters and non-defaulters for B1 and B2 and no statistically significant difference between them in the case of B3. There was significant difference noticed between defaulters and non-defaulters for average

Table 5.6.1 Borrower level comparative analysis

Parameters Type	Average land holdings (in cents)	Average size of loan (in Rs.)	Average annual income (in Rs.)	Average annual expenditure (in Rs.)
PCARDB Neyyattinkara (B1)				
Non-defaulters (10)	100.20+28.24	28700+9399.82	23900+4084.43	20400+3419.55
Defaulters (40)	170.15+18.97	47100+7916.70	20610+1719.73	18825+1475.39
PCARDB Cherthala (B2)				
Non-defaulters (10)	115.80+26.87	33750+8142.91	26570+3952.83	22200+3072.46
Defaulters (40)	72.48+11.23	18347+2223.24	20672+1661.96	16995+1129.05
PCARDB Irinjalakkuda (B3)				
Non-defaulters (10)	112.40+26.10	86300+19841.6	31800+4200.00	25740+3347.18
Defaulters (40)	117.60+12.38	49150+9985.99	23247+1536.14	19585+1104.15

Source: Data collected through field survey

Table 5.6.2 Comparative analysis on non-defaulters and defaulters difference

Bank	Parameters considered	Mean difference	Standard error	`Z' value	Inference at 5% level
1. Neyyattinkara	Land holding	69.95	34.02	1.69	No significant difference
2. Cherthala	"	43.32	28.01	1.62	-do-
3. Irinjalakuda	"	05.20	28.88	0.18	-do-
1. Neyyattinkara	Size of loan	18400.00	9727.49	2.63*	Significant difference
2. Cherthala	"	15403.00	8293.00	2.50*	-do-
3. Irinjalakuda	"	37150.00	22212.83	1.63	No significant difference
1. Neyyattinkara	Annual income	3290.00	4385.67	0.81	No significant difference
2. Cherthala	"	5898.00	4123.80	1.49	-do-
3. Irinjalakuda	"	8553.00	4472.10	2.25*	Significant difference
1. Neyyattinkara	Annual expenditure	1575.00	3724.26	0.45	No significant difference
2. Cherthala	"	5205.00	3273.33	1.86	-do-
3. Irinjalakuda	"	6155.00	3524.59	2.18*	Significant difference

annual income in B3. Whereas no significant difference exists in B1 and B2. In the case of average annual expenditure, significant difference was noticed between defaulters and non-defaulters in B3 and no such difference was noticed for B1 and B2.

5.7 Problems in obtaining loans

It is a general belief that problems relating to timely availability of loans are more experienced by borrowers of co-operative financial institutions compared to other forms of institutional and non-institutional financial agencies. The problem broadly ranges from the bankers inefficiency in meeting timely credit requirements to the time lag in terms of procedural formalities. This might probably be a reason behind default in repayment of loans. However, before getting into a deeper understanding as to the reasons leading to default in repayment it may be worthwhile to study the problems pertaining to availing of loans. An attempt is therefore made to compare the problems experienced by defaulters and non-defaulters in obtaining loans.

Table 5.7.1 reveals that most of the defaulters under B_1 are facing procedural delays in availing loans (weighted means 10.83 out of 40.0). Inadequacy relating to securities for hypothecation and inadequate loaning assistance from bankers also pose serious problems. The

Table 5.7.1 Problems in obtaining loans - defaulter level analysis of PCARDB, Neyyattinkara (B1)

Sl. No.	Problems	Choice			Total	Weighted mean
		I	II	III		
1	Procedural delay	12	10	09	31	10.83
2	Lack of adequate securities to hypothecate	16	03	02	21	9.33
3	Vested interest	03	05	08	16	4.50
4	Bribery	-	-	01	01	0.16
5	Inadequate loans	06	12	11	29	8.83
6	Others	03	10	09	22	6.33
	Total	40	40	40	120	40.0

Source: Data collected through field survey

opinion of the non-defaulters under B_1 were also taken, to understand the genuinity of the said problem with the results tallying with that of the defaulters (Table 5.7.2). It can therefore be concluded that the borrowers of B1 face problems relating to timely availing of loans and advances, which may be attributed to procedural delay and inadequacy of assistance because of inefficiency of the banker. However the remedial measure lie with the banks taking initiative in terms of adequate measures to overcome such internal or controllable factors.

Analysing B2, it was revealed that (Table 5.7.3) most of the defaulters face the problem of inadequate securities to hypothecate (weighted mean 13.0) followed by procedural delay (12.5). It is also evident from the analysis of non-defaulters under B2 that these two problems exist (Table 5.7.4). With regard to B3, inadequate loaning assistance by the banks, inadequacy of securities to hypothecate and procedural delay turned to be the major issues (Table 5.7.5). Alternately however Table 5.7.6 revealed that lack of securities with the borrower, procedural delay and vested interest of bank officials were the major problems faced by the non-defaulters under B3, while inadequacy of loaning assistance being only a minor issue. This highlights the tendency of the defaulters to absolve from their responsibilities leaving it entirely upon the banker.

Table 5.7.2 Problems faced by non-defaulters to obtain loans - PCARDB, Neyyattinkara (B1)

Sl. No.	Problems	Choice I	Choice II	Choice III	Total	Weighted mean
1	Procedural delay	06	04	-	10	4.33
2	Lack of adequate securities to hypothecate	-	-	-	-	-
3	Vested interest	04	04	01	09	3.50
4	Bribery	-	-	-	-	-
5	Inadequate loans	-	-	04	04	0.67
6	Others	-	02	05	07	1.50
	Total	10	10	10	30	10.0

Source: Data collected through field survey

Table 5.7.3 Problems in obtaining loans - defaulter level analysis of PCARDB, Cherthala (B2)

Sl. No.	Problems	Choice			Total	Weighted mean
		I	II	III		
1	Procedural delay	18	09	03	30	12.50
2	Lack of adequate securities to hypothecate	16	11	08	35	13.0
3	Vested interest	02	06	11	19	4.83
4	Bribery	-	03	03	06	1.50
5	Inadequate loans	04	08	05	17	5.50
6	Others	-	03	10	13	2.67
	Total	40	40	40	120	40.0

Source: Data collected through field survey

Table 5.7.4 Problems faced by non-defaulters to obtain loans - PCARDB, Cherthala (B2)

Sl. No.	Problems	Choice			Total	Weighted mean
		I	II	III		
1	Procedural delay	05	05	-	10	4.17
2	Lack of adequate securities to hypothecate	04	01	01	06	2.50
3	Vested interest	01	02	04	07	1.83
4	Bribery	-	-	-	-	-
5	Inadequate loans	-	02	01	03	0.83
6	Others	-	-	04	04	0.67
	Total	10	10	10	30	10.0

Source: Data collected through field survey

Table 5.7.5 Problems in obtaining loans - defaulter level analysis of PCARDB, Irinjalakuda (B3)

Sl. No.	Problems	Choice			Total	Weighted mean
		I	II	III		
1	Procedural delay	11	09	07	27	9.67
2	Lack of adequate securities to hypothecate	16	08	01	25	10.0
3	Vested interest	02	04	04	10	3.00
4	Bribery	-	-	-	-	-
5	Inadequate loans	10	14	06	30	10.67
6	Others	01	05	22	28	5.50
	Total	40	40	40	120	40.0

Source: Data collected through field survey

Table 5.7.6 Problems faced by non-defaulters to obtain loans - PCARDB, Irinjalakuda (B3)

Sl. No.	Problems	Choice			Total	Weighted mean
		I	II	III		
1	Procedural delay	01	04	03	08	2.33
2	Lack of adequate securities to hypothecate	05	-	02	07	2.83
3	Vested interest	01	03	03	07	2.00
4	Bribery	-	-	-	-	-
5	Inadequate loans	02	01	-	03	1.83
6	Others	01	02	02	05	1.50
	Total	10	10	10	30	10.0

Source: Data collected through field survey

5.8 Borrowers satisfaction with the banking operations

Table 5.8.1 revealed that regarding B1, 60 per cent of the borrowers expressed their satisfaction, with only 40 per cent opined otherwise. For B2, 68 per cent were satisfied with the terms of loans while only 32 per cent of borrowers showing their resentment. Alternately borrowers of B3 exhibited a high satisfaction to the extent of 92 per cent while only a meagre 8 per cent of borrowers who were dissatisfied with the operations of the bank.

The observation is along the lines that with regard to the opinion of the borrowers under B1, B2 and B3, there existed an uniqueness in terms of problems relating to the availing of loans. Hence it can be inferred that lack of adequate securities to hypothecate, procedural delays and inadequate assistance inhibits the timely availability of loans. The remedy lies in constituting loan appraisal cells with professionalised and dedicated personnels so as to gear up the machinery to set the house in order.

5.9 Reasons for mounting NPAs

The reasons for growing volume of NPAs are of internal and external in nature. The NPAs stemming from unsound lending policies and poor appraisal procedures, lack of adequate supervision, misappropriation of loans, apathy of

Table 5.8.1 Borrowers' satisfaction with banking operations

Group	PCARDB Neyyattinkara Number of borrowers	PCARDB Cherthala Number of borrowers	PCARDB Irinjalakuda Number of borrowers	Total
Defaulters				
Satisfactory group	22	25	36	83
Non-satisfactory group	18	15	04	37
	40	40	40	12
Non-defaulters				
Stisfactory group	08	09	10	27
Non-satisfactory group	02	01	00	03
	10	10	10	30
Total				
Satisfactory group	30 (60.0)	34 (68.0)	46 (92.0)	110 (73.33)
Non-satisfactory group	20 (40.0)	16 (32.0)	04 (8.0)	40 (27.0)
Total	50 (100)	50 (100)	50 (100)	150 (100)

Source: Data collected through field survey
* Figures in the bracket denotes percentage to total

management, political and governmental interference, and absence of modern management skills, etc. are some of the internal reasons. On the other hand, the external reasons are attributed to the aspects such as failure of schemes due to natural factors, inadequacy of income, illness of borrowers, etc. This highlights the need to trace out the actual reasons for non-repayment of loans and advances by borrowers as well as the reasons internal to the organisation which lead to high NPAs. In this regard an attempt is made to explore these reasons at borrower level and the results are explicited below.

Table 5.9.1 maintains that for defaulters under B1, inadequacy of income, illness of family members, faith in write-off policy and conspicuous consumption or spending too much on ceremonies respectively formed the important reasons for the non repayment of loans. The non defaulters under B_1 too faced the same difficulties regarding loan-repayment (Table 5.9.2).

It is evident from Table 5.9.3 that, regarding B_2 the major reasons for non repayment by defaulters were found to be the inadequacy of income, lack of access to consumption loans and diversion of income for consumption purposes. There is an element of wilful default seen here in terms of misutilisation of loans and advances and diverting them for consumption purposes. Defective loaning policies of the

Table 5.9.1 Reasons for NPAs; response of sample defaulters of PCARDB, Neyyattinkara (B1)

Sl. No.	Problems	Choice			Total	Weighted mean
		I	II	III		
1	Inadequacy of income	12	09	05	26	9.83
2	Illness of borrower/family members	11	06	06	23	8.50
3	Faith in write-off/ loan weiver policy	05	03	05	13	4.33
4	Ceremonies	03	05	03	11	3.67
5	Non-availability of needed inputs in time	03	02	02	07	2.50
6	Managerial problems and corrupt practices	-	04	03	07	1.83
7	Fixation of unrealistic due dates	-	04	03	07	1.83
8	Diffective loan policies	01	02	03	06	1.67
9	Lack of access to the consumption loans and diversion of income for consumption purposes	-	03	04	07	1.67
10	Adoption of unrealistic unit costs resulting in under-financing/over-financing	01	01	04	06	1.50
11	Natural calamities	02	-	-	02	1.00
12	Inadequate bank funds	01	01	01	03	1.0
13	Lack of recovery efforts by banks	01	-	01	02	0.67
	Total	40	40	40	120	40.0

Source: Data collected through field survey

Table 5.9.2 Difficulties faced to repay the loans non-defaulters of PCARDB, Neyyattinkara (B1)

Sl. No.	Problems	Choice			Total	Weighted mean
		I	II	III		
1	Inadequacy of income	04	-	-	04	2.0
2	Diffective loan policies	02	-	-	02	1.0
3	Fixation of unrealistic due dates	01	-	01	02	0.67
4	Lack of recovery efforts by banks	-	-	02	02	0.33
5	Illness of borrower/family members	02	-	02	04	1.33
6	Managerial problems and corrupt practices	-	01	01	02	0.5
7	Ceremonies	01	02	01	04	1.33
8	Adoption of unrealistic unit costs resulting in under-financing/over-financing	-	-	02	02	0.33
9	Lack of access to the consumption loans and diversion of income for consumption purposes	-	03	-	03	1.0
10	Inadequate bank funds	-	04	01	05	1.5
	Total	10	10	10	30	10.0

Source: Data collected through field survey

Table 5.9.3 Reasons for NPAs; response of sample defaulters of PCARDB, Cherthala (B2)

Sl. No.	Problems	Choice			Total	Weighted mean
		I	II	III		
1	Inadequacy of income	14	07	06	27	10.33
2	Lack of access to the consumption loans and diversion of income for consumption purposes	09	08	06	23	8.17
3	Diffective loan policies	05	05	04	14	4.83
4	Fixation of unrealistic due dates	03	07	04	14	4.50
5	Illness of borrower/family members	03	04	04	11	3.50
6	Lack of recovery efforts by banks	-	-	02	02	0.33
7	Managerial problems and corrupt practices	-	02	01	03	0.83
8	Natural calamities	01	02	01	04	1.33
9	Ceremonies	01	01	-	02	0.83
10	Faith in write-off/ loan weiver policy	03	01	02	06	2.17
11	Adoption of unrealistic unit costs resulting in under-financing/over-financing	-	02	04	06	1.33
12	Non-availability of needed inputs in time	01	01	06	08	1.83
	Total	40	40	40	120	40.0

Source: Data collected through field survey

banker was yet another major factor. But the non defaulters opined that in addition to the inadequacy of income and defective loaning policies, illness of family members and themselves also constituted to the difficulties in the repayment of loans in time (Table 5.9.4).

The defaulters under B3 experienced similar issues but in different degree (Table 5.9.5). The major reasons included were inadequacy of income and illness of borrowers and family members followed by conspicuous consumption, defective loaning policies and fixation of unrealistic due dates. The survey of non defaulters revealed that inadequacy of income was the major inhibiting factor regarding timely repayment and not defective loaning policies. Fixation of unrealistic due dates, illness of family members and themselves and spending on ceremonies were also some of the reasons for high NPAs (Table 5.9.6).

Having seen the major reasons at borrower level for non-repayment of loan dues under B1, B2 and B_3, a detailed examination of these reasons are attempted in the following section.

5.9.1 Inadequacy of income

Insufficient income was a major reason for non repayment of loans by the borrowers. The income earned by them in one period would be sufficient only for reinvesting in same scheme. According to the coconut cultivators and

Table 5.9.4 Difficulties faced to repay the loans by non-defaulters of PCARDB, Cherthala (B2)

Sl. No.	Problems	Choice			Total	Weighted mean
		I	II	III		
1	Inadequacy of income	03	02	-	05	2.17
2	Diffective loan policies	01	02	-	03	1.17
3	Fixation of unrealistic due dates	02	-	-	02	1.0
4	Lack of recovery efforts by banks	01	-	02	03	0.83
5	Illness of borrower/family members	03	02	-	05	2.17
6	Managerial problems and corrupt practices	-	01	01	02	0.50
7	Natural calamities	-	01	-	01	0.33
8	Ceremonies	-	01	-	01	0.33
9	Faith in write-off/loan weiver policy	-	-	02	02	0.33
10	Adoption of unrealistic unit costs resulting in under-financing/over-financing	-	01	01	02	0.50
11	Lack of access to the consumption loans and diversion of income for consumption purposes	-	-	01	01	0.17
12	Non-availability of needed inputs in time	-	-	03	03	0.50
	Total	10	10	10	30	10.0

Source: Data collected through field survey

Table 5.9.5 Reasons for NPAs response of sample defaulters of PCARDB, Irinjalakuda (B3)

Sl. No.	Problems	Choice			Total	Weighted mean
		I	II	III		
1	Inadequacy of income	22	04	03	29	12.83
2	Illness of borrower/family members	06	14	03	23	8.17
3	Ceremonies	02	03	05	10	2.83
4	Diffective loan policies	02	05	-	07	2.67
5	Adoption of unrealistic unit costs resulting in under-financing/ over-financing	02	03	03	08	2.5
6	Fixation of unrealistic due dates	01	04	03	08	2.33
7	Non-availability of needed inputs in time	01	01	07	09	2.0
8	Lack of recovery efforts by banks	03	01	-	04	1.83
9	Natural calamities	-	04	01	05	1.5
10	Managerial problems and corrupt practices	-	-	02	02	0.33
11	Faith in write-off/ loan weiver policy	-	-	06	06	1.0
12	Lack of access to the consumption loans and diversion of income for consumption purposes	-	01	03	04	0.83
13	Inadequate bank funds	01	-	04	05	1.17
	Total	40	40	40	120	40.0

Source: Data collected through field survey

Table 5.9.6 Difficulties faced to repay the loans by non-defaulters of PCARDB,Irinjalakuda (B3)

Sl. No.	Problems	Choice			Total	Weighted mean
		I	II	III		
1	Inadequacy of income	04	01	-	05	2.33
2	Diffective loan policies	-	-	01	01	0.17
3	Fixation of unrealistic due dates	02	01	-	03	1.33
4	Lack of recovery efforts by banks	-	01	-	01	0.33
5	Illness of borrower/family members	02	01	-	03	1.33
6	Ceremonies	-	02	04	06	1.33
7	Adoption of unrealistic unit costs resulting in under-financing/over-financing	01	-	02	03	0.83
8	Lack of access to the consumption loans and diversion of income for consumption purposes	01	01	01	03	0.83
9	Non-availability of needed inputs in time	-	01	02	03	0.67
10	Inadequate bank funds	-	02	-	02	0.67
	Total	10	10	10	30	10.0

Source: Data collected through field survey

pisciculture farmers the cost of fertilisers, pesticides, feeds and labour were kept on increasing resulting in low returns from these activities. Moreover, the disease of coconut like rootwilt hampered the growth of agriculture in the areas of B1 and B2. But for the small scale industries under B2 it was seen that eventhough they received adequate income, they make conspicuous consumption rather than meeting their repayment of obligations. They are keen on their personal needs and luxury instead of repaying loan and advances.

To corroborate the statement, the repayment capacity of borrowers under B1, B2 and B3 was worked out by deducting total farm and non-farm expenditure, pre-existing liabilities to be met within one year and risk allowances from the total farm and non-farm income and found that 78 per cent of borrowers under B1, 68 per cent under B2 and 72 per cent under B3 are having incremental income after meeting their farm and personal needs, which highlights the magnitude of wilful default caused by the respondents. It does not mean that, they are having higher repayment capacity. But it seems that they are not repaying the dues even from their limited incremental income.

5.9.2 Illness of borrowers and family members

It was observed that, illness of borrowers and their family members have a serious impact on the repayment of

loans. The unexpected medical expenses of the borrowers from their income results in reduction in their incremental income leading to non-repayment of dues in time.

5.9.3 Faith in write-off the loans

The loan waiver policy of the government had a negative impact on the decision of the borrowers to repay their dues. It is generally the defaulters who are benefitted by such policy measures and this has created a climate for even the prompt repayers to deliberately delay their repayment especially during the year 1989-90. Moreover, expecting such future proposals from the part of the government, the defaulters await for such write-off resulting in increased number of wilful defaulters. It is also apparent from the analysis of the profiles of sample banks that the period 1989-90 marked a higher volume of NPAs for all the banks and it can be attributed to the above reason (Table 4.1.1, 4.2.1, 4.3.1). So, the government should not resort to such populistic policies; rather provide incentives for prompt repayment.

5.9.4 Lack of access to consumption loans and diversion of income for consumptional purposes

One of the major reasons pointed out by borrowers for default is the non-availability of consumption loans. Due to the diversion of income for consumptional purposes, the clearing-off the dues remains unchanged, as yet. As the

life pattern in Kerala in slightly different from other states, the people are highly interested in conspicuous consumption and like to live at a higher level, than what they can afford. The expenses on education, marriage, festivals, house construction, etc. are very high and in addition they avail all modern facilities. Thus, the expenses towards luxury influences the rate of NPAs of sample defaulters. This can be controlled to a certain extent by linking of marketing with credit. A portion of the price due to beneficiaries from the marketing societies should be channelled to PCARDBs for clearing-off their dues. In addition, consumption loans along with production credit may be provided, if adequately secured with fixed assets at an affordable rate of interest.

5.9.5 Defective loaning policies

Another important reason was that the loans and advances provided by the bank was insufficient to meet the project cost and resulting in forced borrowal from other sources at a higher rate of interest. This will lead to an additional burden on them ultimately affecting the timely repayment of bank dues. To corroborate the statement, it can be inferred from Table 5.9.7 that 38 percent of borrowers under B1, 46 per cent under B2 and 36 per cent under B3 depended upon local money lenders to manage the other portion of project cost at exhorbitant rates of

Table 5.9.7 Sources of additional funds for meeting project cost of sample borrowers

Source	B1 (No. of borrower)	B2 (No. of borrower)	B3 (No. of borrower)
a) Personal savings	09 (18)	08 (16)	15 (30)
b) Borrowings from friends/relatives	12 (24)	13 (26)	07 (14)
c) Loans from other agencies	10 (20)	06 (12)	10 (20)
d) Local money lenders	19 (38)	23 (46)	18 (36)
Total	50 (100)	50 (100)	50 (100)

Soruce: Data collected through field survey
* Figures in the parenthesis denotes the percentage to total

interest which may even cross 30 per cent. Hence, they are compelled to consider the private flat rate loans first and co-operative dues become a matter of secondary importance.

It was also opined that, the securities to be pledged is unscientifically calculated and has to be minimised. It is due to the fact that, the government departments and co-operatives still resort to the previous unrevised mode of property valuation. So it is necessary to revise and find a scale of finance favourable to the project needs and area needs.

5.9.6 Fixation of unrealistic due dates

The repayment period is usually linked to the life of project implemented. But, the general complaint is that, the due dates are not in coincidence with the income generation period. In these banks it is usually on 1st, 5th and 10th day of every month. But, the borrowers feels that they are not able to get adequate income from the scheme before the 10th day, and it usually comes after half of every month. They also opined that these banks are not extending the repayment time even in the case of genuine difficulties.

CHAPTER VI

THE LOAN RECOVERY SYSTEM IN PCARDBs

6.0 Introduction

Loan recovery is the most important asset management function of every banking institution and is considered to be a herculean task. A regular outflow of credit from these institutions depends on regular recovery of loans. Hence it is attempted to examine the loan recovery system that exists in the sample PCARDBs.

There exists a kind of recovery mechanism in all the banks under study. The system is mainly confined to sending due letters and reminders to the defaulters. In addition, in an informal level, the bank's officials and staff make some personal contact with the defaulters to force them to repay the loans. However, this is neither mandatory nor pursued with much seriousness, it is feared. The final option in the recovery mechanism is to initiate legal action and where the role of sale officers from the cooperative department is important. In this part of the analysis an attempt is made to measure the efficiency of the existing recovery mechanism for which an efficiency index is worked out. This efficiency index is also compared with the indices of banks performance on other parameters.

6.1 Efficiency index of the recovery system

In order to analyse the efficiency of the existing recovery mechanism, ten officials (5 members of board of directors and 5 employees) each from all the banks were interviewed. Apparently it seems illogical to ask the directors and employees of the concerned banks about the weakness of their recovery mechanism because it offers sufficient room for biased opinion. Hence the researcher has asked them to opine about five more parameters viz., commitment of board of directors and employees, management of the bank, member relations, intra-bank relations and overall performance of the organisations, in addition to the parameter under question. Then efficiency indices were worked out on all these parameters. The efficiency on the particular parameter (recovery mechanism) is studied by comparing its index value with the values of other indices on all other parameters and not by objectively analysing any particular index value. Hence the index value as such does not convey much and taking the index value in a relative sense is the research tool applied here. This, it is genuinely hoped, would help in avoiding the problem of biasness in respondent's, opinion because the extent of their biasness would be same or will not be much different on parameters of similar nature. The information in the parameters were collected on a three point scale and the indices are worked out by using the Method of Summated Rating.

It can be seen from Table 6.1.1, 6.1.2 and 6.1.3 that the index value on the parameter under question (existing loan recovery system) is lower compared with the index values on all other parameters (The other parameters, namely commitment of board of directors and employees, management of the bank, member relation, intra-bank relation and overall performance of the bank, are taken exclusively for the purpose of comparison and not to be analysed individually). No bank is an exception to this. It means that even in the opinion of the bank's directors and employees officials (who form the respondent group in this analysis), there is something more to be perfected in the existing loan recovery system. Otherwise the index value on this parameter should have been more at least in comparison with some of the other parameters. Hence it can be concluded that in addition to the borrower level reasons, there are certain recovery system related problems for the poor recovery performance.

If an inter-bank comparison is made, Irinjalakkuda PCARDB (B3) stand outstanding on the issue of loan recovery mechanism also. The relevant index value in this case is 75 per cent. The PCARDB Neyyattinkara (B1) and the PCARDB, Cherthala (B2) could obtain an index value only 50 and 45 per cent respectively (Table 6.1.1, 6.1.2 and 6.1.3). This can be a possible reason why the percentage of NPAs was very lower in B3 compared with the other two

Table 6.1.1 Efficiency index of PCARDB, Neyyattinkara (B1)

Sl. No.	Parameters	Fully satisfied	Moderately satisfied	Dissatis-fied	Total	Index
1	Present loan recovery system	02	06	02	10	50.0
2	Commitment of BOD and employees	04	04	02	10	60.0
3	Management of the Bank	05	05	00	10	75.0
4	Member relations	04	05	01	10	65.0
5	Intra-bank relations	04	05	01	10	65.0
6	Overall performance of the organisation	07	00	03	10	70.0

Source: Data collected through field survey

Table 6.1.2 Efficiency index of PCARDB, Chethala (B2)

Sl. No.	Parameters	Fully satisfied	Moderately satisfied	Dissatis-fied	Total	Index
1	Present loan recovery system	02	05	03	10	45.0
2	Commitment of BOD and employees	04	04	02	10	60.0
3	Management of the Bank	06	03	01	10	75.0
4	Member relations	04	04	02	10	60.0
5	Intra-bank relations	03	05	02	10	55.0
6	Overall performance of the organisation	08	00	02	10	80.0

Source: Data collected through field survey

Table 6.1.3 Efficiency index of PCARDB, Irinjalakuda (B3)

Sl. No.	Parameters	Fully satisfied	Moderately satisfied	Dissatis-fied	Total	Index
1	Present loan recovery system	07	01	02	10	75.0
2	Commitment of BOD and employees	08	02	00	10	90.0
3	Management of the Bank	08	02	00	10	90.0
4	Member relations	08	02	00	10	90.0
5	Intra-bank relations	06	03	01	10	75.0
6	Overall performance of the organisation	08	02	00	10	90.0

Source: Data collected through field survey

banks (Table 4.1.1, 4.1.2 and 4.1.3). However, the index value was slightly high in B1 compared with B2 but the percentage of NPAs is lower in B2 than B1. It might be because of the reason that, than the system inefficiency, borrower level problems are the major cause of NPAs in B1. Quite against this, in B_2 recovery system related problems would be playing a higher role in increasing the NPAs than the borrower level problems.

6.2 Reasons for poor recovery performance - an organisational level analysis

The above analysis revealed that the efficiency of the loan recovery system is not very promising except in one of the banks (B3) under study. This naturally leads to an apprehension that some organizational lapses may also be responsible for the poor performance in the recovery front. This apprehension is more validated by the defaulters responses analysed in a previous section. The said analysis proved that the banks are also having a role in the mounting up of NPAs. Hence, here an attempt is made to analyse the organisational level reasons for the poor recovery performance in these banks.

Table 6.2.1 maintains the fact that the major reasons for poor recovery performance of B1 seemed to be inefficiency of the legal machinery, lack of adequate staff for field supervision and loan appraisal, lack of good work

Table 6.2.1 Organisational level reasons for poor recovery performance of PCARDB, Neyyattinkara (B1)

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Ineffective legal machinery	05	04	01	10	4.00
2	Lack of adequate staff for field supervision and loan appraisal	04	03	01	08	3.17
3	Lack of a good work culture and inadequacy of commitment from employees	01	01	-	02	0.87
4	Over politicization and excess Govt. control	-	01	-	01	0.33
5	Inadequate quality of work life	-	-	01	01	0.17
6	Lack of commitment from BOD	-	-	01	01	0.17
7	Poor member relations	-	-	02	02	0.33
8	Lack of infrastructural facilities	-	-	01	01	0.17
9	Lack of modern management techniques and absence of MIS	-	01	-	01	0.33
10	Absence of professionalised manager	-	-	03	03	0.50
	Total	10	10	10	30	10.00

Source: Data collected through field survey

culture and inadequacy of commitment from employees. With regard to B2 it is evident from Table 6.2.2 that the management and staff considered lack of adequate staff for field supervision, ineffective legal machinery, lack of good work culture and inadequate commitment from the part of employees as the important issues behind the poor recovery performance of the bank. Though B3 is an exception with a meagre percentage of NPAs the study maintains that the problems of inadequacy of staff for field supervision and loan appraisal, inefficient legal machinery and absence of professionalised managers for recovering dues constitute the major problems relating to the said issue (Table 6.2.3).

Legal action as a strategy for recovery, has failed miserably mainly due to the inordinate delays built in the system. Inefficiency of legal machinery and consequent delay in legal action against defaulters is still a matter of serious concern. It is also visible that, by the time the legal procedure comes to its logical end, the likely realisable value of assets, charged to them may not be adequate even to meet the legal expenses incurred by them, leave aside the recovery of their principal, interest and other charges. This tendency is to be tackled enough by setting up special tribunals to decide the recovery cases of public financial institutions and cooperative banks through revitalisation of the present cooperative tribunal.

Table 6.2.2 Organisational level reasons for poor recovery performance of PCARDB, Cherthala (B2)

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Lack of adequate staff for field supervision and loan appraisal	04	04	01	09	3.50
2	Ineffective legal machinery	02	03	03	08	2.50
3	Lack of a good work culture and inadequacy of commitment from employees	02	-	01	03	1.67
4	Over politicization and excess Govt. control	-	-	02	02	0.33
5	Poor member relations	-	01	-	01	0.33
6	Lack of infrastructural facilities	01	-	-	01	0.50
7	Lack of modern management techniques and absence of MIS	-	02	01	03	0.83
8	Absence of professionalised managers	01	-	02	03	0.83
	Total	10	10	10	30	10.00

Source: Data collected through field survey

Table 6.2.3 Organisational level reasons for poor recovery performance of PCARDB, Irinjalakuda (B3)

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Lack of adequate staff for field supervision and loan appraisal	03	05	02	10	3.50
2	Ineffective legal machinery	04	03	02	09	3.83
3	Over politicization and excess Govt. control	01	-	02	03	0.83
4	Inadequate quality of work life	-	-	01	01	0.17
5	Lack of infrastructural facilities	01	-	01	02	0.67
6	Lack of modern management techniques and absence of MIS	-	01	-	01	0.33
7	Absence of professionalised managers	01	01	02	04	1.17
	Total	10	10	10	30	10.00

Source: Data collected through field survey

It is also vividly exhibited in the analysis that the inadequacy of staff for field supervision and loan appraisal is yet another major problem as far as the PCARDBs are concerned. A pertinent reason to be noted here is the inadequacy of funds, the hectic rein of which is a grave concern to the PCARDBs. There also exists a drastic need for skilled personnel with regard to field supervision and loan appraisal. It is obvious that, co-operatives are still following the traditional methods and techniques of management which will inhibit the accomplishment of the deserved fruits especially in the present stage of economic change. Unless they incorporate modern measures of management and accounting the ultimate result will be failure of the system while competing with private banks and commercial banks. A feasible solution to these problems is the constitution of a loan appraisal and management cell, incorporating the services of the professionals in the concerned discipline.

6.3 Suggestions for better recovery system

Having measured the efficiency level of the recovery mechanism and having seen the borrower level and organisational level reasons for high NPAs, now it is imperative to develop policy guidelines to improve the recovery climate. With that aim, the borrowers and bank officials were consulted eliciting their suggestions. These suggestions are further processed and analysed in this section.

In the case of B1, it is evident from Table 6.3.1 that most of the defaulters suggested that awareness creation through cordial banker-customer relation, adoption of appropriate modes and schedules of repayment and fixation of recovery period in coincidence with harvest and income period will do a lot for a better recovery climate. The non-defaulters under B1 are also of the same opinion adding that provision for incentives to proper repayers is to be implemented (Table 6.3.2). The organisational level analysis of the suggestion for a better recovery system under B1 reveals that, legal machinery has to be made effective and legal action should be imposed on defaulters promptly. The incorporation of profesionalised management and modern management techniques in cooperatives and member education programmes in addition to the provision of autonomy to cooperatives will be helpful for creating a proper recovery machinery (Table 6.3.3).

Regarding B2, Table 6.3.4 maintains that, most of the defaulters opined that provision for adequate field staff for project supervision, provision for consumption loans in addition to production loans and conversion of loan period, in case of undeliberate default, have to be initiated to make them repay in time. However, the non-defaulters under B2 were of the opinion that, strenuous action against wilful defaulters and incentives for prompt repayment will

Table 6.3.1 Suggestions for a better recovery system by defaulters of PCARDB, Neyyattinkara (B1)

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Provision for adequate field staff for project supervision	02	02	02	06	2.00
2	Incentives for proper repayment	05	02	04	11	3.83
3	Creation of awareness through good customer banker relations	13	10	09	32	11.33
4	Timely reminders	01	05	03	09	2.67
5	Conversion of loan period	01	03	-	04	2.17
6	Stern action against wilful defaulters	01	06	07	14	3.67
7	Small instalments	05	03	02	10	3.83
8	Provision for consumption loans	02	02	01	05	1.83
9	Adoption of appropriate modes and schedules of repayment	04	03	07	14	4.17
10	Timely credit	01	01	02	04	1.17
11	Fixation of recovery period in coincidence with harvest/income period	05	03	03	11	4.00
	Total	40	40	40	120	40.00

Source: Data collected through field survey

Table 6.3.2 Suggestions for a better recovery system by non-defaulters of PCARDB, Neyyattinkara (B1)

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Provision for adequate field staff for project supervision	01	-	-	01	0.5
2	Incentives for proper repayment	02	03	01	06	2.17
3	Creation of awareness through good customer banker relations	04	03	-	07	3.0
4	Timely reminders	01	01	01	03	1.0
5	Stern action against wilful defaulters	-	01	07	08	1.5
6	Small instalments	02	01	-	03	1.33
7	Fixation of recovery period in coincidence with harvest/income period	-	01	01	02	0.5
	Total	1	10	10	30	10.00

Source: Data collected through field survey

Table 6.3.3 Organisational level suggestions for a better recovery system of PCARDB, Neyyattinkara (B1)

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Creation of awareness among the staff and members about the consequences of NPAs	01	01	-	02	0.67
2	Legal machinery effectiveness has to be initiated and legal action should be impaired on defaulters in time	03	04	01	08	3.00
3	Coercive action against wilful defaulters	-	-	01	01	0.17
4	Politicians and board members who influences the bank for the defaulters should be discouraged	-	01	-	01	0.33
5	No fresh loans to defaulters	01	-	-	01	0.50
6	Provide loans only after analysing the credit worthiness of the borrowers	-	02	01	03	0.83
7	Conduct of member education programmes	01	01	01	03	1.00
8	Formation of a special recovery cell	01	-	02	03	0.83
9	Professionalised management and modern management techniques has to be incorporated	02	01	01	04	1.50
10	Reduce the control of government and ensure autonomy to cooperatives	01	-	03	04	1.00
	Total	10	10	10	30	10.0

Source: Data collected through field survey

Table 6.3.4 Suggestions for a better recovery system by defaulters of PCARDB, Cherthala (B2)

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Provision for adequate field staff for project supervision	08	07	04	19	7.00
2	Incentives for proper repayment	03	03	04	10	3.17
3	Creation of awareness through good customer banker relations	02	02	05	09	2.50
4	Timely reminders	01	02	02	05	1.50
5	Conversion of loan period	06	07	02	15	5.67
6	Stern action against wilful defaulters	01	03	04	08	2.17
7	Small instalments	-	08	05	13	3.50
8	Provision for consumption loans	11	06	05	22	8.33
9	Adoption of appropriate modes and schedules of repayment	03	01	03	07	2.33
10	Timely credit	02	-	01	03	1.17
11	Fixation of recovery period in coincidence with harvest/income period	03	01	05	09	2.67
	Total	40	40	40	120	40.00

Source: Data collected through field survey

effect proper recovery of dues. They are of the view that creation of awareness through good banker-customer relation will minimise the deliberate default (Table 6.3.5). The bank official under B2 are of the opinion that revitalization of legal machinery and formation of special recovery cells is an essential element for a better recovery system. They added that, the control by government upon cooperatives has to be reduced and autonomy to cooperatives should be ensured (Table 6.3.6) to eliminate the delay in taking corrective action against defaulters.

In the case of B3, it can be inferred from Table 6.3.7 that the defaulters are of the opinion that to strengthen the recovery climate, rescheduling of repayment instalments to the borrowers should be ensured in the case of genuine incidents. They are of the view that, provision for adequate field staff for project supervision and incentives for proper repayment can be favourably towards a better recovery management climate. But the non-defaulters suggested that stern action against wilful defaulters and provision for incentives to prompt repayers will definitely eliminate the problem of non-repayment of loans (Table 6.3.8). The bank officials of B3 were of the view that, the reorganisation of legal machinery and reduction in governmental interference on cooperatives has to be implemented to create a better recovery climate. They

Table 6.3.5 Suggestions for a better recovery system by non-defaulters of PCARDB, Cherthala (B2)

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Provision for adequate field staff for project supervision	-	02	01	03	0.83
2	Incentives for proper repayment	03	-	02	05	1.83
3	Creation of awareness through good customer banker relations	01	02	-	03	1.67
4	Timely reminders	01	-	01	02	0.67
5	Conversion of loan period	-	-	01	01	0.17
6	Stern action against wilful defaulters	04	02	-	06	2.67
7	Small instalments	-	02	02	04	1.00
8	Provision for consumption loans	-	-	01	01	0.17
9	Adoption of appropriate modes and schedules of repayment	01	01	-	02	0.83
10	Fixation of recovery period in coincidence with harvest/income period	-	01	02	03	0.67
	Total	10	10	10	30	10.00

Source: Data collected through field survey

Table 6.3.6 Organisational level suggestions for a better recovery system of PCARDB, Cherthala (B3)

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Creation of awareness among the staff and members about the consequences of NPAs	01	01	-	02	0.83
2	Legal machinery effectiveness has to be initiated and legal action should be impaired on defaulters in time	02	01	03	06	1.83
3	Coercive action against wilful defaulters	-	-	01	01	0.17
4	Publish the name of defaulters in newspapers	01	01	-	02	0.83
5	In genuine cases, provide additional loans to defaulters to get rid of the losses occurred due to the failure of the scheme	-	01	-	01	0.33
6	Charge additional penal rate of interest to defaulters	-	01	01	02	0.50
7	Politicians and board members who influences the bank for the defaulters should be discouraged	01	-	-	01	0.50
8	No fresh loans to defaulters	-	01	-	01	0.33
9	Provide loans only after analysing the credit worthiness of the borrowers	01	-	01	02	0.67
10	Conduct of member education programmes	-	01	01	02	0.50
11	Rebate in interest to the regular repayers as an incentive	-	01	-	01	0.33
12	Formation of a special recovery cell	02	01	-	03	1.33
13	Professionalised management and modern management techniques has to be incorporated	01	-	01	02	0.67
14	Reduce the control of government and ensure autonomy to cooperatives	01	01	02	04	1.17
	Total	10	10	10	30	10.00

Source: Data collected through field survey

Table 6.3.7 Suggestions for a better recovery system by defaulters of PCARDB, Irinjalakuda

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Provision for adequate field staff for project supervision	07	04	01	12	5.00
2	Incentives for proper repayment	07	03	02	12	4.83
3	Creation of awareness through good customer banker relations	02	02	04	08	2.33
4	Timely reminders	02	02	02	06	2.00
5	Conversion of loan period	07	02	02	11	4.50
6	Stern action against wilful defaulters	06	06	03	15	5.50
7	Small instalments	04	13	02	19	6.67
8	Provision for consumption loans	01	03	01	05	1.67
9	Adoption of appropriate modes and schedules of repayment	02	03	05	10	2.83
10	Timely credit	01	01	07	09	2.00
11	Fixation of recovery period in coincidence with harvest/income period	01	01	11	13	2.67
	Total	40	40	40	120	40.00

Source: Data collected through field survey

Table 6.3.8 Suggestions for a better recovery system by non-defaulters of PCARDB, Irinjalakuda (B3)

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Provision for adequate field staff for project supervision	01	01	-	02	0.83
2	Incentives for proper repayment	04	01	02	07	2.67
3	Creation of awareness through good customer banker relations	-	02	-	02	0.67
4	Timely reminders	01	-	02	03	0.83
5	Stern action against wilful defaulters	04	03	01	08	3.17
6	Small instalments	-	02	02	04	1.00
7	Provision for consumption loans	-	-	01	01	1.17
8	Adoption of appropriate modes and schedules of repayment	-	01	01	02	0.50
9	Fixation of recovery period in coincidence with harvest/income period	-	-	01	01	1.17
	Total	10	10	10	30	10.00

Source: Data collected through field survey

Table 6.3.9 Organisational level suggestions for a better recovery system of PCARDB, Irinjalakuda (B3)

Sl. No.	Suggestions	Choice			Total	Weighted mean
		I	II	III		
1	Creation of awareness among the staff and members about the consequences of NPAs	-	03	03	06	1.50
2	Legal machinery effectiveness has to be initiated and legal action should be impaired on defaulters in time	02	02	02	06	2.00
3	Coercive action against wilful defaulters	02	-	-	02	1.00
4	Publish the name of defaulters in newspapers	-	01	-	01	0.33
5	Politicians and board members who influences the bank for the defaulters should be discouraged	-	01	-	01	0.33
6	Provide loans only after analysing the credit worthiness of the borrowers	01	-	02	03	0.83
7	Rebate in interest to the regular repayers as an incentive	-	01	-	01	0.33
8	Formation of a special recovery cell	-	01	01	02	0.50
9	Professionalised management and modern management techniques has to be incorporated	02	-	02	04	1.33
10	Reduce the control of government and ensure autonomy to cooperatives	03	01	-	04	1.83
	Total	10	10	10	30	10.00

Source: Data collected through field survey

added the importance of awareness creation among staff and members about the consequences of NPAs and the need for a highly professionalised management system in banks to keep the efficiency of the recovery machinery intact (Table 6.3.9).

Thus it can be obviously inferred from the analysis that adequate field staff for project supervision and loan appraisal are lacking in these banks. It is therefore of utmost importance to see that every bank is well equipped with a skilled and professional project supervision machinery. In addition, stern action against wilful defaulters and provision for incentives to prompt repayers has to be effected. The wilful nature of default can be identified through efficient project supervision and these banks need to incorporate new modes of incentives to proper repayers like other institutional financial agencies. Provision for consumption loans can also be initiated to genuine cases under strict supervision to create a better recovery horizon.

According to bank officials and management, lack of efficient legal machinery and legal action towards defaulters is the main drawback of the present recovery management system. They opines that the cooperative tribunal has to be strengthened and autonomy to cooperatives should be ensured so as to exert coercive

pressure on defaulters. They feel that, if complete autonomy is extended to cooperatives, appropriate decisions at appropriate time can be taken towards effecting recovery of NPAs. They also suggested the need for a professionalised management system in co-operatives incorporating skilled and competent personnel from concerned disciplines. For the accomplishment of that, the government need to take appropriate steps to identify and utilise the competent personnel, through public service commission. In addition, formation of a special recovery cell utilising the existing staff and incorporating professionals need to be implemented. This calls for the appointment of sale officer in each bank, which till date exists as a serious limitation in most of banks.

Summary and Conclusion

CHAPTER VII

SUMMARY, FINDINGS AND POLICY IMPLICATIONS

7.1 Background

The introduction of new technology in agriculture has brought about a significant increase in the demand for production as well as investment credit. Government, therefore, took a number of measures to meet the growing credit needs of agriculture through the institutional finance and has helped greatly in increasing the flow of institutional credit to agriculture in recent years. The Co-operative Agricultural and Rural Development banks are an important institutional agency for providing investment credit to agriculture in our country and have recorded an impressive growth in their operations in recent years. In Kerala, the loans issued by these banks increased from Rs.3,061.14 lakhs in 1984-85 to Rs.15,400.00 lakhs during 1995-96.

In spite of this phenomenal increase in the flow of credit to agriculture, the problem of non-repayment of loans by the farmers is causing serious concern to policy makers. As in 1994-95, NPAs of PCARDBs, in Kerala stood at Rs.3647.35 lakh which was about 6.7 per cent of all India figure of Rs.54155 lakhs. Due to the increasing trend of NPAs, majority of these bank are forced to follow the

policy of restricted lending. When these grow out of proportion, the ability of the banks to recycle scarce credit in the service of an ever-increasing number of rural people will be affected. This may even question the very existence of these banks and hence a thorough investigation of the various aspects leading to the problem is of utmost importance.

The present study entitled "An enquiry into the Non-performing Advances (NPAs) of Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) in southern Kerala was therefore taken up with the following objectives.

1. To examine the causes of Non-performing Advances of PCARDBs in southern Kerala
2. To inquire into the present loan recovery system of these banks in southern Kerala

7.2 Materials and methods

The study was confined to the three PCARDBs in southern Kerala viz., PCARDB Neyyattinkara (B1), PCARDB Cherthala (B2) and PCARDB Irinjalakkuda (B3). The sample frame comprised 150 respondents ie., 50 borrowers from each bank at random such that 80 per cent of them were defaulters and the rest were prompt repayers or non-defaulters as a control group. The sample has been drawn in

such a way that each loan category represented itself in proportion to its share to the total NPAs. Also the bank officials and employees were interviewed to draw out the existing loan recovery practices adopted by the banks and to probe into the efficiency of these banks in the said practice. Pre-tested structured schedules were administered to collect the required information from the respondents. The secondary data for the analysis were compiled from the annual reports, DCB statements and other published statistical statements of these banks for a period from 1986-87 to 1995-96.

The growth rate of important indicators like membership, loans and NPAs were worked out, employing multiple regression logarithmic models and coefficient of determination (R^2) were used to identify the significance of the factors used for multiple regression analysis. Simple correlation between the variables were also found out to understand the degree of relationship. Chi-square tests were carried out to understand the influence of socio-economic characters of respondents on different levels of NPAs. To draw out the efficiency of the present loan recovery system, an efficiency index has been prepared on a three point scaling method. Simple averages, bi-variate tables, weighted mean, etc. were also formed part of the analysis.

7.3 Findings

Based on the above methodology, the study was conducted and the findings of the study were as follows:

7.3.1 The extent and dimensions of NPAs in PCARDBs

The NPAs position of B1 (PCARDB Neyyattinkara) showed an average annual compound growth rate of 20.12 per cent during the period 1986-87 to 1995-96. When it was only Rs.57.83 lakhs in 1986-87 and increased considerably to Rs.301.08 lakhs in 1995-96. For B2 (PCARDB Cherthala) annual compound growth rate was 40.6 per cent and in the case of B3 (PCARDB Irinjalakkuda), it was 20.69 per cent. When considering the absolute figures of NPAs and percentage of NPAs to demand it can be established that when compared to B2 and B3, B1 had a higher rate of NPAs. However, regarding management of NPAs, the performance of B3 was commendable.

With regard to all sample banks (B1, B2 and B3), the sudden increase in NPAs was observed after the year 1989, which can be attributed to the loan-waiver policy of the Government which inhibited loanees to make prompt repayment of their present dues in expectation of similar reliefs.

It was also found that, the schematic loans and non-farm loans cause more NPAs to demand except in the case of B3, where ordinary loans and schematic loans contributed to

NPAs. It was also notable that the NPAs to demand position of B3 is meagre when compared to B1 and B2 (1.80% in the year 1995-96), and except B3, the other banks were running on absolute loss.

The agewise classification of NPAs reflected that, the NPAs above three years, or hard-core NPAs were lower in percentage for all sample banks {(23.40 per cent (B1), 27.0 per cent (B2) and 0.04 per cent (B3)} during the year 1995-96. Eventhough these banks were not much affected with the problems of hard-core NPAs, it becomes inevitable for them to take efforts to reduce it further considering the high chances of it developing into bad assets or loss assets.

7.3.2 Borrower level reasons for NPAs

The socio-economic profile of sample borrower reflected that, with regard to B2 and B3, more number of sample borrowers were engaged in business activities (24 per cent and 34 per cent respectively). In the case of B3 agriculturalists were predominative (46 per cent). The representation of women loanees were 34 per cent in B1, 25 per cent in B2 and 22 per cent in B3. The average land holdings of borrowers stood at 156.32 cents in B1, 81.16 cents in B2 and 116.56 cents in B3. However, regarding annual income, exempting the agricultural and non-agricultural labourers of B1 and B2 it was established that

the respondents lived above the subsistence level of Rs.11000/- per annum. It has also been noted that most of the borrowers under all the sample banks were having an educational level above secondary and degree level.

A comparison of NPAs to demand on different occupational classes revealed that, with regard to B1 there existed significant relationship between occupational classes like industry, services, business and agricultural labourers and the percentage NPAs. Of the 40 sample defaulters of B1, 10 were having NPAs above 60 per cent level of which 50 per cent belong to agricultural and allied classes.

In the case of B2, 45 per cent of total defaulters were having an NPAs above 60 per cent and there existed a significant relationship between agricultural and allied class and service class and NPAs to demand. On contrary, it was found that in the case of B3, the defaulters having NPA above 60 per cent level were lesser when compared to other two banks (15 per cent). The chi-square analysis revealed a statistically significant relationship only between the agricultural allied class and NPAs. It can thus be inferred that agricultural and business classes of borrowers were committing more NPAs to demand eventhough they were socially and economically forward when compared to other classes.

A comparison of NPAs and annual income of defaulters of B1 and B2 depicted a significant relationship between them. This establishes that borrowers with sufficient income are wilfully defaulting in making prompt repayment of loans.

Similarly, the NPAs and land holding level of defaulters was significantly related in the cases B1 and B3. This means that defaulters having more land holding size are committing more NPAs. This is against the general belief about the existence of a direct relationship between size of land holdings and incremental incomes, thereby making it possible for the timely repayment of any accruing debt by the borrower. This highlight the need for categorising them under the group of wilful defaulters.

It has been found that, though majority of the defaulters under B1, B2 and B3 are having an educational level above secondary and degree level, the NPAs do not have any significant relationship with educational standard, eventhough there are instances from the study that higher the educational standard, more are the defaulters causing higher NPAs.

The comparative analysis of defaulters and non-defaulters under B1, B2 and B3 enumerates that, with regard to average land holdings, no statistically significant

difference was observed considering the fact that under B1 and B3, the defaulters are having more average land holdings when compared to non-defaulters. With regard to average size of loan, significant differences ($P \leq 0.05$) was found only in the case of B2. In the case of average annual income and average annual expenditure, a significant difference was observed only in the case of B3, where too the non-defaulters are having highest average. Hence it is difficult to categorise the sample defaulters as wilful or non-wilful defaulters, considering these socio-economic parameters and by comparing them with non-defaulters.

It was also observed that, lack of adequate securities to hypothecate, procedural delay and inadequate assistance inhibited the defaulters and non-defaulters in getting timely loans. The percentage of borrowers expressed their satisfaction with loans under B1, B2 and B3 were 60 per cent, 68 per cent and 92 per cent respectively. This means that lower satisfaction was found only with the borrowers under B1, followed by B2. This can be attributed to the above mentioned problems while availing the loans.

The reasons for growing volume of NPAs are multifarious in nature. It has been found that, for the defaulters under B1, the major reasons for non-repayment of loans are inadequate income, illness of family members, hope for write-off policy, and conspicuous consumption.

The non-defaulters were also of the opinion that, they too faced with such problems while repaying loans. But defaulters under B2 opined that, in addition to inadequacy of incomes, lack of access to consumption loans and diversion of income for consumptional purposes were the major reasons for default. They argued that the defects in the lending policies of the banks were also contributing deleterious effect on the repayment of loans. The non-defaulters opined that inadequate income from schemes, defective loaning policies illness of family members are the major problems faced by them during repayment periods.

The defaulters under B3, faced the same problems but in a different degree. Inadequacy of income, illness of family members, followed by conspicuous consumption, defective loaning policies and the fixation of unrealistic due dates for loan repayment were their major barriers. The survey of non-defaulters, revealed that, inadequacy of income was the major reason which inhibits timely repayment. However, it can be generalised that inadequacy of income, illness of family members, conspicuous consumption, defective loaning policy are the major reasons or inhibiting factors regarding repayment of loans and advances.

7.3.3 Efficiency of the present loan recovery system

An interbank comparison of efficiency of the existing loan recovery mechanism has been worked out by comparing

its index values with other parameters such as overall performances of banks, intrabank relations, commitment of management and employees, member relation, etc. It has been found from the analysis that in all the cases (B1, B2 and B3), the index value on the parameter under question was lower when compared to other parameters, which denotes that even in the opinion of the bank officials, there is something more to be perfected in the existing loan recovery system. From the interbank comparison, it has been found that, the performance of PCARDB Irrinjalakuda (B3) is outstanding in the loan recovery management when compared to B1 and B2, with 75 per cent as index value. This might possibly be a reason for their lower NPA position.

7.3.4 Organisational level reasons for poor recovery performance

It has been revealed from the previous analysis that the efficiency of the present loan recovery system is not promising except in one of the banks (B3) under study. This naturally leads to a conclusion that in addition to the borrower level reason, there could be some organisational lapses, responsible for the poor recovery performance of these banks. It has been found out from the analysis of organisational level reason for poor recovery performance that, inefficiency of the legal machinery for recovering dues from borrowers, lack of adequate staff for field supervision and loan appraisal, lack of commitment and involvement from the part of employees and absence of

professionalised managers for recovery management were the major reasons for poor performance of the recovery machinery and for the occurrence of high NPAs.

7.3.5 Suggestions from borrowers and back officials regarding better loan recovery system

Heavy overdues, a persistent problem of both short term and long term credit structure is seen to adversely affect the reputation of the banking system. Recovery is therefore the most important asset management function, but it is being considered as Herculean task for all banks. As a step in this direction, the borrowers and bank officials were interviewed to elicit measures for tackling the overdues problems and to suggest a better recovery management system.

The study establishes several factors which accounts for the prevalence of NPAs among which wilful defaults stands out to be a very serious menace. The defaulters and non-defaulters of B1 were of the opinion that there needs preventive measures and safeguards for reducing the chances of overdues of advances in future through awareness creation effected by way of cordial banker-customer relations. A more appropriate mode and schedule for repayment of loans, , would facilitate better recovery. The defaulters suggested that the

recovery period fixation ought to coincide with the harvest/income generating period. A provision for incentives to prompt repayers were also suggested by them.

However, at the organisational level, it was suggested that the management of the bank must do well to take prompt and effective legal action against all defaulters. There ought to be absolute autonomy for the co-operatives and professionalism in management need to be the order of the day. Member education programmes to inculcate an awareness of financial discipline and repayment of loans was also emphasised.

The defaulters of B2 stressed upon the need for employing adequate staff for effective field supervision and provision for consumption loans to avoid diversion of loans. Suggestions were made with regard to extending the period of the loan in case of genuinity. The non-defaulters were of the opinion that a recovery drive initiated by strenuous action against wilful defaulters need to be effected. Incentives for prompt repayment, the programmes for awareness creation among borrowers formed part of their suggestions.

The organisational level suggestions stood in line with those expressed by the officials of B2 stressing upon the need to improve and revitalise the present legal

machinery in terms of loan recovery. This according to them could be effected through establishing special recovery cells. They further emphasised autonomy to co-operatives.

The main suggestions elicited by the defaulters of B3 relate to rescheduling of the repayment instalments. For this, postponement of the dues recoverable at the end of the loan period should be given effect to. Incentives for prompt repayment together with field supervision as a provision for efficient recovery system were suggested by them. The non-defaulters of B3 were also for taking stern action against wilful defaulters, incentives for prompt repayment etc. The organisational level suggestions of B3 tallied with that of B1 and B2.

When borrower farmers affected by genuine unforeseen contingencies cannot repay their dues on account of repayment capacity, the banks should resort to postponing dues recoverable at the end of the loan period and the excess interest burden should be met by the state Government as part of the relief measures.

Persuasion from the part of the employees of the bank will go a long way in prompt repayment of loans, which can be achieved through their taking up of the moral

responsibility of insisting the borrowers to make timely repayment. Board of Directors with leadership qualities together with professionalisation in management in the areas of loan appraisal and recovery management system seems quite inevitable in effective revival and recovery of NPAs. The decision by the Government,
delegating a separate recruitment agency similar to the Public Service Commission, for appointing professionalised personnel is a welcome step in this direction. To strengthen the prevailing co-operative tribunal, timely and proper, so as not to divert or misutilise the loans disbursed ought to be established. Simultaneously, incentives in the form of special discounts, remissions of only a certain portion of interest on prompt repayment etc. may be introduced to induce the borrowers to repay in time. Moreover, launching of recovery cells by banks, backed and supported by the State Government, through the Department of Co-operation and Revenue would be effective in cutting down unnecessary delays normally involved in loan repayment. By taking measures for collecting the dues in time, NPAs becoming hard-core NPAs' may be prevented. Adequate supportive facilities in the form of production loans and consumption loans required by the beneficiaries need to be provided for making optimum use of borrowed funds. This is sure to minimise the tendency for diversion of loans for unproductive purposes and will prove effective in reducing huge NPAs. Synchronisation of repaying dates

with harvesting seasons would help the farmers in making timely repayment of loans without creating chances for diversion. Moreover linking of credit with marketing would be a step in the right direction in controlling the misutilisation of income.

Policy implications

In the study the tendency for sharp rise in NPAs has been established, the causes for it fairly analysed. It was highlighted that the pertinent reasons responsible for heavy NPAs seem to be the inadequacy of income, wilful default from the part of the beneficiaries (conspicuous consumption, hope for write-off), misutilisation of loans, faulty loaning policies, illness of family members etc. The authorities to a certain extent also seem responsible for this state of mounting NPAs. Lack of effective supervision, ineffective leadership, lack of personal contact from their part, all, act as factors affecting the financial position of the institution. The following policy changes are therefore suggested for reshaping and remoulding the policies and techniques of the PCARDBs in Kerala.

At the outset it need to be mentioned that a cause of recent origin vitiating the climate for recovery of loans is the loans write-off policy of the Government. This has created a feeling among the borrowers that co-operative

loans carry no repayment obligation. The study maintained the fact that the beneficiaries are in no mood to repay the loans even if they are having the capacity to repay. It is therefore suggested that these sort of improper relief measurers should not be resorted to by the Government. Strategically for creating good impact, coercive action should be initiated firstly against the well-to-do influential and large borrowers who have the capacity to pay and this surely will be an eye opener for the others to fall in line on account of fear of action against them.

Any advance which is properly appraised and considered is not likely to go bad unless circumstances change drastically making it outside the borrowers control. Therefore, the foremost step in avoiding defaults is to give the banks sufficient time to process the loan applications. Sufficient care and strict vigil while advancing loans, through project appraisal should be strengthened so as to reduce the chances of overdues of current advances in future. The assessment of repayment capacity of the borrowers, fixation of the period of loans etc. on a realistic basis should precede advancement of loans.

An effective monitoring cell, to keep a vigilant watch on the utilisation of the loans, legal action by timely filing of legal notice preceded by proper inventory of

assets and immediate action as soon as decree is obtained, as a strategy for recovery will serve to decide the recovery cases of the co-operative financial institutions. As a non-legal remedial measure, compromise proposal, enabling the borrower and banker to arrive at a mutually satisfactory solution regarding settlement of dues would prove to be a right step before initiating legal actions.

Last but not least, autonomy to co-operatives is to be effected should work in line with the Model Co-operative Act and as envisaged in the report of the Ramachandran Committee in Kerala, will be of worth to co-operatives at least in taking timely and adequate decisions with regard to management of non-performing advances.

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Annexure

ANNEXURE I

Analysis on the numerical values of parameters considered for defaulters and non-defaulters

Patemeter 1	**Average Land Holding (in cents)**	
	Defaulters (40)	Non-defaulters (10)
1. Cherthala	72.48	115.80
2. Neyyattinkara	170.15	100.20
3. Irinjalakuda	117.60	112.40
Parameter 2	**Average Size of Loans (in Rs.)**	
1. Cherthala	18347.00	33750.00
2. Neyyattinkara	47100.00	28700.00
3. Irinjalakuda	49150.00	86300.00
Parameter 3	**Average Annual Income (in Rs.)**	
1. Cherthala	20672.00	26570.00
2. Neyyattinkara	20610.00	23900.00
3. Irinjalakuda	23247.00	31800.00
Parameter 4	**Averala Annual Expenditure (in Rs.)**	
1. Cherthala	16995.00	22200.00
2. Neyyattinkara	18825.00	20400.00
3. Irinjalakuda	19585.00	25740.00

Appendices

APPENDIX I

RECOVERY PERFORMANCE OF PCARDBs IN SOUTHERN KERALA

(For Academic purpose only)

***

I A. BASIC DATA OF THE RESPONDENT

1.1 Name of the defaulter and address :

1.2 Sex :

1.3 Age :

1.4 Social classification : SC ST BC FC

1.5 Educational status:

Illiterate	Primary and below	Secondary and above

1.6 Ownership of land :

	Owned	Tenant	Total
Irrigated :			
Karinilam (Chira) :			
Total :			

1.7 Occupational status :

	Primary	Secondary
a) Agricultural and allied		
b) Industry		
c) Services		
d) Business		
e) Agrl. Labour		

B. FAMILY PARTICULARS

1.1 Nature of the family:

Joint	Nucleated

1.2 Structure of the family:

	Male Adult	Female Adult	Male Children	Female Children
Dependent				
Fully employed				
Partially employed				
Total				

1.3 Annual family income:

a) From primary occupation :

b) Secondary occupation :

Total

1.4 Total annual expenditure :

1.5 Annual incremental income :

II DETAILS OF LOANS	Loan 1	Loan 2	Loan 3
2.1 Date of application	:		
Date of disbursement	:		
Delay in getting loans (in days)	:		
2.2 Purpose (specify)	:		
2.3 Amount applied for	:		
Amount received	:		
Difference (if any)	:		

2.4 DETAILS OF SECURITY

a) Landed property :

b) Land and building :

c) Jewel loan :

d) Crop loan :

e) Others (specify) :

2.5 Rate of interest	Loan 1	Loan 2	Loan 3

2.6 Repayment started on :

2.7 Did you face any problem in getting the loans: If yes, :

a) Procedural delay :

b) Lack of adequate security to Hypothecate/pledge :

c) Vested interest :

d) Bribery :

e) Inadequate assistance :

f) Others (specify) :

2.8 A. How did you manage your portion of project outlay? :

a) Personal savings :

b) Borrowed from friends/ relatives :

c) Loans from other agencies :

d) Local money lenders :

e) Others (specify) :

B. If borrowed what is the rate of interest? :

III LOAN UTILISATION PATTERN

3.1a) Have you utilised the entire amount of loan for the purpose? :

b) If no,	Loan 1	Loan 2	Loan 3
Utilised amount			
Misutilised among			
Total			

c) If misutilised, for what purpose? :

* Consumption expenses :

* Ceremonies :

* Other Agri/Non-agricultural operations :

* Others (specify) :

IV IMPACT OF THE LOAN

4.1 Working of the activity (Post loan) :

	Loan 1	Loan 2	Loan 3
1. EXPENSES			
A. In raw materials			
a)			
b)			
c)			
d)			
B. Labour cost			
C. Cost of credit			
D. Other expenses			
A			
B			
C			
Total			

2. INCOME (GROSS) :

3. OTHER STATUTORY PAYMENTS :

4. NET INCOME :

V. REPAYMENT/OVERDUE POSITION

5. A. Repayment :

5.1 Mode of repayment of loan:

a) Monthly :

b) Quarterly :

c) Half yearly :

d) Annual :

5.2 Period of repayment:

	Loan 1	Loan 2	Loan 3

5.3 a) Did you repay promptly all the instalments of the loan : Yes/No

b) If yes, did you repay the loan from incremental income from scheme : Yes/No

5.4 Amount of loan repaid (No. of instalments) :

Amount to be repayed (No. of instalments)

Overdues committed

5.5 No. of instalments defaulted presently

	Loan 1		Loan 2		Loan 4	
	PRL	INT	PRL	INT	PRL	INT
A. The amount of default :						
B. The penal interest :						

5.6 Is the No. of instalments prescribed for repayment suitable and convenient to you :

5.7 If no., how many instalments did you feel appropriate :

5.8 REASONS FOR DEFAULT IN REPAYMENT

Choices as 1 2 3

1. Inadequacy of income
2. Defective loan policies
3. Fixation of unrealistic due dates
4. Lack of recovery efforts
5. Illness of borrower/family members
6. Managerial problems and corrupt practices
7. Natural calamities
8. Ceremonies
9. Faith in write off/loan waiver policies
10. Adoption of unrealistic unit cost resulting in under financing/over financing
11. Lack of access to the consumption loans and diversion of income for consumption purposes
12. Non-availability of needed inputs in time
13. Inadequate bank funds

5.9 Are you satisfied with the loan : Yes/No

5.10 SUGGESTIONS FROM DEFAULTERS FOR RECOVERY:

a) Provision for adequate field staff for project supervision :

b) Incentives for proper repayment :

c) Creation of awareness through good customer-banker relations :

d) Timely reminders :

e) Conversions of loan period :

f) Stern action against wilful defaulters :

g) Smaller instalments :

h) Provision for consumption loans :

i) Adoption of appropriate modes and schedules of repayment :

j) Timely credit :

k) Fixation of recovery period in coincidence with harvest/income period :

Name of the invigilator

Place :
Date :

Checked by

APPENDIX II

RECOVERY PERFORMANCE OF PCARDBs IN SOUTHERN KERALA

(For Academic purpose only)

(Schedule for the organisational survey - confidential)

1. Name and designation :

2. Address :

3. Experience in organisation (in years) :

4. Marital status : Married / Unmarried

		Fully satisfied	Moderately satisfied	Dissatisfied
5. Opinion about the overall performance of the organisation	:	01	02	03
6. Opinion about the commitment of Board of Directors	:	01	02	03
7. Opinion about the management of the bank	:	01	02	03
8. Opinion about the member relations	:	01	02	03
9. Opinion about intrabank relations	:	01	02	03
10. Opinion about the present loan recovery system	:	01	02	03

11. Reasons for poor performance in recovery:

    1) Lack of adequate staff for field supervision and loan appraisal :

    2) Ineffective legal machinery :

3) Lack of good work culture and lack of commitment from employees :

4) Over politicization and excess Government control :

5) Inadequate quality of work life :

6) Lack of commitment from Board of Directors :

7) Poor member relations :

8) Lack of infrastructural facilities :

9) Lack of modern management techniques and absence of MIS :

10) Absence of professionalised managers :

12. Suggestions for a better loan recovery system:

1) Creation of awareness among the staff members about the consequences of NPAs :

2) Legal machinery effectiveness has to be initiated and legal action should be imposed on defaulters in time :

3) Coercive action against wilful defaulters :

4) Publish the names and address of defaulters in news papers :

5) Reduce the formalities for loan disbursal :

6) Provide additional loans to defaulters to compensate the losses occurred due to the failure of the schemes :

7) Charge additional penal rate of interest to defaulters :

8) Politicians and members of Board of Management who influences the bank for justifying the defaulters should be discouraged :

9) No fresh loans to defaulters, unless they had remitted the dues :

10) Provide loans only after analysing the credit worthiness of borrowers :

11) Conduct of member education programmes :

12) Rebate in interest rate to the regular repayers as an incentive :

13) Formation of a special recovery cell using the existing staff and Board of Directors :

14) Professionalised management and modern management techniques has to be incorporated :

15) Reduce the control of Government and assess autonomy for cooperatives :

AN ENQUIRY INTO THE NON-PERFORMING ADVANCES OF PRIMARY COOPERATIVE AGRICULTURAL AND RURAL DEVELOPMENT BANKS IN SOUTHERN KERALA

By

SALI, P.S.

ABSTRACT OF A THESIS

Submitted in partial fulfilment of the
requirement for the degree of

MASTER OF SCIENCE IN CO-OPERATION AND BANKING
(Co-operative Management)

FACULTY OF AGRICULTURE

DEPARTMENT OF CO-OPERATIVE MANAGEMENT
COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT
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ABSTRACT

The study entitled "An enquiry into the Non-Performing Advances of Primary Cooperative Agricultural and Rural Development Banks in Southern Kerala" was conducted with the following objectives:

1. To examine the causes of Non-performing Advances of Primary Co-operative Agricultural and Rural Development Banks in Southern Kerala

2. To inquire into the present loan recovery system of these banks in Southern Kerala

The study was confined to the three PCARDBs in southern Kerala viz., PCARDB Neyyattinkara (B1), PCARDB Cherthala (B2) and PCARDB Irinjalakkuda (B3). The sample frame comprises of 150 respondents ie., 50 borrowers from each bank at random of which 40 are defaulters and 10 are non-defaulters as a control group. The bank officials and employees were also interviewed to gather informations on the present loan recovery practices in these banks. Statistical tools like simple correlation, chi-square test, percentages, efficiency index, sample averages, weighted mean and bi-variate tables were used in the analysis.

With regard to all sample banks, the sudden increase in NPAs was found after the year 1989, which can be attributed to the loan waiver policy of the then central Government which inhibited the loanees to make prompt

repayments in expectation of another round of write-off. The NPAs above three years or hardcore NPAs were lower in percentage for all the sample banks during the period under reference and except B3, the other banks were running on absolute loss.

The comparison of NPAs on different occupational classes revealed that with regard to B1 there exists significant relationship between NPAs and occupational classes like industry, services, business and agricultural labourers and in the case of B2 there is statistically significant relationship with agricultural and service class. The occupational classes such as agricultural and business classes have a significant relationship with NPAs in the case of B3.

It has been found that the defaulters having an annual income above the subsistence level were showing more NPAs in the cases of B1 and B2. This establishes that even after having sufficient income they are wilfully committing more dues. With regard to the borrowers having land holding size above 50 cents, the nature of wilful default can be observed in the cases of B1 and B3. This highlights the need for categorising them under the group of wilful defaulters. But with regard to the educational level and NPAs of defaulters, though most of them are having an educational status above secondary level in all the cases of B1, B2 and B3, they are not statistically related with NPAs.

It was observed that lack of adequate securities to hypothicate, procedural delays and inadequate assistance from banks inhibited the defaulters and non-defaulters in getting timely loans. It has been found that inadequacy of income, illness of family members and consequent diversion

of income, hope for write-off policy, conspicuous consumption, defective loaning policies and lack of access to consumption loans are the major reasons for non-repayment of loans and advances by borrowers. While analysing the efficiency of its present loan recovery system, it was also found that in all the cases, the index value was lower when compared to other indices which denotes that even in the opinion of bank officials, there is something more to be perfected in the loan recovery system. From the interbank comparison, it was found that B3 is outstanding in the case of loan recovery management.

According to the officials and employees of the banks, the reasons for poor recovery performance were the inefficiency of legal machinery for recovering dues from borrowers, lack of adequate staff for field supervision and loan appraisal and absence of skilled and professionalised managers for recovery management. As a remedial measure to minimise NPAs, certain steps have to be taken by financial institutions and the government. The improper relief measures such as loan right-off, should not be resorted to. Coercive action against wilful defaulters and incentives for proper repayment should be effected. Before advancing any loans proper processing and towards that end a proper loan appraisal cell with professionalised personnel is suggested. In addition to this, an effective loan monitoring cell and NPA management cell has to be established. The legal machinery should be strengthened and autonomy to the cooperatives would be given atleast to enable them with the right to take necessary decisions for the better management of NPAs.