NON-PERFORMING ASSETS OF DISTRICT CO-OPERATIVE BANKS IN KERALA WITH SPECIAL REFERENCE TO AGRICULTURAL ADVANCES

By

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THESIS

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DECLARATION

I hereby declare that this thesis entitled **"NON-PERFORMING ASSETS OF DISTRICT CO-OPERATIVE BANKS IN KERALA WITH SPECIAL REFERENCE TO AGRICULTURAL ADVANCES"** is a bonafide record of research work done by me during the course of research and that this thesis has not previously formed the basis for the award to me of any degree, diploma, associateship, fellowship or other similar title of any other University or Society.

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Sudheendran, M.

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ABBREVIATIONS USED

ANOVA	- Analysis of Variance
ARC	- Asset Reconstruction Company
ARF	- Asset Reconstruction Fund
DCB	- District Co-operative Bank
KDCB	- Kasaragod District Co-operative Bank
LT	- Long Term
MT	- Medium Term
NABARD	- National Bank for Agriculture and Rural Development
NPA	- Non-performing Assets
PACS	- Primary Agricultural Credit Society
PDCB	- Palakkad District Co-operative Bank
RBI	- Reserve Bank of India
SCB	- State Co-operative Bank
ST	- Short Term
TDCB	- Thrissur District Co-operative Bank

Introduction

CHAPTER I

INTRODUCTION

Agriculture is the backbone of Indian economy and development of institutional credit is a sine qua non for agricultural progress. Among the institutional agencies supplying agricultural credit, District Co-operative Banks (DCBs) proved to be of great importance and continued to be a vital agency catering to the short term (ST) and medium term (MT) financial requirements of the overwhelming farming community. The short term three-tier co-operative credit structure in Kerala comprises Primary Agricultural Credit Societies (PACS) at the grass root level, DCBs at the district level and State Co-operative Bank (SCB) at the apex level. Thus DCBs act as the main agency in linking PACS and SCB.

Notwithstanding the impressive performance of DCBs in Kerala with respect to agricultural advances, the financial health of them is a cause of concern to the policy makers. Together with the increasing volume of credit, the problem of non-performing assets (NPA) is aggravating at a faster rate. Effective recycling of funds is not possible which in turn affects their performance and profitability to a considerable extent. NPAs reflect the foul play regarding the loan accounts after their disbursement either relating to bank's negligence and natural factors or due to the borrowers' bad intention towards meeting their timely repayment obligation.

The credit institutions in rural and agricultural credit sector have reached a crisis stage when viewed from the qualitative aspects of repayment of loans. The mounting of NPAs in most institutions has reached an alarming proportion, which is obviously above the containable limits. Though certain institutions are exceptions, in a competitive banking environment, the problem is a matter of great concern.

Commercial banks, which have entered the field of agricultural credit particularly after the nationalisation, are no exception, despite the fact that they are

selective in lending. But they have the flexibility to meet the total credit needs of the borrowers covering both investment credit and production credit. However, they are better placed to absorb the impact of NPAs and maintain their profitability and viability, as their agricultural lending is only a meagre percentage. The DCBs on the other hand, are not in a position to cover up their NPAs and unless they find an immediate solution to the problem, it may affect their existence in the long run.

1.1 AGRICULTURAL SECTOR IN KERALA

The agricultural sector in Kerala is obviously heterogeneous in nature. The recent trend in the State's agricultural output depicts stagnation in the vital sector, especially in the case of foodgrains. 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, expecting more economic benefits (Appendix I). Rice, the principal food crop of Kerala has been subject to persistent pressure for replacement by more remunerative crops during the last two decades. Coconut is the main stay of Kerala's rural economy in view of its multifarious contribution to income and employment. With a coverage of nearly nine lakh ha, coconut occupies 42 per cent of the net cropped area and provides livelihood to over 3.5 million families in the State. The area under cultivation and production of tapioca, another staple food of Kerala shows a negative trend. Regarding banana cultivation, the production, area under cultivation and productivity showed a mixed trend during the reference period (Appendix 2). The contribution of agriculture to State Domestic product has recorded a gradual decline over the years. However, the total income generated per unit of land is high compared to other states in the country. The average gross income generated per ha in Kerala is Rs. 31468 against the national average of Rs. 14178 during 1996-97 (Appendix 3).

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. In the context of sharply falling prices of most agricultural commodities consequent to liberalisation, the small holdings which predominate the farm front are denied the opportunity for generating surpluses for reinvestment in improving the productivity. Opportunities for value addition and quality improvement that help sharpen the competitive edge of the small producers have to be created. Since agriculture is mainly in the private sector, the financing institutions servicing this important segment, has to play a significant role in this direction. The credit polices, priorities and directions of dispensations have to undergo appropriate changes to meet the emerging challenges.

The organised sector which supports the largest share of agricultural credit needs in Kerala comprises of co-operative banks, Regional Rural Banks and commercial banks. The short and medium term co-operative credit comprises the SCB at the apex level, 14 DCBs at the district level and 1628 PACS at the grass root level. The Kerala State Co-operative Agriculture and Rural Development Bank along with 44 Primary Co-operative Agriculture and Rural Development Banks operating at the taluk level constitute the long-term co-operative credit structure. The commercial banking sector operates concurrently through 42 banks with 3224 branches and two Regional Rural Banks with 301 branches catering to short, medium and long term finance (Economic Review, 2001).

1.2.1 Short and medium term loans

A substantial portion of the short and medium term credit requirements in the State are provided by the co-operative banking sector comprising the SCB, DCBs and PACS. They channelise funds from NABARD and also use their own funds, which they mobilise through special deposit mobilisation campaigns. The cumulative loan disbursement of Kerala State Co-operative Bank as on 31st March 2000 was Rs. 1019 crore as against Rs. 468 crore during the previous year. The flow to agricultural

sector (production and investment credit) during the period was Rs 176 crore which was higher by 13 per cent than the disbursement during the previous year (Rs. 155 crore). However, the proportion of flow to agriculture out of the cumulative disbursement has come down from 33 per cent in 1998-99 to 17 per cent during 1999-2000. It is worth noting that the co-operative credit movement is not fulfilling its primary responsibility of catering to the vital needs of the society in areas like agriculture, cottage and small industries (Economic Review, 2001).

The total loan disbursed through the PACS during 1999-2000 was Rs. 3994 crore compared to Rs. 3683 crore in 1998-99 registering a growth of 8.4 per cent. The credit for agriculture purpose has increased from Rs. 973 crore in 1998-99 to Rs. 1145 crore during 1999-2000. The proportion of agriculture loan was 29 per cent as against 26 per cent recorded in the previous year. The dominance of non-farm sector is still continuing. This is noteworthy since PACS are basically meant for servicing the farm front (Economic Review, 2001).

1.3 DISTRICT CO-OPERATIVE BANKS

District co-operative bank (DCB) is the principal co-operative bank in a district of a state, the primary object of which is the financing of other co-operative societies and individual members in that district. Being the Central co-operative banks, they are supposed to perform several functions. They finance co-operative societies affiliated to them and also help in equalising credit flow by adjusting surplus funds of one society to the other. DCBs supervise the work of co-operative societies and also provide them necessary training. They also undertake ordinary commercial banking by accepting deposits from the individual members and lending to them on demand. DCBs act as a balancing centre for the resources of the PACS in the pyramidal structure of co-operative credit. Its own resources are intended to serve as a cushion to absorb the impact of the defaults and arrears arising at the primary level. Moreover,

they help the development of the co-operative movement in a district on sound lines by all possible means in their areas of operation.

The various developmental activities covered by DCBs' lending include seasonal agricultural operations, cultivation of horticultural crops, dairy development, sericulture, betelvine cultivation, pepper cultivation, minor irrigation, farm mechanisation etc. They also provide non-farm loans comprising of composite loans, Housing loan, Gold loan, etc.

Table 1.1 Performance of DCBs in India and Kerala for the period 1998-2000

(Amount rupees in crore)

Sl. No.	Particulars	1997-98		1998-99		1999-00	
		India	Kerala	India	Kerala	India	Kerala
1.	No. of DCBs	367	14	367	14	367	14
2.	Deposits	36628 (99.80)	2139.61 (152.83)	45612 (124.28)	2827.76 (201.98)	53634 (146.14)	3976.53 (284.04)
3.	Borrowings	11547 (31.46)	336.04 (24.00)	12857 (35.03)	350.90 (25.06)	14623 (39.84)	826.62 (59.04)
4.	Loans & advances outstanding	31576 (86.04)	1843.27 (131.66)	36853 (100.42)	1905.36 (136.17)	43997 (119.88)	2437.45 (174.10)
5.	Gross NPA (per cent)	17.8	14.1	18.00	17.0	17.14	15.8

Source: Dossier on Co-operatives, NABARD (2000)
Note: Average figures are shown in parenthesis

Table 1.1 clearly depicted that DCBs in Kerala when compared with the all India position had achieved remarkable progress in many respects such as average deposits, borrowings, loans and advances and NPA level. There is little doubt that, unless credit is made available to the farmers, at reasonable cost and suitable terms

and conditions, the tempo of agricultural growth cannot be stepped up. As such the availability and utilisation of agricultural credit in time and in adequate quantity tends to become a pre-requisite for a sustained agricultural growth. In this regard, the lending operations of DCBs have to be examined since they are important agencies among those catering to the financial needs of farming community through different schemes, aiming at the overall development of agriculture and allied sectors in Kerala.

1.4 THE PROBLEM OF NPAs

The mounting NPAs in DCBs has crippled the co-operative credit sector in recent years. It has caused innumerable financial problems besides limiting the capacity of DCBs to lend adequately. DCBs in Kerala with large volume of NPAs have suffered in terms of both institutional viability and their capacity to increase the volume of credit. The NPAs adversely affect the liquidity position of these banks. If this tendency is not checked, it would dampen the capacity of the institutions to provide adequate and timely credit to agriculture and the economic development of the area.

It is obvious that NPAs in India have tended to rise sharply in recent years for a variety of reasons. In Kerala also, the problem has affected some DCBs, which in turn affected the efficient recycling of funds. It also inhibits the refinance facilities available from NABARD. Although, Kerala is a co-operatively developed state, NPA continue to be a major problem as yet. As on 31st March 2000, the gross NPA level of DCBs in Kerala stood at 15.8 per cent of total loans outstanding. On the other hand, the Gross NPA level of public sector banks in India was only 5.95 per cent and that of private sector banks was only 3.61 per cent. This comparison clearly depicts that DCBs in Kerala have to pursue a lot of effective measures for containing the NPA level. These banks at present virtually have only a minimum power in their machinery for recovery of dues so as to exert meaningful pressure on the defaulters. In most of

the cases, they have to go to Co-operative Tribunal, which involves considerable delay. Even though the recently passed Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 was made applicable to SCBs and DCBs, it did not empower them to seize agricultural land of defaulters. Therefore, the bank's position become awkward as they are not able to recover the loan in time and the defaulters have ample opportunities to resort to some foul plays.

Just as providing finance is very important the amount so advanced be recovered in time. The credit needs of farmers continue to expand day-by-day and to meet the same the banks should be able to recycle the funds. Moreover, the liquidity and profitability of the bank depended on timely recovery of its advances. In a competitive economic environment it is also a matter of survival. The situation in DCBs arising out of non-repayment of loan has not received the attention it deserves. A thorough investigation and analysis of the various dimensions of the problem is of utmost importance both for policy makers and the lending institutions to take adequate corrective measures. Hence a study of the reasons for NPAs at institution and borrower level is expected to be worth.

1.5 OBJECTIVES OF THE STUDY

The objectives of the study are to examine the magnitude and composition of non-performing assets (NPAs) of District Co-operative Banks (DCBs) in Kerala, to assess the extent of NPAs in agricultural advances and to identify the factors leading to NPAs.

1.6 SCOPE OF THE STUDY

The study is mainly an examination of the causes of NPAs of three selected DCBs in Kerala with special reference to agricultural advances. It covers a period of five years from 1996-97 to 2000-01. The extent of NPAs and its causes are expected

to be disclosed. Specific attention is given to find out the problems and constraints influencing the repayment behaviour of borrowers. Further it may facilitate a better recovery among DCBs in Kerala.

1.7 PRACTICAL UTILITY

The study is expected to explore the reasons, both internal and external to the organisation that lead to NPAs at primary level. It may also indicate whether the socio-economic conditions of the defaulters are having any relationship with the NPAs. The study may provide useful insights to the policy makers and bankers to frame an appropriate strategy for better recovery of loans in future and to enhance the smooth flow of credit to agriculture.

1.8 LIMITATIONS OF THE STUDY

The present study formed a part of the Post Graduate programme and hence it has all limitations of time, money and other resources. These constraints restricted the selection of only three DCBs and the sample size to 90. Moreover, the prudential norms were made applicable to DCBs from 1996-97 onwards and thus limiting the study period to 5 years only.

1.9 PLAN OF THE REPORT

The report is brought out in five chapters. The first chapter contains introduction, statement of the problem, objectives, scope, limitation and practical utility of the study. The second chapter deals with the review of literature relevant to the topic of research. A description of the materials and methods adopted for the study is the subject matter of the third chapter. The results and discussion are presented in fourth chapter. The last chapter outlines the summary of findings and conclusion of the study.

Review of Literature

CHAPTER II
REVIEW OF LITERATURE

Nationalisation of major commercial banks in 1969 brought a sweeping transformation of the banking industry in India leading to a vast network of branches in rural areas, rapid growth of resource mobilisation and more deployment of funds in the priority sector. However, the gradual deterioration in the quality of advances has resulted in mounting overdues and declining trends in their profitability. Although co-operative banks were in agricultural lending since their inception, they were also affected by this new trend. In the recent past, banks used to take into their income account, the interest debited in all the borrowal accounts, irrespective of the fact that the borrowers have been able to service previous instalments and interest. This resulted in window dressing of the financial performance of banks. A non-performing asset (NPA) is an advance or a borrowal account, which do not generate income for the bank.With the introduction of the concept of NPA, the subject matter has drawn immense interest of academicians and bankers. There is enough literature on the theoretical and conceptual part of it.

The review of available literature on NPAs is organised under three sections:

2.1 Reasons for NPAs

2.2 Impact of NPAs

2.3 Reduction of NPAs

2.1 Reasons for NPAs

Credit by banks has to be handled with care, so that it comes back in the right time. But in real situation it is always practically impossible to get back whatever is lent, ultimately leading to mounting NPAs over the years. Multiple factors

are responsible for the increasing size of NPAs. The causes for a loan account to turn into an NPA account as identified by different authors are presented forth with.

Mallya (1984) identified the reasons for bank overdues as defective lending policies, lack of supervision of loans advanced, inadequate staff position, political interferences in sanctioning the advances, conduct of 'Loan Melas', etc.

Jain (1989) in his study on "Rural bank and rural poor" has attributed inadequacy of income, unwillingness to repay, lack of recovery efforts, death of animals, illness of borrowers/ family members, corrupt practices and non-availability of securities for obtaining subsequent loans as the reasons for non-repayment of loans.

The main factors pointed out by Toor (1993) behind the transformation of assets from performing to non-performing are inability to cope up with the voluminous work due to fast geographical expansion, quantitative target fixed for fast credit expansion, lack of close supervision, monitoring and follow-up, lack of awareness and basic education to borrowers, lack of adequate care while appraising the proposal in the initial state, dispute and difference over the health position of the borrowing units among the bankers and borrowers, non-viable units being financed by bank, delay in payment of supply bills by government organisations and large units, lack of quality consciousness and poor marketing method of the products, deliberate efforts by certain category of borrowers to declare their unit sick and weak to avail of pecuniary benefits, and government policies like incentives, concessions, loan waiver, extension and postponement of recovery.

Jagannath and Atlaf (1993) have classified the factors responsible for the heavy incidence of overdues into internal and external factors, in their study "What ails to small business recovery". 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, etc. Among the external factors

are political interference, wilful default and lack of legal and administrative support from state government in the matter of loan recovery.

Shanker (1993) has attributed advances against hypothecation of assets which can hardly be called a charge, law of limitation which restricts the legal enforceability of a debt to three years from the date of its demand, absence of any bank machinery to probe into the debtors' assets details to file execution petition, 'loan melas' and lack of professionalism in credit appraisal as the reasons for NPAs.

Kalyan (1994) has expressed the view that credit management efforts of banks were so long following a known pattern and an indigenous concept of health code system could not give enough thrust to provide new direction to it. Irrational lending and socio-political pressure have compounded the problem leading to highly constrained situation where erosion of net worth of banks is taking place due to poor state of credit management alone.

In a case study of Co-operation in Andhra Pradesh, Reddy and Lakshminarayanan (1996) have observed that low income is the main reason for non-repayment of loans. Besides this, the other factors being non-remunerative price for agricultural produces, crop failures and government's policy to write – off the loan.

Veeresh (1996) has concluded that the anticipation of loan waiver scheme has become now a days the prime reason for default. This is due to the false statement made by the politicians among rural people in their election campaign with an intention to take an election advantage, ultimately leading to wilful defaulters.

A study conducted by Patel (1996) on "Recovery of agricultural advances with special reference to agro industries" has attributed the reasons for mounting overdues to factors internal to credit system, which includes faulty lending and recovery procedures, borrowers inability to repay due to factors beyond their reach, and attitude of borrowers who never desired to repay their dues.

Pradeep and Jayati (1996) have observed that when public sector banks extended their geographical coverage, problems of low profitability and efficiency become endemic to them. Along with low profitability, public sector banks are afflicted with a high proportion of NPAs.

Low increase in income due to poor quality of assets, diversion of funds for unproductive purpose, inadequate loan amount, high family expenditure, lack of finance for working capital, diversion of loan to repay private loans, slackness in timely recovery by banks, and lack of supporting facilities and guidance have been pointed out by Balista *et al.* (1996) as the reasons for default.

Vijayakumar (1996) has pointed out that in rural lending one of the major problems faced by the banks is mounting overdues. The problem has become more acute particularly after implementation of Agricultural Rural Debt Relief (ARDR) scheme, which has vitiated the recovery climate.

A study conducted by Sobha (1997) on "NPAs of the Nedungadi Bank Ltd." has revealed low marketability, low sales turnover of units financed, wilful defaulters, and diversion of funds as the major reasons for the accounts to become NPAs.

According to Brinda (1998) lending not being linked to productive investment, recovery not linked to product sale; directed lending, defective loan policies, misutilisation of loan, ineffective bank supervision, bank's apathy towards loan recovery and lack of discipline on part of borrowers are the main reasons for large NPA.

Sali (1998) in his study "An enquiry into the non-performing advances of PCARDB in Southern Kerala" has come to the conclusion that sudden increase in NPAs is 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.

In a study conducted in Arunachal Pradesh, Das (1998) has opined that the mounting overdues of the co-operative banks reflect its operational inefficiency and ineffective machinery for supervision over the utilization of loan by members.

Chidambaram and Sankarasubramaniam (1999) have attributed death of animal, assets being sold away, less return from assets, income diverted for consumption purpose and wilful default as the factors causing non-repayment of IRDP loans.

According to Phadnis (1999) lack of general apathy in recovery of loans on the part of the members of the Managing Committee and Directors of Central Co-operative Banks has given rise to wilful defaulters. Further, absence of necessary support from sate government for recovery of loans and defective lending policies pursued by the co-operatives have also aggravated the problem.

As pointed out by Baiju and Gabriel (2000) the high prevalence of NPA in Indian banks is because of the legal system, which is sympathetic towards borrowers and work against the banks' interest. Despite most of the loans are backed by security, banks are unable to enforce their claims on the collateral when the loans turns non-performing and therefore, loan recoveries become insignificant.

Sood (2001) has cited a few prominent reasons for assets becoming NPAs like poor credit appraisal system, lack of proper monitoring, reckless advances to achieve budgetary targets, directed/schematic lending to certain sectors, changing policies/environment, non transparent accounting policy and poor auditing practices.

Viswanath (2001) has identified external and internal factors for mounting NPAs in agricultural credit societies in India. The external factors include defective agrarian structure with preponderance of small and marginal farmers, misutilisation of loans by borrowers, wilful default and natural calamities. According to him the internal factors for NPAs are inefficient and unqualified staff, defective lending policy and absence of linking of credit with marketing.

The causes of NPAs of banks many be internal to the organisation or external as identified by different authors. The important factors may be defective loaning policies and procedures, weak monitoring and follow-up supervision to ensure end use of loan, heavy work load of the bank staff, apathy towards recovery, failure to link lending with marketing, etc. Some of the external factors are political interference, loan waiver policy of the government, wilful default, loan melas and lack of legal and administrative support from state government in the matter of loan recovery.

2.2 Impact of NPAs

Non-performing asset (NPA) is not only non-performing but also makes the banker and the bank non-performing as it prevents or delays recycling of funds. It also plays havoc on the mental make-up of the banker wherein he tries to go slow on lending fearing future NPAs leading to delayed and denied credit resulting in low off-take of lendable funds.

Krishnakumari (1988) has opined that heavy overdues are deleterious to the working of the banking system. A high level of overdues at the apex level or state level erodes its own funds and adversely affects its reputation in the eyes of the public. Increasing overdues may compel the banks to meet its committed payment out of its own fund.

Bhagavat (1993) has stated that as a result of poor recoveries, overdues are 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 agricultural sector.

Gupta (1994) has 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) has observed that the major drag on bank's profitability is 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'.

Jaganath (1996) has suggested that although 100 per cent elimination of NPAs is not a reality, steps should be taken to reduce it. By reducing NPAs, bank's profitability can be increased and amount recovered can be utilised for recycling of funds to get higher return.

Ramachandra (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.

Jayanti and Balachandran (1997) found out that with the introduction of prudential norms, banks are fully realising the impact of the non-payment risk associated with credit portfolio on their profit/ profitability. The foremost concern of banks today is how best to reduce the share of non-performing advances to total advances and also the level of NPAs. This is so because the NPAs not only reduce income levels of banks, but also make it impossible for them to quote finer prime lending rate (PLR).

Shankariah and Bhagavan (1998) from their study "Recovery performance of Rayalaseema Grameena Bank (RGB)" have observed that recovery of loan advanced to the needy has a direct bearing on the economic survival, efficiency and propriety of the bank. The non-repayment of loan inhibits the ability of the RGB to recycle the fund and also the capacity of RGB to draw refinance from apex institutions.

With the tightening of the norms by the RBI, some banks and development financial institutions (DFIs) have resorted to evergreening 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).

Narayanan (2000) has compared NPA to "diabetes". Like diabetes mellitus, NPA is also a disorder resulting in non-performance of a portion of loan portfolio leading to no recovery or less recovery/ income to the lender. As in diabetics, the aim and goal would then be to keep the incidence (of NPA) at the minimum for the simple reason you can never get away from it. If an amount or proportion of NPA gets out-of-hand, then it might signal the end for the bank.

Banmali (2001) has opined that the growing worry for the Finance Minister as well, in a developing country like ours, is that banking is seen as an important instrument of development, while with the menace of NPAs, banks have become helpless burden on the economy.

Sidhu *et al.* (2002) has concluded that the magnitude of NPAs was larger in the cotton growing and sub mountain districts of Punjab. The recovery was poor in dairy, poultry and horticultural loans whereas it was better in case of farm mechanisation and crop loans. They have also pointed out that mounting NPAs negatively affect the profitability of agricultural credit cooperatives.

The impact of mounting NPAs can be summed up as the problem of recycling of funds, difficulty in getting refinance from apex institutions, inability to reduce PLR and interest rates of banks, decreasing profitability of banks and thus jeopardising the health of the banking system as a whole.

2.3 Reduction of NPAs

Remedying any problem presupposes proper diagnosis. Certain problems are more acute than what meets the naked eye; the problem of NPAs, for example. Reduction of these NPAs with speed and efficacy is very important.

Udupa and Dinkar (1988) from their study "Strategy for recovery of farm loans: An experience of Syndicate Bank" has found that the problem of overdues can be tackled successfully by maintaining proper contact and rapport with the borrowers. This will help in building mutual trust and confidence and encourage both banks and farmers to participate in a big way in future productive programmes.

According to Kurup (1990) the basic requirements to keep non-performing loans to the minimum are maintenance of close relationship between soundness of the assets of banks and the growth of its liabilities (deposits), high importance for profits in the performance parameters of the banks, and professionalism of management.

Sinde (1992) has opined that growth in NPA need to be checked for which mere changes in policies, systems and procedures may not suffice. What is more important is to create seriousness among those concerned with NPAs. Banks and financial institutions may bring in more transparency in their accounts by properly classifying their advances and making adequate provisions. Effective handling of NPAs calls for developing good leaders who can build up teams of motivated staff. In this regard education and training have a vital role to play.

Kaveri (1993) has put forward that, in the light of mounting overdues, it is very essential to deal with recovery management on a war-footing by considering the current year as Recovery year and fixing target for each branch/controlling offices. For this a taskforce should be set up to plan and monitor recovery matters.

Parmar and Patel (1994) from their study on "Recovery of priority sector advances by commercial banks" have concluded that besides making organised and well planned serious efforts to recover the loan arrears, the quality of lending must be improved and suitable system for realisation of dues should be made as an in-built part of credit management.

As per the study by Khatkar *et al.* (1994) on "Trends in agricultural credit and overdues", the higher growth rate of overdues can be overcome by avoiding under financing and preventing political interference. Supervision and technical guidance should be provided to avoid diversion of funds.

Ramachandra Rao (1995) believes that 'recovery melas' should concentrate on aggressive recovery of non-performing assets. Normal repayments coming in the ordinary course as per stipulations are not recoveries from NPAs. At least interest overdues from NPAs should be recovered as part of the efforts in recovery melas.

Singh (1995) has recommended that with a view to achieving and continuing to maintain the desired level of Capital Adequacy Ratio on an ongoing basis, it would be imperative for the banks to tone up their operational efficiency and management of their assets and liabilities, leading to substantial reduction in NPAs and thus reducing the provisioning requirements.

Tehran (1995) has stated that the long term effect and impact of 'recovery melas' should be a smooth flow of repayment on due dates with out the banker reminding the borrowers to repay on due dates. Hence, in the years to come, the borrowers should co-operate to repay on due dates and bankers should be borrower friendly so that NPAs should reflect outstandings of only genuine defaulters in the bank balance sheets.

George and Satheesh (1996) while studying the overdue pattern in PACS have observed that in order to curb the problem of overdues, banks must place more emphasis on effective supervision on the end use of credit so that diversion or its misutilisation can be checked. Further, the success of any credit delivery depends on its proper recycling.

Singh (1996) has emphasized that with the introduction of income recognition, asset classification norms and provisioning requirements in respect of

NPAs, it would be imperative for banks to take effective measures to reduce their NPAs to the minimum possible extent. Not only reduction in NPAs, even upgradation in the quality of such assets would help the bank to improve their bottomlines.

Mishra (1996) is of the view that proper methods for discouraging wilful defaulters may be adopted by banks. The branches adopting such methods should be suitably recorded 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.

Sinha (1996) has stated 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 merely by writing-off. It is time to reconsider the proposal mooted by Narsimham Committee to set up the Asset Reconstruction Fund, which was earlier shelved by the government.

Tarapore (1997) has suggested that banks, which are 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 risk-less securities foreclosing the build-up of any NPAs.

Gaur (1997) from his study on "Recovery of banks' dues through Government" has 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 is required.

The Narasimham Committee (1998) has recommended the setting 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 values determined. These assets could then be transferred to an ARC.

Sudhakar (1998) has opined that, however good the credit dispensation process may be, total elimination of NPAs is not possible in banking business owing to externalities, but their incidence can be minimised. In a situation wherein banks are already saddled with a large quantum of NPAs, launching a strategic initiative for reducing their quantum by taking recovery measures as a broad based movement through technological aid can bring about improvement.

Taori (1998) has opined that to control NPA menace a two pronged approach, viz., preventive and curative would be necessary. The prime focus has to be placed on areas like budget for reduction of NPAs, strengthening credit management, follow-up of cases with Bank for Industrial and Financial Reconstruction (BIFR), Debt Recovery Tribunals (DRTs) and courts, emphasis on compromise, one-time settlement, write-offs and changing strategies based on market studies.

Bhashyam and Mohan (1999) have expressed the view that public sector banks, which are carrying a high quantum of historical baggage of NPAs would require broadening of the legal system which will facilitate the task of recovery of their loss assets.

Adhivarahan (2000) has suggested personal touch with the borrowers, professionalism in credit appraisal, common documentation, employing arbitration in loan accounts lobbying with the Union Government to bring in appropriate legislative amendments and establishing more courts etc. as remedial measures of NPAs.

Celestine (2002) has critically reviewed the recently passed Securitisation Act and asserted that the Act will finally give the weapon that bankers have always sought in their war against NPAs. However, he raised a notable question regarding the guts of banks to use the Act effectively.

It is clear form the above review, that concrete strategies should come from both the bankers and the customers to prevent the occurence of NPAs. Banks should

be customer friendly and give due care while fixing mode of repayment schedules. Conducting of 'recovery melas', appointment of efficient field officers and opening of NPA branches are the measures suggested to be adopted by banks in this respect. The customers should take the repayment of loans as a serious matter and moreover bank authorities should give proper awareness to the borrowers. The need for government regulation for expediting the disposal of suit filed cases is over emphasised by many authors.

Materials and Methods

CHAPTER III

MATERIALS AND METHODS

Along with the financial sector reforms, increased attention was paid to the concept of NPAs in banks. This is obvious from the policy guidelines issued by the Reserve Bank of India (RBI) from time to time with regard to income recognition, asset classification and provisioning. Hence the concept of NPA is to be illustrated before analyzing the volume, composition and reasons of NPAs of DCBs. This chapter is divided into two parts of which the first part deals with the conceptual framework of NPA and the second part contains the methodology of the study.

3.1 CONCEPTUAL FRAMEWORK OF NPA

Prudential norms on income recognition, asset classification and provisioning were extended to State Co-operative Banks (SCBs) and District Co-operative Banks (DCBs) with effect from 1996-97 by the RBI vide its circular RPCD.No.BC.155/07.37.02/95-96 dated 22nd June 1996. Subsequently, various amendments and classifications on the subject have been issued by RBI/NABARD from time to time.

3.1.1 Definition of Non-performing Asset (NPA)

An asset becomes non-performing when it ceases to generate income for the bank. A non-performing asset (NPA) was defined generally as a credit facility in respect of which interest and/or instalment of principal has remained 'past due' for two quarters or more. An amount due under any credit facility is treated as 'past due' when it has not been paid within 30 days from the due date. It was, however, decided to dispense with 'past due' concept with effect from March 31, 2001. Accordingly, as from that date, an advance shall be an NPA where

i) interest and/or instalment of principal remain overdue for more than 180 days in respect of a term-loan

ii) the account remains 'out of order' for more than 180 days in respect of overdraft/cash credit

iii) the bill remains overdue for more than 180 days in the case of bill purchased and discounted

iv) interest and/or instalment of principal remains overdue for two harvest seasons, but for a period not exceeding two half years in the case of an advance granted for agricultural purposes

v) an amount to be received remains over due for more than 180 days in respect of other accounts.

3.1.2 Treatment of agricultural advances

In respect of advances granted for agricultural purposes where interest payment is on half-yearly basis synchronizing with harvest season, banks should adopt the agricultural season as the basis. In other words, if interest has not been paid during the last two seasons of harvest (covering two half-years) after the principal has become overdue then such an advance should be treated as NPA. This norm is applicable to all direct agricultural advances. In respect of other agricultural advances, identification of NPA would be done on the same basis as non-agricultural advances, which at present is the 180 days delinquency norm, which will be reduced to 90 days in 2003-04.

3.1.3 Treatment of advances for allied agricultural activities as well as non-farm sector

Credit facilities granted for other allied agricultural activities as well as for non-farm sector activities should be treated as NPA if amounts of instalments of principal and/or interest remain outstanding for a period of two quarters from the due date.

3.1.4 Treatment of different facilities to a single borrower as NPA

Short-term agricultural advances are granted by SCBs/DCBs to DCBs/PACS respectively for the purpose of on lending. In respect of such advances as

well as advances for other purposes, if any, granted under the on lending system, only that particular facility which became irregular should be treated as NPA and not all the other facilities granted to them.

Crop loans for each season, viz., Rabi and Kharif have to be treated as separate account and accordingly prudential norms have to be applied. All other direct loans and advances granted to a borrower, become NPA even if one loan account becomes NPA.

3.1.5 'Overdue'

An amount due to the bank under any credit facility is 'overdue', if it is not paid on due date fixed by the bank.

3.1.6 Income recognition policy

The policy of income recognition should be based on the record of recovery and therefore, unrealized income should not be taken to profit and loss account (P & L a/c) by SCBs/DCBs. In other words, the SCBs/DCBs which are charging interest on all overdue loans and if such interest remains unrealized the same may be taken to income account provided matching provision is fully made for it by charging to P & L a/c. Even in case of credit facilities backed by Government guarantee, overdue interest can be taken to P & L a/c only if matching provision is made. The bills purchased/discounted should be treated as overdue, if the same remain unpaid. Interest may be charged to such bills and the same may be taken to P & L a/c provided matching provision is made.

3.1.7 Criteria for classification of assets

Classification of agricultural and non-agricultural loans is required to be done in four categories, on the basis of overdues, as under:

3.1.7.1 Standard Assets

Standard asset is one, which does not disclose any problem and which does not carry more than the normal risk attached to business. Thus, in general, all the current loans, agricultural and non-agricultural loans, which have not become NPA may be treated as standard assets.

3.1.7.2 Sub-standard Assets

A non-performing asset may be classified as sub-standard on the basis of the following criteria:

a) An asset, which has remained overdue for a period not exceeding three years in respect of both agricultural and non-agricultural loans should be treated as sub-standard.

b) In case of all types of term loans, where instalments are overdue for a period not exceeding three years, the entire outstanding in term loan should be treated as sub-standard.

c) An asset, where the terms and conditions of the loans regarding payment of interest and repayment of principal have been renegotiated or rescheduled, after commencement of production, should be classified as sub-standard and should remain so in such category for at least two years of satisfactory performance under the renegotiated or rescheduled terms.

3.1.7.3 Doubtful Assets

A non-performing asset may be classified as doubtful on the basis of following criteria:

An asset, which has remained overdue for a period exceeding three years in respect of both agricultural and non-agricultural loans, should be treated as doubtful. In the case of all types of term loans, where installments are overdue for more than three years, the entire outstanding in term loan should be treated as doubtful. As in the

case of sub-standard assets, rescheduling does not entitle a bank to upgrade the quality of advance automatically.

3.1.7.4 Loss Asset

Loss assets are those where loss is identified by the bank/auditor/RBI/NABARD inspectors but the amount has not been written off wholly or partly. In other words, an asset that is considered unrealizable and/or of such little value that its continuance as a doubtful asset is not worthwhile, should be treated as a loss asset.

3.1.8 Provisioning norms

Provisioning is necessary considering the erosion in the value of security charged to the banks over a period of time. Therefore, after the assets of DCBs/SCBs are classified into various categories, provisioning should made as mentioned below:

3.1.8.1 Standard Assets

When the prudential norms were introduced in 1996-97, no provisioning was required in respect of standard assets. From the year ended 31 March 2000, banks are required to make provision on standard assets at a minimum of 0.25% of the total outstanding in this category.

3.1.8.2 Sub-standard Assets

A general provision of 10 per cent of total outstanding in this category may be made.

3.1.8.3 Doubtful Assets

a) 100 per cent is to be made to the extent to which the advance is not covered by realizable value of securities to which the bank has a valid resource.

b) Over and above item (a), provision is to be made, depending upon the period for which an asset has remained overdue, as follows:

i) Overdue above three years and up to four years - 20%

ii) Overdue over four years, but not exceeding six years - 30%

iii) Overdue exceeding six years - 50%

3.1.8.4 Loss Assets

The entire loss asset should be written off. If the assets are permitted to be retained in the books for any reasons, 100 per cent of the outstanding thereof should be fully provided for.

3.1.9 Agricultural loans as secured

All agricultural loans may be treated as fully secured as the same are disbursed against charge on land as provided in the respective State Co-operative Societies/Acts/Rules.

3.1.10 Realisation in provisioning norms

In order to give adequate time to co-operative banks to adjust themselves to the new system, phasing of provision was permitted as indicated below:

i) First year of introduction of prudential norms (1996-97)

100 per cent in respect of loss assets and not less than 30 per cent of the provisioning needed in respect of sub-standard and doubtful assets.

ii) Second year (1997-98)

100 per cent in respect of loss assets and 20 per cent of residual amount of sub-standard/doubtful assets together with current provision needed in respect of such assets classified in the second year.

iii) Third year (1998-99)

100 per cent in respect of loss assets and 20 per cent of residual amount of sub-standard/doubtful assets together with current provision needed in respect of such assets classified in the third year.

iv) Fourth year (1999-2000)

100 per cent in respect of loss assets and 30 per cent of residual amount of sub-standard/doubtful assets together with current provision needed in respect of such assets classified in the fourth year. In other words, all doubtful and sub-standard assets have to be provided fully from the fourth year onwards in addition to 100 per cent for loss assets.

Even though NPA norms are not applicable to PACS, their overdues are termed as NPAs for the study.

3.2 METHODOLOGY OF THE STUDY

The study has been conducted by using data collected from both primary and secondary sources. The first and second objectives of the study, i.e., examining the magnitude and composition of NPAs of DCBs in Kerala and assessing the extent of NPAs in agricultural advances, have been analysed using secondary data. The third objective, i.e., identifying the factors leading to NPAs was analysed with the help of primary data. The main sources of secondary data were Annual and Audit Reports of selected DCBs, Dossier on Co-operatives by NABARD, RBI Bulletin and Economic Review. Primary data have been collected from secretaries of nine PACS and 90 individual defaulters of these PACS.

3.2.1 Sampling procedure

The present study was conducted in three District Co-operative Banks (DCBs) in Kerala, namely, Kasaragod District Co-operative Bank (KDCB), Palakkad District Co-operative Bank (PDCB) and Thrissur District Co-operative Bank (TDCB). The three banks were selected from 14 DCBs in Kerala based on the level of NPA

(Percentage of NPA to total loans outstanding) as on 31st March 2001. Thus Kasaragod DCB (KDCB) with least NPA level of 4.41 per cent, Palakkad DCB (PDCB) with medium NPA level of 13.1 per cent and Thrissur DCB (TDCB) with highest NPA level of 31.97 per cent were selected for the study.

DCBs are advancing agricultural loans to farmers only through PACS. Moreover, PACS have defaulted to respective DCBs only in ST agricultural advances as on 31st March 2001. Thus three PACS, which have defaulted in such loans to DCBs, were selected randomly from each DCB. Primary data were collected with the help of a structured interview schedule from nine sample defaulter PACS for identifying the factors leading to NPAs in ST agricultural advances to DCBs.

In order to check the grass root levels reasons for non-repayment of ST agricultural loans by farmers to PACS, 90 of them were selected at random, 10 each from identified nine PACS. A survey was conducted among these parameters with the help of pre-tested structured schedule.

3.2.2 Study Period

Primary data were collected during October 2002 to December 2002. Secondary data covered the period 1996-97 to 2000-2001.

3.2.3 Method of Data Analysis

Mostly bi-variate and multi-variate tables have been used for the analysis. The first and second objectives of the study were analysed with the help of averages, percentages and growth rates. The third objective was analysed using statistical and econometric tools like Priority index, Chi-square test, Regression analysis and Analysis of variance (ANOVA).

i) Priority index

The index is worked out to rank the factors in the order of importance and also to measure the degree of importance. This is based on the ranks assigned by

respondents to each of the factors. The respondents were asked to rank the factors depending upon the importance they attach to each factor. The index value was worked out as follows:

Suppose there are 'n' factors to be ranked, say x_1, x_2, x_3, . . . , x_n, the respondents would assign 1 to 'n' ranks. Since the ranks as such cannot be used for further arithmetical operations, these ranks were converted into scores. This is done in such a way that 'n' score is allotted to the factor which the respondent ranked first, n-1 score to the second rank and thus '1' score to the n^{th} rank. Adding up the individual scores so assigned for a particular factor we get the aggregate score obtained by that factor. Thus the aggregate scores of each factor are found out. These aggregate scores are sufficient enough to rank the factors in the order of importance. Then, priority index is worked out. This is found out by expressing the aggregate scores obtained by each factor as a percentage of the maximum aggregate score obtainable by an individual factor. The maximum aggregate score obtainable will be the numerical product of the number of factors to be ranked, and the number of respondents applicable in the particular case. Hence the index was computed by 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_1
Es_i = Aggregate score obtained for the factor x_1
n = Number of factors
N = Number of respondents

ii) Chi-square test

The Chi-square test is a non-parametric test indicating statistical significance of certain factors on a particular dependent factor. In this study, the Chi-square test is used to understand the influence of socio-economic characters such as

educational level, occupation and annual family income on different levels of NPAs using the formula,

$$\chi^2 = \Sigma \frac{(O - E)^2}{E}$$

where O = observed value
E = expected value

iii) Regression and ANOVA

Regression and analysis of variance (ANOVA) are used to determine the influence of independent variables on the dependent variable. In this study, NPA is the dependent variable. The multiple regression equation is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

where Y = NPA

x_1 = Sex, x_2 = Educational level, x_3 = Annual family income, x_4 = Diversion amount and x_5 = Delay in number of days.

This analysis helps to infer the significance of each independent variable on the dependent variable. Adjusted R^2, F values and t-values were found out in each case to validate the efficiency of independent variables taken to define the dependent variable NPA.

Results and Discussion

CHAPTER-IV
RESULTS AND DISCUSSION

Co-operative banking sector has for long been recognized as the principal institutional system for providing agricultural credit in India. In the present scenario, the performance of co-operative banks is affected mainly by the increasing Non-performing Assets (NPAs). The high incidence of NPAs limits not only the capacity of co-operatives, especially District Co-operative Banks (DCBs) to recycle funds, avail refinance facility and accelerate the flow of credit at grass root level, but also their profitability and viability. Although DCBs in Kerala are performing better compared to DCBs of other states in India (See Table 1.1), they are also affected by the problem of NPAs. Hence the present study attempts to

i) examine the magnitude and composition of NPAs of DCBs in Kerala.,
ii) assess the extent of NPAs in agricultural advances., and
iii) identify the factors leading to NPAs.

This chapter is split into Part I and Part II.

Part I

The first two objectives of the study are analysed in this part of the report. For this purpose, simple arithmetical tools like percentages and growth rate are applied. A comparison of three selected DCBs viz., Kasaragod DCB (KDCB), Palakkad DCB (PDCB) and Thrissur DCB (TDCB) is made in terms of NPAs.

4.1 NPA LEVEL OF DCBs IN KERALA

The total loans outstanding, NPA amount and percentage of NPA to total loans of 14 DCBs in Kerala from 1996-97 to 2000-01 are analysed here.

Table 4.1. NPA level of District Co-operative Banks in Kerala for the period 1997-2001

(Amount rupees in lakhs)

Sl. No.	Name of the DCB	Loans & Advances Outstanding					NPA					Percentage NPA to Outstanding				
		1996-97	1997-98	1998-99	1999-2000	2000-2001	1996-97	1997-98	1998-99	1999-2000	2000-2001	1996-97	1997-98	1998-99	1999-2000	2000-2001
1	Thiruvananthapuram	20283.90	21878.24	25301.06	30750.32	42695.53	4395.45	5110.20	5669.00	6114.77	8394.20	21.67	23.36	22.40	19.88	19.70
2	Kollam	12763.43	13513.69	16277.00	19353.65	24515.38	1654.94	3070.46	2392.00	3534.49	4535.35	12.97	22.72	18.43	18.26	18.50
3	Pathanamthitta	7329.50	7309.01	7345.00	8374.00	11037.40	1063.74	1583.01	1676.00	1611.00	1315.01	14.24	21.65	22.67	19.24	11.91
4	Alappuzha	9874.53	11402.34	11666.00	13141.18	16078.24	1801.54	2155.09	2453.00	2428.22	2902.12	18.24	19.52	21.02	18.48	18.05
5	Kottayam	14968.31	15999.87	16545.00	17798.91	20693.25	1507.90	3538.69	4266.00	4164.44	4196.93	10.07	22.12	25.78	23.40	20.28
6	Idukky	11301.17	12367.41	14620.00	16142.54	19219.91	1095.53	1527.57	1711.00	2072.34	2340.66	9.69	12.35	11.70	12.84	12.18
7	Ernakulam	18459.56	19525.31	19094.00	21089.36	35340.96	2344.55	2302.46	3802.00	3746.18	3542.93	12.70	11.79	19.91	17.76	10.02
8	**Thrissur**	**16137.52**	**15109.44**	**15878.06**	**20065.57**	**25263.15**	**5116.00**	**5400.70**	**6042.73**	**6137.69**	**8077.60**	**31.70**	**35.74**	**38.06**	**30.59**	**31.97**
9	**Palakkad**	**9805.97**	**7853.23**	**11832.93**	**13723.55**	**25719.46**	**1498.53**	**1673.41**	**2068.50**	**2667.74**	**3368.46**	**15.20**	**16.98**	**17.48**	**19.45**	**13.10**
10	Maalappuram	10550.68	10817.44	9752.00	12688.22	18498.29	1394.25	1424.20	1519.00	1687.43	1652.84	13.21	13.17	15.58	13.30	8.94
11	Kozhikode	8453.04	9346.44	9724.00	13712.03	19415.74	1887.07	1905.21	2119.00	2548.91	3760.58	22.32	20.38	21.80	18.60	19.37
12	Wayanad	4118.21	4632.09	5144.00	7620.85	8798.41	213.43	277.22	357.00	359.71	859.81	5.18	6.12	6.94	4.72	9.77
13	Kannur	17507.59	21123.00	21959.00	25252.85	28283.19	1501.87	1927.36	1560.00	1641.44	1582.15	8.58	9.12	7.10	6.50	5.59
14	Kasaragod	6308.26	6354.23	6904.65	8680.24	10336.29	500.68	438.24	318.28	336.31	455.98	7.93	6.90	4.60	3.87	4.41
	DCBs Total	167862.27 (-)	178871.76 (6.56)	192092.64 (7.39)	228393.27 (18.90)	305895.20 (33.93)	25955.48 (-)	32342.82 (24.61)	35942.51 (11.13)	39052.67 (8.65)	46984.62 (20.31)	15.46	18.08	18.71	17.09	15.35

Source: Data collected from Agricultural Co-operative Staff Training Institute, Thiruvananthapuram
Note: Figures in parenthesis indicate percentage growth over the years

Table 4.1 reveals that Thrissur District Co-operative Bank (TDCB) has recorded the highest percentage of NPAs of over 30 per cent during the study period. Further it has reported maximum amount of NPAs ranging from Rs.4400 to8395 lakhs in all the years except 2000-01. But, Thiruvananthapuram DCB has topped in terms of total loans outstanding ranging from Rs.20280 to 42695 lakhs. At the same time, Wayanad DCB has shown the least amount of loans outstanding between 4118 and 8798 lakhs of rupees. Kasaragod DCB (KDCB) has recorded the lowest percentage of NPA of around four per cent from 1998-99 to 2000-01. The average percentage of NPAs of DCBs in Kerala is hovered in a range of 15 to 18.7 per cent during the study period. Palakkad DCB (PDCB) has maintained almost the same level of NPA as that of the state average in all these years.

Regarding the annual growth rate of NPAs of DCBs in Kerala, the year 1997-98 has reported the highest growth of 24.61 per cent. Interestingly, the same year has shown the lowest growth rate of 6.56 per cent in loans outstanding. The growth rate of NPAs of DCBs in Kerala was the lowest of 8.65 per cent in 1999-2000. The highest rate of growth of 33.93 per cent in loans outstanding was recorded in 2000-01.

It is further observed from Table 4.1 that the problem of NPA is chronic in Thrissur DCB while Kasaragod DCB managed to contain the level of NPA as well as the amount of NPA effectively. At the same time, Palakkad DCB is an average performer in tackling NPA.

For arriving at a clear picture about magnitude and reasons of NPAs of DCBs in the State, three banks with the highest medium and the lowest level of NPAs as on 31st March 2001, are selected. Thus we have Kasaragod DCB (KDCB) with the least NPA level of 4.41 per cent, Palakkad DCB (PDCB) with medium NPA level of 13.1 per cent and Thrissur DCB (TDCB) with highest NPA level of 31.97 per cent in 2000-01.

4.2 PERFORMANCE INDICATORS OF KDCB

Before attempting to examine the magnitude, composition and reasons of NPAs, it is pertinent to analyse the performance of banks during the study period. For

this, important performance indicators like membership, share capital, reserves, deposits, borrowings, loans and advances, net profit and NPA are considered.

Table 4.2. Performance indicators of Kasaragod District Co-operative Bank for the period 1997-2001

(Amount rupees in lakhs)

Year / Indicators	1997	1998	1999	2000	2001	AAG (%)
Membership	489	488	445	445	451	-1.59
	(-)	(-0.20)	(-8.81)	(0.00)	(1.35)	
Share capital	307.77	360.64	416.20	479.42	522.24	11.17
	(-)	(17.18)	(15.41)	(15.20)	(8.93)	
Reserves	239.95	246.30	250.22	260.05	272.85	2.61
	(-)	(2.65)	(1.59)	(6.33)	(2.56)	
Deposits	3789.77	4882.51	7626.59	10964.53	12127.45	26.24
	(-)	(28.83)	(56.20)	(43.77)	(10.61)	
Borrowings	3772.20	3407.07	2473.81	3188.78	3212.36	-3.22
	(-)	(-9.68)	(-27.39)	(28.90)	(0.74)	
Loans & Advances	6308.26	6354.23	6904.65	8680.24	10336.29	10.41
	(-)	(0.73)	(8.66)	(25.72)	(19.08)	
NPA	500.68	438.24	318.28	336.31	455.98	-1.83
	(-)	(-12.47)	(-27.37)	(5.66)	(35.58)	
Net Profit	16.18	10.59	6.02	3.96	3.58	-26.04
	(-)	(-34.55)	(-43.15)	(-34.22)	(-9.60)	

Source: Audit Reports of KDCB for the period 1997 to 2001
Note: 1) Figures in parenthesis indicate percentage change over the years
2) AAG means Annual Average Growth Rate

The KDCB had a membership of 489 in 1997, which declined gradually to 451. The annual average growth rate (AAG) in membership of KDCB was -1.59 per cent for the study period. But, the share capital has reported a steady increase from Rs.307 lakhs in 1997 to Rs. 522.24 lakhs in 2001. The AAG in share capital of KDCB was 11.17 per cent for the reference period. Likewise, the reserve position of KDCB also registered a gradual increase from Rs. 239 lakhs in 1997 to Rs. 272 lakhs in 2001. The reserves had registered an AAG of 2.61 for the period. Deposits of KDCB have actually grown by almost four times in 2001 to Rs.12127 lakhs from Rs. 3789 lakhs in 1997. The AAG in deposits of KDCB was 26.24 per cent during this period. Interestingly, borrowings by KDCB have declined from Rs.3772 lakhs in 1997 to Rs.3212 lakhs in 2001, recording an AAG of -3.22 per cent (Table 4.2).

The loans outstanding position of KDCB registered a steady growth from Rs.6308 lakhs in 1997 to Rs.10336 lakhs in 2001, thus recording an AAG of 10.41 per cent. During 1997 to 1999 the NPA position of KDCB has shown a consistent decline from Rs.500 lakhs to Rs. 318 lakhs. Thereafter, it registered increased growth rates of 5.66 per cent and went up to 35.58 per cent in 2001. It is significant to note that the AAG in NPA was -1.83 per cent. The net profit position has posted a gradual decline from the highest amount of Rs.16.18 lakhs to the lowest amount of Rs.3.58 lakhs in 2001. The AAG in net profit was -26.04 per cent for the period (Table 4.2).

The constant decline of membership of KDCB can be attributed to the winding up of the operations of some non-credit societies affiliated to the DCB. At the same time, regular subscription by affiliated PACS to the share capital has actually been reflected in the gradual increase of its share. The major resource-base of KDCB, i.e., deposits has shown regular growth and at the same time its borrowings has actually declined over the years. This clearly depicts the thrust of KDCB on accepting low-cost deposits from customers by reducing the exposure on high-cost borrowings.

The gradual increase in loans and advances of KDCB as per Table 4.2 is attributed to the existence of potential borrowers in agriculture and non-agricultural activities. Kasaragod district is characterised mainly by commercial crops such as arecanut, pepper, coconut and rubber and short-term crops like banana, tapioca and ginger. This actually enables the bank to lend to farmers through its PACS. Moreover, the Bank is mainly lending directly to non-agriculture sectors like business units, housing, small industries and to personal loan segment. The gradual decline in the net profit position of the bank is mainly due to the higher provisioning made against NPAs, after the introduction of income recognition and provisioning norms to DCBs in 1997.

4.3 PERFORMANCE INDICATORS OF PDCB

The important performance indicators of PDCB like membership, share capital, reserves, deposits, borrowings, loans and advances, net profit and NPA are analysed here to know the progress of the Bank during the study period.

Table 4.3. Performance indicators of Palakkad District Co-operative Bank for the period 1997-2001

(Amount rupees in lakhs)

Year / Indicators	1997	1998	1999	2000	2001	AAG (%)
Membership	418 (-)	420 (0.48)	423 (0.71)	431 (1.89)	439 (1.865)	0.93
Share capital	519.54 (-)	613.32 (18.05)	633.26 (19.94)	648.16 (2.35)	670.26 (3.41)	5.20
Reserves	678.09 (-)	1069.81 (57.77)	1327.49 (24.09)	1708.59 (28.71)	3252.10 (90.34)	36.77
Deposits	10007.12 (-)	13456.77 (34.47)	18487.94 (37.39)	25183.13 (36.21)	24712.95 (-1.87)	19.67
Borrowings	6972.57 (-)	7327.64 (5.09)	8534.81 (16.47)	6512.85 (-23.69)	6724.15 (3.24)	-0.46
Loans & Advances	9805.97 (-)	9853.23 (0.48)	11832.93 (20.09)	13723.55 (15.98)	25719.46 (87.41)	21.34
NPA	1498.53 (-)	1673.41 (11.67)	2068.50 (23.61)	2669.74 (29.07)	3368.46 (26.17)	17.49
Net Profit	30.46 (-)	69.76 (129.02)	32.27 (-53.74)	99.94 (209.70)	62.46 (-37.50)	15.35

Source: Audit Reports of PDCB for the period 1997-2001
Note:1) Figures in parenthesis indicate percentage change over the years
2) AAG means Annual Average Growth rate

Table 4.3 depicts that the membership of PDCB has gradually increased from 418 in 1997 to 439 in 2001, but the AAG is marginal (0.93 per cent). The share capital also registered a steady increase from Rs.519 lakhs in 1997 to Rs.670 lakhs in 2001. The AAG of share capital is 5.20 per cent for the period. There is an increasing trend in reserves position of PDCB and the AAG is 36.77 per cent. It is interesting to note that the average growth rate in deposits is 19.67 per cent. From 1997 to 1999, there was an increasing trend in borrowings, which reversed in 2000 by recording a 23.69 per cent decline. The AAG of borrowings is -0.46 per cent.

The loans and advances achieved significant progress during the period by reaching Rs.25719 lakhs in 2001, the year in which maximum rate of growth was reported. It is observed from the Table that PDCB is facing a very disturbing situation with the increasing NPA from Rs.1498 lakhs in 1997 to Rs.3368.46 lakhs in 2001. The highest rate of growth of 29.07 per cent in NPAs is recorded in 2000. However, the net profit showed a mixed trend with fluctuating trends. It is seen that the Bank achieved the highest net profit amount of Rs.99 lakhs (growth of 209 per cent compared to Rs.32 lakhs in 1999) in 2000 (Table 4.3).

The increasing trend in membership of PDCB is mainly because more and more non-credit societies are affiliated to the Bank. This has also increased the share capital of the DCB. The Table clearly depicts the Bank's thrust on mobilization of more deposits and thereby reducing the reliance on high cost borrowings.

Agriculture is the main occupation of most of the people in Palakkad district. The major agricultural crops include paddy, sugarcane, maize, tapioca and vegetables. This provides ample opportunities for PDCB to lend to farmers through its PACS. Moreover, there was a greater thrust on personal loans and loans to industrial units in Palakkad and Kanjikode. These factors mainly resulted in increasing growth rates in loans and advances of the DCB as shown by Table 4.3. It is a great concern for the PDCB to tackle the ever-increasing problem of NPAs. The factors mainly attributed to this situation were closure of bank-financed industrial units and the severe drought, over the years which led to non-repayment by farmers to PACS and thereby PACS to DCB.

4.4 PERFORMANCE INDICATORS OF TDCB

Before attempting to analyse the composition and reasons of NPAs, the major performance indicators of TDCB are analysed here.

As per Table 4.4, membership of TDCB increased marginally from 752 in 1997 to 766 in 2001, registering an AAG of 0.46 per cent. Likewise, the share capital has registered a growth rate of 6.06 per cent during the period under study. The

reserves of TDCB increased by 19.12 per cent annually. There is a significant growth in deposits from Rs. 19148 lakhs in 1997 to a whopping amount of Rs.55099 lakhs in 2001, thus registering an AAG of 23.59 per cent. In this context, it is interesting to note that another major resource base of the Bank, i.e., borrowings has fallen steepily from the highest of Rs.2076 lakhs to a meagre Rs.345 lakhs in 2001, thus recording a negative AAG of 30.50 per cent.

Table 4.4. Performance indicators of Thrissur District Co-operative Bank for the period 1997-2001

(Amount rupees in lakhs)

Year / Indicators	1997	1998	1999	2000	2001	AAG (%)
Membership	752	754	754	763	766	0.46
	(-)	(0.27)	(0.00)	(1.19)	(0.39)	
Share capital	469.93	560.81	626.71	646.56	653.06	6.66
	(-)	(19.34)	(11.75)	(3.17)	(1.01)	
Reserves	1685.84	2042.24	2271.24	2959.14	4083.39	19.12
	(-)	(21.14)	(11.21)	(30.29)	(37.99)	
Deposits	19148.36	25100.90	35892.73	50284.38	55099.44	23.59
	(-)	(31.09)	(42.99)	(40.09)	(9.58)	
Borrowings	2076.91	1920.50	1681.33	1083.60	345.15	-30.50
	(-)	(-7.53)	(-12.45)	(-35.55)	(-68.15)	
Loans & Advances	16137.52	15109.44	15878.06	20065.57	25263.15	9.65
	(-)	(-6.37)	(5.09)	(26.37)	(25.90)	
NPA	5116.00	5400.70	6042.73	6137.69	8077.60	9.64
	(-)	(5.56)	(11.89)	(1.57)	(31.61)	
Net Profit	40.17	48.23	15.23	82.71	178.89	34.90
	(-)	(20.06)	(-68.42)	(443.07)	(116.29)	

Source: Audit Reports of TDCB for the period 1997-2001
Note: 1) Figures in parenthesis indicate percentage change over the years
2) AAG means Annual Average Growth Rate

From 1997 to 1999 the loans and advances showed a somewhat stagnant picture. Thereafter, we can observe around 25 per cent growth in 2000 and 2001. The AAG in loans and advance is 9.64 per cent during the study period. It is disturbing to note that there is a gradual increase in the amount of NPA from Rs.5116 lakhs in 1997 to a high of Rs.8077 lakhs in 2001, recording an AAG of 31.61 per cent. The highest growth rate of 31.61 per cent is recorded in 2001. Even with the ever-burgeoning

NPAs of TDCB, the Bank was able to earn profit ranging from Rs.15 lakhs to Rs.178 lakhs during the study period (Table 4.4).

With the affiliation of more and more non-credit societies, the TDCB is able to improve its membership as well as share capital positions. The reserves have also improved well due to the good profit position during the study period. It is interesting to note that while the deposit-base is increasing significantly, there is a drastic decline in borrowings by TDCB. The steep fall in borrowings may be attributed to the non-availability of refinance from NABARD through State Co-operative Bank due to the higher level of NPAs of more than 30 per cent. So the Bank was forced to mobilize maximum deposits, which are relatively cheaper compared to borrowings (Table 4.4).

The relatively low growth in loans and advances of TDCB may be due to the slow down in the business activities and the poor off-take of credit for agricultural purposes. Moreover, the mounting NPAs have also forced the Bank to lend cautiously, which resulted in relatively marginal increase in loans and advances. The Table gives us an ominous signal of gallopping NPAs which will have far-reaching repurcussions for TDCB in the years to come eventhough the Bank was able to earn profit during the study period.

4.5 MAGNITUDE AND COMPOSITION OF NPAs

NPAs of DCBs are classified into sub-standard, doubtful and loss assets. Here an attempt is made to compare the magnitude and composition of NPAs of the selected DCBs, i.e., KDCB, PDCB and TDCB.

From the Table 4.5, it is seen that magnitude of NPAs is the highest in TDCB ranging from Rs.5116 lakhs to 8077 lakhs, followed by PDCB ranging between Rs.1498 lakhs and Rs.3368 lakhs. The size of NPAs is the lowest in KDCB hovering between Rs.318 lakhs and Rs.500 lakhs. Moreover, in the case of TDCB and PDCB there is steady growth in NPAs over the years whereas KDCB has witnessed fluctuating trend.

Table 4.5. Bank-wise classification of NPAs of selected DCBs for the period 1997-2001

(Amount Rupees in lakhs)

Year	Kasaragod DCB				Palakkad DCB				Thrissur DCB			
	Sub Standard	Doubtful	Loss	Total NPA	Sub Standard	Doubtful	Loss	Total NPA	Sub Standard	Doubtful	Loss	Total NPA
1997	420.11 (83.91)	24.63 (4.92)	55.94 (11.17)	500.68 (100.00)	1078.46 (71.97)	311.66 (20.80)	108.41 (7.23)	1498.53 (100.00)	4370.28 (85.42)	396.69 (7.75)	349.03 (6.83)	5116.00 (100.00)
1998	332.04 (75.77)	42.46 (9.69)	63.74 (14.54)	438.24 (100.00)	1198.33 (71.61)	396.83 (23.71)	78.25 (4.68)	1673.41 (100.00)	4262.17 (78.92)	960.94 (17.79)	177.59 (3.29)	5400.70 (100.00)
1999	185.22 (58.19)	65.28 (20.51)	67.78 (21.30)	318.28 (100.00)	1286.89 (62.21)	503.18 (24.33)	278.43 (13.46)	2068.50 (100.00)	4637.21 (76.74)	1282.01 (21.22)	123.51 (2.04)	6042.73 (100.00)
2000	202.26 (60.14)	67.49 (20.07)	66.57 (19.79)	336.32 (100.00)	1817.33 (68.01)	624.75 (23.40)	227.66 (8.53)	2669.74 (100.00)	4261.12 (69.43)	1745.87 (28.44)	130.70 (2.13)	6137.69 (100.00)
2001	323.54 (70.95)	66.69 (14.63)	65.75 (14.42)	455.98 (100.00)	2500.57 (74.23)	636.09 (18.89)	231.80 (6.88)	3368.46 (100.00)	6197.25 (76.72)	1775.39 (21.98)	104.96 (1.20)	8077.60 (100.00)

Source: Audit Reports of selected DCBs for the period 1997-2001
Note: Figures in parenthesis indicate percentage to total

The share of sub-standard NPA to total NPAs is higher to the extent of 60 to 85 per cent in all the selected DCBs. However, the share of loss NPAs to total NPAs is the lowest in all of them. In KDCB it ranged between 11 per cent and 21 per cent whereas in PDCB the share of loss assets was between 4.6 per cent and 13.46 per cent. But in TDCB, the share of loss assets is comparatively lower between 1.2 per cent and 6.83 per cent during reference period. From the Table, it can be observed further that the share of doubtful assets to total NPAs is in a medium level. In case of KDCB, the percentage share of doubtful assets to total NPAs has hovered between 4.92 per cent and 20.51 per cent whereas it is around 23 per cent in PDCB. Thrissur DCB has reported a regular increase in doubtful assets and the highest amount is Rs.1775 lakhs in 2001.

The TDCB has recorded the highest percentage of NPAs (of over 30 per cent) among DCBs in Kerala during 1996-97 to 2000-2001. At the same time KDCB is able to reduce the level of NPA from 7.93 per cent in 1997 to the lowest level of 4.41 per cent in 2001. The NPA level of PDCB is 15.2 per cent in 1997. But the Bank reduced it to 13.1 per cent (See Table 4.1).

The overall magnitude of NPA is a major problem for TDCB compared to KDCB and PDCB. Moreover, the level of NPA of over 30 per cent in TDCB during the study period revealed that the Bank was not able to recover the principal and interest amount from societies in the case of agricultural loans and from individual defaulters in the case of non-agricultural loans. At the same time KDCB was efficient enough to manage NPAs. The level of NPA of KDCB of around four per cent can be considered as a good indicator of the quality of advances and even better recovery management than some of the commercial banks (Table 4.5).

The dominant share of sub-standard assets to total NPA in all the selected DCBs during the study period is mainly due to the applicability of NPA norms to DCBs only from 1996-97. Since it was the introductory stage, NPAs upto three years were treated as sub-standard assets. After three years, those NPAs will be treated as doubtful assets. This is the main reason for the small share of loss assets to NPAs. The figures are a pointer to be reckoned by all the DCBs, especially TDCB and PDCB

because if the banks are really committed they can reduce the sub-standard assets in a big way. Otherwise, those assets will gradually slip to doubtful assets and consequently turn to loss assets. If this is tendency not checked, the banks will have to face the reality of massive erosion of their income earning assets.

4.6 TERM-WISE AGRICULTURAL LOANS & ADVANCES

DCBs have classified their agricultural loans and advances into short-term, medium-term and long-term advances. Short-term loans are provided for a period upto one year for seasonal agricultural operations like paddy cultivation, manuring of cash crops like coconut, arecanut, rubber, pepper, etc. Medium-term loans are provided for a term upto 5 years for dairying, poultry, land development and renovation of wells. Long-term loans are provided for purchase of pumpset, construction of pump house, purchase of rubber roller and agricultural implements. DCBs are channelising all the agricultural loans to farmers through member PACS only i.e., there is no direct distribution of agricultural loans to farmers by DCBs.

Table 4.6 clearly exhibits that there was a progressive increase in the share of short-term agricultural loans of KDCB from 51.2 per cent in 1997 to 74.29 per cent in 2001. At the same time, the share of medium-term agricultural loans has maintained a stagnant range of around 1.5 per cent during the study period. However, the quantum of long-term agricultural loans has registered a considerable decline from 47.49 per cent in 1997 to 24.35 per cent in 2001. Taking the sectoral composition, the proportion of agricultural loans to total loans of KDCB ranged between 48.44 per cent in 1997 and 60.46 per cent in 2000.

In the case of PDCB, it is observed that the lion's share of the total agricultural loans is composed of short-term loans at around 97 per cent. The predominance of short-term loans has actually resulted in a meagre share of medium-term agricultural loans at around one per cent. Like wise, long-term agricultural loans also witnessed a regular decline from 3.66 per cent in 1997 to 2.3 per cent in 2001. Interestingly, the share of agricultural advances declined phenomenally from 26.53 per cent in 1997 to a low of 14.47 per cent in 2001. This development has actually contributed to the major share of non-agricultural loans of PDCB at 85.53 per cent in 2001 (Table 4.6).

Table 4.6. Term-wise agricultural loans and advances of selected DCBs for the period 1997-2001

(Amount rupees in lakhs)

Type of loans	1997	1998	1999	2000	2001
Kasargod DCB					
ST Agrl. Loans	1564.53 (51.20)	2099.85 (59.71)	2785.64 (65.84)	3644.20 (69.43)	3827.49 (74.29)
MT Agrl. Loans	40.09 (1.31)	38.85 (1.10)	52.73 (1.25)	103.76 (1.98)	70.17 (1.36)
LT Agrl. Loans	1451.07 (47.49)	1378.29 (39.19)	1392.55 (32.91)	1500.51 (32.51)	1254.64 (24.35)
Total Agrl. loans	3055.69 (100.00) [48.44]	3516.99 (100.00) [55.35]	4230.92 (100.00) [61.28]	5248.47 (100.00) [60.46]	5152.30 (100.00) [49.85]
Total Non Ag. loans	3252.57 [51.56]	2837.24 [44.65]	2673.73 [38.72]	3431.77 [39.54]	5183.99 [50.15]
Total loans & advances O/S	6308.26 [100.00]	6354.23 [100.00]	6904.65 [100.00]	8680.24 [100.00]	10336.29 [100.00]
Palakkad DCB					
ST Agrl. Loans	2491.84 (95.78)	2706.27 (95.15)	3087.81 (95.58)	3270.90 (96.46)	3629.97 (97.53)
MT Agrl. Loans	14.55 (0.56)	40.71 (1.43)	29.85 (0.92)	8.89 (0.26)	6.47 (0.17)
LT Agrl. Loans	95.17 (3.66)	97.37 (3.42)	112.76 (3.50)	111.09 (3.28)	85.34 (2.30)
Total Agrl. loans	2601.56 (100.00) [26.53]	2844.35 (100.00) [28.81]	3230.42 (100.00) [27.30]	3390.88 (100.00) [24.71]	3721.78 (100.00) [14.47]
Total Non Ag. loans	7204.41 [73.47]	7008.91 [71.13]	8602.51 [72.70]	10332.55 [75.29]	21997.68 [85.53]
Total loans & advances O/S	9805.97 [100.00]	9853.23 [100.00]	11832.93 [100.00]	13723.55 [100.00]	25719.46 [100.00]
Thrissur DCB					
ST Agrl. Loans	2316.47 (85.40)	2439.70 (87.96)	2665.89 (91.01)	2699.32 (93.39)	2634.93 (94.01)
MT Agrl. Loans	242.95 (8.96)	204.63 (7.38)	170.13 (5.81)	123.80 (4.28)	122.61 (4.37)
LT Agrl. Loans	153.01 (5.64)	129.46 (4.76)	93.29 (3.18)	67.41 (2.33)	45.15 (1.62)
Total Agrl. loans	2712.43 (100.00) [16.81]	2773.79 (100.00) [18.36]	2929.31 (100.00) [18.45]	2890.53 (100.00) [14.41]	2802.69 (100.00) [11.09]
Total Non Ag. loans	13425.09 [83.19]	12335.65 [81.64]	12948.75 [81.55]	17175.04 [85.59]	22460.46 [88.91]
Total loans & advances O/S	16137.52 [100.00]	15109.44 [100.00]	15878.06 [100.00]	20065.57 [100.00]	25263.15 [100.00]

Source: Audit reports of selected DCBs for the period 1997-2001.

Note: 1. Figures in ( ) show percentage share to total agri. advances

2. Figures in [ ] show percentage share to total loans & advances

As per Table 4.6 TDCB has witnessed a steady increase in the share of short-term agricultural advances from 85.4 per cent in 1997 to 94.01 per cent in 2001. This increase was an effect on the gradual decline in the share of medium-term loans from 8.96 per cent in 1997 to 4.37 in 2001 and long-term loans from 5.64 per cent in 1997 to a mere 1.62 per cent in 2001. A noticeable feature is that the proportion of agricultural loans of TDCB declined to a paltry 11.09 per cent in 2001 from 16.81 per cent in 1997. Thus the non-agricultural loans of TDCB accounted for a massive share of 88.91 per cent in 2001.

From the above analysis it is evident that KDCB is having a larger share of agricultural loans and advances followed by PDCB and TDCB. Eventhough Palakkad is an agrarian district, the noticeable decline in agricultural loans by PDCB to PACS is a phenomenon to be reckoned with. The main reason for this is that a number of PACS are not availing agricultural loans from PDCB and TDCB in a big way. PACS are having their own funds to cater to the needs of farmers and are not ready to undergo the procedural formalities and higher rate of interest charged by DCBs. Thus PDCB and TDCB are not in a position to shore up the share of agricultural advances. On the other hand, Kasaragod DCB deploys its funds to agriculture and non-agriculture sectors in a fifty-fifty ratio. This is possible because field level observation revealed that PACS under KDCB are having a good relationship with DCB officials and thereby get the loans with less difficulty.

Even though the share of agricultural loans is less for PDCB and TDCB compared to KDCB, their short-term (ST) agricultural loans are having a major contribution to the total agricultural loans. Interestingly, there is a positive shift in the proportion of short-term agricultural loans of KDCB over the years. The major share of ST agricultural loans in DCBs can be attributed to the demand of PACS for more loans of upto one year. The term-wise composition of agricultural loans by DCBs points towards a shift in the lending pattern of such banks as well as the low demand for long term loans. The shift in the loan portfolio of DCBs discloses that these banks are moving away from their role as the principal agency for channelising adequate agricultural loans to poor farmers through PACS. By adopting such a policy, DCBs

neglect the pulse of the rural economy by channelising more and more funds to profitable avenues like housing loan, consumer loans and personal loans. Moreoever, without providing direct loans to farmers, these banks are simply acting as 'urban banks' with an 'agricultural tag'.

4.7 EXTENT OF NPA IN AGRICULTURAL ADVANCES

The second objective of the study is to assess the extent of NPAs in agricultural advances. It will be beneficial to bring out the share of NPAs in agricultural advances to total NPA.

As regards KDCB, it is obvious from Table 4.7 that NPAs in ST agricultural advances are present only in 2000 and 2001 to the extent of Rs.19.87 lakhs and Rs.9.57 lakhs respectively. Moreover, by 2001, NPAs in ST loans constituted 100 per cent of the NPAs in total agricultural advances whereas upto 1999, cent per cent of it is from MT loans. In case of LT agricultural loans, NPA is present only in 2000 amounting to a meagre Rs.5.73 lakhs. The share of agricultural advances in NPAs of KDCB is nominal and less than one per cent upto 1999. At the same time, more than 95 per cent of the NPA of KDCB is from non-agricultural advance. The extent of NPA in agricultural advances is the highest in 2000 amounting to Rs.26.83 lakhs.

The NPAs in ST agricultural advances has accounted for more than 90 per cent of the total agricultural NPAs of PDCB. But it has declined to Rs.112.74 lakhs in 2001 from a high of Rs.136.97 lakhs in 1997. The MT agricultural NPAs has ranged between Rs.4.69 lakhs and Rs.10.19 lakhs during the same period. Interestingly, there are no NPAs in MT and LT agricultural advances in 2001. Moreover, it is a noticeable feature that the share of LT agricultural NPAs declined to zero in 2000 and 2001 from 6.4 per cent in 1997. It is evident from the Table that the share of agricultural NPAs to total NPAs of PDCB gradually declined to 3.35 per cent in 2001 from 10.10 per cent in 1997 coupled with a decline in amount from Rs.151.35 lakhs to Rs.112.74 lakhs. A

Table 4.7. Extent of NPA in agricultural advances of selected DCBs in Kerala for the period 1997-2001

(Amount rupees in lakhs)

Type of loans	Kasaragod DCB					Palakkad DCB					Thrissur DCB				
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
ST Agrl. NPA	-	-	-	19.87 (74.06)	9.57 (100.00)	136.97 (90.50)	142.23 (91.85)	136.81 (89.38)	110.74 (93.69)	112.74 (100.00)	37.71 (53.90)	132.02 (80.75)	246.15 (99.56)	26.05 (100.00)	6.93 (100.00)
MT Agrl. NPA	1.75 (100.00)	1.13 (100.00)	0.09 (100.00)	1.23 (4.58)	-	4.69 (3.10)	4.70 (3.04)	10.19 (6.66)	7.46 (6.31)	-	14.40 (20.58)	21.02 (12.86)	1.11 (0.45)	-	-
LT Agrl. NPA	-	-	-	5.73 (21.36)	-	9.69 (6.40)	7.92 (5.11)	6.06 (3.96)	-	-	17.65 (25.52)	10.45 (6.39)	-	-	-
Sub Total-Agrl. NPA	1.75 (100.00) [0.35]	1.13 (100.00) [0.26]	0.09 (100.00) [0.03]	26.83 (100.00) [7.98]	9.57 (100.00) [2.10]	151.35 (100.00) [10.10]	154.85 (100.00) [9.25]	153.06 (100.00) [7.39]	118.20 (100.00) [4.43]	112.74 (100.00) [3.35]	69.96 (100.00) [1.37]	163.49 (100.00) [3.03]	247.26 (100.00) [4.09]	26.05 (100.00) [0.42]	6.93 (100.00) [0.09]
Total Non-agrl. NPA	498.73 [99.65]	437.11 [99.74]	318.19 [99.97]	309.38 [92.02]	446.61 [97.90]	1347.18 [89.90]	1518.56 [90.75]	1915.44 [92.61]	2551.54 [95.57]	3256.86 [96.65]	5046.24 [98.63]	5237.21 [96.77]	5795.47 [95.91]	6111.64 [99.58]	8070.67 [99.91]
Total NPA	500.68 [100.00]	438.24 [100.00]	318.28 [100.00]	336.31 [100.00]	455.98 [100.00]	1498.53 [100.00]	1673.41 [100.00]	2068.50 [100.00]	2669.74 [100.00]	3368.46 [100.00]	5116.00 [100.00]	5400.70 [100.00]	6042.73 [100.00]	6137.69 [100.00]	8077.60 [100.00]

Source: Audit Reports of selected DCBs for the period 1997-2001

Note: Figures in ( ) parenthesis indicate percentage to sub-total sectoral NPA

Figures in [ ] parenthesis indicate percentage to total NPA

noteworthy phenomenon that we can observe from Table 4.7 is that the extent of NPAs in non-agricultural advances has considerably increased from Rs.1347.18 lakhs (89.9 per cent) in 1997 to Rs.3256.86 lakhs (96.65 per cent) in 2001.

The data relating to TDCB in Table 4.7 showed a mixed trend in which the share of ST agricultural NPAs reached 100 per cent in 2001 from a mere 53.9 per cent in 1997. But we can witness a decline in ST agricultural NPAs of TDCB from Rs.37.71 lakhs to Rs.6.93 lakhs by 2001. The NPAs in MT agricultural advances showed a steep fall during the study period from 14.4 lakhs in 1997 to zero in 2000 and 2001. Similar is the trend of LT agricultural advances in which there are NPAs in 1997 (Rs.17.65 lakhs) and 1998 (Rs.10.45 lakhs). The overall magnitude of agricultural NPAs also registered a steep fall from Rs.69.96 lakhs in 1997 to a paltry Rs.6.93 lakhs coupled with a reduction in their share to a negligible figure of 0.09 per cent in 2001. There is a steady increase in non-agricultural NPA to a high of Rs.8070.67 lakhs (99.91 per cent) from Rs.5046.74 lakhs (98.63 per cent) during the reference period.

From the above description it can be inferred that the extent of agricultural NPAs is negligible in the selected DCBs. The lion's share of the NPAs of DCBs is accounted for by NPAs in non-agricultural advances. Moreover, in recent years, NPAs existed only in ST agricultural loans of DCBs. Thus the MT and LT agricultural loans of DCBs are free from the menace of bad loans. The main reason for this phenomenon is that the overdues in such loans to DCBs will be adjusted in the financial year-end with current account balances of PACS with DCBs. In other words, DCBs are ensuring full repayment of MT and LT agricultural loans to PACS by compulsory book adjustments. There is no such book adjustments by PACS in case of overdues in ST agricultural advances. This leads to the incidence of NPAs in ST agricultural loans though at a lesser extent.

The lower magnitude of NPAs in agricultural advances of DCBs may be mainly due to the thrust on non-agricultural lending policy adopted by DCBs, i.e., lion's share of the loans advanced by DCBs are flowing to non-agricultural purposes.

This raises the risk of occurrence of higher NPAs in such advances. Moreover, majority of non-agricultural loans are provided to thousands of individuals, which increases the risk of NPAs. On the other hand, agricultural loans provided only to the societies can be easily recovered because DCBs are having some financial control over PACS. So they are forced to repay the agricultural loans to DCBs even if their member-farmers are unable to repay such loans to PACS.

The burgeoning NPAs of TDCB, especially in non-agricultural advances may be the result of excessive politicisation coupled with non-compliance of loaning policies and procedures. The lion share of such NPA is accounted only by four or five non-agricultural credit societies, which are already in huge loss. But, TDCB is seen very much interested in advancing bigger additional loan amounts to such defaulted societies. This is an ominous signal for the Bank in the years to come. Likewise, the NPAs of PDCB, mainly in non-agricultural advances, are accounted for by sick industrial units in Palakkad and Kanjikode. The Bank is unable to effectively appraise the feasibility of such industrial projects, which are affected by the threat of competition from multinational companies and labour militancy. The share of NPAs in agricultural advances of PDCB is comparatively higher than KDCB and TDCB because Palakkad district is prone to crop failure due to recurring drought. Compared to PDCB and TDCB, the extent of NPAs of KDCB is less because the bank authorities reported that they are implementing effective measures to check the occurrence of NPAs.

PART II

Having analysed the extent and magnitude of NPAs in agricultural advances, it is essential to identify the factors leading to it. For this purpose, primary data were collected from three defaulter PACS from each DCB. These PACS have defaulted to respective DCBs only in ST agricultural loans as on 31st March 2001. For identifying the grassroot level reasons for non-repayment of ST agricultural loans, 10 defaulters are selected randomly from each selected PACS. Thus, the total number of defaulter-PACS is nine and individual defaulters are 90. For analysing the survey data,

arithmetical and statistical tools like percentage, growth rate, chi-square test, priority index and regression are applied.

4.8 PERFORMANCE INDICATORS OF SAMPLE DEFAULTER-PACS OF SELECTED DCBs

It will be profitable to have a look at the important performance indicators of selected PACS like membership, share capital, deposits, borrowings, loans and advances, reserves and surpluses and net profit.

Table 4.8 clearly indicates that the average membership of 10801 of three PACS under KDCB was the highest and that of TDCB is the lowest at 2162. The average membership of three selected PACS of PDCB is 7636. Among the nine societies, PACS 3 (Panathady Service Co-operative Bank) of KDCB has the highest membership of 21820 and PACS 1 the least (Anthikkad Service Co-operative Society) membership of 1678 of TDCB.

In terms of average deposits also, societies under KDCB have the highest average amount of Rs.455.43 lakhs. With an average deposit of Rs.37.38 lakhs, PACS of TDCB are far behind the primaries of KDCB and PDCB. The highest amount of deposit of Rs.719.01 lakhs is registered by PACS 3 (Panathady PACS) of KDCB. At the same time, PACS 1 (Anthikkad PACS) has recorded the lowest deposits among the selected PACS (Table 4.8).

The average share capital position also discloses the remarkable performance of PACS under KDCB. With an average amount of Rs.43.34 lakhs they are far ahead of PACS of TDCB, having an average share capital of Rs.3.27 lakhs. The PACS of PDCB own an average share capital of Rs.31.95 lakhs. Panathady PACS of KDCB has again became the topper in share capital with an amount of Rs.78.89 lakhs as on 31st March 2001. Pazhanji Service Co-operative Bank (PACS 3) of TDCB is far behind the other societies with a share capital of Rs.6.80 lakhs only.

Table 4.8. Performance indicators of sample defaulter - PACS under selected DCBs as on 31st March 2001

(Amount rupees in lakhs)

Sl. No.	Society	Membership (number)	Deposits	Share capital	Borrowings	Loans & Advances	Reserves & surplus	Net profit (+)/ Net loss (-)
	KDCB							
1	PACS 1	6287	339.14	16.23	287.81	609.08	49.56	6.03
2	PACS 2	4296	308.15	34.89	315.31	564.95	54.47	9.40
3	PACS 3	21820	719.01	78.89	595.44	1225.67	243.89	8.89
	Average	10801	455.43	43.34	399.52	799.90	115.97	8.11
	PDCB							
1	PACS 1	12278	715.91	60.05	215.15	651.25	10.80	-54.26
2	PACS 2	3451	91.99	12.17	93.15	149.97	12.57	-24.80
3	PACS 3	7179	331.90	23.62	189.98	373.16	17.01	-14.75
	Average	7636	379.90	31.95	166.09	391.46	13.46	-31.27
	TDCB							
1	PACS 1	1678	17.18	3.77	37.83	9.47	3.85	-62.38
2	PACS 2	2168	66.50	4.23	6.08	14.71	4.27	-1.18
3	PACS 3	2640	28.45	1.80	13.92	12.31	5.10	-4.92
	Average	2162	37.38	3.27	19.28	12.16	4.41	-22.27

Source: Annual Reports of selected DCBs for the period 2000-2001

In the same way, the PACS of KDCB are the toppers in borrowings with an average amount of Rs.595.44 lakhs, followed by PACS of PDCB. PACS under TDCB have borrowed the least from District Co-operative Bank amounting to 19.29 lakhs. PACS 3 of KDCB has borrowed the highest amount of Rs. 595.44 lakhs and PACS 2 of TDCB has the least borrowings of Rs.6.08 lakhs.

Regarding loans and advances outstanding also, PACS of KDCB has the highest average figure of Rs.799.9 lakhs followed by PACS of PDCB with 391.46 lakhs of rupees. The least average loans and advances of Rs.12.16 lakhs is accounted by PACS under TDCB. PACS 3 of KDCB has again topped in terms of loans and advances (Rs.1225.67 lakhs) among the nine selected defaulter-PACS. PACS 1 of TDCB recorded the least amount of loans and advances at Rs. 9.47 lakhs.

As per Table 4.8 the reserves and surplus position also exhibit the above trend with highest amount registered by PACS of KDCB (Rs.115.97 lakhs) followed by societies of PDCB (Rs.13.46 lakhs) and societies of TDCB (Rs.4.41 lakhs). Here again, Panathady Service Bank (PACS 3) of KDCB has recorded maximum reserves and surplus of Rs.243.89 lakhs as on 31st March 2001, the least figure being Rs.3.85 lakhs of Anthikkad Service Bank (PACS 1) of TDCB.

A noticeable phenomenon is the net profit position shown by PACS of KDCB (8.11 lakhs of rupees) coupled with huge net loss witnessed by PACS of PDCB (Rs.31.27 lakhs) and TDCB (Rs.22.27 lakhs). The maximum net profit is registered by PACS 2 (Maloth Service Bank) of KDCB at 9.4 lakhs of rupees. At the same time, a heavy loss of 62.38 lakhs of rupees is reported by PACS 1 (Anthikkad Service Bank) of TDCB as on 31st March 2001 (Table 4.8).

The above analysis exposes the clear-cut dominance of PACS of KDCB over the respective societies of PDCB and TDCB in all the important performance indicatos such as membership, deposits, share capital, loans and advances and profit

position. Moreover, Panathady Service Co-operative Bank (PACS 3) under KDCB is an outstanding performer among the nine PACS on all the important indicators. At the same time, Anthikkad Service Co-operative Bank (PACS 1) of TDCB has reported poor performance on almost all the important parameters.

The better performance of societies under KDCB may be attributed to their larger area of operation, efficient management, committed employees and better customer relations. But the poor performance of societies under PDCB and TDCB may be due to inefficient management, excessive politicization and non-compliance of financial management practices. The Panathady Service Bank has got an excellent track record with a large area of operation and fully computerised branches. It was learned from members that the financial irregularities in bund construction has led to the poor state of affairs of Anthikkad Service Co-operative bank of TDCB. From the above discussion it can be inferred that PACS of KDCB are in a better position to absorb the future shocks compared to that of PDCB and TDCB.

4.9 NPAs OF PACS TO DCBs IN AGRICULTURAL LOANS

As indicated earlier, PACS have NPAs to DCBs in ST agricultural advances only.

Table 4.9 revealed that the extent of average NPAs by PACS in ST agricultual advances to DCB has registered the maximum of Rs.75.64 lakhs in the case of KDCB. The least average NPAs to DCB is recorded by PACS of TDCB at Rs.1.29 lakhs. But, the percentage shows a different picture NPA. Here, PACS of KDCB registered the least percentage NPA in ST agricultural advances at 24.68 per cent. Interestingly, PACS of TDCB at a high of 63.55 per cent recorded the highest percentage NPA to DCB in such advances. PACS of PDCB has witnessed an average NPA amount of Rs.23.56 lakhs (42.9 per cent) in ST agricultural advances to DCB.

Table 4.9. NPAs of PACS to DCBs in ST agricultural loans (As on 31st March 2001)

(Amount rupees in lakhs)

Sl. No.	Society	ST Agricultural Loans from DCB	NPA to DCB in ST Agricultural Advances	Percentage NPA in ST Agricultural Advances	Overdues in ST Agricultural loans by members (%)
	KDCB				
1	PACS 1	224.23	87.81	39.16	30.85
2	PACS 2	280.98	17.47	6.22	27.50
3	PACS 3	414.30	121.65	29.36	42.25
	Average	306.50	75.64	24.65	
	PDCB				
1	PACS 1	40.06	11.47	28.63	47.50
2	PACS 2	66.99	33.55	50.08	49.00
3	PACS 3	51.29	25.65	50.00	43.65
	Average	52.78	23.56	42.90	
	TDCB				
1	PACS 1	2.44	1.41	57.78	55.00
2	PACS 2	2.31	1.59	68.83	60.45
3	PACS 3	1.34	0.86	64.18	66.70
	Average	2.03	1.29	63.55	

Source: Annual reports of selected PACS for the year 2000-2001.

In this context, it will be relevant to have a look at the percentage overdues by members of PACS in ST agricultural advances. This actually affects the repayment schedule of PACS to DCBs in such advances. It is observed that PACS of KDCB has registered lower overdues (30.85 per cent, 27.5 per cent and 42.25 per cent) in ST agricultural advances. But, those of TDCB are to the tune of more than 55 per cent and that of PDCB ranging from 43 to 49 per cent (Table 4.9).

It is revealed that even though the size of NPAs to DCBs in agricultural advances is the highest in case of PACS of KDCB, in percentage terms they are below other DCBs. At the same time, PACS of TDCB, which have witnessed the least amount of NPA in agricultural advances had the highest percentage NPA in such advances.

The analysis discloses the comparatively better picture of PACS of KDCB with least percentage of overdues in ST agricultural advances by members. But, the PACS of TDCB have again performed badly in overdue position.

4.10 REASONS FOR DEFAULT BY PACS TO DCBs

As analysed earlier PACS have defaulted to DCBs in ST Agricultural loans only. In the survey schedule for PACS, 13 possible reasons have been listed out for ranking based on the priority the society attach to each one. But only major five of the listed reasons have been ranked by the defaulter-PACS like high rate of interest charged by DCBs, non-repayment by customers, weak financial position, lack of adequate staff and lack of commitment from Board of directors. Priority index is used for analysing the ranked reasons.

Table 4.10. Reasons for default to DCB - Response by secretaries of selected defaulter - societies of DCBs

Sl. No.	Reason	KDCB		PDCB		TDCB		Total	
		Score	Priority index	Score	Priority index	Score	Priority index	Score	Priority index
1	High rate of interest on loans by DCB	9	60.00 (II)	7	46.67 (IV)	8	53.33 (III)	24	53.33 (III)
2	Non-repayment by customers	15	100.00 (I)	15	100.00 (I)	15	100.00 (I)	45	100.00 (I)
3	Weak financial position	3	20.00 (III)	12	80.00 (II)	12	80.00 (II)	27	60.00 (II)
4	Lack of adequate staff	9	60.00 (II)	8	53.33 (III)	4	26.67 (V)	21	46.67 (IV)
5	Lack of commitment from the board of directors	9	60.00 (II)	3	20.00 (V)	6	40.00 (IV)	18	40.00 (V)
	Maximum obtainable score	3x5= 15	100.00	3x5= 15	100.00	3x5=15	100.00	45	100.00

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

It is evident from Table 4.10 that the non-repayment by customers of PACS is the most important reason ranked by PACS with a priority index of 100. PACS of KDCB have ranked high rate of interest by DCB, lack of adequate staff and absence of commitment from board of directors as other important reasons (index of 60 out of 100). The weak financial position is ranked as the least important reason for NPA to KDCB by PACS (index of 20 out of 100).

PACS of PDCB have ranked weak financial position (index of 80) as the second most important reason for default, followed by lack of adequate staff (index of 53.33). High rate of interest by DCB is ranked fourth (index of 46.67) and lack of commitment from board of directors is ranked fifth (index of 20).

As per Table 4.10 weak financial position is the second most important reason (index of 80) for PACS of TDCB followed by high rate of interest by DCB (index of 53.33). They have ranked lack of commitment from board of directors with an index of 40 as the fourth important reason for default and inadequacy of staff as the least important reason (index of 26.67).

Taking the composite index of all the nine PACS, weak financial position is ranked second with an index of 60 followed by high rate of interest charged by DCBs (index of 53.33). The fourth important reason is the lack of adequate staff (index of 46.67) followed by lack of commitment from board of directors as the least important reason (index of 40).

The above results reveal that non-repayment by farmers can be cited as the most prominent reason for default by PACS to DCBs in ST agricultural advances. Secretaries of all the selected PACS attributed this default to the crash in the prices of important agricultural produces in 2000 and 2001. In Kasaragod district, the unprecedented fall in prices of rubber, arecanut and coconut in these years have crushed the hopes of farming community as reported by secretaries of sample PACS of KDCB. Moreover, the widespread campaign unleashed by organisations like Infam and Desiya Karshaka Raksha Samithi for possible waiver of loan amount to societies have also affected many PACS. In addition to this, the statements from ministers about

the possible write off of loan have aggravated the overdue problem. Even, genuine farmers are not repaying in anticipation of Debt Relief Scheme.

Secretaries of PACS under PDCB have accounted drought as the major reason for non-repayment of loans by farmers to PACS. Moreover, crashing of prices has also aggravated the problem of overdues. According to secretaries of selected PACS of TDCB, the crashing of prices of coconut and paddy has led to non-repayment by members of Anthikkad and Arattupuzha Service Banks. The Secretary of Pazhanji Service Bank has opined that the steep fall in prices of Arecanut has heavily affected the repayment capacity of farmers. This, in turn, has resulted in NPAs to TDCB by the society.

The short-term agricultural loanees have to repay the loan amount and interest in lump-sum only annually to PACS. But, PACS have to repay the same to DCBs half-yearly. Thus PACS are forced to repay in time to DCB even if the members have defaulted. This has actually affected the recycling of funds of PACS. Several secretaries have severely criticised the attitude of DCBs for adopting such a repayment schedule, which is creating asset-liability mismatch for the societies.

PACS of PDCB and TDCB are facing the problem of weak financial position, which has resulted in default to DCBs. The recurring losses affect the daily operations of these PACS. Some of the PACS are running their routine activities with revival loan from DCBs. But the PACS of Kasaragod were least affected by the weak financial position. The secretaries of PACS of KDCB expressed confidence that they can repay the loan amount shortly once the agricultural prices pick up.

Another major reason for default pointed out by PACS is the high rate of interest charged by DCBs. Secretaries have criticised DCBs for charging higher rates of interest ranging from 12 to 13 per cent on ST agricultural loans when the economy is experiencing a soft interest rate regime. All the DCBs are taking a margin of 2-2.5 per cent while advancing ST agricultural advances to PACS. Thus, the high cost of borrowings has affected the repayment capacity of PACS. Majority of the PACS have confirmed that they are no more interested in availing agricultural loans from DCBs in future due to the wrong policies adopted by DCBs in this regard.

Lack of adequate staff and absence of commitment from board of directors are cited as less important reasons for default by PACS to DCBs. Some secretaries have pointed out that excessive politicisation by board members affect the effective functioning of societies, which results in heavy overdues by members and the consequent default to DCBs.

4.11 SUGGESTIONS BY PACS FOR REDUCTION OF NPAs TO DCBs

Having observed the reasons put forward by secretaries of PACS for default to DCBs in ST agricultural advances, it will be relevant to examine the suggestions from them for reducing the menace of NPAs to DCBs.

Table 4.11. Suggestions for reduction of NPAs to DCBs - Response by sample defaulter-societies of DCBs

Sl. No.	Suggestion	KDCB		PDCB		TDCB		Total	
		Score	Priority index	Score	Priority index	Score	Priority index	Score	Priority index
1	Reduction of rate of interest by DCB	16	88.88 (II)	15	83.33 (II)	13	72.22 (II)	44	81.48 (II)
2	Incentives to PACS for prompt repayment	8	44.4 (IV)	7	38.88 (V)	11	61.11 (IV)	26	48.15 (IV)
3	Adoption of appropriate modes and schedule of repayment by DCBs	12	66.66 (III)	12	66.66 (III)	12	66.66 (III)	36	66.66 (III)
4	Accountability to Directors	3	16.66 (VI)	3	16.66 (VI)	5	27.77 (V)	11	20.37 (VI)
5	Strict laws to punish willful defaulters	17	94.44 (I)	17	94.44 (I)	18	100.00 (I)	52	96.30 (I)
6	Adequate staff for field supervision	7	38.88 (V)	9	50.00 (IV)	4	22.22 (VI)	20	37.04 (V)
	Maximum obtainable score	3x6 =18	100.00	3x6= 18	100.00	3x6=18	100.00	3x18 =54	100.00

Source: Survey data

Table 4.11 exhibits the scores and priority index obtained for each suggestion for reduction of NPAs to DCBs. The most prominent suggestion put forward by PACS is the introduction of strict laws to punish wilful defaulters (index of 96.30). Reduction of interest rate by DCBs is ranked, with an index of 81.48, as the second most important suggestion. Adoption of appropriate modes and schedule of repayment by DCBs (index of 66.66) and incentives to PACS for prompt repayment (index of 48.15) are ranked third and fourth important reasons respectively. The fifth rank is given to the suggestion that there is need for more field staff for supervision (index of 37.04). The least important suggestion is the need for more accountability to directors with an index of 20.37. The ranking of suggestions by PACS of all the three DCBs under survey for reduction of NPAs to DCBs in ST agricultural advances is in the same order as stated above.

The above results undersere the need for enacting strict laws to punish wilful defaulters. The existing legislations are actually delaying the process of recovery and in effect increase the cost to PACS. Most of the secretaries of PACS have advocated for extending the recently passed Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. This will ensure speedy recovery of bad loans from defaulters to PACS so that the societies can fully clear their dues to DCBs.

Majority of the secretaries of PACS have vehemently criticised DCBs for "swallowing" a high interest rate margin of 2-2.5 per cent and thereby advancing high cost loans to societies. They have advocated for lower rate of interest on agricultural loans in tune with the present soft-interest rate regime. Some of the secretaries have questioned the intermediary role played by DCBs in agricultural loans and demanded direct agricultural finance from NABARD at a low rate of interest.

The third pertinent suggestion is the adoption of appropriate modes and schedules of repayment by DCBs. At present, in case of ST agricultural loans, PACS will get back the loan amount and interest in lumpsum annually from farmers. But PACS have to repay such loans to DCB half-yearly. So PACS are of the opinion that

repayment to DCB must be linked to repayment by farmers. Then only, they can properly recycle the funds and manage the asset-liability mismatches effectively. Other less significant suggestions include incentives to PACS for prompt repayment, adequate staff for field supervision and accountability to directors.

The above discussion has brought out certain structural inadequacies in the co-operative agricultural credit structure up. The role of DCBs as an intermediary in agricultural finance is really questioned by their PACS. It is felt that they are simply getting high interest margin without directly contacting ground-level farmers. Moreover, the fixation of repayment schedule is also questioned by PACS. This scenario demands some structural modifications in the agricultural loans through co-operatives.

All the PACS are of the view that they could not promptly repay the agricultural loans to DCBs mainly due to the non-repayment by farmers. For examining this argument, it is relevant to explore the grass root level situation where the real life of Indian economy exists. The responses, suggestions and comments of farmers who feed us without feeding themselves are valuable. Hence this part of the study attempted to study the farmer level problems and opinions.

4.12 SOCIO-ECONOMIC PROFILE OF DEFAULTERS OF PACS UNDER DCBs

A glance at the socio-economic profile of individual defaulters is a prerequisite for examining the factors leading to overdue by them to PACS. Overdues to PACS by farmers and other borrowers leads to the 'derived NPA' of DCBs due to the non-repayment by PACS to DCBs. Socio-economic characteristics like sex, occupation, educational level, annual family income may be the possible demographic factors affecting the repayment position of individuals. To examine this 10 defaulters of ST agricultural loans were selected randomly from nine societies each, totalling to 90 as sample.

Table 4.12. Socio-economic profile of defaulters of PACS under DCBs.

Parameter	KDCB	PDCB	TDCB	Total
Sex				
Male	25 (83.33)	22 (73.33)	23 (76.67)	70 (77.78)
Female	5 (16.67)	8 (26.67)	7 (23.33)	20 (22.22)
Total	30 (100.00)	30 (100.00)	30 (100.00)	90 (100..00)
Occupation				
Agriculture	18 (60.00)	16 (53.33)	13 (43.33)	47 (52.22)
Agricultural Labourer	7 (23.33)	7 (23.33)	11 (36.67)	25 (27.78)
Non Agricultural Labourer	5 (16.67)	7 (23.33)	6 (20.00)	18 (20.00)
Total	30 (100.00)	30 (100.00)	30 (100.00)	90 (100.00)
Educational level				
Primary	5 (16.61)	12 (40.00)	8 (26.67)	25 (27.75)
Secondary	18 (60.00)	13 (43.33)	15 (50.00)	46 (51.11)
Above Secondary	7 (23.33)	5 (16.67)	7 (23.33)	19 (21.11)
Total	30 (100.00)	30 (100.00)	30 (100.00)	90 (100.00)
Annual Family Income (Rs.)				
Upto 18,000	3 (10.00)	3 (10.00)	6 (20.00)	12 (13.33)
18,000-36,000	5 (16.67)	11 (36.67)	10 (33.33)	26 (28.89)
36,000-60,000	12 (40.00)	12 (40.00)	11 (36.67)	35 (38.89)
60,000 and above	10 (33.33)	4 (13.33)	3 (10.00)	17 (18.89)
Total	30 (100.00)	30 (100.00)	30 (100.00)	90 (100.00)
NPA Amount (Rs.)				
Upto 3,000	3 (10.00)	8 (26.67)	8 (26.67)	19 (21.11)
3,000-6,000	10 (33.33)	8 (26.67)	10 (33.33)	28 (31.11)
6,000-9,000	8 (26.67)	9 (30.00)	8 (26.67)	25 (27.78)
9,000 and above	9 (30.00)	5 (16.67)	4 (13.33)	18 (20.00)
Total	30 (100.00)	30 (100.00)	30 (100.00)	90 (100.00)

Source: Survey data
Note: Figures in parenthesis indicate percentage to total

Table 4.12 clearly portrays that 77.78 per cent of the respondents are males while females accounted for the remaining 22.22 per cent. Bank-wise observation shows that the highest percentage of male respondents are from PACS of KDCB at 83.33 per cent, thus accounting for the lowest percentage of females at 16.67 per cent. The lowest percentage of male defaulters is in PACS of PDCB at 73.33, thus recording the highest percentage of females at 26.67. In PACS of TDCB, 76.67 per cent of defaulters are males.

The occupational distribution illustrates a clear predominance of farmers at 52.22 per cent of the total defaulters. Agricultural labourers accounted for 27.78 per cent while non-agricultural labourers constituted the least 20 per cent. The highest number of farmers is in PACS of KDCB (60 per cent) followed by PACS of PDCB (53.33 per cent) and that of TDCB at 43.33 per cent. PACS of TDCB have accounted for the maximum per cent of agricultural labourers (at 36.67) followed by KDCB and TDCB (23.33 per cent each). The least representation of non-agricultural labourers is in PACS of KDCB (16.67) followed by PACS of TDCB (20) and PDCB (23.33 per cent).

Looking at the overall educational level of sample respondents, it is observed that majority of defaulters (51.11 per cent) are having secondary education followed by primary education at 27.78 per cent. Only 21.11 per cent of the defaulters have above secondary education. PACS of PDCB have accounted for the highest percentage of defaulters with primary education (40 per cent) followed by TDCB (26.67 per cent). PACS of KDCB have accounted for the least percentage of defaulters having primary education (16.67 per cent). The highest number of respondents having secondary education is reported in PACS of KDCB (60 per cent) followed by PACS of TDCB (50 per cent). PACS of PDCB have registered the least percentage of defaulters who have obtained secondary education (43.33 per cent). In terms of education of above secondary level, respondents in PACS of KDCB and TDCB topped (23.33 per cent each) followed by PACS of PDCB at 16.67 per cent.

Considering the annual family income of sample respondents, maximum defaulters of 38.89 per cent are having annual family income between Rs.36,000 and 60,000. Only 13.33 per cent are having annual family income of only upto Rs.18,000. In PACS of KDCB, maximum defaulters (40 per cent) are having annual income between Rs.36,000 and Rs.60,000 and those who have income only upto Rs.18,000 constituted the minority group. In PACS of PDCB also, a similar situation has prevailed with a maximum of 40 per cent were having income between Rs.36,000 and Rs.60,000. Only 10 per cent of defaulters have income upto Rs.18,000 in PACS of PDCB.

The classification of NPA amount of defaulters reveals that maximum number of defaulters (31.11 per cent) are having NPA amount ranging from Rs.3000-6000 followed by 27.78 per cent having such amount ranging between Rs.6000 and Rs.9000. Those having the NPA amount of Rs.9000 and above are only 20 per cent. Bank-wise analysis reveals that respondents having NPA amount of upto Rs.3000 are higher in PACS of PDCB and TDCB at 26.67 each. The PACS of KDCB and TDCB have maximum respondents of 33.33 per cent each with an NPA amount ranging from Rs.3000 to Rs.6000. Defaulters having NPA amount ranging from Rs.6000 to Rs.9000 are the highest of 30 per cent in PACS of PDCB, followed by KDCB and TDCB at 26.67 per cent each. The higher NPA amount of Rs.9000 and more is largely found in PACS of KDCB at 30 per cent and that of TDCB has 13.33 per cent of the category.

The socio-economic profile of defaulters as per Table 4.12 of ST agricultural loans of PACS of DCBs clearly exposes the predominance of farmers followed by agricultural labourers and non-agricultural labourers respectively. The presence of male defaulters is much more than females and majority of the respondents have secondary education of upto 10^{th} standard. Most of the defaulters are having annual income ranging from Rs.36,000 to Rs.60,000. At the same time, those who are below the poverty line (income of upto Rs.18,000) constituted the minimum numbers of defaulters. Most of the defaulters are having NPA amount ranging from Rs.3000 to Rs.6000.

It is believed that the farmers and agricultural labourers living in rural areas mainly avail agricultural loans from PACS. In the case of sample defaulters also, the fact has been exposed. Majority are depending on agriculture and allied activities for their livelihood because their poor education level does not allow them to go for white-collar jobs. As they are forced to rely on agriculture and allied activities, the resultant income from such operations is also lower. Moreover, farmers are frequently affected by problems like drought, flood, crashing of prices and attack of pests and diseases to their crops, which result in drastic decline in their income. In addition to this, agricultural and non-agricultural labourers in rural areas face the problem of seasonal unemployment, which result in irregular lower income. Borrowers are forced to repay the loan even if they are not earning income from agricultural operations. But some of the borrowers take the risk of non-repayment of loans to PACS.

4.13 NPA AMOUNT AND EDUCATIONAL LEVEL OF SAMPLE DEFAULTERS OF PACS OF DCBs

An apriori reasoning is that better educational level and thereby awareness of the problems and consequences of non-repayment of loans have a direct bearing in the repayment of loans and advances by borrowers. With this reasoning, an attempt is made to analyse the relationship between education level and NPA amount of defaulters in the sample PACs.

Table 4.13 represents that in case of PACS of KDCB, 40 per cent of defaulters having primary education have lower NPA amount of upto Rs.3000. Similar is the case with those having NPA amount ranging from Rs.3000-Rs.6000. Only 20 per cent defaulters who are having primary education have a higher NPA amount of Rs.9000 and above. 33.33 per cent each of those who are having secondary education have higher NPA amounts ranging from Rs.6000 to Rs.9000 and Rs.9000 and above. Lower NPA amount of only upto Rs.3000 is registered by 5.56 per cent of defaulters who have secondary education in PACS of KDCB. A higher 42.86 per cent of defaulters who have above secondary education, are having NPA amount of Rs.3000 to Rs.6000. About 28.57 per cent each of defaulters having above secondary level education have NPA amounts ranging from Rs.6000 to Rs.9000 and Rs.9000 and above, Chi-square value is observed as 7.860 at 5 per cent level of significance.

Table 4.13. NPA amount and educational level of sample deafaulters of PACS under selected DCBs

NPA Amount (Rs.)	Kasaragod DCB				Palakkad DCB				Thrissur DCB			
	Educational level				Educational level				Educational level			
	Primary	Secondary	Above secondary	Total	Primary	Secondary	Above secondary	Total	Primary	Secondary	Above secondary	Total
Upto 3000	2 (40.00)	1 (5.56)	-	3 (10.00)	5 (41.67)	2 (15.38)	1 (20.00)	8 (26.67)	4 (50.00)	4 (26.67)	-	8 (26.67)
3000-6000	2 (40.00)	5 (27.78)	3 (42.86)	10 (33.33)	3 (25.00)	5 (38.46)	-	8 (26.67)	1 (12.50)	6 (40.00)	3 (42.86)	10 (33.33)
6000-9000	-	6 (33.33)	2 (28.57)	8 (26.67)	3 (25.00)	4 (30.77)	2 (40.00)	9 (30.00)	2 (25.00)	4 (26.67)	2 (28.57)	8 (26.67)
9000 and Above	1 (20.00)	6 (33.33)	2 (28.57)	9 (30.00)	1 (8.33)	2 (15.38)	2 (40.00)	5 (16.67)	1 (12.50)	1 (6.67)	2 (28.57)	4 (13.33)
Total	5 (100.00)	18 (100.00)	7 (100.00)	30 (100.00)	12 (100.00)	13 (100.00)	5 (100.00)	30 (100.00)	8 (100.00)	15 (100.00)	7 (100.00)	30 (100.00)
	χ^2 value = 7.860+ (P≤0.05)				χ^2 value = 6.156+ (P≤0.05)				χ^2 value = 6.673+ (P≤0.05)			

Source: Survey data

Note: 1. Figures in parenthesis indicates percentage to total (row-wise)
2. + Not significant at 5 per cent level

The results obtained above shows that defaulters having lower education level have only lower amount of NPA. But, as the educational level improves, there is no indication of increased amount of NPA. Moreover Chi-square value is also insignificant. So it can be inferred that there is no significant relationship between educational level and NPA amount of defaulters in PACS of KDCB.

Table 4.13 clearly describes that in case of PACS of PDCB, 41.67 per cent of defaulters who have only primary education are having a lower NPA amount of only upto Rs.3000. Moreover, only 8.33 per cent of those who have primary education have a higher NPA amount of Rs.9000 and above. 38.46 per cent of respondents having secondary education have NPA amount ranging from Rs.3000 to Rs.6000 and 15.38 per cent of them have a higher NPA of Rs.9000 and above. Only 20 per cent of those defaulters having above secondary education have lower NPA amounts of upto Rs.3000. Chi-square value is found to be 6.156.

The results on defaulters of PACS in PDCB reveals that those who are having lower educational level have only lower NPA amount. But, we cannot witness any prominent sign of increased NPA amounts for defaulters who have higher educational level. The chi-square value is also insignificant. Hence it can be concluded that there is no significant association between educational level and NPA amount of defaulters in ST agricultural advance of PACS of PDCB.

It is obvious from Table 4.13 that 50 per cent of the defaulters of PACS of TDCB having primary education have lower NPA amounts of only upto Rs.3000. Moreover, only 12.50 per cent of such defaulters have higher NPA of Rs.9000 and above. As high as 40 per cent of defaulters with secondary education have NPA amounts ranging from Rs.3000 to Rs.6000. An interesting finding is that defaulters having above secondary education have no NPA upto Rs.3000. But, 42.86 per cent of them have low NPA amounts ranging between Rs.6000 and Rs.9000. Moreover, only 28.57 of better-educated defaulters in PACS of TDCB have higher NPA amounts of Rs.9000 and above. Chi-square value is observed to be 6.673 at five per cent level of significance as per Table 4.13.

The results on defaulters of PACS under TDCB also indicate similar picture as that of KDCB and PDCB. Here, when the education level is found to be low, the amounts of NPA are also reported to be lower. But, we cannot attribute any remarkable trend to establish an increase in NPA due to improved educational level. The chi-square value also depicts no significant relationship between educational level and NPA amount of defaulters in ST agricultural loans of PACS under TDCB.

4.14 NPA AMOUNT AND OCCUPATION OF SAMPLE DEFAULTERS OF PACS OF DCBs

A comparison of NPAs of different occupational classes is made to know the extent of NPAs of different occupational groups like farmers, agricultural labourers and non-agricultural labourers. It will be relevant to examine the relationship between occupation and NPA amount.

Table 4.14 indicates that in case of defaulters of PACS of KDCBs, out of the 18 agriculturists, a maximum of 38.89 per cent are having NPA amounts ranging from Rs.6000 to 9000. It is interesting to note that there is no agriculturist with a lower NPA upto Rs.3000. Of the total seven agricultural labourers, a maximum of 57.14 per cent are having NPA amounts between Rs.3000 and Rs.6000. Moreover, there are no agricultural labourers with NPA amounts of Rs.9000 and above. Out of the five non-agricultural labourers 60 per cent are having NPA amounts of over 9000 rupees. Interestingly, there is no non-agricultural labourer having NPA amounts between Rs.6000 and 9000. Chi-square value is observed to be 12.749 at five per cent level of significance.

From Table 4.14, it is found that in case of defaulters of PACS of KDCB, higher NPA amounts are reported by agriculturists and non-agriculturists. But, agricultural labourers have registered lower amount of NPAs. Moreover, the Chi-square value is found to be significant. That means that there is significant relationship between occupation and NPA amount of defaulters in ST agricultural advances of PACS of KDCB.

Table 4.14. NPA amount and occupation of sample defaulters of PACS under selected DCBs

NPA Amount (Rs.)	KDCB				PDCB				TDCB			
	Occupation				Occupation				Occupation			
	Agricu-lture	Agrl. Labourer	Non Agrl. Labourer	Total	Agricu-lture	Agrl. Labourer	Non Agrl. Labourer	Total	Agricu-lture	Agrl. Labourer	Non Agrl. Labourer	Total
Upto 3000	-	2 (28.57)	1 (20.00)	3 (10.00)	3 (18.75)	2 (28.57)	3 (42.86)	8 (26.67)	2 (15.38)	5 (45.45)	1 (16.67)	8 (26.67)
3000-6000	5 (27.78)	4 (57.14)	1 (20.00)	10 (33.33)	2 (12.50)	4 (57.14)	2 (28.57)	8 (26.67)	4 (30.77)	5 (45.45)	1 (16.67)	10 (33.33)
6000-9000	7 (38.89)	1 (14.29)	-	8 (26.67)	7 (43.75)	1 (14.29)	1 (14.29)	9 (30.00)	4 (30.77)	1 (9.09)	3 (50.00)	8 (26.67)
9000 and Above	6 (33.33)	-	3 (60.00)	9 (30.00)	4 (25.00)	-	1 (14.29)	5 (16.67)	3 (23.08)	-	1 (16.67)	4 (13.33)
Total	18 (100.00)	7 (100.00)	5 (100.00)	30 (100.00)	16 (100.00)	7 (100.00)	7 (100.00)	7 (100.00)	13 (100.00)	11 (100.00)	6 (100.00)	30 (100.00)
	χ^2 value = 12.749* (P≤0.05)				χ^2 value = 8.743+ (P≤0.05)				χ^2 value = 8.336+ (P≤0.05)			

Source: Survey data

Note: Figures in parenthesis indicate percentage to total (row-wise)
* Significant at 5 per cent level
+ Not significant

Table 4.14 clearly depicts that in the case of defaulters of PACS of PDCB, of the 16 agriculturists, the highest 43.75 per cent are having NPA amount ranging from Rs.6000 to Rs.9000. The least 12.5 per cent of the agriculturists are having NPA amount between Rs.3000 and Rs.6000. Out of the seven agricultural labourers, a maximum of 57.14 per cent are having NPA amount ranging from Rs.3000 to Rs.6000. It is pertinent to state here that there is no agricultural labourer with NPAs of over Rs.9000. This may be because of their lower size of borrowing. Of the seven non-agricultural labourers, as high as 42.86 per cent are having lower NPA amounts of upto Rs.3000. Only 14.29 per cent of the non-agricultural labourers have higher NPA amounts of over Rs.9000. The calculated Chi-square value is 8.743 at five per cent level of significance.

In case of defaulters of PACS of PDCB, we can not observe any remarkable trend. However, majority of non-agricultural labourers are having lower amounts of NPA, as distinct from that of PACS of KDCB. Another observation is that NPA amounts of agriculturists and agricultural labourers ranged between Rs.3000 and Rs.9000. Moreover, the observed Chi-square value is insignificant, i.e., there is no significant relationship between occupation and NPA amount of defaulters in ST agricultural loans of PACS of PDCB.

From Table 4.14, it is evident that among 13 agriculturists of PACS of TDCB, 30.77 per cent each have NPA amounts ranging from Rs.3000 to Rs.6000 and Rs.6000 to Rs.9000. One of the pertinent observations is that there are only 15.38 agriculturists with amounts of NPA only upto Rs.3000. Of the 11 non-agricultural labourers, 45.45 per cent each are having NPA amounts of upto Rs.3000 and between Rs.3000 and Rs.6000. Interestingly, there are no agricultural labourers with NPA amounts of Rs.9000 and above. As high as 50 per cent of the six non-agricultural labourers are having NPA amounts between Rs.6000 and Rs.9000. The Chi-square value is observed to be 8.336 at five per cent level of significance.

From the above results, it is clear that the respondents of PACS of TDCB exposes a mixed pattern. NPA amounts of agriculturists are mainly in the medium range from Rs.3000 to Rs.9000. In the case of non-agricultural labourers, NPA

amounts are mainly lower. The Chi-square value is insignificant, which indicates that there is no significant association between occupation and NPA amount of defaulters in ST agricultural advances of PACS of TDCB.

4.15 NPA AND ANNUAL FAMILY INCOME OF DEFAULTERS OF PACS OF DCBs

It is believed that the NPAs are closely related to the annual income of both the farm and non-farm income groups. It can be assumed that those having higher income will have lower dues. To explore this, an attempt is made to relate the level of annual family income and amount of NPAs of sample defaulters in ST agricultural advances.

Table 4.15 reveals that in the case of defaulters of PACS of KDCB, all those who have annual family income upto Rs.18000 have lower NPA amount of Rs.3000. All defaulters having income between Rs.18,000 and Rs.36,000 have NPA amount ranging between Rs.3000 and 6000. Interestingly no defaulter having higher annual family income of Rs.60,000 and above have NPA amount upto Rs.6000. Moreover, 80 per cent of such higher income defaulter have higher NPA amount of Rs.9000 and above. The Chi-square value is calculated to be 55.611 at five per cent level of significance.

The linking of annual family income and NPA amount of defaulters of PACS of KDCB discloses that among low-income classes, amount of NPA is found to be lower. Moreover, as the income increases, there is a clear sign of increased NPA amount by defaulters. It is pertinent to note that observed Chi-square is significant, which indicates that there exists a significant relationship between annual family income and NPAs of defaulters of PACS under KDCB.

From Table 4.15, it is observed that all the defaulters (100 per cent) of PACS of PDCB, having lower annual family income of only upto Rs.18,000 have lower NPA amount of only upto Rs.3000. In addition to this, majority of defaulters (45.5 per cent) having comparatively lower income between Rs.18,000 and Rs.36,000

Table 4.15. NPA amount and annual family income of defaulters of PACS under DCBs

NPA Amount (Rs.)	KDCB					PDCB					TDCB				
	Annual Family Income (Rs.)					Annual Family Income (Rs.)					Annual Family Income (Rs.)				
	Upto 18,000	18,000 -36000	36,000-60,000	60,000 and above	Total	Upto 18,000	18,000 -36000	36,000-60,000	60,000 and above	Total	Upto 18,000	18,000 -36000	36,000-60,000	60,000 and above	Total
Upto 3000	3 (100.00)	-	-	-	3 (10.00)	3 (100.00)	5 (45.5)	-	-	8 (26.7)	3 (50.00)	4 (40.0)	1 (9.1)	-	8 (26.7)
3000-6000	-	5 (100.00)	5 (41.7)	-	10 (33.33)	-	4 (36.4)	4 (33.33)	-	8 (26.7)	1 (16.7)	6 (60.0)	3 (27.3)	-	10 (33.3)
6000-9000	-	-	6 (50.00)	2 (20.00)	8 (26.70)	-	1 (9.1)	8 (66.7)	-	9 (30.0)	1 (16.7)	-	7 (63.6)	-	8 (26.7)
9000 and Above	-	-	- (8.3)	8 (80.00)	9 (30.00)	-	1 (9.1)	-	4 (100.00)	5 (16.7)	1 (16.7)	-	-	3 (100.00)	4 (13.3)
Total	3 (100.00)	5 (100.00)	12 (100.00)	10 (100.00)	30 (100.00)	3 (100.00)	11 (100.00)	12 (100.00)	4 (100.00)	30 (100.00)	6 (100.00)	10 (100.00)	11 (100.00)	3 (100.00)	30 (100.00)
	χ^2 value = 55.611* (P≤0.05)					χ^2 value = 42.854* (P≤0.05)					χ^2 value = 36.80* (P≤0.05)				

Source: Survey data

Note: Figures in parenthesis indicate percentage to total (row-wise)
* Significant at 5 per cent level
+ Not significant

have NPA amount of only upto Rs.3000. It is pertinent to note that defaulters having higher annual income of over Rs.60,000 have no NPA amount upto Rs.9000, but they have NPAs of Rs.9000 and above. The Chi-square value is 42.854 at five per cent level of significance.

The above analysis on defaulters of PACS of PDCB pronounces that lower income classes are characterized by lower amount of NPAs. At the same time as the income of defaulters increases, we can observe an increase in the amount of NPAs. Moreover, the Chi-square value is significant, i.e., there exists a significant association between annual family income and NPAs.

It is obvious from Table 4.15 that 50 per cent of defaulters having annual family income of only upto Rs.18,000 have lower NPA amount of only upto Rs.3000, in the case of defaulters of PACS of TDCB. 60 per cent of defaulters having a comparatively lower income between Rs.18,000 and Rs.36,000 have comparatively lower NPA amount ranging from Rs.3000 to Rs.6000. Majority of defaulters (63.6 per cent) with income between Rs.36,000 and 60,000 have higher NPA amount ranging from Rs.6000 to Rs.9000. In addition to this, all the defaulters (100 per cent) having higher income of Rs.60,000 and above have higher amount of NPAs of Rs.9000 and above. The observed Chi-square value is 36.80 at five per cent level of significance.

It can be safely inferred from the above analysis that in the case of defaulters of PACS of TDCB also, we can witness the same pattern as that of KDCB and PDCB. Amount of NPA is lower for lower income classes whereas it increases with an increase in annual family income. Chi-square value is also significant, which depicts that there exists a significant relationship between annual family income and NPAs of defaulters in ST agricultural advances of PACS of TDCB.

4.16 PROBLEMS IN OBTAINING LOANS - RESPONSE OF SAMPLE DEFAULTERS OF PACS OF DCBs

It is a general belief that problems relating to timely availability of loans are more experienced by borrowers of co-operative banks compared to other financial

institutions. The problems broadly range from the banker's inability in meeting timely credit requirements to the time lag in terms of procedural formalities. This may probably be a reason behind default in repayment of loans. However, before going deeper into the reasons leading to default, it may be worthwhile to study the problems pertaining to availing of loans.

Table 4.16. Problems in obtaining loans - Response of defaulters of sample societies under DCBs

Sl. No.	Problem	KDCB	PDCB	TDCB	Total
1.	Inadequate Assistance by Bank officials	2 (14.29)	3 (15.00)	5 (15.00)	10 (18.52)
2.	Procedural delay	7 (50.00)	5 (25.00)	8 (40.00)	20 (37.04)
3.	Vested interest	4 (28.57)	2 (10.00)	2 (10.00)	8 (14.81)
4.	Interference of politicians	1 (7.14)	10 (50.00)	5 (25.00)	16 (29.63)
Total		14 (100.00)	20 (100.00)	20 (100.00)	54 (100.00)
Delay in obtaining loans (Average number of days)		9.5	14.50	14.16	13.05

Source: Survey data
Note: Figures in parenthesis indicate percentage to total (row-wise)

Table 4.16 depicts that of the 90 sample defaulters of PACS of KDCB, PDCB and TDCB, only 54 faced problem in obtaining loans. Out of these 54 respondents, the highest 37.04 per cent cited procedural delay as the major problem for delayed disbursement. 29.63 per cent attributed political interference as the problem in obtaining loan. Only 14.81 per cent have stated vested interest as the reason for delay in loan disbursement. Inadequate assistance by bank officials is a factor reported by 18.52 per cent of the respondents in this category.

In the case of PACS of KDCB, only 14 of the 30 defaulters have faced with problems in obtaining loans. Out of this, a maximum of 50 per cent have attributed procedural delay as the major problem while only 7.14 per cent of them have cited interference of politicians in disbursement of loans. But in PACS of PDCB,

20 out of the 30 sample defaulters have problems in availing loan from their PACS. Out of this, a maximum 50 per cent have reported interference of politicians as the major problem whereas only 10 per cent have attributed vested interest as the major problem. It is evident that in PACS of TDCB also, 20 out of the 30 sample defaulters have experienced difficulties for getting loans while 40 per cent have viewed procedural delay. Only 10 per cent have reported vested interest as the major factor for delayed loaning by PACS of TDCB.

From Table 4.16, it is evident that the average number of days taken for loan disbursement by PACS of all the three DCBs is 13.05. It is seen that the lowest average number of days (9.5) is reported by PACS of KDCB and the highest (14.50) is recorded by PACS of PDCB. The PACS of TDCB have taken an average 14.16 days to release loan amount to defaulters.

The above results exposed procedural delay as the major problem faced by defaulters of PACS of DCBs followed by excessive interference of politicians. Inadequate assistance by bank officials and vested interest are other difficulties faced by defaulters. It is observed that more than 10 days were taken for disbursing agricultural loans to farmers. These findings are causes of concern because if farmers are not getting finance at the right time, it will affect their agricultural operations and income generation.

Interestingly, only a few respondents in PACS of KDCB have experienced difficulties in getting loans compared to that of PDCB and TDCB. In addition to this, defaulters in PACS under KDCB have obtained loans quickly compared to that of PDCB and TDCB. It calls for effective steps to speed up disbursement of loans in PACS under DCBs.

4.17 DIVERSION OF LOANS BY SAMPLE DEFAULTERS IN PACS UNDER DCBs

It is believed that borrowers are not utilizing the full amount of loans for the purpose for which it is taken and divert certain portion of such loans to other

purposes. The possible diversion is for meeting consumption expenditure, social ceremonies like marriage, education of children and for meeting miscellaneous expenses.

Table 4.17. Purpose and amount of loan diversion by sample defaulters of selected societies under DCBs

Sl. No.	Purpose of Diversion	KDCB	PDCB	TDCB	Total
1	Consumption purposes	16 (64.00)	14 (60.87)	17 (62.96)	47 (62.67)
2	Ceremonies	2 (8.00)	3 (13.04)	4 (14.81)	9 (12.00)
3	Education of children	5 (20.00)	3 (13.04)	2 (7.41)	10 (13.33)
4	Other expenses	2 (8.00)	3 (13.04)	4 (14.81)	9 (12.00)
Total		25 (100.00)	23 (100.00)	27 (100.00)	75 (100.00)
Average amount of diversion (Amount in Rs.)		1616.67	2283.33	2266.67	2055.56
Average loan amount (Amount in Rs.)		6666.67	6533.33	5866.67	6355.56
Percentage of diversion to loan amount		24.25	34.95	38.64	32.34

Source: Survey data
Note: Figures in parenthesis indicate percentage to total

Table 4.17 shows that 75 out of 90 sample defaulters in PACS of all the three DCBs have diverted the loan amount. It is clear that majority (62.67 per cent) of such defaulters have diverted loan amount for meeting consumption expenses. 13.33 per cent of the 75 respondents have diverted for meeting the educational expenses of children. The average amount of diversion is Rs.2055.56 and the percentage of diversion to loan amount is as high as 32.34. It is obvious that the average amount of diversion (Rs.1616.27) by defaulters in PACS of KDCB is the least while it is the highest (Rs.2283.33) in the case of defaulters in PACS of PDCB. The higher percentage of diversion of 38.64 per cent to total loan amount is made by respondents of PACS under TDCB, followed by those of PDCB (34.95 per cent). It can be observed that the least percentage (24.25) of diversion is made by defaulters in PACS of KDCB.

The results furnished above clearly describe that farmers have diverted loan amount mainly for meeting consumption expenses followed by educational expenses. The higher percentage of diversion is also an ominous signal. It is clear that farmers under KDCB are resorting to less diversion compared to those of PDCB and TDCB. It is obvious that as the amount of diversion increases, there is more possibility for default in agricultural loans. For removing this menace, it will be useful to provide consumption loans to farmers and agricultural labourers.

4.18 REGRESSION AND ANALYSIS OF VARIANCE

The statistical relationship between NPA of defaulters in ST agricultural loans of PACS under DCBs and possible determinants are studied with the help of multiple regression technique and analysis of variance. Here, the dependent variable is taken as NPA and independent variables are sex (x_1), education or year of schooling (x_2), income (x_3), diversion amount (x_4) and delay (x_5).

Table 4.18. Regression and analysis of variance of NPAs of defaulters in PACS under DCBs

Sl. No.	Name of the DCB	Intercept X	Standardised Beta values of independent variables					Adjusted R square	F value
			Sex X_1	Educat-ion X_2	Income X_3	Diversion X_4	Delay X_5		
1.	KDCB	-2520.37 (-0.993)	0.017 (0.124)	0.112 (0.817)	0.609 (3.651)	0.186 (1.104)	0.220 (1.659)	0.544*	7.920*
2.	PDCB	295.39 (0.278)	0.091 (0.768)	0.125 (1.063)	0.517 (4.293)	0.237 (1.881)	0.253 (2.055)	0.672*	12.902*
3.	TDCB	2353.61 (0.850)	-0.181 (-1.575)	-0.075 (-0.607)	0.361 (3.281)	0.643 (5.753)	0.228 (2.134)	0.712*	15.342*

Note: Figures in parenthesis indicate 't' values
* Significant at 0.05 level

The resultant prediction equations obtained from Table 4.18 with five independent variables and dependent variable (NPA) are given below:

For NPAs of defaulters in PACS of KDCB

$$Y = \underset{(-0.993)}{-2520.37} + \underset{(0.124)}{0.017}\,x_1 + \underset{(0.817)}{0.112}\,x_2 + \underset{(3.651)}{0.609}\,x_3 + \underset{(-01.104)}{0.186} + \underset{(1.659)}{0.220},$$

$\bar{R}^2$ 0.544, F 7.920

For NPAs of defaulters in PACS of PDCB

$$Y = 295.39 + 0.091 x_1 + 0.125 x_2 + 0.517 x_3 + 0.237 x_4 + 0.253$$
$$(0.278) \quad (0.768) \quad (1.063) \quad (4.293) \quad (1.881) \quad (2.056)$$

$\bar{R}^2$ 0.67, F 12.902

For NPAs of defaulters in PACS of TDCB

$$Y = 2353.610 - 0.191 x_1 - 0.075 x_2 + 0.361 x_3 + 0.643 x_4 + 0.228 x_5$$
$$(0.850) \quad (-1.575) \quad (-0.607) \quad (3.281) \quad (5.753) \quad (2.134)$$

$\bar{R}^2$ 0.714, F 15.342

The regression results from Table 4.18 reveals that Adjusted R square and F values are significant for all the three DCBs. In case of defaulters of PACS under KDCB, t-value of income (x_3) is only significant. Thus it can be inferred that income is the most important predictor for the occurrence of NPAs of respondents in ST agricultural advances of PACS under KDCB. The Chi-square results from Table 4.15 has also endorsed the influence of annual family income on NPAs. In the case of defaulters in PACS under PDCB, t-values are significant for income (x_3) and delay in disbursing loans (x_5). The Chi-square value from Table 4.15 and results from Table 4.16 respectively underlined the above inference. In case of defaulters in ST agricultural advances of PACS under TDCB, t-values are significant for income (x_3), diversion (x_4) and delay (x_5). The Chi-square value from Table 4.15 also justified the influence of income on NPAs. The results from Table 4.16 and Table 4.17 also revealed that delay and diversion are the major problems faced by farmers in PACS under TDCB.

4.19 FARMER-LEVEL REASONS FOR NPAs

From the discussion on reasons for NPAs in ST agricultural advances by PACS to DCBs (Table 4.10) we have observed that non-repayment by farmers to societies forced them not to repay to their concerned DCBs. Hence an attempt is made

Table 4.19. Reasons for default - response of sample borrowers societies under DCBs

Sl. No.	Reasons	KDCB		PDCB		TDCB		Total of 3 DCBs	
		Score	Priority Index	Score	Priority Index	Score	Priority Index	Score	Priority Index
1	Inadequacy of Income	136	75.56 (II)	135	75.00 (II)	147	81.67 (II)	418	77.41 (I)
2	Lack of timely recovery measures	79	43.89 (IV)	41	22.78 (VI)	74	41.11 (IV)	194	35.93 (V)
3	Unremunerative prices for agricultural products	160	88.88 (I)	47	26.11 (V)	159	88.33 (I)	366	67.78 (III)
4	Illness of borrower's family member	45	25.00 (V)	70	38.89 (V)	56	31.11 (V)	171	31.67 (VI)
5	Expectation of write off loan	132	73.33 (III)	130	72.22 (III)	118	65.56 (III)	380	70.37 (II)
6	Drought	11	6.11 (VI)	166	92.22 (I)	21	11.67 (VI)	198	36.67 (IV)
	Maximum obtainable score	180	100.00	180	100.00	180	100.00	540	100.00

Source: Survey data
Note: Figures in parenthesis indicate rank obtained.

to explore the grass root level factors leading farmers to default to PACS under DCBs. Then only banks will be able to reduce the problem of NPAs by knowing the real pulse of the rural agrarian economy.

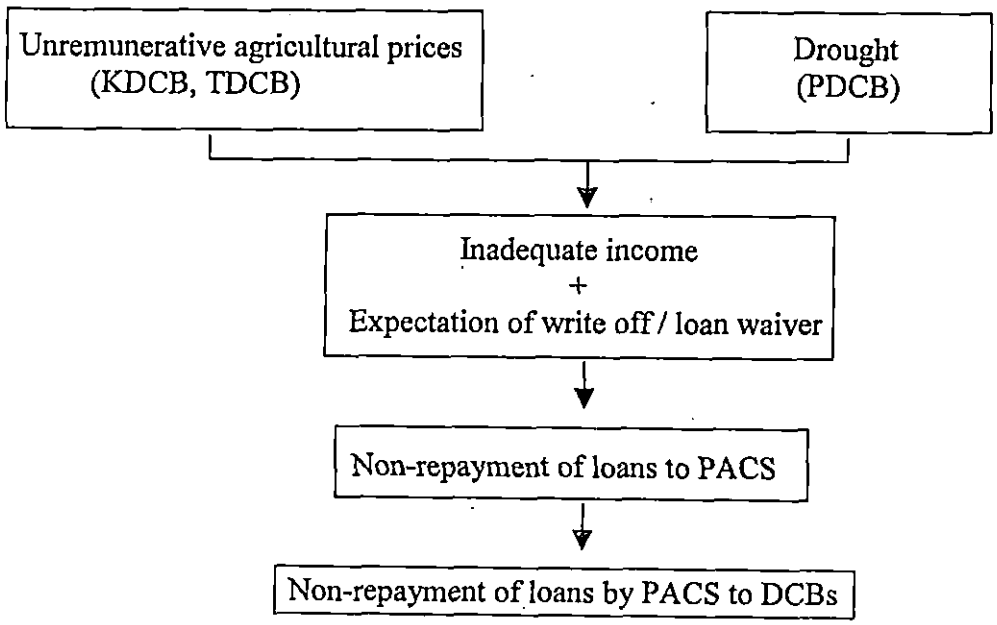
Table 4.19 illustrates that inadequacy of income with the highest priority index of 77.41 is the most important factor leading to NPAs by defaulters of PACS of all the three DCBs. Expectation of loan waiver (index of 70.37) and unremunerative prices of agricultural produces (index of 67.78) are the next major reasons ranked by defaulters of PACS of all the three DCBs.

Bank-wise analysis reveals that the defaulters in PACS under KDCB have ranked unremunerative prices (index of 88.88) as the most pertinent reason for NPA followed by inadequacy of income (75.56) and expectation of loan waiver (73.33). Drought with a index of 6.11 was the least ranked factor by defaulters for NPAs to PACS under KDCB. But it is interesting to note that drought (index of 92.22) is the most pertinent cause for default in ST agricultural loans by farmers of PACS under PDCB. Respondents from PACS under PDCB have ranked inadequacy of income (index of 75) and expectation of write off (index of 72.22) as the next major reason for non-payment of loans. As in the case of KDCB, unremunerative prices of agricultural produces (priority index of 88.33) is the most influenced factor for NPAs by farmers to PACS under TDCB, followed by inadequacy of income (index of 81.67). The farmers of PACS under TDCB has ranked drought (index of only 11.67) as the least significant causative factor.

The above results reveals that inadequacy of income has mostly resulted in NPAs by defaulters of PACS of all the three DCBs. Expectation of write-off and low agricultural prices have also contributed to the non-repayment of ST agricultural loans to PACS. KDCB and TDCB have witnessed this general trend but in the case of PDCB, drought is the most pertinent cause for NPAs by farmers to PACS. Even though we have put them as separate reasons, a close examination exposes that

inadequacy of income was the result of lower prices for agricultural produces of defaulters of PACS under KDCB and TDCB. But, in case of PDCB, drought has resulted in lower earnings (income) for farmers. Moreover, farmers believe that Governmental policies have led the agricultural economy of Kerala into the present crisis. So they have expected a favourable action from Government for writing off of ST agricultural loans.

Majority of the farmers in PACS under KDCB and TDCB have described the pathetic situation of fall in the prices of agricultural produces like coconut, pepper, arecanut, rubber and paddy in 2000 and 2001. Moreover, the statements from ministers have provided a ray of hope, of loan waiver, for farmers. In Kasaragod district, the massive campaigning, by organizations like Infam and Desiya Karshaka Rakshasamithi, for not repaying agricultural loans was whole-heartedly accepted by farmers. Even the genuine loanees have also started to defaults. Frequent drought in Palakkad district have shattered the hopes of farmers and left them with inadequate income to repay the loan amount. They also believe that their plight will be taken care of by the Government and therefore, expected waiving of loan amount. The above situation of non-repayment of loans by farmers in PACS of DCBs can be diagrammatically represented as shown below:



4.20 FARMERS' SUGGESTIONS FOR REDUCTION OF NPAs

It looks very pertinent to receive suggestions of defaulter farmers for reducing the problem of NPAs. The grass root level solutions can be explored with the response of farmers and agricultural labourers.

It is evident from Table 4.20 that reduction of interest rate on loans (index of 79.56) by PACS was ranked the most crucial step for reducing NPAs of PACS of all the three DCBs. The second most significant suggestion from farmers was ensuring of remunerative prices for agricultural produces (index of 66.44). Provision for consumption loans was ranked third with an index of 59.11. The lowest ranked suggestion was timely credit (index of 25.56).

In case of PACS under KDCB, better prices for farm produces (index of 84) was the most important suggestion by defaulters for reducing NPAs, followed by reduction in interest rate on loans (index of 80). The farmers of PACS under PDCB have ranked reduction in interest rate on loans (index of 82.67) as the most pertinent suggestion for better payment of loans. Ensuring remunerative agricultural prices is ranked the most important suggestion (index of 86) by farmers for reduction of NPAs, followed by provision for consumption loans (index of 70).

The results reveals that reduction of interest rate on loans, ensuring remunerative prices for agricultural produces and provision for consumption loans are the major suggestions by farmers for better repayment of loans to PACS of DCBs. High rate of interest is a major hurdle for farmers. In 2001, it ranged from 12 to 14 per cent for ST agricultural loans to farmers by different PACS under DCBs. But, during that year, the refinancing rate of interest on such loans to State Co-operative Banks is only 7.5 per cent.

This exposed the wide interest margin, ranging from 4.5 to 6.5 per cent, taken by Co-operative banking intermediaries like State Co-operative bank, DCBs and PACS. Thus the end-user, i.e., farmer is forced to avail high cost agricultural loans. Most of the farmers suggest that NABARD should directly finance PACS so that

Table 4.20. Suggestions for reduction of overdues - Response of defaulters of societies under DCBs

Reason	KDCB		PDCB		TDCB		Total of 3 DCBs	
	Score	Priority Index	Score	Priority Index	Score	Priority Index	Score	Priority Index
1. Provision for consumption loan	67	44.67 (IV)	94	62.67 (III)	105	70.00 (II)	266	59.11 (III)
2. Timely credit	38	25.33 (V)	56	37.33 (IV)	21	14.00 (V)	115	25.56 (V)
3. Remunerative prices for agricultural products	126	84.00 (I)	44	29.33 (V)	129	86.00 (I)	299	66.44 (II)
4. Reduction of rate of interest on loans	120	80.00 (II)	124	82.67 (I)	114	63.33 (III)	358	79.56 (I)
5. Linking of credit with marketing	79	52.67 (III)	115	63.89 (II)	55	36.67 (IV)	249	55.33 (IV)
Maximum obtainable score	150	100.00	150	100.00	150	100.00	450	100.00

Source: Survey data

the farmers may benefit by lower rate of interest. Apart from this, Government should ensure remunerative prices for agricultural produces, which will revive the already shattered hopes of millions of farmers. For ensuring proper use of disbursed loan amount, farmers have proposed for provision of consumption loans.

From the discussion, it is clear that the problem of NPAs could be reduced by cracking down the root causes of their occurrence. It is obvious that the income of farmers and agricultural labourers should be substantially increased for ensuring proper repayment of agricultural advances. For this purpose the Government should take effective steps, which will ensure stable prices for agricultural produces. To do away with the high cost loans imposed on end-user of credit, there should be structural changes in the co-operative banking system. The direct linking of NABARD credit to PACS may benefit farmers in a big way. The analysis raised some doubts regarding the role of DCBs as an intermediary in agricultural loans. But effective steps will benefit the living conditions of millions of farmers who feed us without feeding themselves.

Summary of Findings and Conclusion

CHAPTER V

SUMMARY OF FINDINGS AND CONCLUSION

The mounting NPAs of DCBs have crippled the co-operative credit sector in recent years. It has caused innumerable financial problems besides limiting the capacity of DCBs to lend adequately. DCBs in Kerala with a large volume of NPAs have suffered in terms of both institutional viability and their capacity to increase the volume of credit. The NPAs adversely affect the liquidity position of these banks. If this tendency goes unchecked, it would adversely affect the capacity of the institutions to provide adequate and timely credit to agriculture and thus ensure the economic development of the area. Although, Kerala is a co-operatively developed state, NPA continues to be an uncured malady as yet. Hence the study titled "Non-performing assets of District Co-operative Banks" attempts to:

i) examine the magnitude and composition of NPAs of DCBs in Kerala;
ii) assess the extent of NPAs in agricultural advances; and
iii) identify the factors leading to NPAs.

A comparison of three selected DCBs - Kasaragod DCB (KDCB), Palakkad DCB (PDCB) and Thrissur DCB (TDCB) is done in terms of level of NPA and extent of NPA. DCBs are advancing agricultural loans to farmers only through PACS. Moreover, PACS have defaulted to their respective DCBs only in short-term (ST) agricultural advances as on 31st March 2001. Thus three PACS each that have defaulted in such advances to DCB, have been selected randomly from each selected DCB. For identifying the grass root level reasons for non-reapyment of ST agricultural loans by farmers to PACS, 10 defaulters are selected randomly from each selected PACS. Thus the total number of sample individual defaulters is 90.

For identifying the reasons for default by PACS and their members, structured interview schedules are used for the survey. Mostly bi-variate and multi-variate tables have been used for the analysis of collected data. The first and second

objectives of the study are analysed with the help of averages, percentages and growth rates. The third objective is analysed using priority index and statistical and econometric tools like Chi-square test, Regression analysis and analysis of variance (ANOVA).

The major findings of the study are summarized under the following heads.

5.1 MAGNITUDE OF NPAs

The magnitude of NPAs is the highest in TDCB to the tune of Rs.8077 lakhs followed by PDCB at Rs.3368 lakhs as on 31st March 2001. The amount of NPAs is the lowest in KDCB at Rs.455 lakh. Thus the magnitude of NPA is a major problem for TDCB compared to PDCB and KDCB. Moreover, NPA level of over 30 per cent in TDCB during the study period shows that the Bank is not able to recover the principal and interest amount from societies in case of agricultural loans and from individuals in case of non-agricultural loans. At the same time KDCB is efficient enough to get back the advanced loan amount. The NPA level of around four per cent can be considered as a good indicator of the quality of assets even comparable to some of the commercial banks. Even though PDCB is an average performer in the State in controlling the menace of NPA, the accumulating NPA amount is a cause of concern for the Bank.

5.2 COMPOSITION OF NPAs

The share of sub-standard assets to total NPAs is higher in the region of 60 to 85 per cent in all the selected DCBs during the study period. However, the share of loss assets to total NPAs is the lowest in all the three selected DCBs in the range of 1.2 to 21 per cent. The percentage share of doubtful assets of KDCB has hovered around 4.92 per cent and 20.51 per cent whereas it is around 23 per cent in PDCB. TDCB has reported a steady increase in doubtful assets and the maximum amount was Rs.1775 lakhs in 2001. The higher share of sub-standard assets to total NPA in all the three

DCBs during the study period is mainly due to the applicability of NPA norms to DCBs only from 1996-97. As per the norms, those NPAs upto three years are treated as sub-standard assets. After three years only, those NPAs will be treated as doubtful assets, thus resulting in low share of loss assets and doubtful assets. The NPA figures are a pointer to be reckoned by all the DCBs, especially TDCB and PDCB because if the banks are really committed they can reduce the sub-standard assets in a big way. Otherwise, those assets will gradually slip to doubtful assets and consequently to loss assets. If this is not checked, the banks will have to face the reality of massive erosion of their income earning assets.

5.3 EXTENT OF NPA IN AGRICULTURAL ADVANCES

In case of KDCB, NPAs in ST agricultural advances are present only in 2000 and 2001 to the extent of Rs.19.87 lakhs and Rs.9.57 lakhs respectively. Moreoever, in 2001, the share of NPAs in ST loans constituted 100 per cent of the NPAs in total agricultural advances. The share of agricultural advances in NPAs of KDCB is paltry at less than one per cent upto 1999. In the case of PDCB, the NPA in ST agricultural advances accounts for more than 90 per cent of the total agricultural NPAs. It is a noticeable feature that the share of LT agricultural NPAs declined to zero in 2000 and 2001 from 6.4 per cent in 1997. The share of ST agricultural NPAs of TDCB reached 100 per cent in 2001 from 53.9 per cent in 1997. But there is a considerable decline in ST agricultural NPAs of TDCB from Rs.37.71 lakhs to Rs.6.93 lakhs in 2001. The magnitude of NPAs in agricultural advances has also registered a steep fall from Rs.69.96 lakhs in 1997 to Rs.6.93 lakhs coupled with a reduction in their share to a negligible figure of 0.09 per cent in 2001.

The extent of NPAs in agricultural advances is negligible in the selected DCBs and thereby non-agricultural advances accounted for the lion's share of the NPAs. Moreover, in recent years, NPAs existed only in ST agricultural loans. Thus the medium-term (MT) and long-term (LT) agricultural loans of DCBs were free from the menace of bad loans. The main reason for this phenomenon is that the overdues in

such loans to DCBs will be adjusted in the financial year with current account balances of PACS with DCBs. There is no such book adjustments with PACS in the case of ST agricultural advances. The lower magnitude of NPAs in agricultural advances of DCBs is mainly due to the thrust on non-agricultural lending policy adopted by them. Moreover, such loans are mainly provided to thousands of individuals and thereby increasing the risk of NPAs. On the other hand, agricultural loans provided only to the societies can be easily recycled because DCBs are having some financial control over member-PACS. So PACS are forced to repay MT and LT agricultural loans to DCBs even if their member-farmers were unable to repay such loans to them.

5.4 REASONS FOR DEFAULT BY PACS TO DCBs

Non-repayment of ST agricultural loans by customers is the most important reason ranked by selected PACS of the three DCBs (index of 100). PACS of PDCB have ranked weak financial position (index of 80) as the second most important reason for default. PACS of KDCB have ranked high rate of interest (index of 60) as the second most important reason for non-repayment. As in the case of PACS of PDCB, societies of TDCB also ranked weak financial position as the second most important reason for default to DCB.

Secretaries of all the selected PACS of KDCB opined that the non-payment by farmers is due to the depressed prices of arecanut, coconut and rubber in 2000 and 2001. According to them, the price crash in these years has crashed the hopes of farming community. Moreover, the wide campaign unleashed by organizations like Infam and Desiya Karshaka Raksha Samithi for not repaying the loan amount to societies has affected many PACS. Even genuine loanees did not repay loans in anticipation of Debt Relief Scheme by Government of Kerala. Secretaries of PACS of PDCB have accounted drought as the major reason for non-repayment of loans by farmers to them. Moreover, crashing of prices has also aggravated the problem of overdues to PACS. According to secretaries of selected PACS of TDCB, the crashing

of prices of paddy and coconut has led to default by members of Anthikkad and Arattupuzha Service Co-operative banks. The Pazhanji Service Co-operative Bank Secretary has observed that fall in prices of arecanut has heavily affected the repayment capacity of farmers.

Several secretaries of PACS have severely criticized the attitude of their DCBs for adopting a repayment schedule, which is creating asset-liability mismatch for them. They have castigated DCBs for "swallowing" interest margin of 2 to 2.5 per cent while advancing ST agricultural advances to PACS. The most prominent suggestion put forward by PACS of selected DCBs is the adoption of strict laws to punish wilful defaulters. Reduction of interest rate by DCBs was ranked as the second most important suggestion for reducing NPAs to DCBs in ST agricultural advances. Some of the secretaries have questioned the intermediary role played by DCBs in agricultural advances and demanded direct agricultural finance from NABARD to PACs at a lower rate of interest.

5.5 INFLUENCE OF SOCIO-ECONOMIC VARIABLES ON NPA

In case of KDCB, defaulters having lower education level have only lower amount of NPA. But, as the educational level improves, there is no indication of increased amount of NPA. Moreover, Chi-square value is also insignificant. So it can be inferred that there is no significant relationship between educational level and NPA amount of defaulters in PACS of KDCB. Those defaulters of PACS in PDCB who have lower educational level had only lower NPA amount. But, we can not witness any prominent trend of increased NPA amount as the educational level improved. This is also justified by the insignificant chi-square value. The results on defaulters of PACS under TDCB also indicate similar pattern as that of KDCB and PDCB.

In the case of defaulters of PACS of KDCB, agriculturists and non-agriclturists reported higher NPA amounts. Moreover, the Chi-square value has also revealed that there is significant relationship between occupation and NPA amounts of

defaulters in ST agricultural advances of PACS of KDCB. The study reveals that there is no significant relationship between occupation and NPA amount of defaulters in ST agricultural loans of PACS under PDCB. In case of TDCB also, there is no significant relationship between occupation and NPA amount.

The study reveals from the Chi-square test and regression analysis that there exists significant relationship between annual family income and NPAs of defaulters of selected PACS under KDCB, PDCB and TDCB. The regression results reveals that income was the most important predictor for the occurrence of NPAs of respondents in ST agricultural advances of PACS of DCBs. In case of defaulters of PACS of TDCB, delay and diversion were also major factors that affected NPAs.

5.6 FARMER LEVEL REASONS FOR NPAs

Inadequacy of income with the highest index of 77.41 is the most important factor leading to NPAs by defaulters of PACS of all the three DCBs. Expectation of loan waiver (index of 70.37) and unremunerative prices of agricultural produces (index of 67.78) are the next major reasons ranked by defaulters of the selected PACS of all the three DCBs. The defaulters in PACS under KDCB have ranked unremunerative prices (index of 88.88) as the prime reason for NPA. But it is interesting to note that drought (priority index of 92.22) is the most pertinent cause for default in ST agricultural loans by farmers of PACS under PDCB. As in the case of KDCB, unremunerative price of agricultural produces (priority index of 88.88) is the most important factor for NPAs by farmers of PACS of TDCB.

Even though we have identified separate reasons for NPAs by farmers to PACS of DCBs, a close observation reveals that insufficient income is the result of lower prices for agricultural produces of defaulters of PACS of KDCB and TDCB. But, in case of PDCB, drought has resulted in lower earnings (income) for farmers. Moreover, farmers believe that Government would write off agricultural loan amount. Reduction of rate of interest on loans (priority index of 79.65) by PACS is ranked the

most crucial measure for reducing NPAs of PACS of all the three DCBs. The second most important suggestion from farmers is ensuring of remunerative prices for agricultural produces (priority index of 66.44). Most of the farmers suggested that NABARD should directly finance PACS so that the farmers may be benefited by lower rate of interest.

5.7 CONCLUSION

From the discussion, it is crystal clear that cracking down the root causes of their occurrence can reduce the problem of NPAs considerably. It is obvious that the income of farmers and agricultural labourers should be substantially increased for ensuring proper repayment of agricultural advances. For this, Government should take effective steps, which will ensure stable prices for agricultural produces in an era of globalisation of Indian agriculture. To do away with the high cost loans imposed on end-user of credit, there should be structural changes in the co-operative banking system. The direct linking of NABARD credit to PACS may benefit the farmers in a big way. The study raised some doubts regarding the role of DCBs as an intermediary in agricultural loans. It will be relevant to do away with the indirect agricultural finance by DCBs and merge the urban co-operative banks with them so that there will be a strong presence of co-operatives in the non-agricultural banking sector. The need of the hour is to take effective steps in relevant directions that will benefit the living conditions of millions of farmers who feed us without feeding themselves.

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Appendices

APPENDIX - 1

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	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.

APPENDIX - 2

Area, Production and Productivity of major corps in Kerala

Crops	Area (in lakh ha)	Production (in lakhs tonnes)	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	2.26
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

APPENDIX - 3

Growth of Agricultural Income in Kerala

(Base Year 1993-94)

Year	Agricultural income (Rs. in crore)	Rate of change over pervious year (percentage)	Percentage contribution to state income
1996-97	7115	-	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, 2001, Government of Kerala

APPENDIX - 4

Non-performing assets of district co-operative banks in Kerala with special reference to agricultural advances (Schedule for societies).

I. Basic details of the society

1. Name and address of the society :
2. Major functions :
3. Area of operation :
4. Date of registration :

Year	Member-ship	Share capital (Rs.)	Deposits (Rs.)	Borrowings (Rs.)	Reserves and surplus	Investments	Loans and advances (Rs.)	Net profit/ Net loss (Rs.)
1996-97								
1997-98								
1998-99								
1999-00								
2000-01								

II. Details of loans from DCB

1. Sources of borrowings (mention) :
2. DCB branch from which the society availed loan :
3. Loan 1 Loan 2 Loan3

   Type of the loan taken (Agri. only)

Amount of loan

Rate of interest

Refinance from NABARD Y/N Y/N Y/N

Whether the rate of interest is high Y/N Y/N Y/N

3. Have the society utilised the whole refinanced amount? Y/N

If no, Why?

Loan 1 Loan 2 Loan 3

4. What rate of interest did you charge to farmers?

III. Repayment

Loan 1 Loan 2 Loan 3

1. Schedule of repayment of loan : Monthly

Quarterly

Half yearly

Annually

Loan 1 Loan 2 Loan 3

2. Amount of loan repaid

(No. of instalments) :

Amount outstanding

(No. of instalments) :

Amount of overdues :

3. Are the number of instalments and amount prescribed for repayment suitable and convenient to the society? : Y/N

If no, how many instalments did you feel appropriate

4. Are you aware of the consequences of the default? Y/N

5. Reasons for default in repayment to DCB (Rank)
    1. Inadequate fixation of credit limit by DCB
    2. High rate of interest
    3. Fixation of unrealistic due dates
    4. Procedural delay in sanctioning
    5. Managerial problems in the society
    6. Weak financial position
    7. Lack of good work culture and lack of commitment from employees
    8. Lack of adequate staff for field supervision
    9. Lack of commitment from Board of directors
    10. Non-repayment of loans by customers
    11. Lack of adequate infrastructure
    12. Lack of recovery efforts from DCB Branches
    13. Ineffective monitoring by the branch inspector
    14. Others (specify)

IVa.Suggestions from society for reduction of default to DCB (Rank)

1. Reduce rate of interest on loans by DCB
2. DCB Branches should reduce formalities for loan disbursal
3. Incentives for proper repayment
4. Adoption of appropriate modes and schedules of repayment by DCB
5. Accountability to directors
6. Accountability to staff
7. Creation of awareness among the employees about the consequences of NPAs
8. Provision for adequate field staff for supervision
9. Strict laws to punish wilful defaulters
10. Others (specify)

APPENDIX - 5

Non-performing assets of district co-operative banks in Kerala with special reference to agricultural advances (Schedule for respondents).

I. Basic data of the respondent

1. Name and address of the respondent :

2. Sex : M/F

3. Age :

4. Family particulars

Family members	Relationship with the respondent	Age	Sex	Educational status	Occupation	Annual Occupat-ional income (Rs.)	Other income (Rs.)	Total income (Annual) (Rs.)

5. Total annual expenditure:

6. Annual family net income :

II. Details of Loans

1. Nature of agricultural credit facilities: CC/ SAO loan/ MT/LT/ Any other

2. Purpose of loan :

3. Date of application :

4. Date of disbursement :

5. Delay in getting loans (number of days) :

6. Amount applied for :

   Amount received :

   Difference (if any) :

   Period of the loan :

7. Details of security :

   a) Landed property b) Land and buildings c) Jewel d) Crop e) Others (specify)

8. Rate of Interest :

9. Did you face any problem in getting the loan: Y/N

   If yes

   a) Procedural delay b) Lack of adequate security to Mortgage c) Vested interest d) Bribery e) Inadequate assistance by bank officials f) Interference of politicians g) Others (specify)

10. Have you borrowed from any other sources for the same purpose? Y/N

    If yes,

    a) Personal savings b) Borrowed from friends/ relatives c) Loans from other agencies d) Local money lenders e) Others (specify)

11. Loan Utilisation Pattern

    a) Have you utilised the entire amount of loan for

       the purpose for which it is taken : Y/N

    b) If no, Utilised amount: diverted amount: Total

c) If diverted, for what purpose :

Consumption expenses/ Ceremonies/ Other Agri/Non-agri operations/ Others

12. Have you taken any other loan from the same society? Y/N

If yes, a) Purpose of the loan b) Duration c) Amount d) Rate of interest e) Security

III. Repayment Position

1 Schedule of repayment of loan : Monthly/ Quarterly/ Half yearly/ Annually

2. Repayment (amount) :

3. a) Did you repay promptly all the instalments of the loan : Y/N

4.

	Principal amount	Interest amount	No. of instalments
Amount of loan repaid			
Amount outstanding			
Amount of overdue			

5. Are you of the opinion that the repayment schedule is suitable and convenient? : Y/N

If no, the number of instalments suitable to you.

6. Reasons for default (Rank)

1. Inadequacy of income 2. Fixation of unrealistic due dates

3. Lack of timely recovery measures 4. Illness of borrower's family members

5. Unremunerative prices for the produce 6. Expectations of write off/ loan waiver

7. Under financing 8. Non-availability of needed inputs

9. Flood 10. Drought

11. Adjustment loans 12. Crop failure

13. Lack of supervision 14. Others (Specify)

7. Do you get periodical reminder of payment from bank? Y/N
8. Did any of the bank official visit you and advised you to pay? Y/N
9. Are you aware of the consequences of default? Y/N
10. Are you not concerned about causing your property auctioned or the publicity and loss of reputation on such an act? Y/N
11. Are you confident that a rescheduling will help you to repay? Y/N
12. Suggestions from defaulters for recovery (Rank)

    1. Provision for adequate field staff for project supervision
    2. Creation of awareness through good customer – banker relations
    3. Stern action against wilful defaulters
    4. Provision for consumption loan
    5. Adoption of appropriate modes and schedules of repayment
    6. Timely credit
    7. Fixation of recovery period coinciding with harvest/ income period
    8. Linking of credit with marketing
    9. Others (specify)

NON-PERFORMING ASSETS OF DISTRICT CO-OPERATIVE BANKS IN KERALA WITH SPECIAL REFERENCE TO AGRICULTURAL ADVANCES

By

SUDHEENDRAN. M.

ABSTRACT OF THE THESIS

Submitted in partial fulfilment of the requirement for the degree of

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2003

ABSTRACT

The study entitled "Non-performing assets of District Co-operative Banks in Kerala with special reference to agricultural advances" is conducted with the following objectives :

i) To examine the magnitude and composition of non-performing assets (NPAs) of District Co-operative Banks (DCBs) in Kerala
ii) To assess the extent of NPAs in agricultural advances and
iii) To identify the factors leading to NPAs

A comparison of three selected DCBs - Kasaragod (KDCB), Palakkad (PDCB) and Thrissur (TDCB) is done in terms of level and extent of NPA. Three PACS each that have defaulted in short-term (ST) agricultural advances to DCB have been selected randomly from each DCB. For identifying the grass root level reasons for non-repayment of ST agricultural loans by farmers to PACS, 90 defaulters are surveyed randomly selected from each PACS.

For identifying the reasons for default by PACS and their members, structured interview schedules are used for the survey. Mostly bi-variate and multi-variate tables have been used for the analysis of collected data. The first and second objectives of the study are analysed with the help of averages, percentages and growth rates. The third objective is analysed using priority index and statistical and econometric tools like Chi-square test, Regression analysis and analysis of variance (ANOVA).

The study reveals that the magnitude of NPAs was the highest in TDCB to the tune of Rs.8077 lakhs followed by PDCB at Rs.3368 lakhs as on 31st March 2001. The amount of NPAs is the lowest in KDCB at Rs.455 lakhs. Thus the magnitude of NPA is a major problem for TDCB compared to PDCB and KDCB. The study has brought out that the share of sub-standard assets to total NPA is higher in the region of

60 to 85 per cent in all the selected DCBs during the study period. However, the share of loss assets to total NPA is the lowest in all the three selected DCBs in the range of 1.2 to 21 per cent. The dominant share of sub-standard assets to total NPA is mainly due to the applicability of NPA norms to DCBs only from 1996-97 onwards. If not checked, a substantial portion of sub-standard assets will gradually slip to doubtful assets and subsequently to loss assets.

In the case of KDCB, NPAs in ST agricultural advances are present only in 2000 and 2001 to the extent of Rs.19.87 lakhs and Rs.9.57 lakhs respectively. ST agricultural NPAs of PDCB have accounted for more than 90 per cent of the total agricultural NPAs. The share of ST agricultural NPAs of TDCB has reached 100 per cent in 2001 from a mere 53.9 per cent in 1997. The extent of NPAs in agricultural advances is negligible in selected DCBs and thereby the lion's share of the NPAs is accounted for by non-agricultural advances. Moreover, in recent years, NPAs have existed only in ST agricultural loans. The lower magnitude of NPAs in agricultural advances of DCBs is mainly due to their thrust on non-agricultural lending policy and thereby acting as 'urban banks' with 'agricultural' tag.

Non-payment of ST agricultural loans by customers is the most important reason ranked by selected PACS of the three DCBs. Secretaries of several PACS have severely criticized the attitude of their DCBs for adopting a repayment schedule, which is creating asset-liability mismatch for them. Some of the secretaries have questioned the intermediary role played by DCBs in agricultural advances and demanded direct agricultural finance from NABARD at lower interest rates.

The study reveals from the Chi-square test and regression analysis that there exists significant relationship between annual family income and NPAs of defaulters of PACS under selected DCBs. In the case of defaulters in PACS of TDCB,

delay and diversion are also major factors that resulted in NPAs. Inadequacy of income is the most important factor leading to NPAs by defaulters of PACS of selected DCBs. A close observation reveals that inadequate income was the result of lower prices for agricultural produces of defaulters in PACS of KDCB and TDCB. But, in the case of PDCB, drought has resulted in lower income for farmers. Moreover, farmers believe that Government will write off agricultural loan amount. Reduction of interest rate on loans by PACS is ranked the most crucial step for reducing NPAs of selected DCBs.

It is obvious that the income of farmers and agricultural labourers should be substantially increased for ensuring proper repayment of agricultural advances by maintaining stable remunerative prices for agricultural produces in an era of globalisation of Indian agriculture. The direct linking of NABARD credit to PACS may benefit the farmers in a big way by availability of cheaper credit. The study raised some doubts regarding the role played by DCB as an intermediary in agricultural loans. It will be relevant to do away with the indirect agricultural finance by DCBs and merge urban co-operative banks with them so that there will be a strong presence of co-operatives in the non-agricultural banking sector. The need of the hour is to take effective steps in right direction that will benefit the living conditions of millions of farmers who feed us without feeding themselves.