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**LOAN RECOVERY MANAGEMENT IN
PRIMARY CO-OPERATIVE
AGRICULTURAL AND RURAL
DEVELOPMENT BANKS IN KERALA**

By
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THESIS

Submitted in partial fulfilment of the
requirement for the degree of

Master of Science in Co-operation & Banking
(RURAL BANKING AND FINANCE MANAGEMENT)

Faculty of Agriculture

**Department of Rural Banking and Finance Management
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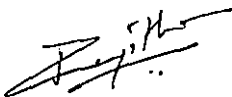
KERALA, INDIA

2004

DECLARATION

I hereby declare that the thesis entitled "LOAN RECOVERY MANAGEMENT IN PRIMARY CO-OPERATIVE AGRICULTURAL AND RURAL DEVELOPMENT BANKS IN 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 for any degree, diploma, associateship, fellowship or other similar title of any other University or Society.

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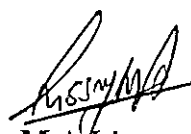
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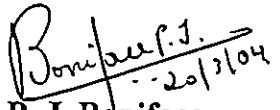
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ACKNOWLEDGEMENT

I humbly bow my head before the Almighty, who blessed me with will power and courage to complete this endeavour successfully, in spite of the most difficult times faced by me during the period of my study. I submit this small venture before god for his grace in providing me with health and strength through out the study.

With deep respect, I express my heartfelt gratitude and indebtedness to Dr.M.A.Lizy, Assistant Professor, Department of Rural Banking and Finance Management and Chairperson of my advisory committee for her keen interest, valuable advice, constructive criticism and above all, wholehearted support, understanding and constant encouragement rendered throughout the period of investigation and preparation of thesis.

I am respectfully thankful to Dr.Molly Joseph, Associate Professor and Head, Department of Rural Banking and Finance Management and member of Advisory Committee for her expert counsel, ardent interest, valuable suggestions, critical scrutiny of the manuscript and ever willing help and extreme patience which has helped a lot for the improvement and preparation of the thesis. My gratitude and obligation to her are for greater than what the written phrases can convey.

I express my heartfelt thanks to Dr.E.V.K. Padmini, Associate Professor, Department of Rural Banking and Finance Management and member of my Advisory Committee for her valuable suggestions and rentless support throughout the endeavour.

It is my pleasant privilege to acknowledge Sri.P.J.Boniface, Assistant Professor, Computer Science and Advisory Committee Member for his timely advise, valuable suggestions and inspiring encouragement rendered during the course of this research work.

I am very much grateful to Dr. K.M. George, Assistant Professor, who was an infinite source of inspiration and showered valuable and loving advices throughout my academic pursuit. I am highly obliged to him for his valuable suggestions and help during the course of the thesis work.

I would like to place on record of my heartfelt thanks to Dr.M.Mohandas, Associate Dean, for his timely help and encouragement throughout my academic career.

Words fail to express my sense of gratitude towards Dr. K.P. Mani, Dr.Philip Thomas and Shri. Jacob Thomas for being constant sources of encouragement, motivation and support to me.

I wish to extend my wholehearted gratitude to all the faculty members of the college for their advice and encouragement during the course of the study.

I have benefited immensely from the Library, College of Co-operation, Banking and Management. I owe my thanks to Mrs. C.K. Shylaja, Mrs. Sarala and Ms. Nincy for the help extended by them.

I am also thankful to all the office staff in CCBM for their help and co-operation in all academic matters.

I sincerely acknowledge the kind concern and continuous support which I have received from the respondent members and staff members of the PCARDBs in Thrissur and Ernakulam.

With all regards, I sincerely acknowledge the wholehearted co-operation and timely help rendered by M/s.J.M.J. Computer Centre, Thottappady for converting my hand written manuscript into the present typed version.

True words of thanks to all my friends, more personally I would like to express my sincere gratitude to Najeeb, Ronia, Bindumol, Sajith, Sreeja chechy, Hena chechy, Anju, Sofi and Reji for providing the much needed shoulders in times of need. I appreciate all my seniors, juniors and my class mates of 96 batch who helped me in and way or the other.

The award of KAU Junior Research Fellowship is gratefully acknowledged.

I am forever indebted to my Achan, Amma, Grand parents, Brothers and my cousins for all their support, unceasing encouragement, boundless affection, deep concern, prayer and personal sacrifices, which helped me to overcome many hurdles experienced during the course of time.

Renjitha, N.T.

ABBREVIATIONS

ARDB	-	Agricultural Rural Development Bank
AAGR	-	Average Annual Growth Rate
BODs	-	Board of Directors
CMIE	-	Centre for Monitoring Indian Economy
DFIs	-	Development Financial Institutions
DCB statement	-	Demand Collection Balance statement
GDP	-	Gross Domestic Product
IRDP	-	Integrated Rural Development Programme
ILS	-	Integrated Loan Scheme
KSCARDB	-	Kerala State Co-operative Agricultural Rural Development Bank
LIC	-	Life Insurance Corporation
NPA	-	Non Performing Asset
NABARD	-	National Bank for Agricultural and Rural Development
NHB	-	National Housing Bank
PACS	-	Primary Agricultural Credit Societies
PCARDB	-	Primary Co-operative Agricultural Rural Development Bank
RBI	-	Reserve Bank of India
RHL	-	Rural Housing Loan
RRB	-	Regional Rural Bank
SSI	-	Small Scale Industries
SRTO	-	Small Road Transport Operation Scheme

Design of the study

CHAPTER-I

DESIGN OF THE STUDY

India is a country where agriculture directly shapes the daily hopes and aspirations of vast majority of the population. Agriculture provides employment to 70 per cent of population, contributes 26 per cent of Gross Domestic Product (GDP) and accounts for 18 per cent of export earnings. Indian agriculture today is on the threshold of manifold growth on account of diversification and burgeoning demand from domestic as well as international markets. The potential for growth is immense and adequate investment flow is one of the pre requisites for achieving the potential.

Co-operatives play an important role in the rural credit delivery system. The commercialisation of agriculture has resulted in an increasing demand for long-term and short-term finance and the Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) have made substantial progress in catering to the long-term financial needs of farmers, more so in recent years. Long-term credit is of utmost importance in the present context where permanent improvement on land and adoption of modern techniques necessitate capital investment on a large scale.

Effectiveness of an agricultural and rural development bank is determined by its lending pattern. Uninterrupted lending activity requires effective recovery performance as a pre condition. Overdues have been in existence almost ever since the co-operative movement began to take its roots in the country. Agricultural Rural Development Banks (ARDBs) issue loans against registered mortgage of land. Hence, from the theoretical view point they are recoverable. But certain weaknesses in the loan recovery system affect the repayment mechanism and health of the ARDBs.

1.1 AGRICULTURAL SECTOR IN KERALA

The agricultural sector in Kerala is heterogeneous in nature. Level of agricultural production in Kerala is far below the national average and the situation is further deteriorating in recent years due to conversion of State's land for non-

agricultural activities and shift in the cropping pattern in favour of cash crops. The area and production of food grains and tubers are declining continuously and the cultivators are turning to cash crops and other non-food crops, in the expectation of more economic benefits (Annexure-I). The major crops cultivated in the State include rice, coconut, tapioca, banana and other plantains. Rice, the principal food crop of Kerala shows a drastic reduction in the area under cultivation as well as production during the last two decades.

Coconut, the chief product of Kerala's rural economy, indicates an improvement in its area and production. The production, area under cultivation and productivity with regard to banana cultivation exhibits a mixed trend from 1980-81 to 2000-01 (Annexure-II). The contribution of agriculture to the State Domestic Product shows a gradual decline during the reference period. Agricultural income contributed 21.38 per cent of the State income during 2000-2001 (Annexure-III).

1.2 AGRICULTURAL FINANCE IN KERALA

Agricultural finance has special significance under the emerging scenario in Kerala with capital-intensive perennial crops expanding their coverage replacing seasonal and annual crops. The co-operative banks play a major role in agricultural finance, apart from the Commercial banks and the Regional Rural Banks (RRBs). There has been a shift in the cropping pattern and consequent decline in the area, production and productivity of food crops in the State. Small holdings, which predominate the farm front, were not in a position to generate surpluses for reinvestment, as liberalisation led to the sharp fall in prices of agricultural commodities and reduction in the area under cultivation.

The short-term and medium term co-operative credit comprises the State Co-operative Banks at the apex level, 14 District Co-operative Banks at the district level and 1628 Primary Agricultural Credit Societies (PACS) at the grass root level. The Kerala State Co-operative Agricultural and Rural Development Bank (KSCARDB) along with 44 Primary Co-operative Agricultural and Rural

Development Banks (PCARDBs) operating at taluk level constitute the long-term co-operative credit structure. The commercial banking sector operates through 42 banks with 3224 branches and two RRBs with 301 branches catering to short, medium and long-term finance (Economic Review, 2001).

1.3 THE LONG TERM CO-OPERATIVE 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 structure of Co-operative Agriculture and Rural Development Banks (ARDBs) is almost eight decades old. ARDBs have remained as specialised term lending institutions for agriculture and other rural development activities.

Kerala follows a federal structure in which the State Co-operative Agricultural and Rural Development Bank (KSCARDB) operates at the apex level and the Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) operate as independent units at the base level affiliated to the KSCARDB. It has a widespread and well-knit system today with 44 primary banks. Loans are channelised through PCARDBs, which have a network of branches to facilitate credit to farmers and other rural folk.

The various developmental activities of PCARDBs include loans for minor irrigation, farm mechanisation, land development, soil conservation, cultivation of horticultural crops and plantation crops. The bank also provides non-farm loans comprising of composite loan, Small Road Transport Operation Scheme (SRTO) and Integrated Loan Scheme (ILS) with 100 per cent assistance from NABARD. Apart from these activities, the bank also caters to the housing needs of the rural people by providing Rural Housing Loans (RHL) with full support from National Housing Bank (NHB). During 2000-2001, PCARDBs in Kerala had disbursed a sum of Rs.333 crores (as against Rs.301.30 crores in 1999-2000) as loans and advances. (KSCARDB, Statistical Hand Book, 2000-2001).

PCARDBs mainly raise funds through floatation of debentures having government guarantee. NABARD is the largest contributory of the debentures floated by these banks, apart from other financial institutions like Central and State Government, LIC, Commercial Banks, National Housing Bank and other SCARDBs.

There exists a close relationship between credit availability and agricultural productivity. Agricultural growth depends on factors like inputs, technology, infrastructure and the market. All these factors depend on finance, which support either production operation or investment in productive assets and infrastructure. Overdues have clogged the process of credit recycling since they have substantially reduced the capacity of co-operatives to grant loans.

1.4 PROBLEM OF OVERDUES

Although, ARDBs have played an important role in the sanction and disbursement of agricultural credit, the problem of overdues continues to exist. Recycling of funds is hampered on account of mounting overdues. It has caused innumerable financial problems besides limiting the capacity of PCARDBs to lend and operate as viable units. This in turn affects the liquidity position of these banks and makes them financially weak.

The recovery of the loan extended by the financing agency should receive as much attention as the need for financing. Except in times of natural catastrophes, the repayment of loan need not be delayed, provided, the principles involved in financing are followed properly. Efficient management of recovery of dues is the most complex of all problems associated with institutional credit. Poor recovery performance impedes the progress of the financing institution, weakens credit movement and also hampers economic development. 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 overdues of PCARDBs is of utmost importance both for policy makers and the lending institutions. The

policy makers and bankers to frame appropriate policy measures for better recovery and repayment of loans.

1.8 LIMITATIONS

The study has been undertaken at a micro level, among four PCARDBs each with its own peculiar characteristics. Therefore the results of the study cannot be generalised to other banks or institutions. The objectives of the study have been examined through a field level survey including only 80 sample borrowers, as well as through the data collected from the responses of secretaries, Board of Directors (BODs) and other officials of the banks under consideration. Therefore, the findings of the analysis may not be appropriate for a broader generalisation. Biased and prejudiced opinions from the part of the sample borrowers cannot be ruled out.

1.9 ORGANISATION OF THE REPORT

The study has been divided into five chapters of which the first chapter is introductory in nature, where the research problem is highlighted in the backdrop of the development issues of PCARDBs. The second chapter delves into the review of literature relevant to the topic of the study. The third chapter explains the concepts used and gives a description about the materials, methodology employed for the analysis of the data. The results and discussions of the study are presented in the fourth chapter and the last chapter highlights the summary of findings and conclusion of the study.

CHAPTER-II

REVIEW OF LITERATURE

The role of credit and credit institutions in augmenting production and productivity is well recognized. The overdue advances of banks in India are mounting and, in consequence, the non-performing assets in their portfolio are on the rise thereby affecting the banks viability. Banking being a business of trust and confidence, it is necessary for every bank to maintain it throughout. Since it is public money, it has to be used properly and carefully. Poor recovery implies distorted recycling of funds. Uninterrupted lending activity requires effective recovery performance as a pre-condition.

Overdues have been a persistent problem with all financial institutions. Several studies in this regard have been conducted from time to time and a number of high level committees have made innumerable recommendations for reforms in the functioning and rehabilitation of the co-operative rural credit structure. The main thrust of Indian public policy towards rural credit must be to ensure sufficient and timely credit at reasonable rates of interest to a large segment of the population. Unless pragmatic measures in this regard are resorted to, the chances of curing the problem of overdues remains remote. To throw light on the contemporary bearing of this malice, the findings of some studies have been comprehended under three sections:

- 2.1 Reasons for overdues
- 2.2 Consequences of overdues
- 2.3 Methods to overcome the problem of overdues

2.1 REASONS FOR OVERDUES

Studies on overdues in the banking system suggest that the problems of overdues have a sizable overhand component arising from improper selection of borrowers and activities. Various studies also reveal that there are several internal

factors such as weak credit appraisal, non-compliance to lending norms and wilful defaulters that contribute to high overdues.

Wali (1980) opined that a large part of overdues is due to wilful default, which is committed quite often by the upper class of farmers. He also remarked that defaults in repayment choke the credit availability, denying further flow of credit to all members, though all members may not be defaulters.

Pandey (1983) has stated that inadequacy of prompt supervision and disbursement of credit without taking into consideration the repayment capacity of borrowers were the main reasons for overdues in co-operative banks in Haryana.

Reserve Bank of India (1985) in their report on the Committee on Central Land Development Banks (CLDBs) 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 of overdues.

Mohan and Namasivayam (1985) in their study on overdues in co-operative societies in Thanjore district pointed out that the chances of becoming a wilful defaulter were high, when the percentage of illiterates in the family were high. This implies that literate are capable for evading repayment of loans by taking advantages of loopholes in loan administration.

Having examined the repayment performance of borrowers of Indian banks, Patil and Karkal (1985) concluded that the various factors relating to the structures, procedures, legislative provisions, accounting system, administrative delay and general physiological atmosphere induced by socio political environment contribute to and reinforce the default of repayment of loans.

According to Krishnakumari (1988), the common causes of overdues are numerous like inadequate income, natural calamities, death of livestock, inadequate supportive facilities, misutilisation/diversion of fund, delay in loan sanctioning and

disbursement, defective lending policies, inadequate staff for proper supervision and follow up, multiple financing of borrowers, lack of appropriate mix between credit and marketing, inaccessible villages for contacting the borrowers, lack of honesty, sincerity and motivate on the part of members of staff concerned with recovery work, financial indiscipline on the part of borrowers and lenders at different levels and indiscipline among the local lenders instigating borrowers not to repay the loan.

Balishter and Chauhan (1991) in their study on factors affecting overdues of loans expressed that low operational size of holdings, low repayment, low cropping intensity and high family expenditure are the important factors affecting overdues.

Rao and Sathyanarayanan (1991) reckon that education, annual income, socio-economic status, land holdings and irrigation potentiality were the crucial variables that influenced the repayment behaviour of borrowers of co-operatives in Maharashtra.

Venkiteswaran and Janardhanan (1991) opined that the management of loans by PCARDBs involves assuring proper utilisation of credit to safeguard recovery. Widespread diversion of long term loans for unproductive purpose had partly led to the default in loan installments by borrowers. As all the categories i.e. large as well as small and marginal farmers have diverted the loans for unproductive assets, banks should prevent misutilisation and provide necessary incentives for prompt repayment.

Bhatt (1993) remarked that writing off of loans had considerable impact on the recovery performance of co-operative banks. The announcement by the government regarding the waiver for loans has aggregated the situation of overdues as the borrowers expected such schemes in future and deliberately avoided paying the installments and interest.

Jagannath and Altaf (1993) have classified the factors responsible for the heavy incidence of overdues into internal and external factors, in their study 'Management of Small Bank Loans'. The internal factors are defective loaning

policies, weak monitoring and supervision, apathy towards recovery, failure to link lending with development and to ensure proper use of loan. Among the external factors are political interference, wilful defaulters, and lack of legal and administrative support from State government in the matter of loan recovery.

From the survey of borrowers of SSI sector by Kaveri (1993) it was found that, the default in repayment of loans was due to demand recession, non-availability of needed inputs, labour problems, inadequate bank funds and managerial problems.

Shanker (1993) has opined that the perennial problem of overdues in public sector banks were due to certain fundamental shortcomings in our legal system which is loaded against the bank.

Varsha and Vardha (1993) have attributed overdues to multifarious reasons for which the lending institutions themselves are solely responsible. They opined that unsound lending policies, lack of adequate supervision, lack of appropriate link between borrowers and lending institutions, lack of proper action against wilful defaulters and uncertainty of agricultural income are factors breeding overdues.

Singh *et al.* (1994) related to their study of overdues of loans in agricultural sector, opined that larger the period of overdues, lesser the possibility of its recovery. A probe into the reasons for overdues revealed that the defaulters are being motivated by political leaders not to repay the loans because government would write off these loans in due course.

Gosh (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.

Das (1996) has revealed that the numbers of follow-up visits by bank's staff has positive relation with recovery. Therefore, maintaining continuous liaison with borrowers is imperative for good recovery performance.

Gogoi (1996) opined that ability of borrowers to repay the loan is affected by lengthy loan procedures, general inflation, consequent increase in cost of living, and inadequate loan amount.

Mani *et al.* (1996) while examining the level and composition of gross domestic capital formation at the national level with particular reference to agricultural sector, observed that even though institutional credit for agriculture has increased substantially over the years, the share of long-term finance to total institutional credit seemed to be very low (15-20 per cent).

Jayanthi and Balachandran (1997) opined that the unprecedented rise in credit to some extent has contributed towards mounting level of overdues of banks.

Desai (1998) stated that political intervention, deficiencies in loaning procedure of credit institutions, especially those pertaining to appraisal supervision and control have contributed to the malady of high overdues.

Sali (1998) in his study "An enquiry into the non performing advances of Primary Co-operative Agricultural and Rural Development Banks in Southern Kerala" has come to the conclusion that sudden increase in NPAs was due to loan waiver policy, inadequate income generated from project, illness of family members, diversion of income, conspicuous consumption, defective loaning policies and lack of access to consumption loan.

According to Sankaraiah and Bhagavan (1998) the reasons for poor recovery included improper identification of borrowers, political intervention in the sanction of loans, granting of loans without ensuring adequate supply of inputs and

only mean denying the benefit to other borrower and also cripples the capacity of the bank to draw refinance from apex institutions. The consequences of alarming increase of overdues as pointed out by different authors are described in this section.

Regarding the overdues on farm finance, Muniraj (1987) observed that with the increased supply of credit to farmers more money gets locked up in the form of overdues as a result of which, the financing agencies may lose their viability to receive finance from higher financing agencies.

Balakrishnan (1991) opined that there was a tendency on the part of higher level tiers of the structure to toss the problem of the overdues which inhibited credit expansion on one hand and economic viability of lending institutions on the other.

Bhagavat (1993) says that as a result of poor recoveries, overdues were mounting year after year adding to NPAs of the banks. Besides affecting recycling of funds, it leads to write-off, affecting the profitability of banks and dampening their enthusiasm in assisting the sector.

Jaganath and Altaf (1993) from their study on "Priority sector financing in India and the recovery of bank advances" observed that the increasing overdues in commercial banks restricted the smooth flow of credit. If the dues accumulated alarmingly then the health of banking system would be jeopardised and the recycling of funds, which is the key element in development of banking system, would be adversely affected.

Anand (1994) remarked that the soundness of co-operative credit structure depends on prompt recovery of loan and that heavy NPA acts as a constraint to the efficiency of institutions and flow of credit, co-operatives being more prone to the disease.

Gupta (1994) reiterated that NPAs have been a major factor affecting the profitability of Indian banks and hence the banks owned funds have to be strengthened by repeated infusion of additional capital by the government.

Tripathi (1995) observed that the major drag on bank's profitability was the existence of high level of NPAs. The urgent task before the banks now is to lessen the NPAs and bring down the so-called 'dead weight'.

Ramachandran (1997) has opined that the NPA concept has been overplayed by the RBI so much that if there is a slightest doubt that the advance may become NPA, the banker refuse to lend or pass on the proposal to higher ups to avoid personal risk.

Brinda and Ramappa (1998) have opined that because of high NPAs, banks were unable to sufficiently reduce interest rates on lending and this also prevents recycling of funds and reduces the availability of bank credit for alternative productive activities to improve earnings.

According to Narasimham Committee Report (1998) the NPAs has been increasing to untenable levels, as a result of which there has been an all round deterioration in the efficiency and competitiveness of banks with serious consequences to the economy as a whole.

With the tightening of the banking sector norms by the RBI, some banks and Development Financial Institutions (DFIs) have resorted to ever greening their loans by way of extending another loan to the client company with the help of which it can repay a part of the loan and/or interest or original loan as pointed by Rao (1999).

Malyadri and Sirisha (2003) pointed out that NPAs constituted real economic cost since they reflected the application of scarce capital and credit funds for unproductive use. The money locked up in NPAs was neither available for neither

productive use nor the income generated was recognized. The Bank was either required to write off NPAs or make provision ranging from 10 per cent onwards to 100 per cent which was a direct charge on profitability.

It is clear from these literature that high overdue and NPA is a syndrome affecting the co-operatives, negatively in their financial operations and weakens them before their creditors as well as refinancing agencies. Hence, it is of great importance to create an environment, which will help the financial institution to function efficiently and adopt measures that are necessary to check these issues.

2.3 METHODS TO OVERCOME THE PROBLEM OF OVERDUES

The challenges thrown on account of declining recovery was one of the serious concerns and this need to be objectively diagnosed so that prompt solution can be prescribed. How this problem can be tackled and how to form new machinery for recovery management, is an important area where researchers have to make substantial enquiries. Hence, available studies in this regard have been reviewed so as to highlight all possible suggestions for effective management of overdues.

Jain (1970) has opined that the assessment of the repaying capacity at the time of loan application would further substantiate the lenders belief in the borrowers timely and prompt repayment of loan obtained for different purpose.

Goyal and Pandey (1987) have 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.

Raveendran (1988) proposed that 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 induce timely repayment.

Uduppa and Dinkar (1988) while examining the strategies for recovery of farm loans, suggested that the problem of overdues can be tackled by maintaining proper contact and report with the loanees which also helps in building mutual trust and confidence.

Bhatt (1993) remarked that writing off of loans had considerable impact on the recovery performance of co-operative banks. The announcement by the government regarding the waiver for loans has aggregated the situation of overdues as the borrowers expected such schemes in future and deliberately avoided paying the installments and interest.

Hugar and Hudekar (1993) in pursuit of the effectiveness of recovery management, found a declining trend in the recovery performance of co-operative banks over a period of time. They urged that it is important on the part of the state government and policy makers not to interfere in the normal working of co-operatives. Politically motivated propaganda of loan waiving motivates wilful defaulters resulting in mounting of overdues.

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.

Mishra (1996) was of the view that banks may adopt methods for discouraging wilful defaulters. The branches adopting such methods should be suitably rewarded and only then the recovery problem of rural advances can be overcome. The efforts made for recovery by the staff at many places have not been recognised. As a result the tempo of recovery has come down.

Ravindran (1996) opined that there is a necessity for constant upgradation of human resources in ARDBs by need based and purposeful training of existing staff and including fresh talents at managerial levels by direct recruitment.

Sinha (1996) expressed his view that one cannot shy away from the factual position of NPAs. The need of the hour is to devise ways and means to drastically reduce them by affecting recoveries to the maximum possible extent and not nearly by writing-off. It is time to reconsider the proposal mooted by Narasimham Committee to set up the much-needed Asset Reconstruction Fund (ARF) which was earlier shelved by the government.

Veeresh (1996) has suggested that to reduce the NPAs, banks have to do two things. One to step-up recovery and two to prevent further accumulation of NPAs. Better recovery coupled with enhanced productivity will lift banks out of red and pave the way for healthy profitability.

Gaur (1997) from his study on "Recovery of Banks debts through government support" have come to the conclusion that for improving recovery performance of rural credit institutions, a greater commitment of the respective State Government and expeditious disposal of suit filed cases was required.

Kaveri (1997) observed that substantial reduction in NPAs is only partly due to actual recovery. The reduction in the percentage of NPAs has taken place due to write-off debts and expansion in total credit.

According to Mallya (1997) the problem of NPAs can be studied and tackled from two fronts: remedial measures for managing current NPAs and maintenance of performing assets.

Ramachandra (1997) has emphasised the relevance of concentrating on Non Recoverable Assets (NRA) which would matter much in determining the quality of bank credit.

Tarapore (1997) has suggested that banks, which were overburdened with NPAs, may be categorised as "Narrow Bank" and these weak banks may be prohibited

from making any fresh lending. Any incremental deposit can be diverted to riskless securities for closing the build-up of any NPAs.

The Narasimham Committee (1998) has recommended the setting up of an Asset Reconstruction Company (ARC) for banks with high NPA as an alternative to the Asset Reconstruction Fund (ARF). The committee has said that all loan assets in the doubtful and loss categories should be identified and their realisable value determined. These assets could then be transferred to ARC.

Sarda (1998) has remarked that for reducing NPAs each bank should have a 'Loan recovery policy', giving details of the strategies to be adopted for recovery of dues, period-wise targeted level of reduction in NPAs, norms for entering into compromise proposal involving sacrifice/waiver, factors to be taken into account before considering waivers, decision levels, reporting to higher authorities and monitoring of write off/waiver cases.

Chowdhary (2002) opined that the recovery of loans requires a co-operative and collective responsibility of administrative machinery, the public and the loanees. He also suggested that loan waiving should be discouraged by the Central Government as well as by the State Governments.

Rai and Shailendra (2003) have opined that a special task force consisting of excellent executives at different levels may be created for quicker appraisal proper supervision and effective follow-up of the loans. They have also added that the procedures of sanctioning and disbursement of loans should be simplified and made customer friendly.

Though many have made substantial suggestions for efficient recovery, 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.

The mounting burden of overdue has a critical impact on the expansion of co-operative credit. Increasing overdues will restrict the smooth flow of credit and will affect the further investment in agricultural and non-agricultural sector. 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. Though, much research efforts have been taken on the issue of loan recovery, the implications are yet to be studied with the seriousness it deserves. The present study attempts to achieve this end.

***Materials and
Methods***

CHAPTER-III

MATERIALS AND METHODS

The study entitled "Loan Recovery Management in PCARDBs in Kerala" has been carried out with the twin objectives of examining the effectiveness of the existing loan recovery management and the factors influencing recovery. The analysis is done at two levels - one at the borrower level and the other at the organizational level.

3.1 CONCEPTUAL CLARIFICATION

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

i) Overdue

Loans and interest, which are not repaid on due dates, are known as overdues. The accepted standard of measurement of overdue is in relation to 'demand'.

ii) Demand

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

iii) Non Performing Assets (NPAs)

NPAs are those loan assets where interest and/or principal installment are in arrears beyond two quarters. Thus, a loan asset would become a non-performing asset if the installment or interest remains overdue for six months. NPA in banks are classified into substandard, doubtful and loss assets. Such type of asset classification and its data are not available in co-operatives:

iv) Wilful defaulters

Those borrowers who have not repaid the loan even after having adequate income and the capacity to repay are termed as wilful defaulters.

v) Non-wilful defaulters

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

vi) Scheme loans

Scheme loans are time bound programmes, which are formulated for earmarked areas and implemented under expert supervision. Some of the purposes for which long term loans are given are minor irrigation, soil conservation, farm mechanisation, development of horticulture crops and plantation, dairying, poultry, fisheries and processing of agricultural produce.

vii) Ordinary loans

Long term loans, provided for purpose like levelling and bunding, soil conservation, cattle shed, crushing yard, smoke house and fencing, which comes under farm sector are being covered under the ordinary loans.

viii) Non-farm loans (NFLs)

These loans are provided for activities like business, small-scale industries, new industrial ventures and purchase of vehicles.

ix) Rural Housing Loans (RHLs)

RHLs are provided for setting up of new houses and renovating old ones. National Housing Bank (NHB) refinances these loans. A maximum limit of five lakh rupees is provided for building or purchasing new houses and one lakh rupees for renovating existing houses. The maximum period of repayment is upto 15 years.

3.2 METHODOLOGY OF THE STUDY

The study has been conducted using data collected from both primary and secondary sources. Secondary data were used mainly for examining the selected performance indicators of the sample PCARDBs and also for the purpose-wise and age-wise classification of the overdues of these banks. The study is based on data for a period of six years from 1994-95 to 1999-2000. The main sources of secondary data were documentation of the selected banks and journals like Economic Survey, Banking Finance, CMIE, Land Bank Journal and Agricultural Banker. Primary data were collected from sample beneficiaries as well as from the staff and Board of Directors (BODs) of banks selected for the study.

3.2.1 Sampling procedure

For conducting the study on the loan recovery management of PCARDBs in Kerala, two districts i.e., Ernakulam and Thrissur have been randomly selected and the PCARDBs of these two districts were taken for detailed study. Since two PCARDBs are functioning in each of these districts, a total of four banks of the 44 primary banks in the state were selected. The selected banks include Kanayannur CARDB (B1), Ernakulam CARDB (B2), Cochin CARDB (B3) and Irinjalakuda CARDB (B4).

A sample of 20 borrowers from each bank has been compiled at random from the list of borrowing members such that 75 per cent of them were defaulters and the rest were prompt repayers.

For analysing the effectiveness and satisfaction of the present loan recovery and management system, ten officials (including secretaries and BODs) from each bank were selected.

The primary data regarding the details of loan, loan utilisation pattern, income adequacy, overdue position and reasons for default have been collected from the sample borrowers with the help of a pre-tested structured interview schedule (Appendix-I). Information regarding institutional arrangement for management and recovery of loans, banker-member relations and their opinion about the present system of loan recovery practices were collected from the staff and other officials of the bank (Appendix-II).

3.2.2 Analysis of data

Various methods and techniques has been used to analyse the data collected for the study. While analysing the factors responsible for overdues, the extent of overdues of each bank has been worked out and compared, for which variables like membership, paid up share capital, loan amount sanctioned, demand,

overdue position, percentage of overdue and profit/loss of each bank were compiled. Simple correlation between overdues (dependent variable) and the rest of above variables (independent variables) has been found out to understand the degree of relationship. Simple growth rate and Average Annual Growth Rate (AAGR) have been worked out in the case of selected performance indicators of the sample banks as well as in the purpose-wise classification of demand and overdues of the banks. Average Annual Growth Rate (AAGR) has been calculated using the following formula.

$$\text{AAGR} = \left[\text{Antilog} \left(\frac{\log Y_n - \log Y_o}{n - 1} \right) - 1 \right] \times 100$$

Where Y_n = Current year value of the variable

Y_o = Base year value of the variable

n = Number of years

Correlation between overdues and the socio-economic characteristics of the respondent borrowers, like level of education, occupation and annual income of the borrowers has been found out to assess the influence of these factors on their repayment behavior.

For identifying and ranking the factors responsible for default as well as the suggestion for reducing overdues at the borrower and organisational levels, priority index has been calculated. Based on the ranks assigned by respondents to each of the factors in the order of importance, the index value was worked out as follows.

Suppose there are n factors to be ranked, say $x_1, x_2, x_3 \dots \dots x_n$, the respondents would assign one to 'n' ranks. These ranks would be converted into scores in such a way that 'n' score is allotted to that factor which the respondent ranked 1st, n-1 score to the 2nd rank and thus score one to nth rank. The aggregate score of each factor would be obtained by adding up the individual scores so obtained. Maximum obtainable score would be the numerical product of the number of

respondents and the number of factors applicable in that particular case. Priority index has been computed using the following formula:

$$Px_i = \sum_{i=1}^n \frac{ES_i}{n \times N} \times 100$$

Where,

PX_i = Priority index value for the factor x_i

ES_i = Aggregate score obtained for factor x_i

n = Number of factors

N = Number of respondents

In order to examine the effectiveness of the existing loan recovery management system, an organisational level analysis has been undertaken. The opinion of the officials including the BODs and secretaries of the selected banks regarding their relationship with members, intra-bank relations, commitment of the employees and directors, organisations overall performance and the weakness of the recovery mechanism, have been analysed using efficiency indices. The efficiency indices have been prepared on a five point scale by assigning ranks from five to one and the index value have been classified as highly efficient, moderately efficient and least efficient. The following formula has been employed for calculating these indices.

$$E.I = \frac{\sum_{i=1}^n e_{ij}}{\sum_{i=1}^n \max. E_{ij}} \times 100$$

Where,

E.I = Efficiency index

i = Respondent

j = Character

In addition to the above statistical tools, bivariate tables, simple averages and percentages have also been used for the analysis in the case of selected indicators

while presenting the performance indicators of the banks and socio-economic profile of the borrowers.

The analysis, presentation and interpretation of data collected from the sample banks and borrowers by applying the concepts and techniques discussed above, are dealt in the next chapter.

Results and Discussion

CHAPTER-IV

RESULTS AND DISCUSSION

The poor recovery performance of the co-operative credit institutions is a major bottleneck in the smooth flow of credit to the borrowers and for its own development activities. Most of them have become unprofitable and burdened with unsustainable level of overdues. Unless the recovery at the PCARDB level is improved and a healthy financial position is built up, the long-term credit structure will become weak and tottering in the years to come. Hence, a study on the recovery performance of PCARDBs will definitely bring to light the strength and weaknesses of the system followed by these banks.

The analysis of the effectiveness of the loan recovery system of PCARDBs and the factors responsible for overdues is presented in three broad sections viz.,

- 4.1 Extent and dimensions of overdues
- 4.2 Factors influencing overdues
- 4.3 Loan recovery system in PCARDBs

4.1 EXTENT AND DIMENSIONS OF OVERDUES

An attempt has been made in this section to trace out the extent of overdues of ARDBs in Kerala both for the State as a whole and for the organisations selected for the study. Table 4.1 highlights the position of overdues for the Kerala State Co-operative Agricultural and Rural Development Bank and for the 44 PCARDBs in Kerala, from 1996-97 to 2000-01.

Table 4.1. Demand, collection and balance at KSCARDB and PCARDB level from 1996-97 to 2000-01

	(Rs. in lakhs)				
	1996-97	1997-98	1998-99	1999-2000	2000-01
At KSCARDB level					
Demand	13693.79	16296.10	19670.74	22732.24	25433.32
Collection	12696.50	15176.74	18633.27	21712.10	23488.38
Balance	997.29	1119.36	1037.47	1020.14	1944.94
% of overdues to demand	7.28	6.87	5.27	4.49	7.65
At PCARDB level					
Demand	17029.19	21033.43	25894.23	31003.36	35284.32
Collection	12981.63	15418.20	19198.62	22735.15	23213.81
Balance	4047.56	5615.23	6695.61	8268.21	12070.51
% of overdues to demand	23.77	26.70	25.86	26.67	34.21

Source: Statistical Hand Book, 2000-2001

Table 4.1 depicts that the percentage of overdues to demand were higher at the PCARDB level, throughout the study period when compared to that of KSCARDB. It is to be noted that the KSCARDB is a refinancing agency which channelises the loans through the primary level organisations and does not deal directly with the borrowers unlike the PCARDBs.

The extent of overdues of the sample PCARDBs viz., Kanayannur CARDB (B1), Ernakulam CARDB (B2), Cochin CARDB (B3) and Irinjalakuda CARDB (B4) and the relation of selected performance indicators of these banks on the overdues along with the purpose-wise and age-wise classification of overdues is summarised in the following sections.

For the analysis of the purpose-wise demand and overdues, the classification of loans and advances of the banks into agricultural and non-agricultural loans has been followed. Agricultural loans include ordinary and scheme loans while non-agricultural loans comprises of Non Farm Loans (NFLs) and Rural Housing Loans (RHLs).

Scheme loans are given for activities like minor irrigation, soil conservation, dairying, poultry, fisheries and development of horticulture crops and

plantations. Banks provide ordinary loans for activities coming under the farm sector such as leveling and bunding, crushing yard, fencing and building smoke houses. Loans and advances for the activities like business, small scale industries, new industrial ventures and purchase of vehicles comes under NFLs, whereas RHLs are provided for setting up of new houses and renovating old ones.

4.1.1 Kanayannur CARDB (B1)

A brief picture on the selected performance indicators of the Kanayannur CARDB during the period of six years (1994-95 to 1999-2000) is presented in Table 4.2.

The membership, paid up share capital, loan amount disbursed and demand for loans have shown an increasing trend. The overdues of the Bank increased from Rs.99.16 lakhs in 1994-95 to Rs.123.84 lakhs over the years showing an Average Annual Growth Rate (AAGR) of 4.54 per cent. A positive correlation seems to exist between overdues and the loan amount demanded ($r = 0.801$). But the increase in overdues (AAGR of 4.54 per cent) was not proportionate to the increase in demand for loans (AAGR of 12.74 per cent).

Incidence of overdues accumulated over the years might have led to the drastic decline in profit from 1995-96 to 1997-98. Moreover, a negative correlation exists between overdues and profit ($r = -0.687$) which also implies that the profit of the Bank is influenced by the level of overdues to a certain extent.

A positive correlation ($r = 0.830$) is seen between membership and overdues. In a Co-operative bank, membership is a precondition for obtaining loans. So naturally, with the increase in membership, the loan amount also increases. Higher the loan amounts, greater will be the chances of increase in overdues. Hence, the

Table 4.2. Selected performance indicators of Kanayannur CARDB, 1994-95 to 1999-2000

(Rs. in lakhs)

Year	Membership (No.)	Paid up share capital (Rs.)	Loan amount disbursed (Rs.)	Demand (Rs.)	Overdue amount (Rs.)	Overdue to demand (%)	Profit/loss (Rs.)
1994-95	16253 (-)	65.95 (-)	147.44 (-)	288.45 (-)	99.16 (-)	34.37	+4.38 (-)
1995-96	16363 (0.68)	71.81 (8.89)	226.12 (53.36)	313.10 (8.54)	97.46 (-1.71)	31.12	-16.08 (-467.12)
1996-97	16967 (3.69)	83.95 (16.9)	259.30 (14.67)	333.03 (6.36)	93.03 (-4.54)	27.93	-8.03 (-50.06)
1997-98	17637 (3.95)	120.46 (43.49)	342.01 (31.89)	392.64 (17.9)	96.24 (3.45)	24.51	-2.27 (-71.73)
1998-99	18600 (5.46)	137.24 (13.93)	452.32 (32.25)	443.35 (12.91)	124.78 (29.65)	28.14	+4.26 (287.66)
1999-2000	20830 (11.99)	194.85 (41.98)	813.20 (79.78)	525.49 (18.53)	123.83 (-0.76)	23.5	+7.94 (86.38)
AAGR (%)	5.09	24.2	40.7	12.74	4.54	-	12.63

Source: Annual reports and financial statements of CARDB, Kanayannur.

Note: Figures in bracket indicate annual growth rate

AAGR refers to Average Annual Growth Rate

positive correlation between overdues and loan amount disbursed, stated earlier is reinstated here.

4.1.1.1 Purpose-wise demand and overdues

Data pertaining to the purpose-wise classification of demand and overdues of Kanayannur CARDB (B1) together with the extent of overdues to demand for each category have been highlighted in Table 4.3.

It is to be observed from Table 4.3 that demand as well as overdues is the highest in the case of scheme loans belonging to the agricultural loans category. But the AAGR of demand and overdues during the reference period is found to be the highest in the case of RHLs of the non-agricultural loans category. The reduction in interest rate on housing loans and tax concession on the principal and interest might be the reasons for the increase in the demand for housing loans. Moreover, most of the agricultural land in the area of operation of the Bank has been converted into housing colonies and business and industrial centres.

It is to be noted that the AAGR of the overdues of scheme loans of B1 are the lowest of all the banks and of all the types of loans at 1.03 per cent, but that of housing loans is very high at 31.56 per cent. This may be attributed to the high demand for housing loans especially in the last three years. As seen earlier (Table 4.2) the positive relation between demand and overdues is reinstated here.

4.1.1.2 Age-wise overdues

Age-wise classification of overdues has greater significance in the analysis of the recovery performance of banks. The overdues has been classified as overdues below one year, one to two years, two or three years, three to four years and above four years. Table 4.4 depicts the changes in the age-wise overdues at the bank level.

Table 4.3. Purpose-wise demand and overdues of Kanayannur CARDB, 1994-95 to 1999-2000

(Rs. in lakhs)

Year	Agricultural loans						Non-agricultural loans						Total		
	Ordinary loans			Scheme loans			Non-farm loans			Rural housing loans					
	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue
1994-95	64.64 (22.46)	30.27 (30.53)	46.82	106.64 (36.97)	50.14 (50.56)	47.01	67.06 (23.20)	13.61 (13.72)	20.29	50.09 (17.36)	5.14 (5.18)	10.26	288.45 (100)	99.16 (100)	34.37
1995-96	62.79 (20.05)	17.76 (18.22)	28.28	129.80 (41.48)	40.98 (42.05)	31.55	64.95 (20.75)	18.89 (19.38)	29.08	55.48 (17.72)	19.83 (20.35)	35.74	313.10 (100)	97.46 (100)	31.12
1996-97	56.18 (16.87)	20.8 (22.35)	37.02	146.55 (44.01)	46.28 (49.74)	31.57	78.22 (23.48)	19.16 (20.59)	24.49	52.08 (15.63)	6.8 (7.31)	13.05	333.03 (100)	93.03 (100)	27.93
1997-98	51.86 (13.21)	14.06 (14.60)	27.11	164.06 (41.78)	48.22 (50.10)	29.39	97.47 (24.82)	25.01 (25.99)	25.66	79.25 (20.18)	8.95 (9.3)	11.29	392.64 (100)	96.24 (100)	24.51
1998-99	44.32 (10.00)	15.85 (12.6)	35.76	175.45 (39.57)	57.36 (46.00)	32.69	102.32 (23.07)	12.98 (10.4)	12.68	121.26 (27.35)	38.59 (31)	31.82	443.35 (100)	124.98 (100)	28.14
1999-2000	45.27 (8.62)	13.09 (10.57)	28.91	172.56 (32.83)	52.77 (42.61)	30.58	145.68 (27.72)	37.71 (30.45)	25.88	161.98 (30.82)	20.26 (16.36)	12.50	525.49 (100)	123.83 (100)	23.50
AAGR (%)	-6.88	-15.43	-	10.10	1.03	-	16.78	22.60	-	26.45	31.56	-	12.74	4.54	-

Source: DCB statements of Kanayannur CARDB (1994-95 to 1999-2000)

Note: Figures in parenthesis indicate annual growth rate
AAGR - Average Annual Growth Rate

Table 4.4. Age-wise classification of overdues of Kanayannur CARDB, 1994-95 to 1999-2000

(Rs. in lakhs)

Year	Below 1 year	1-2 years	2-3 years	3-4 years	Above 4 years	Total overdues
1994-95	13.35 (13.46)	19.71 (19.88)	30.23 (30.49)	26.50 (26.72)	9.36 (9.44)	99.16 (100)
1995-96	12.82 (13.2)	19.39 (19.9)	29.53 (30.3)	24.66 (25.30)	10.98 (11.3)	97.46 (100)
1996-97	13.19 (14.17)	16.00 (17.23)	27.59 (29.65)	25.20 (27.08)	11.02 (11.85)	93.03 (100)
1997-98	15.3 (15.9)	19.87 (20.64)	23.51 (24.43)	26.00 (27.02)	11.52 (11.97)	96.24 (100)
1998-99	21.78 (17.43)	26.93 (21.55)	24.88 (19.91)	31.62 (25.30)	19.77 (15.81)	124.98 (100)
1999-2000	22.73 (18.36)	27.38 (22.11)	24.53 (19.81)	30.94 (24.98)	18.25 (14.74)	123.83 (100)
AAGR (%)	11.23	6.79	-4.09	3.15	14.28	4.54

Source: Annual reports and DCB statements of BI from 1994-95 to 1999-2000
 Figures in the parenthesis denotes the percentage to total overdues

As seen in the Table 4.4, there has been an overall increase in the overdue groups of all ages except in the case of two to three years which shows a negative AAGR of 4.09 per cent. The overdues above four years show the highest AAGR of 14.28 per cent. This indicates the lack of Banks' effort in reducing the overdue position, by taking suitable recovery measures. High overdues with longer period increase the chances of bad debts, adversely affecting the working capital availability and the cost of funds.

4.1.2 Ernakulam CARDB (B2)

The performance indicators like membership, paid up capital, loan amount disbursed, demand, overdues and profit of the Ernakulam CARDB (B2) is given in Table 4.5.

There is a tremendous growth in the amount of overdues in the last two years under reference. This may be attributed to the increase in the demand for loans in the respective years. The positive correlation between loan amount and overdues ($r = 0.888$) also reveals this.

Table 4.5. Selected performance indicators of Ernakulam CARDB, 1994-95 to 1999-2000

(Rs. in lakhs)

Year	Membership (No.)	Paid up share capital (Rs.)	Loan amount disbursed (Rs.)	Demand (Rs.)	Overdue amount (Rs.)	Overdue to demand (%)	Profit (Rs.)
1994-95	17889 (-)	85.18 (-)	338.78 (-)	2.70 (-)	35.62 (-)	13.19	8.80 (-)
1995-96	19195 (7.30)	103.48 (21.48)	517.20 (52.66)	351.61 (30.22)	45.53 (27.82)	12.95	23.48 (166.82)
1996-97	19436 (1.26)	138.87 (34.12)	862.84 (66.83)	487.54 (38.66)	55.15 (21.13)	11.31	26.62 (13.37)
1997-98	20152 (3.68)	183.14 (31.87)	634.27 (-26.5)	553.88 (13.60)	63.69 (15.48)	11.50	29.40 (3.75)
1998-99	23458 (16.40)	217.32 (18.66)	946.89 (49.3)	790.92 (42.79)	104.23 (63.65)	13.18	37.93 (29.01)
1999-2000	24567 (4.73)	253.52 (16.66)	1199.20 (26.64)	1014 (28.20)	177.30 (70.10)	17.48	16.25 (-57.15)
AAGR (%)	6.55	24.37	28.76	30.29	26.91	-	13.05

Source: Annual reports and financial statements of Ernakulam CARDB (1994-95 to 1999-2000)

Note: Figures in parenthesis indicate annual growth rate

AAGR refers to Average Annual Growth Rate

It is to be noted that the profit has not been adversely affected by the increase in overdue amount till 1998-99. This is reflected in the weak correlation ($r = 0.045$) between overdues and profit. The decrease in profit in 1999-2000 can be attributed to the sudden and tremendous increase in overdues during the last two years coupled with the high amount of provisioning for the same. As seen in the case of B1 (Kanayannur CARDB), a positive correlation is seen in the case of membership and overdues ($r = 0.945$):

4.1.2.1 Purpose-wise demand and overdues

The purpose-wise demand and overdues of the Ernakulam CARDB (B2) from 1994-95 to 1999-2000 has been highlighted in Table 4.6.

The demand and overdues of non-farm loans has been increasing at a faster pace over the years with a AAGR of 82.23 per cent and 112.91 per cent respectively. On the other hand, there has been a sharp decline in the demand and overdues of ordinary loans. As in the case of B1 it is noticed that there has been a continuous hike in the demand for RHLs.

As a Co-operative Agricultural Rural Development Bank, the main objective of the Bank must be to provide loans and advances for agricultural purposes. A deviation from this situation depicts that the demand for non-agricultural loans (NFLs and RHLs) were increasing steadily. One of the reasons for this might be the urbanisation, which has been followed by drastic reduction in agricultural and related activities in the area under the Banks operation.

4.1.2.2 Age-wise overdues

The details regarding age-wise classification of overdues of Ernakulam CARDB (B2) are furnished in Table 4.7.

Table 4.6. Purpose-wise demand and overdues of Ernakulam CARDB, 1994-95 to 1999-2000

(Rs. in lakhs)

Year	Agricultural loans						Non-agricultural loans						Total		
	Ordinary loans			Scheme loans			Non-farm loans			Rural housing loans					
	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue
1994-95	43.33 (16.05)	7.38 (20.72)	17.03	173.5 (64.26)	23.04 (64.68)	13.28	18.29 (6.77)	1.77 (4.97)	9.68	34.87 (12.92)	3.43 (9.63)	9.84	270 (100)	35.62 (100)	13.19
1995-96	39.57 (11.25)	6.73 (14.78)	17.00	154.63 (43.98)	26.88 (59.04)	17.38	109.04 (31.01)	7.56 (16.60)	7.00	48.36 (13.75)	4.36 (9.58)	9.02	351.61 (100)	45.53 (100)	12.95
1996-97	35.37 (7.25)	5.05 (9.15)	14.28	184.16 (37.77)	25.61 (46.43)	13.90	194.22 (39.84)	18.43 (33.42)	9.49	73.75 (15.13)	6.01 (11.00)	8.15	487.54 (100)	55.15 (100)	11.31
1997-98	32.27 (5.83)	2.20 (3.45)	6.82	110.74 (20.00)	14.84 (23.30)	13.40	287.07 (51.82)	38.64 (60.67)	13.46	123.80 (22.35)	8.01 (12.58)	6.47	553.88 (100)	63.69 (100)	11.50
1998-99	37.44 (4.73)	3.14 (3.00)	8.39	226.63 (28.65)	38.50 (36.94)	17.00	325.07 (41.10)	46.60 (44.71)	14.34	201.76 (25.51)	16.00 (15.35)	7.93	790.92 (100)	104.23 (100)	13.18
1999-2000	36.18 (3.57)	3.75 (2.12)	10.36	285.07 (28.11)	64.85 (36.57)	22.74	367.58 (36.25)	77.45 (43.68)	21.07	325.17 (32.07)	31.25 (17.63)	9.61	1014 (100)	177.30 (100)	17.48
AAGR (%)	-3.54	-12.66	-	10.44	23.00	-	82.23	112.91	-	56.29	55.56	-	30.3	37.84	-

Source: DCB statements of Ernakulam CARDB (1994-95 to 1999-2000)

Note: Figures in parenthesis indicate annual growth rate

Table 4.7. Age-wise classification of overdues of Ernakulam, CARDB, 1994-95 to 1999-2000

(Rs. in lakhs)

Year	Below 1 year	1-2 years	2-3 years	3-4 years	Above 4 years	Total overdues
1994-95	15.48 (43.46)	6.25 (17.55)	3.87 (10.86)	4.85 (13.62)	5.17 (14.51)	35.62 (100)
1995-96	18.21 (40.00)	8.82 (19.37)	4.76 (10.45)	6.72 (14.76)	7.02 (15.42)	45.53 (100)
1996-97	22.51 (40.82)	10.02 (18.17)	6.73 (12.20)	8.93 (16.19)	6.96 (12.62)	55.15 (100)
1997-98	23.90 (37.53)	12.08 (18.96)	7.79 (12.23)	10.33 (16.22)	9.59 (15.06)	63.69 (100)
1998-99	48.36 (46.40)	16.52 (15.85)	12.01 (11.52)	14.22 (13.64)	13.12 (12.59)	104.23 (100)
1999-2000	62.34 (35.15)	29.24 (16.50)	25.16 (14.20)	26.81 (15.12)	33.75 (19.03)	177.30 (100)
AAGR (%)	32.13	36.15	45.41	40.77	45.53	37.84

Source: Annual reports and DCB statements of B2 from 1994-95 to 1999-2000

Figures in the parenthesis denotes the percentage to total overdues

It may be observed that overdues in the age group of less than one year formed the major portion of the total overdues during the reference period and it has been increasing consistently with a AAGR of 32.13 per cent. This implies that the recent borrowers of the Bank were responsible for this situation. Hence, if urgent steps like frequent visits and follow up are undertaken by the Bank, the borrowers can be motivated for prompt repayment thereby reducing the level of overdues.

Further, it is observed that there has been a continuous growth in the overdues in the age group of above four years, which has the highest AAGR (45.53 per cent), although the percentage share of it has been less than 20 per cent throughout the study period. This is an indication of the conversion of the lower age overdues to the next category of overdues.

4.1.3 Cochin CARDB (B3)

The selected indicators of Cochin CARDB (B3) for a period of six years from 1994-95 have been highlighted in Table 4.8.

Table 4.8. Selected performance indicators of Cochin CARDB, 1994-95 to 1999-2000

(Rs. in lakhs)

Year	Membership (No.)	Paid up share capital (Rs.)	Loan amount disbursed (Rs.)	Demand (Rs.)	Overdue amount (Rs.)	Overdue to demand (%)	Profit/loss (Rs.)
1994-95	9891 (-)	7002 (-)	308.11 (-)	228.54	150.86 (-)	66.01	+29.37 (-)
1995-96	10013 (1.23)	7421 (5.98)	569.03 (84.68)	413.67 (81.00)	163.05 (8.08)	39.42	+12.11 (-58.76)
1996-97	10325 (3.11)	7830 (5.51)	708.32 (24.47)	542.72 (31.20)	217.67 (33.50)	40.11	+4.12 (-65.97)
1997-98	10713 (3.75)	8221 (5.00)	799.54 (12.87)	653.19 (20.35)	262.9 (20.77)	40.25	-1.32 (-132.0)
1998-99	11020 (2.86)	8513 (3.55)	761.28 (-0.04)	647.88 (-0.81)	254.16 (-3.32)	39.23	-2.12 (60.60)
1999-2000	11389 (3.34)	8732 (2.57)	911.44 (19.72)	737.53 (13.83)	244.53 (-3.78)	33.16	-2.96 (39.62)
AAGR (%)	2.86	4.51	24.22	26.40	10.14	-	-59.05

Source: Annual reports and financial statements of Cochin CARDB (B3) (1994-95 to 1999-2000)

Note: Figures in bracket indicate annual growth rate

AAGR refers to Average Annual Growth Rate

As in the case of other banks discussed earlier, it is seen that the membership and paid up capital has been steadily increasing over the study period. But it is to be noted that, among the four banks selected for the study, this Bank has the highest overdue, both in absolute terms and percentage of overdues to demand. In the case of B2 (Ernakulam CARDB), which had the highest demand for loans (Rs.1014 lakhs) in 1999-2000, the overdue amount was only Rs.177.30 lakhs, while this Bank had an overdue amount of Rs.244.53 lakhs at its highest demand of Rs.737.53 lakhs during the same year. Even though the percentage of overdues to demand has declined from 1998-99 onwards, it is still the highest among all the four selected banks.

Another noticeable feature is that the profit position of the Bank has posted a gradual decline and finally resulted in loss from 1997-98 onwards. One of the reasons for the drastic decline in the profits might be the high provisioning for the huge accumulated overdues over the years. Moreover, a negative correlation exists between overdues and profit ($r = -0.917$), which reveals that the profits were reducing even though there was a decline in overdues over the years. The correlation of overdues with loan amount and overdues with membership is found to be positive.

4.1.3.1 Purpose-wise demand and overdues

The demand, overdues and percentage of overdues of various categories of loans provided by the Cochin CARDB (B3) has been indicated in Table 4.9.

As in the case of other banks, the demand for ordinary loans has been reducing considerably while that of NFLs and RHLs shows tremendous growth during the reference period. This indicates the dominance of non-agricultural loans in the Bank's total demand for loans.

Agricultural loans, which were responsible for major part of the overdues till 1996-97, have been replaced by non-agricultural loans from 1997-98 onwards. Significant correlation between overdues and demand indicates that with increase in

Table 4.9. Purpose-wise demand and overdues of Cochin, CARDB, 1994-95 to 1999-2000

(Rs. in lakhs)

Year	Agricultural loans						Non-agricultural loans						Total		
	Ordinary loans			Scheme loans			Non-farm loans			Rural housing loans					
	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue
1994-95	53.95 (23.60)	42.51 (28.18)	78.8	74.74 (32.70)	52.32 (34.68)	70.00	62.83 (27.50)	37.41 (24.8)	59.54	37.02 (16.2)	18.62 (12.34)	50.3	228.54 (100)	150.86 (100)	66.01
1995-96	84.27 (20.37)	42.64 (26.15)	50.6	129.87 (31.40)	59.8 (36.68)	46.04	107.25 (25.93)	40.08 (24.58)	37.37	92.28 (22.30)	20.53 (12.59)	22.24	413.67 (100)	163.05 (100)	39.42
1996-97	85.65 (15.78)	44.91 (20.63)	52.43	170 (31.32)	66.35 (30.48)	39.00	165.81 (30.55)	63.82 (29.32)	38.49	121.26 (22.34)	42.59 (19.57)	35.12	542.72 (100)	217.67 (100)	40.11
1997-98	89.16 (13.65)	45.47 (17.30)	51.00	196.38 (30.06)	81.02 (30.82)	41.26	216.37 (33.13)	125.29 (47.65)	57.90	151.28 (23.16)	11.11 (4.23)	21.67	653.19 (100)	262.9 (100)	40.25
1998-99	90.55 (13.98)	31.82 (12.52)	35.14	154.7 (23.88)	90.45 (35.59)	58.47	198.07 (30.57)	68.55 (26.97)	34.61	204.56 (31.57)	63.34 (24.92)	34.61	647.88 (100)	254.16 (100)	39.23
1999-2000	58.91 (8.00)	22.95 (9.39)	38.96	234.58 (31.80)	68.61 (28.06)	29.25	203.61 (27.60)	82.19 (33.60)	40.37	240.43 (32.60)	70.78 (28.95)	29.44	737.53 (100)	244.53 (100)	33.16
AAGR (%)	1.77	-11.6	-	25.70	5.57	-	26.51	17.04	-	45.38	30.61	-	26.40	10.14	-

Source: DCB statements of Cochin CARDB (1994-95 to 1999-2000)

Note: Figures in parenthesis indicate annual growth rate

demand for loans, the overdues have also been rising. The Bank therefore needs to further strengthen its efforts to reach a lower level of overdues in the years to come.

4.1.3.2 Age-wise overdues

Table 4.10 highlights the age-wise classification of overdues of Cochin CARDB (B3) during the period 1994-95 to 1999-2000.

Table 4.10. Age-wise classification of overdues of Cochin, CARDB, 1994-95 to 1999-2000

(Rs. in lakhs)						
Year	Below 1 year	1-2 years	2-3 years	3-4 years	Above 4 years	Total overdues
1994-95	43.52 (28.85)	39.12 (25.93)	23.05 (15.28)	12.82 (8.5)	32.35 (21.44)	150.86 (100)
1995-96	56.74 (34.8)	41.23 (25.29)	33.35 (20.45)	16.57 (10.16)	15.16 (9.3)	163.05 (100)
1996-97	83.07 (38.16)	56.37 (26.9)	42.31 (19.43)	19.21 (8.82)	16.71 (7.68)	217.67 (100)
1997-98	89.52 (34.05)	77.67 (29.54)	40.89 (15.55)	25.72 (9.78)	29.10 (11.07)	262.9 (100)
1998-99	112.22 (44.15)	66.37 (26.11)	35.11 (13.81)	19.54 (7.69)	20.92 (8.23)	254.16 (100)
1999-2000	116.05 (47.46)	64.79 (26.5)	31.02 (12.68)	15.45 (6.32)	17.22 (7.04)	244.53 (100)
AAGR (%)	21.67	10.61	6.12	3.80	-11.85	10.14

Source: Annual reports and DCB statements of B3 from 1994-95 to 1999-2000

Figures in the parenthesis denotes the percentage to total overdues

It may be observed that overdues below one year contributes the lion's share of the total overdues of the Bank and it has been showing an increasing trend during the study period as in the case of B2. Though major portion of the Bank's overdues comes under the category of less than one year, if not controlled at this stage it would affect the credit recycling process and may lead to resource crunch ultimately. The remaining categories of overdues have been showing a declining trend from 1997-98 onwards, which is reflected in their lower AAGR. This may be due to the efforts taken by the Bank to reduce overdues of higher age groups. In spite of the

recovery measures taken by the Bank, the total overdues have been increasing over the years.

4.1.4 Irinjalakuda CARDB (B4)

The performance indicators of Irinjalakuda CARDB (B4), which includes the membership, paid-up share capital, loan amount disbursed, demand, overdues and profit / loss position have been highlighted in Table 4.11.

The Bank has been showing considerable growth in its operation over the years. The indicators like membership, paid up capital as well as demand for loans has been steadily increasing over the years. The fact that the loan amount disbursed by this Bank has been lower when compared to the other banks deserves special attention in this regard. The strict appraisal of the loan applications might have contributed to the lower level of loan disbursement.

Even though demand shows an increasing trend over the years, the overdue remains inconsistent during the reference period. Regarding the percentage of overdues to demand, it has been observed that, there was only a negligible increase from 3.16 per cent in 1994-95 to 3.33 percent in 1999-2000. The profit position of the Bank was increasing continuously at an AAGR of 15.03 per cent, which is the highest among the four banks. This might be due to the Bank's better financial planning and lower level of overdues over the years. The 'Best Performing Bank' award, among all the PCARDBs in Kerala, given to the Bank for two consecutive years viz., 1998-99 and 1999-2000, substantiates the better performance of the Bank as per the findings of the study. This establishes that, unlike the other three banks (B1, B2 and B3), B4 was functioning in an efficient manner and can be considered as a model for other banks included in the study.

The correlation analysis depicts that the membership and overdues are significantly correlated ($r = 0.815$). This means that corresponding to an increase in membership, the overdues were also increasing proportionately. Another noticeable

Table 4.11. Selected performance indicators of Irinjalakuda CARDB, 1994-95 to 1999-2000

(Rs. in lakhs)

Year	Membership (No.)	Paid up share capital (Rs.)	Loan amount disbursed (Rs.)	Demand (Rs.)	Overdue amount (Rs.)	Overdue to demand (%)	Profit/loss (Rs.)
1994-95	43,769 (-)	130.42 (-)	302.28 (-)	290.48 (-)	9.17 (-)	3.16	32.88 (-)
1995-96	45,355 (3.62)	150.11 (15.09)	629.16 (108.13)	343.42 (18.22)	6.19 (-32.5)	1.80	37.10 (12.83)
1996-97	46,980 (3.58)	178.25 (18.74)	581.30 (-7.6)	429.97 (25.2)	5.54 (-10.5)	1.29	42.98 (15.85)
1997-98	48,233 (2.66)	216.96 (21.71)	477.27 (-17.9)	483.20 (12.38)	12.83 (131.59)	2.66	50.15 (16.68)
1998-99	49,920 (3.5)	236.08 (8.81)	650.29 (36.25)	543.79 (12.53)	15.57 (21.35)	2.86	61.87 (23.36)
1999-2000	50,726 (1.61)	257.40 (9.03)	761.49 (17.1)	602.44 (10.78)	20.05 (28.77)	3.33	66.22 (7.03)
AAGR (%)	2.99	14.3	20.3	15.70	16.93	-	15.03

Source: Annual reports and financial statements of Irinjalakuda CARDB (1994-95 to 1999-2000)

Note: Figures in bracket indicate annual growth rate

AAGR refers to Average Annual Growth Rate

feature is that loan amount disbursed and overdues are not significantly correlated ($r=0.462$). This means that the overdues were not increasing proportionately to the increase in loan amount disbursed. It implies that the recovery management of the Bank was appreciable.

4.1.4.1 Purpose-wise demand and overdues

Irinjalakuda CARDB (B4), like the other banks selected for the study, provides loans under various categories like ordinary loans, scheme loans, non-farm loans and rural housing loans. Table 4.12 depicts the purpose-wise demand and overdues of the Bank for a period of six years from 1994-95 onwards.

Out of the total demand for loans, the demand for agricultural loans, particularly ordinary loans has been showing a tremendous decline from 1997-98 onwards. This may be attributed to the reluctance among the members in availing such loans due to the stagnating or declining farm income. From 1997-98 onwards, the demand for housing loans have been showing an increasing trend as in the case of other banks.

It is also seen that scheme loans which were responsible for the major portion of the overdues till 1997-98, have been replaced by non-farm loans during the succeeding years. Poor business turn over as well as overall economic conditions prevailing might be the factors behind such a situation. Thus non-agricultural loans have come to occupy more than one-third of the total loans of the Bank.

4.1.4.2 Age-wise overdues

The age-wise classification of overdues, presented in Table 4.13 provides a better insight into the composition of overdues of the Bank.

Table 4.12. Purpose-wise demand and overdues of Irinjalakuda CARDB, 1994-95 to 1999-2000

(Rs. in lakhs)

Year	Agricultural loans						Non-agricultural loans						Total		
	Ordinary loans			Scheme loans			Non-farm loans			Rural housing loans					
	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue	Demand (Rs.)	Overdue (Rs.)	% of overdue
1994-95	14.63 (5.03)	2.93 (31.91)	3.94	120.36 (41.43)	4.96 (54.03)	4.13	48.73 (16.77)	0.67 (7.29)	1.34	46.74 (16.09)	0.61 (6.64)	1.34	290.48 (100)	9.17 (100)	3.16
1995-96	61.23 (17.82)	1.44 (23.26)	2.35	125.82 (36.63)	3.23 (52.18)	2.57	73.12 (21.29)	0.66 (10.66)	0.90	83.25 (24.24)	0.86 (13.89)	1.03	343.42 (100)	6.19 (100)	1.80
1996-97	53.93 (12.54)	0.93 (16.8)	1.72	135.76 (31.57)	2.75 (49.64)	2.02	118.72 (27.61)	1.44 (26.00)	1.22	121.54 (28.27)	0.41 (7.40)	0.34	429.97 (100)	5.54 (100)	1.29
1997-98	49.88 (10.32)	1.86 (14.5)	3.74	139.42 (28.85)	4.86 (37.9)	3.49	141.58 (29.30)	4.29 (33.44)	3.03	152.31 (31.52)	1.81 (14.10)	1.19	483.20 (100)	12.83 (100)	2.66
1998-99	47.85 (8.8)	1.03 (6.62)	2.16	135.61 (24.94)	5.03 (32.31)	3.71	159.24 (29.28)	7.90 (50.74)	4.97	201.08 (36.98)	1.58 (10.23)	0.79	543.79 (100)	15.57 (100)	2.86
1999-2000	36.74 (6.1)	1.23 (6.14)	3.36	120.95 (20.08)	5.64 (28.13)	4.66	185.15 (30.73)	10.75 (53.62)	5.81	259.58 (43.09)	2.42 (12.07)	0.94	602.44 (100)	20.05 (100)	3.33
AAGR (%)	20.22	-15.93	-	0.097	2.60	-	30.6	74.20	-	40.9	31.73	-	15.70	16.93	-

Source: DCB statements of Irinjalakuda CARDB (1994-95 to 1999-2000)

Note: Figures in parenthesis indicate annual growth rate

Table 4.13. Age-wise classification of overdues of Irinjalakuda CARDB from 1994-95 to 1999-2000

(Rs. in lakhs)						
Year	Below 1 year	1-2 years	2-3 years	3-4 years	Above 4 years	Total overdues
1994-95	7.88 (85.93)	1.10 (12.00)	0.14 (1.53)	0.02 (0.21)	0.03 (0.33)	9.17 (100)
1995-96	5.62 (90.8)	0.43 (7.00)	0.09 (1.50)	0.03 (0.5)	0.01 (0.2)	6.19 (100)
1996-97	4.85 (87.54)	0.62 (11.20)	0.04 (0.72)	0.03 (0.54)	-	5.54 (100)
1997-98	11.76 (91.66)	0.98 (7.64)	0.05 (0.39)	0.01 (0.08)	0.03 (0.23)	12.83 (100)
1998-99	12.53 (80.47)	2.02 (13.00)	0.97 (6.22)	0.02 (0.12)	0.03 (0.19)	15.57 (100)
1999-2000	14.81 (73.87)	2.96 (14.76)	0.88 (4.39)	1.36 (16.78)	0.04 (0.2)	20.05 (100)
CGR (%)	13.45	21.89	44.43	132.54	5.92	16.93

Source: Annual reports and DCB statements of B3 from 1994-95 to 1999-2000
 Figures in the parenthesis denotes the percentage to total overdues

As seen in Table 4.13, the overdues below one year constituted the major portion of the total overdues throughout the reference period. It is to be noted that overdues above four years were meager for the Bank. This indicates that the Bank has been able to handle the overdues of higher age group successfully and thereby reduce the chances of it becoming bad debts. The efficient recovery performance has been one of the reasons, which enabled the Bank to achieve the 'Best Performing Bank' award among all the PCARDBs in Kerala.

The level and growth of overdues are indicative of not only the financial health of a bank but also the degree of its operational performance. An overview of the selected performance indicators of the PCARDBs reveals that there was an increase in the overdues year after year. A positive correlation between overdues and demand was observed throughout, as in the case of all the banks. Irinjalakuda CARDB (B4) has shown a better performance regarding the lower overdue level as well as higher profitability, whereas Cochin CARDB (B3) has the highest level of overdues and is functioning at loss from 1997-98 onwards. One of the reasons for the erosion of profits

of the banks under study is the increased provisioning requirement for accumulated overdues. It is evident that the recovery performance of B1, B2 and B3 is not satisfactory. The analysis further reveals that overdues below one year were responsible for a major portion of overdues in B2, B3 and B4. In the case of B1, overdues above four years occupied a major portion of the Bank's overdues. These categories of overdues have more chances of becoming bad debts and will consequently affect the banks profitability and future operations.

Another trend, which has been observed is that, the demand for housing loans has been increasing in the recent years, which can be attributed to the reduction in interest rates on these loans and the tax exemption applicable to the principal and interest portion of the housing loans. The demand for agricultural loans has been reducing due to the urbanisation and fall in the prices of agricultural commodities. Since ARDBs, are specifically meant for providing credit for agricultural and rural development activities, this shift in the pattern of lending deserves special attention. Hence a detailed analysis of the changing pattern of demand and overdues of the selected PCARDBs is done in the ensuing section.

4.1.5 Changing pattern of demand and overdues of PCARDBs - A comparison

As stated earlier, PCARDBs provide loans and advances under two heads viz., agricultural and non-agricultural loans. Agricultural loans include scheme loans and ordinary loans, while rural housing loans and non-farm loans are categorised under non-agricultural loans. A detailed analysis of this pattern of lending is presented in Table 4.14.

Change in the lending pattern of PCARDBs from their original mandate of lending to the agricultural and rural sector has been depicted in Table 4.14. The analysis of the demand and overdues of the individual banks (Tables 4.3, 4.6, 4.9 and 4.12) has already revealed the predominant share of non-agricultural loans in the total loans of these banks. As per Table 4.14, the AAGR of demand for agricultural loans

Table 4.14. Demand and overdues of Agricultural and Non Agricultural loans of PCARDBs.

(Rs. in lakhs)

Year	Agricultural loans								Non agricultural loans							
	B1		B2		B3		B4		B1		B2		B3		B4	
	Demand	Overdues	Demand	Overdues	Demand	Overdues	Demand	Overdues	Demand	Overdues	Demand	Overdues	Demand	Overdues	Demand	Overdues
1994-95	171.28	80.41	216.83	30.42	128.69	94.83	134.99	7.89	117.15	18.75	53.16	5.2	99.85	56.03	3337.22	1.28
1995-96	192.59	58.74	194.20	33.61	214.14	102.44	187.05	4.67	120.43	38.72	157.4	11.92	199.53	60.61	426.67	1.52
1996-97	202.73	67.08	219.53	30.66	255.65	111.26	189.69	3.68	130.30	25.96	267.97	24.44	287.07	106.41	551.51	1.85
1997-98	215.92	62.28	143.01	17.04	285.54	126.49	189.30	6.72	176.72	33.96	410.87	46.65	367.65	136.40	635.51	6.10
1998-99	219.77	73.21	264.07	41.64	245.25	122.27	183.46	6.06	223.58	51.57	526.83	62.60	402.63	131.89	744.87	9.48
1999-2000	217.83	65.86	321.25	68.60	293.49	91.56	157.69	6.87	307.66	57.97	692.75	108.70	444.04	152.97	862.02	13.17
AAGR (%)	27.17	-18.09	48.15	125.51	130.35	-3.45	16.81	-12.92	162.62	209.17	1203.13	1990.35	344.70	173.01	255.62	928.90

Source: Compiled from Tables 4.3,4.6,4.9 and 4.12

ranged from 16.81 per cent (B4) to 130.35 per cent (B3), whereas that of non-agricultural loans varied from 162.62 per cent (B1) to 1203.13 per cent (B2). It is also to be noted that the minimum AAGR of demand in the case of non-agricultural loans (162.62 per cent) was higher than the maximum AAGR of agricultural loans (130.35 per cent). Along with the increase in demand for loans, there is a corresponding increase in the level of overdues, as is clear from the AAGR of demand and overdues of all loans in general and specifically the non-agricultural loans of B2 (i.e. 1203.13 per cent and 1990.35 per cent respectively).

Once it is established that there is a positive relation between demand and overdues, efforts need to be taken to curb the overdues. In the absence of such measures the level of overdues will reach an alarming level. Any effort to restrict overdues should start with the identification of the factors leading to overdues. This calls for an organisational and borrower level study with respect to the reason for non-repayment of loans.

4.2 FACTORS INFLUENCING OVERDUES

Various factors lead to gradual deterioration in the quality of advances which result in the growth of overdues. Though these factors are heterogeneous in nature, it is necessary to analyse them at the grass root or borrower level. Hence, a field level study has been conducted covering four PCARDBs viz. Kanayannur CARDB (B1), Ernakulam CARDB (B2), Cochin CARDB (B3) and Irinjalakuda CARDB (B4). To examine the reasons behind poor recovery, 20 borrowers each (15 defaulters and five non-defaulters) have been interviewed.

After giving a brief picture about the socio-economic characteristics of the selected borrowers, the overdues of the sample defaulters have been classified so as to find out the relation of these factors on the overdues. The influence of the socio-economic factors on the overdues of the respondents is analysed by means of correlation. The factors leading to overdues have been identified and prioritised using priority index. In order to get a better idea about the working environment in the

selected banks, the borrowers problem in obtaining loans and their satisfaction with respect to the functions of the banks have been analysed using simple averages and percentages.

4.2.1 Socio-economic profile of sample borrowers

Socio-economic profile of the borrowers is a pre-requisite for examining the factors responsible for increasing overdues. The possible demographic factors affecting the repayment behaviour of individuals are sex, occupational status, educational level and annual family income. The details of these factors collected from the borrowers have been presented in Table 4.15.

It is seen from Table 4.15 that majority of the sample borrowers were males (65 per cent). This might be due to the reason that, in many of the households males are the only earning members and the property to be pledged in order to avail the loan is in the name of the family head or the earning member. Unlike the other banks (B1, B2 and B3), the percentage of female borrowers were high in the case of Irinjalakuda CARDB (B4). It is observed from the Table 4.15 that, in all the banks, majority of the defaulters were male borrowers. At the same time, in the case of Ernakulam CARDB (B2) and Irinjalakuda CARDB (B4), prompt repayers were mainly females. This indicates that, female borrowers are more committed in repaying the loans in time, compared to their counterparts.

The occupation of the sample borrowers included in the study has been divided into agriculture and allied activities, industry, services and business, agricultural labourers and non-agricultural labourers. It is evident from Table 4.15 that most of the respondents of the selected banks, except B4 are engaged in service and business activities (33.75 per cent) and industrial activities (22.5 per cent). This may be attributed to the predominance of industries and business centers in the area of operation of the banks. This reinforces the findings of Table 4.14 where a shift from agricultural to non-agricultural loans was quite evident. Borrowers who are engaged in agriculture and allied activities constituted the majority in the case of Irinjalakuda

Table 4.15. Socio-economic profile of sample borrowers of the selected PCARDBs.

Parameter	Kanayannur CARDB (B1)			Ernakulam CARDB (B2)			Cochin CARDB (B3)			Irinjalakuda CARDB (B4)			Total
	Defaulters	Prompt repayers	Total	Defaulters	Prompt repayers	Total	Defaulters	Prompt repayers	Total	Defaulters	Prompt repayers	Total	
Sex													
Male	11 (73.34)	3 (60.0)	14 (70.00)	13 (86.67)	2 (40.00)	15 (75.00)	10 (66.67)	4 (80.00)	14 (70.00)	8 (53.33)	1 (20.00)	9 (45.00)	52 (65.00)
Female	4 (26.66)	2 (40.0)	6 (30.00)	2 (13.33)	3 (60.00)	5 (25.00)	5 (33.33)	1 (20.00)	6 (30.00)	7 (46.67)	4 (80.00)	11 (55.00)	28 (35.00)
Total	15 (100.00)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	80 (100.00)
Occupation													
Agriculture & Allied Activities	2 (13.33)	-	2 (100.00)	4 (26.67)	-	4 (20.00)	3 (20.00)	1 (20.00)	4 (20.00)	5 (33.33)	1 (20.00)	6 (30.00)	16 (20.00)
Industry	3 (20.00)	-	3 (15.00)	5 (33.33)	2 (40.00)	7 (35.00)	3 (20.00)	2 (40.00)	5 (25.00)	2 (13.33)	1 (20.00)	3 (15.00)	18 (22.50)
Services & Business	7 (46.67)	4 (80.00)	11 (55.00)	2 (13.33)	3 (20.00)	5 (25.00)	5 (33.34)	1 (20.00)	6 (30.00)	3 (20.00)	2 (40.00)	5 (25.00)	27 (33.75)
Agricultural Labourers	1 (6.67)	1 (20.00)	2 (10.00)	3 (20.00)	-	3 (15.00)	2 (13.33)	-	2 (10.00)	3 (20.00)	1 (20.00)	4 (20.00)	11 (13.75)
Non Agricultural Labourers	2 (13.33)	-	2 (10.00)	1 (6.67)	-	1 (5.00)	2 (13.33)	1 (20.00)	3 (15.00)	2 (13.33)	-	2 (10.00)	8 (10.00)
Total	15 (100.00)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	80 (100.00)
Educational level													
Primary	1 (6.67)	-	1 (5.0)	4 (26.67)	-	4 (20.00)	-	-	-	2 (13.33)	1 (20.00)	3 (15.00)	8 (10.00)
Secondary	6 (40.00)	2 (40.00)	8 (40.00)	5 (33.33)	2 (40.00)	7 (35.00)	8 (53.33)	2 (40.00)	10 (50.00)	3 (20.00)	1 (20.00)	4 (20.00)	29 (36.25)
Above secondary	8 (53.33)	3 (60.00)	11 (55.00)	6 (40.00)	3 (60.00)	9 (45.00)	7 (46.67)	3 (60.00)	10 (50.00)	10 (66.67)	3 (60.00)	13 (65.00)	43 (53.75)
Total	15 (100)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	80 (100.00)
Annual Family Income (Rs.)													
Upto 18,000	3 (20.0)	-	3 (15.00)	3 (20.00)	-	3 (15.00)	3 (20.00)	-	3 (15.00)	7 (46.67)	-	7 (35.00)	16 (20.00)
18,000-36,000	11 (73.33)	2 (40.00)	13 (65.00)	4 (26.67)	2 (40.00)	6 (30.00)	6 (40.00)	1 (20.00)	7 (35.00)	3 (20.00)	3 (60.00)	6 (30.00)	32 (40.00)
36,000-60,000	1 (66.67)	3 (60.00)	4 (20.00)	6 (40.00)	2 (40.00)	8 (40.00)	5 (33.33)	1 (20.00)	6 (30.00)	4 (26.67)	2 (40.00)	6 (30.00)	24 (30.00)
60,000 & above	-	-	-	2 (13.33)	1 (20.00)	3 (15.00)	1 (6.67)	3 (60.00)	4 (20.00)	1 (6.66)	-	1 (5.00)	8 (10.00)
Total	15 (100.00)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	15 (100.00)	5 (100.00)	20 (100.00)	80 (100.00)

Source: Survey data

Note: Figures in parenthesis indicate percentage to total

CARDB. But at the same time, maximum number of defaulters also belonged to this category.

Educational level of the sample borrowers of the selected banks has been classified as primary, secondary and above secondary level. Majority of the borrowers had a better education of secondary level and above (53.75 per cent). The same tendency is seen in the case of the defaulters also. Among the prompt repayers of all the four banks, 60 per cent of them had educational status of secondary level and above. This indicates that educational level had very less influence on the repayment behaviour of the borrowers.

The annual family income of the sample borrowers has been categorized as up to Rs.18,000, between Rs.18,000 and Rs.36,000, between Rs.36,000 and Rs.60,000 and above Rs.60,000. Majority of the borrowers selected for the study had a annual family income ranging from Rs.18,000 to Rs.36,000. A considerable proportion of the sample borrowers of B2 belong to the category of higher annual family income (Rs.36,000 to Rs.60,000) when compared to the other sample banks. Majority of the borrowers of B4 had a lower income level (up to Rs.18,000) and most of the defaulters belonged to this category. This might be due to the reason that most of the borrowers of B4 were engaged in agriculture and related activities as stated earlier, and the income from this sector has been declining over the recent years. Most of the prompt repayers of B3 belonged to the category with annual family income above Rs.60,000. This indicates that they were utilising their increased income for timely repayment of loans. However, in spite of having only a moderate level of annual family income (Rs.18,000 to Rs.36,000) majority of the borrowers of B4 were prompt repayers.

The socio-economic profile of the sample borrowers clearly portrays the predominance of borrowers who have been engaged in business and service sector followed by industry and agriculture and allied activities, as already reinstated by the secondary data (Tables 4.3, 4.6, 4.9 and 4.12). Male respondents were much more than females and most of the respondents had education of secondary level and above.

Majority of the sample borrowers had annual family income between Rs.18,000 and Rs.36,000.

Area of operation of the sample PCARDBs has mostly been confined to urban or semi-urban areas. Majority depends on industry, service and business activities for their livelihood. Moreover, the presence of factories and industries in and around the area of operation of the banks provides employment opportunities to many. Dependence on agriculture and allied activities has reduced considerably, since the income from agriculture has declined. Moreover, the cost of living is much higher in urban areas, which results in insufficient family income to meet their expenses and to repay the loan. This substantiates the conclusion of the review of literature that high family expenditure due to conspicuous consumption pattern of the people of Kerala is one of the reasons for the non-repayment of loans.

4.2.2 Classification of overdues of defaulters

The overdue amount of the defaulters of the selected PCARDBs has been classified into four categories viz. up to Rs.4000, Rs.4000 to Rs.8000, Rs.8000 to Rs.12,000 and above Rs.12,000 and is depicted in Table 4.16. This classification has been done to analyse the extent of default made by the borrowers of the banks.

Table 4.16. Overdue classification of defaulters of PCARDBs

Overdue amount (Rs.)	(No. of defaulters)				Total
	B1	B2	B3	B4	
Upto 4000	2 (13.33)	3 (20.00)	3 (20.00)	4 (26.67)	12 (20.00)
4000 - 8000	6 (40.00)	3 (20.00)	6 (40.00)	7 (46.67)	22 (36.67)
8000 - 12000	4 (26.67)	7 (46.67)	4 (26.67)	3 (20.00)	18 (30.00)
12000 & above	3 (20.00)	2 (13.33)	2 (13.33)	1 (6.67)	8 (13.33)
Total	15 (100.00)	15 (100.00)	15 (100.00)	15 (100.00)	60 (100.00)

Source: Survey data

Note: Figures in parenthesis indicate percentage to total

The prominence of defaulters in the category of overdues between Rs.4000-Rs.8000 implies that many of them are small or medium borrowers. The secondary data (Tables 4.4, 4.7 and 4.10) has already revealed that overdues below one year constitute a major portion of the total. A lion's share of the overdues in the category of Rs.4000 - Rs.8000 might have become overdues recently. Hence, if banks undertake proper follow-up measures, the level of overdues can be reduced considerably.

4.2.3 Influence of Socio-economic characteristics on overdues

The socio-economic characteristics of the sample respondents discussed earlier is related to the level of overdues, by means of correlation, to examine the extent of influence of these factors on their overdues.

4.2.3.1 *Level of overdues and educational status*

An apriori reasoning is that, those borrowers with better educational level will have better awareness of problems and consequences of overdues and better will be the loan repayment. Hence an attempt has been made to analyse the relationship between educational level and overdues of sample defaulters in Table 4.17.

As already seen in Table 4.15, most of the defaulters of the banks are educationally forward (secondary and above secondary level). But it is seen in Table 4.17 that the highly educated group were responsible for higher amount of overdues (i.e., Rs. 12,000 and above) in respect of all the four banks. The correlation between overdues and educational status of defaulters of these banks did not show significant relationship. The analysis, thus points out the fact that, instead of reducing the level of overdues, the educationally forward borrowers were responsible for creating huge overdues for the bank. This indicates the presence of wilful defaulters in these banks.

Table 4.17. Overdue amount and educational level of sample defaulters of selected PCARDBs

Overdue amount	Kanayannur CARDB (B1)				Ernakulam CARDB (B2)				Cochin CARDB (B3)				Irinjalakuda CARDB (B4)			
	Primary	Secondary	Above secondary	Total	Primary	Secondary	Above secondary	Total	Primary	Secondary	Above secondary	Total	Primary	Secondary	Above secondary	Total
Upto 4000	-	1 (16.67)	1 (12.5)	2 (13.33)	2 (50.00)	-	1 (16.67)	3 (20.00)	-	2 (25.00)	1 (14.28)	3 (20.00)	1 (50.00)	2 (66.67)	1 (10.00)	4 (26.67)
4000 - 8000	1 (100.00)	2 (33.33)	3 (37.5)	6 (40.00)	-	1 (20.00)	2 (33.33)	3 (20.00)	-	4 (50.00)	2 (28.57)	6 (40.00)	1 (50.00)	1 (33.33)	5 (50.00)	7 (46.67)
8000 - 12000	-	2 (33.33)	2 (25.00)	4 (26.67)	1 (25.00)	4 (80.00)	2 (33.33)	7 (46.67)	-	2 (25.00)	2 (28.57)	4 (26.67)	-	-	3 (30.00)	3 (20.00)
12000 & above	-	1 (16.67)	2 (25.00)	3 (20.00)	1 (25.00)	-	1 (16.67)	2 (13.33)	-	-	-	2 (13.33)	-	-	1 (10.00)	1 (6.67)
Total	1 (100.00)	6 (100.00)	8 (100.00)	15 (100.00)	4 (100.00)	5 (100.00)	6 (100.00)	15 (100.00)	-	8 (100.00)	7 (100.00)	15 (100.00)	2 (100.00)	2 (100.00)	10 (100.00)	15 (100.00)

Source: Survey data

4.2.3.2 *Level of overdues and occupation*

A comparison of overdues of different occupational classes such as farmers, industrialists, businessmen, agricultural labourers and non-agricultural labourers has been made to identify the relation between the occupation and overdues, which is highlighted in Table 4.18.

It is seen from Table 4.18 that, of all the five categories of occupational classes, non-agricultural labourers were responsible for smaller overdue amounts. The defaulters with overdues of higher category (more than Rs.8000) belonged to the agricultural and service and business sector. No significant relation between occupational classes and overdues was found except in the category of service and business (B2) and agriculture and allied activities (B3).

The banks provide loans for service and business activities under the category of non-farm sector loans. Table 4.6 has already pointed out the highest AAGR in demand and overdues of non-farm loans for B2. Hence, the relation between non-farm loans and overdues, identified earlier is reinstated by the significant relation between the same.

4.2.3.3 *Level of overdues and annual income*

It is known that overdues are closely related to the annual income of the borrowers, irrespective of their occupational status, such that higher the income, lower the dues. An attempt has been made in Table 4.19 to analyse the relationship between the level of annual income, and the overdues. For this purpose, the annual family income has been classified as upto Rs.18,000, Rs.18,000 to Rs.36,000, Rs.36,000 to Rs.60,000 and above Rs.60,000.

The analysis of the annual family income of the respondents and their level of overdues reveals a significant correlation between the two variables, in the case of three banks, viz., B1 ($r = 0.772$), B2 (0.946) and B3 (0.946) i.e., along with the

Table 4.18. Overdues and occupational status of sample defaulters of selected PCARDBs

(Rs. in lakhs)

Overdue amount (Rs.) No. of defaulters	B1					B2					B3					B4				
	Upto 4000	4000-8000	8000-12000	12000 & above	Total	Upto 4000	4000-8000	8000-12000	12000 & above	Total	Upto 4000	4000-8000	8000-12000	12000 & above	Total	Upto 4000	4000-8000	8000-12000	12000 & above	Total
Agri & allied activities	-	-	2 (100.00)	-	2 (100.00)	-	1 (25.00)	3 (75.00)	-	4 (100.00)	-	1 (33.33)	1 (33.33)	1 (33.33)	3 (100.00)	2 (40.00)	2 (40.00)	-	1 (20.00)	5 (100.00)
Industry	-	2 (66.67)	-	1 (33.33)	3 (100.00)	1 (20.00)	-	3 (60.00)	1 (20.00)	5 (100.00)	-	2 (66.67)	1 (33.33)	-	3 (100.00)	-	2 (100.00)	-	-	2 (100.00)
Services and business	1 (14.29)	3 (42.85)	1 (14.29)	2 (28.57)	7 (100.00)	-	-	1 (50.00)	1 (50.00)	2 (100.00)	1 (20.00)	2 (40.00)	1 (20.00)	1 (20.00)	5 (100.00)	1 (33.33)	-	2 (66.67)	-	3 (100.00)
Agri labour	-	-	1 (100.00)	-	1 (100.00)	1 (33.33)	2 (66.67)	-	-	3 (100.00)	1 (50.00)	-	1 (50.00)	-	2 (100.00)	-	2 (66.67)	1 (33.33)	-	3 (100.00)
Non agri labour	1 (50.00)	1 (50.00)	-	-	2 (100.00)	-	-	-	-	1 (100.00)	1 (50.00)	1 (50.00)	-	-	2 (100.00)	1 (50.00)	1 (50.00)	-	-	2 (100.00)
Total	2 (13.33)	6 (40.00)	4 (26.67)	3 (20.00)	15 (100.00)	3 (20.00)	3 (20.00)	7 (46.67)	2 (13.33)	15 (100.00)	3 (20.00)	6 (40.00)	4 (26.67)	2 (13.33)	15 (100.00)	4 (26.67)	7 (46.67)	3 (20.00)	1 (6.67)	15 (100.00)

Source: Survey data

Note: Figures in parenthesis indicate percentage to total

Table 4.19. Overdue amount and annual family income of defaulters of selected PCARDBs

Overdue amount	B1					B2					B3					B4				
	Annual family income (Rs.)					Annual family income (Rs.)					Annual family income (Rs.)					Annual family income (Rs.)				
	Upto 18000	18000-36000	36000-60000	60000 & above	Total	Upto 18000	18000-36000	36000-60000	60000 & above	Total	Upto 18000	18000-36000	36000-60000	60000 & above	Total	Upto 18000	18000-36000	36000-60000	60000 & above	Total
Upto 4000	2 (66.67)	-	-	-	2 (13.33)	2 (66.67)	1 (25.00)	-	-	3 (20.00)	1 (33.33)	-	2 (40.00)	-	3 (20.00)	2 (28.57)	1 (33.33)	-	1 (100.000)	4 (26.67)
4000 - 8000	1 (33.33)	5 (45.45)	-	-	6 (40.01)	1 (33.33)	-	2 (33.33)	-	3 (20.00)	2 (66.67)	4 (66.67)	-	6 (40.00)	4 (57.14)	2 (66.67)	1 (25.00)	-	7 (46.67)	
8000 - 12000	-	4 (36.36)	-	-	4 (26.67)	-	2 (50.00)	4 (66.67)	1 (50.00)	7 (46.67)	-	2 (33.33)	2 (40.00)	-	4 (26.67)	1 (14.29)	-	2 (50.00)	-	3 (20.00)
12000 & above	-	2 (18.18)	1 (100.000)	-	3 (20.00)	-	1 (25.00)	-	1 (50.00)	2 (13.33)	-	-	1 (20.00)	1 (100.000)	2 (13.33)	-	-	1 (25.00)	-	1 (6.67)
Total	3 (100.000)	11 (100.000)	1 (100.000)	-	15 (100.000)	3 (100.000)	4 (100.000)	6 (100.000)	2 (100.000)	15 (100.000)	3 (100.000)	6 (100.000)	5 (100.000)	1 (100.000)	15 (100.000)	7 (100.000)	3 (100.000)	4 (100.000)	1 (100.000)	15 (100.000)

Source: Survey data

Note: Figures in parenthesis indicate percentage to total

increase in family income, the amount of overdues also increased. But in the case of B4, no significant relation was identified. It was found that defaulters with higher income had comparatively lower overdues. These findings give an indication that, in the case of B1, B2 and B3, the high overdues is due to the wilful default from the part of the borrowers. On the other hand, the existence of such wilful default is ruled out in B4. Hence, the excellent performance of B4 (Table 4.11) as stated earlier is justified here. The findings call for rigorous effort by the other banks to identify the wilful defaulters and adopt suitable methods to speed up the recovery process, along with proper appraisal and follow-up measures so that such wilful defaulters can be avoided.

4.2.4 Defaulter level reasons for overdues

The reasons for growing volume of overdues may be attributed to internal as well as external factors. As revealed by the review of literature, the overdues arising from unsound lending policies and poor appraisal procedures, lack of adequate supervision, misappropriation of loans, apathy of management, political and governmental interference and absence of modern management skills were some of the internal reasons. On the other hand, the external reasons may include the aspects such as inadequacy of income, illness of borrowers and natural calamities. This highlights the need to trace the actual reasons for non repayment of loans as advanced from the point of view of the borrowers.

The responses of sample defaulters on the reasons for non - repayment has been ranked on the basis of priority index and is presented in Table 4.20. A uniform pattern is noticed regarding the responses of the defaulters of B1, B2 and B4, who felt that inadequacy of income was the main reason for default. However, fixation of unrealistic dues has been ranked as the most important reason for non-repayment by the defaulters of B3. Faith in loan waiver policy, lack of access to consumption loans and diversification of income, illness of borrower, expenses for ceremonies, managerial problems and lack of recovery efforts by the banks have also been pointed out as reasons behind non-repayment.

Table 4.20. Reasons for default - Response of sample defaulters of selected PCARDBs

Sl. No.	Reasons	B1		B2		B3		B4		Total of four PCARDBs	
		Score	Priority index (%)	Score	Priority index (%)	Score	Priority index (%)	Score	Priority index (%)	Score	Priority index (%)
1	Inadequacy of income	147	89.09 (I)	142	86.06 (I)	127	76.96 (II)	131	79.39 (I)	547	82.87 (I)
2	Defective loan policies	56	33.94 (IX)	62	37.57 (IX)	79	47.87 (VIII)	49	29.69 (X)	246	37.27 (IX)
3	Misutilisation of loan amount	126	76.36 (III)	109	66.06 (III)	116	70.30 (IV)	55	33.33 (IX)	406	61.51 (IV)
4	Fixation of unrealistic due	139	84.24 (II)	123	74.54 (II)	136	82.42 (I)	73	44.24 (VII)	471	71.36 (II)
5	Lack of recovery efforts	79	47.88 (VIII)	88	53.33 (VI)	99	60.00 (V)	69	41.81 (VIII)	335	50.75 (VII)
6	Illness of borrower or family members	122	73.94 (IV)	80	48.48 (VII)	55	33.33 (IX)	112	67.87 (iii)	369	55.90 (VI)
7	Managerial problems	53	32.12 (X)	29	17.57 (XI)	87	52.72 (VI)	33	20.00 (XI)	202	30.60 (X)
8	Natural calamities	35	21.21 (XI)	31	18.78 (X)	44	26.66 (X)	82	49.69 (V)	192	29.09 (XI)
9	Ceremonies	114	69.09 (V)	76	46.06 (VIII)	21	12.72 (XI)	91	55.15 (IV)	302	45.75 (VIII)
10	Faith in loan waiver/write off policies	99	60.00 (VII)	91	55.15 (V)	123	74.54 (III)	78	47.27 (VI)	391	59.24 (V)
11	Lack of access to consumption loans and diversification of income for consumption	108	65.45 (VI)	98	59.39 (IV)	81	49.09 (VII)	126	76.36 (II)	413	62.57 (III)
	Maximum obtainable score	165	100.00	165	100.00	165	100.00	165	100.00	660	100.00

Source: Survey data

Note: Figures in parenthesis indicate the rank obtained for each reason

Having seen the major reasons for non-repayment of loans at the defaulter level, a detailed examination of these reasons has been attempted in the following sections.

4.2.4.1 Inadequacy of income

As discussed earlier, low level of income was found to be the major reason for non-repayment of loans by the borrowers. In the case of businessmen, the income earned by them during one period was sufficient only for reinvesting in the same business. Many of the borrowers who availed loans for business activities like stationary shops, hotels and pickle units were unable to repay the loan installment due to failure or lack of income from the business.

Unlike the commercial banks and other financial institutions, the repayment of loans amount is not linked with salary deduction scheme, in the case of co-operatives. This is because most of the borrowers of the co-operative sector are farmers, artisans, labourers and businessmen, who did not have a fixed income. But for those working in industries and factories, it was seen that even though they received adequate income, they made conspicuous consumption and met their personal needs and luxury instead of repaying loans and advances. This highlighted the magnitude of wilful default caused by the borrowers.

4.2.4.2 Fixation of unrealistic dues

Majority of the defaulters opined that the installment amount was not fixed according to their income earning capacity and that the overdues could be reduced considerably, if the installment amount were reduced. In the case of those engaged in agriculture and allied activities, the general complaint was that, the repayment schedule was not based on the income generation period i.e., the time of repayment did not coincide with the season of the yield. They also opined that banks were not extending the repayment time even in case of genuine difficulties.

4.2.4.3 Misutilisation of loan by sample defaulters

It is a proven fact that regular supervision during the initial stages of any kind of advance and suggesting remedial measures to the borrowers, will have a lasting effect on the borrowers and the account. The survey revealed that the loan amount was misutilised for meeting consumption expenditure, ceremonies like marriages, expenses for agriculture and non-agricultural operations, miscellaneous expenditure and for the education of children. Table 4.21 illustrates the purpose and amount of loan diversion by the sample defaulters.

Table 4.21. Purpose and amount of loan diversion by sample defaulters of selected PCARDBs

Sl. No.	Purpose of diversion	B1	B2	B3	B4	Total
1	Consumption purposes	5 (45.45)	3 (33.33)	3 (25.00)	2 (28.57)	13 (33.33)
2	Ceremonies	2 (18.18)	4 (44.44)	2 (16.67)	3 (42.85)	11 (28.21)
3	Expenses for agricultural or Non agricultural operations	1 (9.09)	1 (11.11)	-	-	2 (5.13)
4	Educational expenses of children	2 (18.18)	-	4 (33.33)	1 (14.29)	7 (17.95)
5	Other expenses	1 (9.09)	1 (11.11)	3 (25.00)	1 (14.29)	6 (15.38)
	Total	11 (100.00)	9 (100.00)	12 (100.00)	7 (100.00)	39 (100.00)
	Average amount of diversion (Amt. in Rs.)	20,000	11,666.66	12,500	11428.57	14230.77
	Average loan amount (Amt. in Rs.)	86,363.63	69,444.44	70,833.33	71,428.57	75,000.00
	Percentage of diversion to loan amount	23.16	16.8	17.65	16.00	18.97

Source: Survey data

Note: Figures in parenthesis indicate percentage to total

Table 4.21 indicates that, out of 60 sample defaulters of all the four PCARDBs selected for the study, 39 of them diverted the loan amount for other purposes. Misutilisation was prominent in all banks except B4 (Table 4.20). As per Table 4.21 the average amount of loan diversion was least among the defaulters of B4, while it was highest in the case of defaulters of B1. The highest percentage of diversion (23.16 per cent) to total loan amount have been made by the defaulters of B1. Thus it can be concluded that the defaulters of B4 have resorted to less diversion when compared to the other three banks. This indicates the effectiveness of the supervision and monitoring mechanism of the Bank.

4.2.4.4 Lack of access to consumption loans and diversion of income for consumption purposes

Non-availability of consumption loans was identified as one of the reasons for default in repayment. Due to the diversion of income for consumption purposes, the dues were continuously increasing. Moreover, the pattern of life in Kerala is slightly different from the other states, as Keralites are highly interested in conspicuous consumption and prefer to live at a higher level than what they can afford. The expenses on purposes like education, various ceremonies and house construction are very high and in addition they avail all modern facilities too. This can be controlled to a certain extent by disbursing consumption loans along with production credit at affordable interest rate, provided they are adequately secured.

4.2.4.5 Ill health of borrowers and family members

The defaulters of B1 and B4 indicated that, ill health of borrowers and their family members had a serious impact on their loan repayment behaviour. The unexpected medical expenses of the borrowers from their income, result in reduction in their incremental income, leading to non-repayment of dues in time.

4.2.4.6 Faith in loan write - off policy

The loan write - off policy of the government has a negative impact on the decision of the borrowers to repay their dues. Such policy measures are beneficial to

the defaulters and this in turn encourages the prompt repayers to deliberately delay their repayment. Moreover, expecting such future proposals from the part of the government, the borrowers await for such write-off resulting in increased number of wilful defaulters. So, the government should avoid such policies and rather provide incentives for prompt repayment.

4.2.4.7 Defective loaning policies

The analysis revealed that, the loans and advances provided by the banks was insufficient to meet the project cost, thereby forcing the borrowers to approach other sources for finance, that too, at a higher interest rate. This in turn puts an additional burden on them which ultimately affects the repayment of bank dues.

Table 4.22. Sources of additional funds for meeting project cost of sample borrowers

Sl. No.	Source	B1	B2	B3	B4
1	Personal savings	3 (15.00)	6 (30.00)	8 (40.00)	6 (30.00)
2	Borrowings from friends/relatives	4 (20.00)	4 (20.00)	3 (15.00)	4 (20.00)
3	Loans from other agencies	2 (10.00)	3 (15.00)	5 (25.00)	1 (5.00)
4	Local money lenders	11 (55.00)	7 (35.00)	4 (20.00)	9 (45.00)
	Total	20 (100)	20 (100)	20 (100)	20 (100)

Source: Survey data

Figures in parenthesis indicate percentage to total

The sources of additional funds for meeting project cost of the sample borrowers are exhibited in Table 4.22. It can be inferred from the Table that the borrowers of B1, B2 and B4 had to depend mainly on local money lenders in order to mobilise the additional funds required at exorbitant rates of interest. Hence they were compelled to pay off the dues of the private agencies first, owing to the high interest rate charged by them and a co-operative due becomes a matter of secondary

importance. The borrowers also opined that an unscientific proportion between loan amount and securities to be offered prevailed in the banks.

It can be well inferred from the analysis that the reasons for default from the part of the borrowers varied from one person to another. However, the remedial measure lies with the banks taking initiative in terms of adequate measures to overcome such factors, as is evident in the case of B4.

4.2.4.8 Problems in obtaining loans

Most of the borrowers of financial institutions face problems in obtaining loan in one way or the other and the co-operative sector is not an exception to this. The problem broadly ranges from the banker's inability to meet adequate and timely credit requirements to the time lag due to lengthy procedures. These problems may differ from one bank to another. Hence, it may be worthwhile to enquire into the problems pertaining to the availing of loans from each bank specifically.

Table 4.23. Problems in obtaining loans - response of sample borrowers of selected PCARDB's

Sl. No.	Problems	Kanayannur PCARDB (B1)	Ernakulam PCARDB (B2)	Cochin PCARDB (B3)	Irinjalakuda PCARDB (B4)	Total
1	Procedural delay	9 (56.25)	7 (53.84)	4 (22.22)	3 (30.00)	23 (40.35)
2	Lack of adequate security to hypothecate/pledge	3 (18.75)	2 (15.38)	4 (22.22)	4 (40.00)	13 (22.80)
3	Vested interest	1 (6.25)	1 (7.70)	3 (16.67)	1 (10.00)	6 (10.53)
4	Bribery	-	-	-	-	-
5	Inadequate assistance by bank officials	2 (12.50)	2 (15.38)	5 (27.78)	2 (20.00)	11 (19.30)
6	Interference of politicians	1 (6.25)	1 (7.70)	2 (11.11)	-	4 (7.02)
	Total	16 (100.00)	13 (100.00)	18 (100.00)	10 (100.00)	57 (100.00)
	Delay in obtaining loans (Average number of days)	24.75	24.00	20.25	18.00	21.75

Source: Survey data

Table 4.23 shows the response of the sample borrowers with respect to the problems in obtaining loans from the selected banks. It is to be noted that, of the 80 sample borrowers, only 57 of them seems to be facing problems in obtaining loans. It is interesting to note that procedural delay has been pointed out by them as the most serious problem in availing loan. The average number of days required for sanction and disbursement of loans varies from one bank to another. A perusal of Table 4.23 reveals that the delay in obtaining loans was highest in the case of B1 and lowest in B4.

Adequate securities, in proportion to the loan amount required by the borrowers has to be hypothecated with the bank. The borrower may not have enough securities to hypothecate so as to avail the entire amount required for meeting the project cost. This is found to be a major problem among the borrowers of B4 as well as the other sample banks.

Borrowers are mostly less informed and educated on the procedural matters, right from application for loan till the closure of the loan account. Hence, proper assistance and help by the bank officials is necessary for the adequate and timely disbursement as well as repayment of loans. But, it is found that the borrowers, particularly those of B3 received very little assistance from the bank officials. A peculiar feature to be noted is that none of the sample borrowers complained about bribery, while political interference was a minor issue in all the banks.

An assessment of the Table reveals that procedural delay, inadequate securities to hypothecate and inadequate assistance by the bank officials were the major problems related to availing loans and advances. This highlights the tendency of the defaulters to absolve from their responsibilities, leaving it entirely upon the banker.

4.2.5 Borrowers Satisfaction with the Banking Operations

The performance of any bank depends on the customers or members satisfaction and belief in the banks operation. The level of satisfaction of both defaulters and prompt repayers are presented in Table 4.24.

Table 4.24. Borrowers satisfaction with banking operation

Group	Number of borrowers				Total
	Kanayannur CARDB (B1)	Ernakulam CARDB (B2)	Cochin CARDB (B3)	Irinjalakuda CARDB (B4)	
Defaulters					
Satisfactory group	9	11	8	13	41
Non-satisfactory group	6	4	7	2	19
Total	15	15	15	15	60
Prompt repayers					
Satisfactory group	3	5	4	5	17
Non-satisfactory group	2	0	1	0	3
Total	5	5	5	5	20
Total borrowers					
Satisfactory group	12 (60.00)	16 (80.00)	12 (60.00)	18 (90.00)	58 (72.50)
Non-satisfactory group	8 (40.00)	4 (20.00)	8 (40.00)	2 (10.00)	22 (27.50)
Total	20 (100.00)	20 (100.00)	20 (100.00)	20 (100.00)	80 (100.00)

Source: Survey data

Note: Figures in parenthesis indicate percentage to total

An assessment of the Table reveals that the borrowers of B4 exhibited a high level of satisfaction with the Banks' operation. An overview of the opinion of all the borrowers indicate that 72.50 per cent of them were satisfied with the performance of the sample banks.

It has been observed throughout the study, that the overdue level of B4 has been the lowest among all banks which is certainly due to the sternous efforts from the part of the Bank by way of proper appraisal and follow up. It is to be noted that even after the adoption of such steps from the part of the Bank, the borrowers are highly satisfied (90 per cent) with the operation of the Bank. Hence, this should be a motivating factor for the other banks to adopt such measures for reducing overdues.

4.3 LOAN RECOVERY SYSTEM IN PCARDBs

Credit is a delicate matter and has to be handled with care, so that it comes back in the right time. But in real situation it is practically impossible to get back whatever is lent, ultimately leading to mounting overdues over the years. An efficient

loan recovery system is a precondition for reducing the overdues of a bank and thereby improving its overall performance. Hence, an attempt has been made to examine the loan recovery system existing in the PCARDBs.

For the purpose of the study, loan recovery system includes the steps taken by the bank after the installment of interest and principal has become due and remains unpaid by the borrowers. The present recovery system in the selected banks is mainly confined to sending due letters and reminders to the defaulters. In addition to this, the banks officials and staff maintain personal contacts with the defaulters to force them to repay the loans. Legal action against the defaulters is the final option in the recovery mechanism, where the role of sale officers from the co-operative department is important.

4.3.1 Efficiency index of the recovery system

Survey has been conducted among the 10 officials from each bank, consisting of employees, secretaries and BODs, for assessing the effectiveness of the recovery system and also for identifying the reasons for poor recovery performance, which are presented in this part of the analysis. Six statements including the loan recovery system and related aspects were given to the respondents who were asked to opine on a five-point scale. The efficiency of the recovery mechanism was classified as highly efficient (index above 90 per cent), moderately efficient (index between 75 per cent and 90 per cent) and least efficient (below 75 per cent). An inter-bank comparison has also been done based on the index values. The efficiency indices of B1, B2, B3 and B4 are given in Tables 4.25, 4.26, 4.27 and 4.28 respectively.

It is clear from the index values of B1, B2 and B3 that the existing loan recovery system was moderately efficient. This indicates that the present loan recovery system, member relations, management of the banks, intra-bank relations, commitment of the BODs and employees as well as the overall performance of the banks were not appreciable. Even in the opinion of the bank officials and BODs, there

Table 4.25. Efficiency index of Kanayannur CARDB (B1)

Sl. No.	Parameters	Highly satisfied	Moderately satisfied	No opinion	Dissatisfied	Totally dissatisfied	Total	Index
1	Present loan recovery system	3	6	-	1	-	10	82
2	Commitment of BoD & employees	3	5	-	1	1	10	76
3	Management of the bank	5	3	-	1	1	10	80
4	Member relations	4	4	-	2	-	10	80
5	Intra-bank relations	4	4	-	2	-	10	80
6	Overall performance of the organisation	4	5	-	1	-	10	84
	Average index	80.33						

Source: Survey Data

Table 4.26. Efficiency index of Ernakulam CARDB (B2)

Sl. No.	Parameters	Highly satisfied	Moderately satisfied	No opinion	Dissatisfied	Totally dissatisfied	Total	Index
1	Present loan recovery system	3	6	-	1	-	10	82
2	Commitment of BoD & employees	4	5	-	1	-	10	84
3	Management of the bank	6	3	-	1	-	10	88
4	Member relations	3	5	-	1	1	10	76
5	Intra-bank relations	5	3	2	-	-	10	86
6	Overall performance of the organisation	7	2	-	1	-	10	90
	Average index	84.33						

Source: Survey Data

Table 4.27. Efficiency index of Cochin CARDB (B3)

Sl. No.	Parameters	Highly satisfied	Moderately satisfied	No opinion	Dissatisfied	Totally dissatisfied	Total	Index
1	Present loan recovery system	3	5	-	2	-	10	78
2	Commitment of BoD & employees	3	6	-	1	-	10	82
3	Management of the bank	3	5	1	1	-	10	80
4	Member relations	5	3	1	1	-	10	84
5	Intra-bank relations	4	5	-	1	-	10	84
6	Overall performance of the organisation	6	3	-	1	-	10	88
	Average index	82.67						

Source: Survey Data

Table 4.28. Efficiency index of Irinjalakuda CARDB (B4)

Sl. No.	Parameters	Highly satisfied	Moderately satisfied	No opinion	Dissatisfied	Totally dissatisfied	Total	Index
1	Present loan recovery system	8	1	-	1	-	10	92
2	Commitment of BoD & employees	6	3	-	1	-	10	88
3	Management of the bank	7	2	-	1	-	10	90
4	Member relations	8	2	-	-	-	10	96
5	Intra-bank relations	7	2	-	1	-	10	90
6	Overall performance of the organisation	8	2	-	-	-	10	96
	Average index	92.00						

Source: Survey Data

was something more to be perfected in the existing loan recovery mechanism. No bank is an exception to this. However, a comparatively better performance is exhibited by B4 with an average efficiency index of 92 per cent. A specifically notable point is that the existing loan recovery system of this bank is found to be highly efficient (92 per cent). This is also supported by the fact that the overdues of the bank were the least among the four banks. It is also to be noted that the efficiency of the present loan recovery system of B3 is the lowest of the four banks with an index of 78 per cent. This explains the earlier finding that B3 has the highest amount of overdues (Table 4.8).

4.3.2 Reasons for poor recovery performance - An organisational level analysis

The effectiveness of the loan recovery system has not been very promising except in Irinjalakuda CARDB (B4). Certain organisational lapses may also be responsible for the poor recovery performance in addition to the borrower level problem. Out of the 20 statements on factors leading to poor recovery performance eleven statements have been selected based on the responses of the organisational respondents. These statements have been ranked based on the priority index and furnished in Table 4.29.

The analysis proved that the banks also had a role in the mounting up of overdues. It was found that the staff and management of the banks considered absence of modern management techniques and MIS, lack of staff training and infrastructural facilities and ineffective legal machinery as the important issues behind the poor loan recovery performance. Though B4 was found to be an exception with a meager percentage of overdues, it also faced these problems to a certain extent.

Inordinate delay in the settlement of cases for recovery leads to ineffective legal machinery. By the time the legal procedures come to an end, the likely realisable value of assets charged to them may not be adequate even to meet the legal expenses incurred, leaving aside the recovery of principal, interest and other charges.

Table 4.29. Reasons for poor recovery performance - Organisational level response

Sl. No.	Reasons	B1		B2		B3		B4		Total of 4 PCARDBs	
		Score	Priority index	Score	Priority index	Score	Priority index	Score	Priority index	Score	Priority index
1	Inadequate staff for field supervision & loan appraisal	82	74.55 (II)	63	57.27 (IV)	84	76.36 (II)	69	62.73 (V)	314	71.36 (III)
2	Ineffective legal machinery	69	62.73 (IV)	54	49.09 (V)	73	66.36 (VI)	85	77.27 (II)	265	60.23 (V)
3	Lack of good work culture and lack of commitment from employees	18	16.36 (XI)	15	13.64 (XI)	27	24.54 (IX)	22	20.00 (IX)	82	18.64 (IX)
4	Over politicisation and excess Government control	25	22.73 (VII)	49	44.55 (VI)	61	55.45 (VII)	70	63.64 (IV)	205	46.59 (VII)
5	Lack of Commitment from Board of Directors	62	56.36 (VI)	33	30.00 (VII)	75	68.18 (V)	36	32.73 (VIII)	206	46.82 (VI)
6	Poor member relations	23	20.91 (IX)	19	17.27 (IX)	20	18.18 (X)	16	14.54 (X)	78	17.73 (X)
7	Lack of infrastructural facilities	65	59.09 (V)	71	64.55 (III)	81	73.63 (III)	52	47.27 (VII)	269	61.14 (IV)
8	Lack of modern management techniques and absence of MIS	88	80.00 (I)	76	69.09 (II)	87	79.09 (I)	78	70.90 (III)	329	74.77 (I)
9	Absence of professionalised Managers	21	19.09 (X)	18	16.36 (X)	32	29.09 (VIII)	58	52.72 (VI)	129	29.32 (VIII)
10	Lack of staff training programme	70	63.64 (III)	84	76.36 (I)	79	71.82 (IV)	89	80.90 (I)	322	73.18 (II)
11	Inadequate quality of work environment	24	21.82 (VIII)	21	19.09 (VIII)	16	14.54 (XI)	15	13.64 (XI)	76	17.27 (XI)
	Maximum obtainable score	10x11 =110	100.00	10x11 =110	100.00	10x11 =110	100.00	10x11 =110	100.00	440	100.00

Source: Survey data

Note: Figures in parenthesis indicate the rank obtained for each reason

A perusal of Table 4.29 reveals that inadequacy of staff for field supervision and loan appraisal was yet another problem as far as the PCARDBs were concerned. The effectiveness of any scheme to a greater extent is correlated to the number of visits made by the bank officials to the beneficiaries. There exists a drastic need for skilled personnel for field supervision and loan appraisal. It is obvious that co-operatives are still following traditional methods and techniques of management, which has to be replaced by modern measures of management and accounting.

4.3.3 Suggestions for better recovery

Having enquired into the borrower level and organisational level reasons for high overdues and having measured the efficiency level of the loan recovery system, it is necessary to develop policy guidelines for the improvement of this situation. The suggestions of borrowers and the officials of the banks have been analysed using priority index and are enumerated in the subsequent sections.

4.3.3.1 *Defaulter level suggestions*

The suggestions given by the defaulters have been grouped under 10 statements and the indices worked out in Table 4.30 gives a summary of their responses.

As per Table 4.30, fixation of smaller installments, provision for adequate loan amounts, incentives to prompt repayers, reduction in interest rates and sending of timely reminders are the important suggestions of the defaulters for reducing overdues. It is to be noted that most of the borrower level suggestions require a change in policy level decisions. The banks can of course send early and timely reminders to the defaulters and keep contacts with them, which will definitely have a positive impact. The suggestion to create good customer-banker relations as stressed by defaulters of B3 deserves special mention. The absence of such a relation in the Bank

Table 4.30. Defaulter level Suggestions for a better recovery system

Sl. No.	Reasons	Kanayannur CARDB (B1)		Ernakulam CARDB (B2)		Cochin CARDB (B3)		Irinjalakuda CARDB (B4)		Total of 4 PCARDBs	
		Score	Priority index	Score	Priority index	Score	Priority index	Score	Priority index	Score	Priority index
1	Provisions for adequate field staff for project supervision	78	52.00 (V)	91	60.67 (VII)	103	68.67 (VI)	48	32 (IX)	320	53.33 (VII)
2	Incentives for proper payment	61	40.67 (VII)	121	80.67 (I)	119	79.33 (IV)	130	86.67 (I)	431	71.83 (III)
3	Creation of awareness through good customer - banker relations	37	24.67 (X)	44	29.30 (X)	125	83.33 (III)	52	34.67 (VIII)	258	43.00 (IX)
4	Timely reminders	110	73.33 (III)	98	65.33 (VI)	131	87.33 (II)	76	50.67 (VI)	415	69.17 (V)
5	Provide adequate loan amount	99	66.00 (IV)	108	72.00 (III)	110	73.33 (V)	123	82.00 (III)	440	73.33 (II)
6	Stern action against willful defaulters	58	38.67 (VIII)	63	42.00 (VIII)	72	48.00 (IX)	128	85.33 (II)	321	53.50 (VI)
7	Smaller installments	124	82.67 (I)	117	78.00 (II)	136	90.67 (I)	111	74.00 (IV)	488	81.33 (I)
8	Timely credit	69	46.00 (VI)	103	68.67 (V)	73	48.67 (VIII)	56	37.33 (VII)	301	50.17 (VIII)
9	Adoption of appropriate schedules of repayment	47	31.33 (IX)	55	36.67 (IX)	63	42.00 (X)	32	21.33 (X)	197	32.83 (X)
10	Reduction in interest rates	123	82.00 (II)	106	70.67 (IV)	98	65.33 (VII)	100	66.67 (V)	427	71.17 (IV)
	Maximum obtainable score	150	100.00	150	100.00	150	100.00	150	100.00	600	100.00

Source: Survey data

Note: Figures in parenthesis indicate the rank obtained for each reason

might have prompted them to give priority to this suggestion. It is to be noted here that this Bank is having the highest overdues. More over, during the study the officials of B4 pointed out that the good banker-customer relationship has helped them in better recovery management.

4.3.3.2 Organisational level suggestion

The organisational level analysis on the suggestions for better recovery system (Table 4.33) reveals that the legal machinery has to be made effective and legal action should be imposed on defaulters promptly. The officials and BOD were of the view that conducting member education programmes would minimise the deliberate default. They were of the opinion that coercive action against wilful defaulters would be an essential element for a better recovery system. Formation of special recovery cells as well as ensuring autonomy among co-operatives has also been emphasised.

Thus, it can be obviously inferred from the analysis that the main demand from the defaulters was the fixation of smaller installments and putting into effect the provision of adequate loan amount, for which policy level decisions have to be taken. It was also noted that adequate field staffs for project supervision and loan appraisal was lacking in these banks. It is therefore of utmost importance to see that every bank is equipped with skilled and professional project supervision machinery. Many of the defaulters were unaware of the consequences of overdues, which may be corrected through member educational programmes and maintaining good customer relations.

The bank officials and management felt that, if complete autonomy is extended to co-operatives, appropriate decisions at appropriate time could be taken towards effective loan recovery. In addition, formations of a special recovery cell utilising the existing staff and incorporating professionals needs to be implemented. This calls for the appointment of Sale Officer in each bank, which still exists as a serious limitation in most of the banks. Thus for maintaining the overall credibility of the banks, the overdues have to be recovered and that too with speed and efficiency.

Table 4.31. Organisational level suggestions for a better recovery system

Sl. No.	Suggestions	B1		B2		B3		B4		Total of 4 PCARDBs	
		Score	Priority index	Score	Priority index	Score	Priority index	Score	Priority index	Score	Priority index
1	Creation of awareness among the staff & members about the consequences of mounting overdues	56	70.0 (V)	40	50.00 (VII)	35	43.75 (VIII)	39	48.75 (VIII)	170	53.13 (VII)
2	Legal machinery effectiveness has to be initiated and legal action should be imposed on defaulters in time	72	90.00 (I)	46	57.50 (V)	55	68.75 (V)	74	92.5 (II)	247	77.19 (III)
3	Coercive action against willful defaulters	33	41.25 (VII)	71	88.75 (II)	73	91.25 (I)	67	83.75 (IV)	244	76.25 (IV)
4	Provide necessary incentives for prompt repayment	25	31.25 (VIII)	36	45.00 (VIII)	64	80.00 (IV)	77	96.25 (I)	202	63.13 (VI)
5	Conducting member education programmes	63	78.75 (III)	74	92.5 (I)	68	85.00 (III)	48	60.00 (VII)	275	85.83 (I)
6	Formation of a special recovery cell using the existing staff & BOD	41	51.25 (VI)	43	53.75 (VI)	38	47.50 (VIII)	70	87.50 (III)	170	53.13 (VII)
7	Professionalised management & modern techniques	67	83.75 (II)	65	81.25 (III)	44	55.00 (VI)	51	63.75 (VI)	227	70.93 (V)
8	Reduce Government control and ensure autonomy for co-operatives	59	73.75 (IV)	59	73.75 (IV)	72	90.00 (II)	63	78.75 (V)	253	79.06 (II)
	Maximum obtainable score	10x8=80	100.00	10x8=80	100.00	10x8=80	100.00	10x8=80	100.00	320	100.00

Source: Survey data

Note: Figures in parenthesis indicate the rank obtained for each reason

***Summary of Findings
and Conclusion***

CHAPTER-V

SUMMARY OF FINDINGS AND CONCLUSIONS

Introduction of new technology in agriculture has brought about a significant increase in the demand for production as well as investment credit. Financial institutions, which have been set up to meet the medium and long-term requirements of industry, trade and agriculture has played a dominant role in the development of these sectors. Development of agriculture, culminating in green revolution and proliferation of small scale industries across the country with huge employment and export potential and above all, development of entrepreneurs in diverse fields have been the direct results of the expansion activities of the financial institutions. Agricultural and Rural Development Banks, which are one of the important institutional agencies providing investment credit to agriculture in our country, have recorded an impressive growth in their operations in recent years. In Kerala, the loans disbursed by these banks increased from Rs.154 crores in 1995-96 to Rs.336.95 crores in 2000-01.

The rapid growth however led to strains in the operational efficiency of banks and the accumulation of overdues in their loan proliferation. Overdues of PCARDBs in Kerala stood at Rs.36.47 crores in 1994-95, which increased to Rs.120.70 crores in 2000-01. Due to the increasing trend in overdues, majority of these banks are forced to follow the policy of restricted lending. When overdues grow out of proportion, the recycling of funds as well as their ability to sustain their credit operations are thereby restricted. High overdues have also impaired the eligibility of the credit agencies in availing refinance facilities from the higher tiers. Mounting overdues not only increase the risk but also the cost of transaction for putting into effect the recovery measures. This may even affect the very existence of these banks and hence a thorough investigation of the various factors leading to the problem of overdues and the effectiveness of the recovery mechanism is of utmost importance.

The study entitled "Loan Recovery Management in Primary Co-operative Agricultural and Rural Development Banks in Kerala" was therefore taken up with the objectives of examining the effectiveness of the existing loan recovery management of PCARDBs and identifying the factors influencing recovery.

The study was confined to four PCARDBs, two each from Ernakulam and Thrissur districts which included Kanayannur CARDB (B1), Ernakulam CARDB (B2), Cochin CARDB (B3) and Irinjalakuda CARDB (B4). The sample frame comprised of 80 respondent i.e. 20 respondents from each bank at random such that 75 per cent of them were defaulters and the rest were prompt repayers or non-defaulters, included as a control group. In addition to this, the bank officials, secretaries and board members were also interviewed to look into the effectiveness of the existing loan recovery practices adopted by the banks. 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, Demand Collection and Balance Statements (DCB statements) and other published statistical statements of these banks during the study period of six years from 1994-95 to 1999-2000.

The annual growth rate and AAGR of important indicators like membership, loans disbursed, demand, profit and overdues were worked out. Simple correlation between overdues and the other variables were also found out to understand the degree of their relationship. The reasons for overdues as well as the suggestions to improve the recovery performance at the borrower level were ranked and the degree of importance of each statement was found out using priority index. Similar information was collected at the organisational level also, in order to assess the effectiveness of the present loan recovery system. Efficiency index on various statements including the present loan recovery system and the banks performance were also worked out. Simple averages, bivariate tables and percentages also formed a part of the analysis.

5.1 THE MAJOR FINDINGS

The major findings evolved from the study are summarised under three heads viz.,

- 5.1.1 Extent and dimensions of overdues
- 5.1.2 Borrower level reasons and factors influencing overdues
- 5.1.3 Effectiveness of the existing loan recovery system

5.1.1 Extent and dimension of overdues

All the banks have shown an increasing trend in overdues, but B3 has the highest rate of overdues in absolute figures and in terms of percentage to demand. Profits of all the banks have eroded due to provisioning for accumulated overdues. Among the selected banks, B4 has shown the best performance in terms of lower overdues and percentage to demand as well as growth in membership and profit. On the other side, B3 was found to be the least performing bank with highest level of overdues. Positive correlation between demand and overdues was found in all the banks.

There has been an increase in the demand for non-agricultural loans in all the banks, especially the rural housing loans. This may be due to reduction in interest rates on housing loans, tax exemptions applicable to the principal and interest portion as well as massive urbanisation which has reduced the agricultural activities in the banks area of operation. Along with the increase in demand, the contribution of the overdues of non-agricultural loans to the total overdues was also increasing tremendously.

Age-wise classification of overdues reflected that, in B2, B3 and B4, the overdues below one year formed the major part of the total overdues, while in B1 overdues above four years were prominent. But, at the same time overdues above four

years were growing tremendously over the years for all the banks. This implies that on one hand new defaulters were entering the list, while on the other, the existing defaulters were shifting to the next category of overdues.

The pattern of demand and overdues of PCARDBs revealed a major shift from agricultural to non agricultural loans. Maximum AAGR of demand and overdues was found in the case of non-agricultural loans of B2 (1203.13 per cent and 1990.35 per cent respectively).

5.1.2 Borrower level reasons and factors affecting overdues

Majority of the sample borrowers except in the case of B4 was males and they contributed a major portion of default. In the case of B2 and B4 prompt repayers were mainly females which indicate that female borrowers are more committed in repaying the loans in time when compared to their counter parts.

Most of the sample borrowers of the banks had education of secondary level and above. In spite of having such better educational status, these borrowers were creating huge overdues, which clearly indicates the presence of wilful defaulters. This is supported by the absence of significant correlation between educational level and overdues.

Non-agricultural labourers contributed the lowest amount of overdues in all the banks. Higher category overdues (more than Rs.8000) were from the agriculture and service and business sector. Service and business loans, are given by banks under non-farm sector loan. Hence, significant relation found in the case of non-farm loans and overdues is justified by the same relationship between service and business activities and overdues.

Majority of the sample borrowers had annual family income between Rs.18,000 and Rs.36,000. A comparison of overdues and annual income of defaulters of B1, B2 and B3 depicted a significant relationship. This establishes that borrowers

with higher income level are wilfully defaulting. A wide difference in this pattern is noticed in the case of B4 where defaulters with higher income made lesser overdues.

The reasons for growing volume of overdues were multifarious in nature. The defaulters were of the view that inadequate income, fixation of unrealistic dues, lack of access to consumption loans, diversion of income, misutilisation of loans, ill health of borrowers and family members, faith in loan waiver policy, and defective loaning policies resulted in non-repayment of the loan amount.

Since the loan repayment mechanism of these banks were not linked to the salary deduction scheme, it led to greater chances of wilful default. Those borrowers who received adequate income had a tendency for conspicuous consumption which added to the magnitude of wilful default.

In the case of agriculture and allied activities one of the reasons identified for default was the mismatch between the time of repayment and the income generation period.

More than half of the total defaulters (39 out of 60) of the banks have diverted the loan amount. Misutilisation and the average loan amount diverted was least in B4, indicating the effectiveness of the supervision and monitoring mechanism of the bank. As far as other banks were concerned, the defaulters mainly diverted the loan amount for meeting ceremonial expenses, consumption needs and educational expenses of children. The expectation of loan write-off policy in future from the part of the government has a negative influence on the repayment behaviour of borrowers.

Whenever the loan amount sanctioned was inadequate for meeting the project cost, the borrowers depended on money lenders, friends and relatives as well as the loans from other agencies, at higher rates of interest.

An enquiry into the problems in obtaining loans revealed that procedural delay, lack of adequate securities to hypothecate and inadequate assistance by bank officials were the major hindrances in availing loans. Among the sample borrowers, only 57 of them faced problems in obtaining loans. Delay in obtaining loans which revealed to be the most serious problem was found to be prominent in B1 and least in B4. Customers of B4 recorded the highest level of satisfaction with respect to the banking operations.

5.1.3 Effectiveness of the existing loan recovery system

Efficiency index of the existing loan recovery system of the sample banks have been compared with each other along with certain other parameters like commitment of BOD and employees, relationship with members, intra-bank relations, and overall performance of the organisation. The average index of these parameters has revealed that B4 has the highest average index of 92 per cent. Irinjalakuda CARDB (B4) has shown an outstanding performance in the loan recovery management while that of B3 was the least efficient. This is reflected in the lower overdue position of the B4 and the highest overdue for B3.

The present loan recovery system of all banks, except B4 was unsatisfactory. In addition to the borrower level reasons, some organisational lapses were also found to be responsible for the poor recovery performance of these banks. Inadequate staff for field supervision and loan appraisal, ineffective legal machinery, lack of infrastructure facilities and modern management techniques as well as staff training programmes, were the major organisational factors identified.

The borrowers and bank officials were interviewed to elicit suitable measures for tackling the problem of overdues. The defaulters of B1 were of the opinion that smaller installments, reduction in interest rates and timely reminders could improve the present situation, while defaulters of B3 strongly suggested the need for good customer-banker relations which would help in better management of

loans. The defaulters also stressed the need for incentives for proper repayment as well as strict action against wilful defaulters. These suggestions reveal that a change in the policy level decisions requires immediate attention.

However, at the organisational level, it was suggested that the member education programmes, legal action towards defaulters, and minimising government control thereby ensuring autonomy to co-operatives would improve the situation. They also emphasised the need to improve and revitalise the present legal machinery in terms of loan recovery.

Lengthy procedures of sanction and disbursement of loans, being a common problem to all the borrowers, have to be simplified and made customer friendly.

5.2 SUGGESTIONS

High level of overdues demand high provisioning for the same which adversely affects not only the profitability of the bank but also makes further lending endangered in due course of time if suitable measures are not initiated to check the increasing trend of overdues. The following suggestions may be incorporated by the banks as a means of reducing their level of overdues and thereby improve their overall performance.

Lengthy procedures of sanction and disbursement of loans, being a common problem to all the borrowers, have to be simplified and made customer friendly.

Loan appraisal plays an important part in advancing loans to the borrowers, where the decision regarding, whether to sanction the loan or not is taken by the bank. Irinjalakuda Bank (B4), with the lowest level of overdues, has shown lesser amount of loan distribution compared to the other banks.. It has already been inferred that, this is

due to the strenuous efforts from the part of the Bank by way of proper appraisal. Even after the adoption of such steps from the part of the Bank, the borrowers are highly satisfied with the Bank's operation.(Para 4.2.5). Hence, it is suggested that proper appraisal may be adopted by the banks, so that the rate of growth in overdues may be brought under control.

Supervision and follow- up are two sides of the same coin. The number of follow- up visits by banks staff have positive relation with recovery. Creation and maintenance of good banker-customer relations was emphasised by the defaulters of B3, the bank with highest overdues. On the other hand B4, the best performing bank, maintains good relationship with its customers. Hence, frequent visits to the borrowers place of business, regular follow- up and monitoring, together with the creation and maintenance of good banker- customer relationship will certainly reduce the level of wilful default.

An effective monitoring cell, to keep a vigilant watch on the loan utilisation and timely and immediate legal action as a strategy for recovery, will serve to decide the recovery cases of the co-operative financial institutions.

The New Securitisation and Reconstrucion of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act, 2002) gives power to the bankers to clean up their dues. But none of the co-operative institutions in Kerala have taken advantage of this Act, which empowers lenders to attach properties and assets of defaulters after a 60 day notice.

One of the causes for non-repayment was the loan write-off policy of the government. This has created a feeling among the borrowers that loans from co-operative institutions carry no repayment obligation. It is therefore suggested that, loan write-off policy may be adopted in the cases where the amount outstanding are small, the security available to the banker is negligible and the expenses to be incurred might be more than the amount likely to be recovered.

CONCLUSION

There is an urgent need to develop a positive approach by all the concerned parties to attack the problem of overdues. The overdue position of all the selected banks have posted a tremendous growth over the years. Initiatives from the part of the bank have yielded success as is revealed by the Irinjalakuda bank (B4).

Better complacency from the part of the borrowers and proper monitoring and management of the advances from the part of the banks together can achieve a better performance. Hence, every conceivable effort should be made in this direction with a determination and with all the earnestness of the various officials and non-officials involved in this process of credit management, particularly the recovery of loans.

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Appendices

APPENDIX - I
KERALA AGRICULTURAL UNIVERSITY
COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT
RECOVERY PERFORMANCE OF PCARDBs IN KERALA

Schedule for borrower level survey
(For Academic purpose only)

I.

A. BASIC DATA OF THE RESPONDENT

- 1.1) Name and address of the respondent :
- 1.2) Age :
- 1.3) Sex :
- 1.4) Religion :
- 1.5) Educational Status :
- a) Illiterate
- b) Primary
- c) Secondary
- d) Secondary and above
- 1.6) Occupational status : Primary Secondary
- a) Agricultural and allied
- b) Industry
- c) Services and business
- d) Agricultural labourers
- e) Non agricultural labourers
- 1.7) Ownership of land : Owned Tenant Total
- a) Irrigated
- b) Unirrigated
- c) Total

B. FAMILY PARTICULARS

- 1.1) Nature of the family : Joint / Nuclear
- 1.2) Structure of the family :

		Male Adult	Female Adult	Male Children	Female Children
i	Dependent				
ii	Fully employed				
iii	Partially employed				
	Total				

1.3) Annual family income :

a) From primary occupation :

b) Secondary occupation :

Total

1.4) Crops cultivated :

Pepper / Ginger / Banana / Rice / Arecanut / Coconut / Others

1.5) Area under cultivation :

1.6) Monthly family expenditure :

II. DETAILS OF LOAN

2.1) Nature of loan :

Scheme loan / Ordinary loan / Non farm loan/ Rural housing loan

2.2) Date of application of loan :

2.3) Date of disbursement of loan :

Difference - Delay in getting loan (in days)

2.4) Amount of loan applied for :

2.5) Amount of loan sanctioned (difference: if any)

2.6) Owners stake or margin :

2.7) Purpose of the loan :

2.8) Details of Security Given :

a) Landed property

b) Land and building

c) Crop

d) Jewel

- e) Others (specify)
- 2.9) Rate of interest :
- 2.10) Period of loan :
- 2.11) Repayment started on :
- 2.12) Is there any subsidy element :
- If yes, specify the amount sanctioned :
- Amount you actually received :
- 2.13) Did you face any problem in getting the loans. If yes, : Yes / No
- a) Procedural delay
- b) Lack of adequate security to hypothecate or pledge
- c) Vested interest
- d) Bribery
- e) Inadequate assistance by bank officials
- f) Interference of politicians
- g) Others (specify)
- 2.14) Whether the total loan amount received was sufficient : Yes / No
- 2.15) 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)
- 2.16) If borrowed what is the rate of interest :

III. LOAN UTILISATION PATTERN

- 3.1) a) Have you utilized the entire amount of loan for the purpose :
- b) If no, the amount utilized : Full, half, quarter
- Amount misutilised :
- TOTAL :

c) Reasons for not utilizing the amount

i) To meet consumption expenses

ii) Ceremonies

iii) Expenses for Agricultural / Non-agricultural operations

iv) Educational expenses of children

v) Others

3.2) Did any body from the bank visit your premises / plot before and after sanctioning the loan. Yes / No.

If yes, how many times

3.3) Did the banker explain to you all the details regarding loan like rate of interest installment, repayment, period etc.

3.4) Whether you were aware of the implications of the documents that you have signed while taking the loan.

Yes/No

3.5) Did the banker educate you regarding the income that can be generated or give you any advise, technical or otherwise for your activity.

Yes / No

IV. IMPACT OF THE LOAN

4.1) Working of the activity (post loan)

1) Expenses

A) In raw materials

a)

b)

c)

d)

B) Labour cost :

C) Cost of credit :

D) Statutory payments and other expenses :

TOTAL :

2) Income (Gross)

3) Net income

V. REPAYMENT / OVERDUE POSITION

- 5.1) Schedule of repayment of loan :
- a) Monthly
 - b) Quarterly
 - c) Half yearly
 - d) Annual
- 5.2) Period of repayment :
- 5.3) a) Have you repaid all the installments : Yes / No
of the loan promptly
- b) If yes, did you repay the loan out of : Yes / No
the income obtained from the scheme
- c) Did you receive any incentive for : Yes / No
prompt repayment
If yes, specify
- d) Reasons for prompt payment
- i) Sufficient income from agriculture :
 - ii) Sufficient income from other :
sources
 - iii) Smaller installments :
 - iv) Attracted by incentives for prompt :
payment
- 5.4) Amount of loan repaid :
(No. of installments)
- Loan amount defaulted :
(No. of installments)
- Overdues :
- 5.5) No. of installments defaulted presently :
- (if applicable)
- a) The amount of default
 - b) The penal interest rate

5.6) Is the number of installments prescribed :
by the banker for repayment, suitable
and convenient to you

5.7) If no, how many installments do you :
feel appropriate

VI. PRESENT LOAN RECOVERY MEASURES OF THE BANK

1. Whether the bank sends notices and :
reminders for timely repayment of the
loan

2. Whether the bank has undertaken any :
supervisory measures regarding loan
loan repayment

VII. a) Are you aware of the Asset Securitization Act introduced recently :

b) Whether the bank has taken any new :
recovery measures as per the Act

c) Your opinion about the Act :

VIII. REASONS FOR DEFAULT IN REPAYMENT (Rank your reasons, if there is more than one)

a) Inadequacy of income

b) Defective loan policies

c) Fixation of unrealistic due

d) Lack of recovery efforts

e) Illness of borrower or family members

f) Managerial problems

g) Natural calamities

h) Ceremonies

i) Faith in loan waiver / write off policies

j) Lack of access to the consumption loans
and diversification of income for
consumption purposes

IX. Are you satisfied with the Loan : Yes / No

X. SUGGESTIONS FROM DEFAULTERS FOR RECOVERY

- a) Provisions for adequate field staff for Project supervision and guidance
- b) Incentives for proper repayment
- c) Creation of awareness through good customer-banker relations
- d) Timely reminders
- e) Provide adequate loan amount
- f) Stern action against wilful defaulters
- g) Smaller installments
- h) Timely credit
- i) Adoption of appropriate schedules of repayment
- j) Reduction in interest rates

APPENDIX - II

KERALA AGRICULTURAL UNIVERSITY RECOVERY PERFORMANCE OF PCARDBs IN KERALA SCHEDULE FOR THE ORGANISATIONAL SURVEY (For Academic purpose only)

1. Name and Designation :
2. Address :
3. Experience in the Organisation :
(in years)

Sl. No.		Highly satisfied	Moderately satisfied	Satisfied	No opinion	Dissatisfied	Totally dissatisfied
4	Opinion about the overall performance of the organization						
5	Opinion about the commitment of Board of Directors						
6	Opinion about the management						
7	Opinion about the relationship with the members						
8	Opinion about inter bank relations						
9	Opinion about the present loan recovery system of the bank						

10. Reasons for the present recovery performance:

Sl. No.		Strongly agree	Agree	No opinion	Disagree	Strongly disagree
a	Inadequate staff for field supervision and loan appraisal					
b	Ineffective legal machinery					
c	Lack of good work culture and commitment from employees					
d	Over politicisation and excess Government control					
e	Inadequate quality of work environment					
f	Lack of commitment from Board of Directors					

g	Poor member relations					
h	Lack of infrastructural facilities					
i	Lack of modern management techniques and absence of MIS					
j	Absence of professionalised managers					
k	Lack of staff training programmes					

11. a) Has the Asset securitisation Act been implemented :
- b) If yes from when :
- c) Has the introduction of the Act brought any improvement in the loan recovery process :
- d) What are the recovery measures taken under the new Act :

12. Suggestions for a better loan recovery system:

- 1) Creation of awareness among the staff members about the consequences of mouting overdue :
- 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) Provide necessary incentives for prompt repayment :
- 5) Loan waiver system of government is to be discouraged :
- 6) Identification of the beneficiaries by the bank field level functionaries :
- 7) Reduce the formalities for loan disbursement :
- 8) Reduce delay in disbursement of loan :

- 9) Provide additional loans to defaulters :
to compensate the losses occurred due
to the failure of the scheme
 - 10) Charge additional penal rate of interest :
on defaulters
 - 11) Politicians and Board members who :
influence the bank for justifying the
defaulters should be discouraged
 - 13) Provide loans only after analysing the :
credit worthiness of borrowers
 - 14) Conducting member education :
programmes
 - 15) Provide adequate staff for field super- :
vision and loan appraisal
 - 16) Formation of a special recovery cell :
using the existing staff and Board of
Directors
 - 17) Professionalised management and :
modern management techniques has to
be incorporated
 - 18) Reduce Government control and ensure :
autonomy for co-operatives
 - 19) Motivate the employees by giving :
incentives.
 - 20) Any other reasons
- a)
 - b)
 - c)

Annexures

ANNEXURE-I

Index of Area, Production and Productivity of Crops in Kerala (Base-Average of Triennium ending 1979-80)

Sl. No.	Crops	AREA		PRODUCTION		PRODUCTIVITY	
		Average of Triennium ending		Average of Triennium ending		Average of Triennium ending	
		1978-79	1999-00	1978-79	1999-00	1978-79	1999-00
	All crops (A+B)	101.48	97.10	100.17	150.55	98.71	137.58
A	Food grains (1+2)	102.55	43.18	98.67	59.76	96.22	137.85
1	Cereals	102.59	43.53	98.85	59.86	96.35	137.66
2	Pulses	101.53	35.34	87.06	53.17	85.25	150.43
B	Non-food grains (3 to 10)	101.00	121.95	100.52	170.26	99.25	137.52
3	Oil seeds	101.66	130.58	103.48	165.00	101.79	124.06
4	Plantation crops	93.04	189.38	93.54	318.16	98.74	175.70
5	Condiments & spices	100.65	132.89	89.40	163.77	88.82	116.56
6	Drugs & Narcotics	82.29	25.85	89.54	25.77	108.85	105.13
7	Fruits	103.20	106.61	100.00	118.79	100.00	127.31
8	Tubers	100.00	36.67	100.00	62.26	100.00	169.76
9	Vegetables	100.00	184.90	105.94	191.62	102.65	103.64
10	Miscellaneous crops	103.59	131.46	98.02	94.57	94.62	74.40

Source: Economic Review 2001, Government of Kerala

ANNEXURE-II

Area, Production and Productivity of major crops in Kerala

Crops	Area (in lakh ha)	Production (in lakh tons)	Productivity (in kg/ha)
RICE			
1980-81	8.01	12.7	1587
1999-00 #	3.49	7.71	2203
2000-01	3.48	7.51	2162
COCONUT *			
1980-81	6.66	3.01	5020
1999-00 #	9.25	5.68	6140
2000-01	9.36	5.49	5870
TAPIOCA			
1980-81	2.45	36.9	17020
1999-00 #	1.12	2.53	22993
2000-01	1.11	2.51	22595
BANANA			
1980-81	0.51	3.31	6490
1999-00 #	0.390	3.98	10197
2000-01	0.392	3.99	10173

Source: Economic Review 2001, Government of Kerala

Notes : * Production in million nuts and productivity in nuts/ha

Provisional except for rice

ANNEXURE-III

Growth of Agricultural Income in Kerala

Year	Agricultural Income (Rs. in crore)	Rate of change over previous year (percentage)	Percentage contribution to state income
1993-94	5622.07	-	24.22
1994-95	6323.64	12.48	24.96
1995-96	6525.72	3.19	23.78
1996-97	7115	9.03	25.39
1997-98	6777	-4.75	23.67
1998-99	6900	1.81	22.70
1999-00	7158	3.74	22.03
2000-01	7425	3.73	21.38

Source: Economic Review, 2000 & 2001, Government of Kerala

**LOAN RECOVERY MANAGEMENT IN
PRIMARY CO-OPERATIVE
AGRICULTURAL AND RURAL
DEVELOPMENT BANKS IN KERALA**

By
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ABSTRACT OF THE THESIS

Submitted in partial fulfilment of the
requirement for the degree of

Master of Science in Co-operation & Banking

(RURAL BANKING AND FINANCE MANAGEMENT)

Faculty of Agriculture

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2004

ABSTRACT

The study entitled "Loan Recovery Management in Primary Co-operative Agricultural and Rural Development Banks in Kerala" was conducted to examine the effectiveness of the existing loan recovery management of Primary Co-operative Agricultural and Rural Development Banks in Kerala and to identify the factors influencing recovery.

The study was conducted among four PCARDBs of Ernakulam and Thrissur district viz., Kanayannur CARDB (B1), Ernakulam CARDB (B2), Cochin CARDB (B3) and Irinjalakuda CARDB (B4). The sample size included 80 respondents i.e., 20 borrowers from each bank at random, of which 15 were defaulters and five were non-defaulters or prompt repayers. Ten officials (including secretaries and BODs) from each bank were also interviewed to collect information on the effectiveness of the loan recovery system of the banks. Secondary data on selected performance indicators of the banks were also used for the study. Statistical tools like AAGR, simple averages, percentages, simple growth rate, simple correlation, efficiency index, priority index and bi-variate tables were used for the analysis.

The analysis on the overdue amount of the selected PCARDBs, revealed that Cochin CARDB (B3) had the highest amount of overdues among all the banks, during the reference period.

Profits of all banks have eroded due to provisioning for accumulated overdues. B4 has shown the best performance in terms of lower overdues and higher profits when compared to the other banks. An increase in the demand for non-agricultural loans, particularly RHLs was found, which indicates a shift in the lending pattern. Overdues above four years were growing tremendously in all the banks.

Most of the females were found to be prompt repayers. In spite of having better education, the borrowers were creating huge overdues. This indicates the existence of wilful defaulters. The study found that the defaulters of all the banks except B4, having annual income above the subsistence level had higher amount of

overdues. This highlights the fact that, even after having sufficient income, they were deliberately making dues as a result of the inefficient loan recovery management of the bank.

The study revealed that procedural delays, lack of adequate securities to hypothecate, misutilisation of loans and inadequate income restricted the borrowers from getting timely loans. It was further observed that defective loaning policy, conspicuous consumption, and illness of family members as well as hope for loan write-off policy were the other reasons behind non-repayment by borrowers. Misutilisation of loan amount was least in B4, which indicates the presence of effective supervision and monitoring mechanism in the bank. Loan amount was mainly diverted for meeting ceremonial expenses, consumption needs and educational expenses of children. The most serious problem in obtaining loans was revealed to be the procedural delay.

From the inter-bank comparison on the effectiveness of the present loan recovery management system, it was found that B4 showed an outstanding performance in this regard, whereas B3 revealed to be the least efficient bank.

According to the officials and employees of the banks, the reasons for poor recovery included lack of modern management techniques, lack of adequate staff training programmes, lack of infrastructural facilities and inefficiency of the legal machinery for recovering dues from borrowers. As a remedial measure to minimise overdues, coercive action against wilful defaulters and incentives for proper repayment must come into effect. For checking the rising trend of over dues in future, an effective loan appraisal as well as loan monitoring cell managed by professionals has to be established in each bank. The banks must put into effect the SARFAESI Act, 2002 in order to bring a solution to the problem of overdues. The banks must therefore perceive that prolonged existence of this disease is not beneficial to the organisation and a strong mechanism to check this menace has to be created.