

## Chapter IV

## **Recovery Performance and The Problems of Overdues.**

### **Introduction**

Repayment of the loan together with interest thereon by the borrowers is the central to the smooth functioning of the institutional credit. It is Contended that without a sustained recovery process the RRBs with their limited funds will not expand their lending operations. Thus, the timely recovery of loans is a pre-requisite for continious operation and very existence of such RRBs.

The loan repayment is dependent on proper utilisation of loans, selection of suitable scheme, supply of quality assets under different govt. sponsor scheme, availability of infrastructural and marketing facility, generation of sufficient income, the willingness to repay, continuous supervision and follow-up visit, interest and initiative of the bank staff and other govt. agencies.and above all the recovery management of the bank concern.

The rising volumes of overdues has serious implications.Apart from capital erosion, overdues result in non-recycling of fund, which in turn necessitates increasing dependence on refinance. As a defaulter, the borrower is cut-off from any access to further credit from institutions. This affect his existing productive enterprise and the lending capacity of the credit agency due to its inability to recycle the resources and to raise resources from the higher agency. The increasing overdues do not reflect well on the ability of RRBs to effectively supervise credit utilisation by borrowers which is necessary for timely repayment of loans . Thus, defaults involve heavy costs all round. They affect adversely the interest of both the borrowers and the credit agency and -

the level of overdues, that is loans and interest thereon not paid on due dates, is one of the most important indicators of the financial health of the lending institutions.

It thus, appears that an effective credit delivery system that will ensure the recovery is a must for sustainable growth and development of RRBs as well as for economic development of the rural areas, the very objective of which the RRBs are set-up.

With this end in view, this chapter gives attention to the following aspects:

- a) The recovery performance of the RRBs as a whole and the performance of our bank in comparison with other RRBs.
- b) Identification of the factors responsible for poor recoveries.
- c) To identify the incidence of overdues among different class of borrowers.
- d) To understand the views of the borrowers as well as of the bankers on the problems encountered by them.
- e) To understand the relationship of overdues with the operational holding, educational status, income, family size, caste & age of the borrowers.
- f) To see the effect of land size, level of income, family size, caste, educational status and age of the borrowers if any, on the payment behaviour of dues.
- g) To judge the overall impact of overdues and
- h) To study the credit delivery system of some successful rural banks to learn some lessons from their experience that may ensure recovery and financial health of our RRBs.

### **Methodology**

To study the problems of recovery and the resultant overdues at micro level, 261 beneficiaries/borrowers, selected at random from all the three districts of the bank's operational area, are interviewed through a interview schedule designed for the purpose (Appendix I) For this, three stage random sampling has been adopted. Where stage I is the choice of blocks from the districts and stage II is the choice of

panchayat from the blocks and stage III is the choice of borrowers from the respective panchayats. In the final stage borrowers/beneficiaries were selected at random out of the lists of the borrowers provided by the Panchayats office of the respective area as well as by the respective bank branch.

To study the problems, as well; from the bankers point of view 35 bank personnel, which includes chairman, General Managers, Senior Managers and officers of different sections of the head office and some branch managers or field officers are interviewed personally with the help of the schedule (Appendix II)

### **Recovery Performance.**

A frequency distribution of RRBs as at the end of June 1986, shows that 45 percent of the number of RRBs had a recovery of 50 percent and below,<sup>1</sup> The recoveries were above 60 percent as at the end of June 1989 for RRBs in Panjab (80.7%), Jambu & Kashmir (81.6%), and Gujrat (63.7%). These were very unsatisfactory for Maharashtra (40.1%), M.P. (35.0%), W.B. (39.8%), Bihar (34.2%), Tripura (28.6%), Nagaland (14%), Meghalaya (38%) and Rajasthan (38.1%)<sup>2</sup>.

The recovery performance of UBKGB during the initial years of its establishment were very satisfactory. The percentage of recovery to demand was between 59.1 to 70.5 during 1977-1981.<sup>3</sup>

The recovery performance suffered sever retrogression during 1986-96. The average recovery position during the period under reference of the RRBs at national and state level together with the position of our bank and MGB is presented in table 4.1.

The table clearly shows that the performance of UBKGB in the recoveries of old dues decreased from 49.2 percent in 1984 to 27.3 percent in 1996. The average recovery was just 31.7 percent of the demand during these period. The performance during 1992 & 93 was the worst when the recoveries decreased to 18.2 and 23.6 percent respectively.

Whereas, for MGB the percentage was as high as 68 in 1984 and decreased to 33 in 1996. It ranged between 49.3 and 44.4 percent during 1985-89 and 35.4 and 30 percent during 1990-96 maintaining an average recovery of 38.9 percent during the whole period under refinance.

At the national and state level it ranged between 50 and 48.6 percent and 44.4 and 37 percent during 1985-89 and during 1990-96 between 33.5 & 51 at the national and 27.3 and 53.8 percent at the state level. The average recovery was 49.5 and 36.2 percent respectively at the national and state level during the 12 year period.

Thus, the general trend has been towards deterioration over the years. The lowest performance was recorded during 1990-93 i.e. immediately after the Agricultural & Rural Debt Relief Scheme (ARDRS) of the govt. of India in 1990. A Comparison of the recovery performance of UBKGB and RRBs at the state and National level clearly brings out that though the performance in the initial years was better for UBKGB, during the recent years the performance worsen. So the percentage of overdues has been increasing steadily over the years for UBKGB as well as for other RRBs in the country.

### **Purpose-wise recovery position**

Table 4.2 indicates that the recovery from short-term (ST) agricultural loan was comparatively better (average 34%) than the term loan (TL) for agriculture & allied activities (average about 27%) during 1985-90. During 1993-96 recovery from Agricultural loan (ST & TL together) was 25 percent, higher than recovery from allied activities 16.2%. The highest recovery percentage in 1991 both for agricultural & allied activities of 88.6 and 84.3 percent respectively was due to ARDRS relief from the govt. The performance from non-agricultural activities (both ST & TL) was similar to those of ST agricultural loan but better during 93-96 than those of agricultural sector.

The analysis signifies that in the agricultural sector, the recovery of short-term agricultural loan was comparatively better than the recovery of Term-loan for agricultural & allied activities. This poor performance of term loan for agriculture and allied activities was mainly due to supply of poor quality of assets and misutilisation for lack of proper supervision and follow-up visits of the field staff (field survey results).

### **District-wise performance**

There has been a wide variation in the recovery performance among the districts. Jalpaiguri ranked first, followed by Cooch-Bihar and Darjeeling. The average recoveries during 1985-90 of the districts were 38%, 34.8% and 29.4% respectively. These percentage during 1992-96 were 27.4%, 25.2% and 25.1% (table 4.3).

The better performance of the Jalpaiguri may be due to better socio-economic condition and initiatives of the bank staff of the district (Appendix VIII).

### **Recovery to Credit disbursement ratio**

The percentage of recovery to credit disbursed during the period under reference is presented in table 4.4. The table shows that out of the total loan disbursed during 1984-90, on an average 77.5 percent of the amount was recovered. This percentage was just 45.6 in terms of number of accounts. During 1991-96 the ratio decreased to 50.3 and 41.9 respectively for loan amount and in the number of accounts.

Thus, the overdues in the aggregate grew at a faster rate than the disbursement of loans both in the amount and in the number of accounts during the period under reference. If the same trend is continued, there will be acute shortage of fund in the near future which ultimately will affect the rural lending activities of the bank, the very purpose for which it was established. The resultant poor financial performance will ultimately affect its very existence. Hence, it is expected that an early action is taken to solve this growing problem.

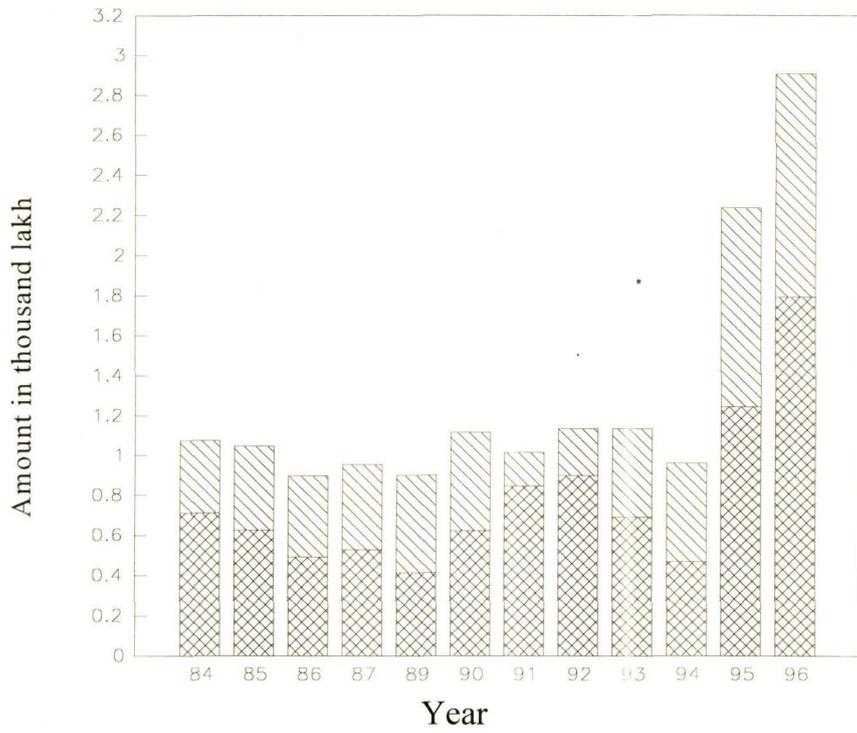


Fig. 3

Loan disbursement to recovery of UBKGB in amount

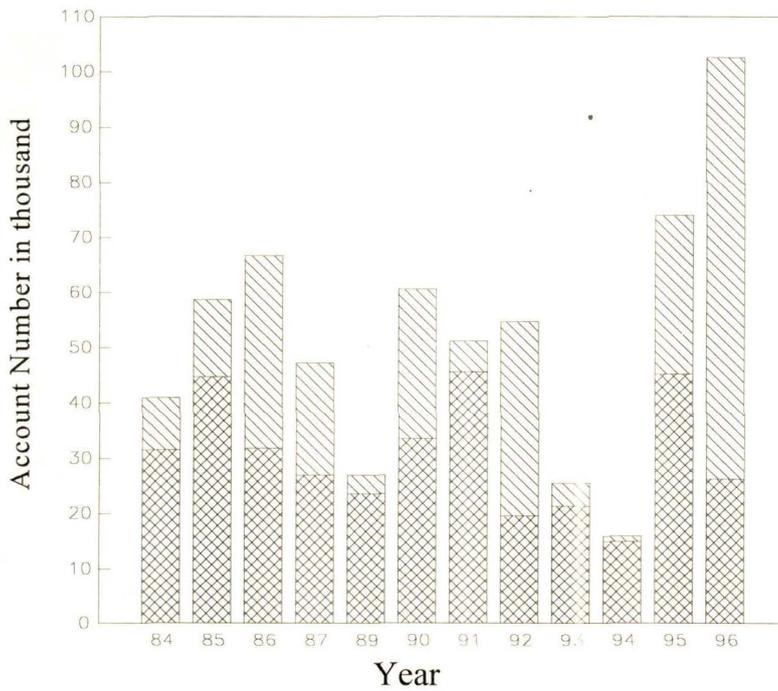


Fig. 4

Loan disbursement to recovery of UBKGB in account

**Note :** Upper portion of the bar is recovery & lower portion loan disbursed.

### **Recovery and Refinance relationship**

The eligibility criteria for refinance from higher tier (NABARD and Sponsor Bank) is linked with the recovery performance of the RRBs other than some special scheme like, Dairy development, Fishery, Sericulture, orange orchard, bullock cart and IRDP w.e.f. March 1986.<sup>4</sup> As a result the refinance from higher tier has been decreased steadily over the years.

It can be seen from the table 4.5 that refinance from NABARD in general term has decreased from Rs. 552 lakh in 1986 to mere Rs. 5 lakh in 1992 when the recovery percentage fell from 31.6 to 18.2. The bank has lost its eligibility for refinance in general term after 1992, except those of some special term, due to very unsatisfactory recovery performance during those period. The refinance from its sponsor bank (CBI) has also been decreased from 1987 onwards. A positive correlation ( $r=0.58$ ) between recovery and refinance in general terms during 1984-1992 can be seen implying thereby the relative importance of recovery for getting fresh refinance in general term from higher tier and for its very existence as a rural lending institution.

### **Loan amount and overdue relationship**

It can be seen from the table 4.6 that the overdue perbranch and per account is increased with the increase of advance per branch and per account both for UBKGB and at All India level.

In order to examine the relationship between the loan amount and overdue per branch and per account, linear regression equations based on 1984-96 data are worked out. The regression equations are presented below.

UBKGB.:

$$Y_1 = -3.00964 + .491995X_1 \quad \dots\dots\dots (1)$$

(8.041) t Singnificant .0000

$$R^2 = .86605$$

$$r = 0.93062 \quad F = 64.656 \text{ significant } F. 0.0000$$

$$Y_2 = .276609 + .576707X_2 \quad \dots\dots\dots (2)$$

$$(2.201) \text{ t significant } 0.0524$$

$$R^2 = .32632$$

$$r = 0.57125 \quad F = 4.844 \text{ significant } F 0.0524$$

All India :

$$Y_3 = -.657339 + .322174 X_3 \quad \dots\dots\dots (3)$$

$$(10.719) \text{ significant t. } 0.0000$$

$$R^2 = .91994$$

$$r = 0.95913 \quad F = 114.903 \text{ significant } F. 0.0000$$

$$Y_4 = .365582 + .51972 X_4 \quad \dots\dots\dots (4)$$

$$(8.748) \text{ significant t } .0000$$

$$R^2 = .88443$$

$$r = 0.94004 \quad F = 76.9334 \text{ significant } F. .0000$$

Where,  $Y_1$  and  $Y_2$  are overdue per branch and overdue per account of UBKGB and  $Y_3$  and  $Y_4$  respectively overdue per branch and overdue per account of RRBs at All India level.  $X_1$  and  $X_2$  are advance per branch and advance per account of UBKGB and  $X_3$  and  $X_4$  are advance per branch and per account respectively at all India level. Values in the perentheses indicates the value of t-statisties corresponding to respective regression coefficeient.

The regression coefficient were found to be positive and statistically significant in all the equations implying thereby that the loans advanced by both UBKGB and RRBs at the national level have a direct and positive bearing on the overdues per branch and per account. However, the magnitude of relationship varied between per branch and per loan account substantially. The results indicates that

every additional advance of Re 1 will cause in an overdue of Re 0.49 per branch and Re 0.58 per account of UBKGB and Re 0.32 per branch and Re 0.52 per account of RRBs at the national level. That is 49% of the advances per branch of UBKGB will be in overdue as against 32% at the National level and 58% per account of UBKGB and 52% at the National Level under the present condition.

This indicates poor business and inefficient management which led to heavy losses to the RRBs and specially to the UBKGB. Lack of proper loan appraisal and supervision for the end use, selection of unsuitable and unviable scheme, lack of initiative and interest of the bank staff, generation of insufficient income due to supply of poor quality of assets appeared to be the probable reasons for poor business of UBKGB.

**Overdue size and its relationship with the respective size of land, family, educational status, caste, age and the level of income of the borrowers.**

**a. Operational holding (land size)**

Distribution of borrowers on the basis of their land size (table 4.7.1) revealed no definite relationship between the size of overdue and operational holding. Of the total 142 borrowers in the lowest category of land size (upto .66 acre) 23.2% have overdues upto the level of 50%. Similarly, 28.8% of the land size group .67 to 1.5 acre have overdues upto the level of 50%. While, more than 47% of this category have overdues in the range of 51 to 75 percent. If the highest category of land size (above 1.65acre) be considered it can be seen that more than 52% of this land size group have overdues in the range of 76 to 100 percent. The corresponding figure for the medium size land holding is 23.7%. Hence, no definite relationship is found between the overdue size and the size of the land of the borrowers.

The Agricultural credit Review committee (ACRC) 1989 has also observed very insignificant relationship between these two variable<sup>5</sup> and a similar observation was made recently by D.K. Ghosh<sup>6</sup>.

#### **b) Educational status and the size of the overdue**

A moderately significant relationship can be found between educational status and overdue size. It can be seen from the same table 4.7.1 that of the 65 number of beneficiaries having educational qualification higher secondary and above only about 17 percent have overdues up to 50 percent while more than 47 percent have overdues in the range of 76-100 percent and 35.4 percent in the range of 51-75 percent. The corresponding figures for the illiterate beneficiaries are 31.8 percent up to 50 percent level and 53 percent in the range of 76-100 percent level. In the case of beneficiaries having qualification of primary level, about 26 percent have overdues up to 50 percent and this percentages are 30 and 50 in the range of 51-75 and 71-100 percent respectively.

Thus, of all the beneficiaries who have overdues 50 percent and below only 16.9 percent have educational qualification of H.S. and above, 31.8 percent illiterate and 25.9 percent primary. This indicates that comparatively beneficiaries of higher educational status paid less than those of illiterate.

#### **c) Level of Income**

Distribution of sample beneficiaries on the basis of their level of income indicates moderate relationship ( $r = 0.11$ ) between the level of income and overdue size. It can be seen from the table that only 19.5 percent beneficiaries of the lowest income group have overdues 50 percent and less. While, the corresponding figures for next two higher income groups are 23.6 and 29.5 percent respectively. The percentage of beneficiaries having highest overdues size (i.e. 76-100%) are 56.1, 47.3 and 46.6 respectively for the income group of less than Rs. 6000; Rs. 6000-10,000; and Rs. 10,001 & above. This clearly indicates some relationship between the level of income and overdue size, i.e. higher income group paid more than those of lower income group.

#### **d) Family size**

It can be observed from the same table that family size had no bearing on the overdues of the borrowers ( $r = .098$ ). It is clear from the table that 54.3 percent beneficiaries having lowest number of depended (lowest family size) have overdues in the range of 76-100 percent. The corresponding figure is 46.3 and 55.0 percent for the next two higher size of family . This signifies very negligible correlation between the size of the family and overdues. ( $r=0.098$ ).

#### **e) Caste and overdue size**

The table shows that beneficiaries of upper caste group paid less their dues than those of the lower caste group (SC & ST). The percentage of beneficiaries who have overdues 50 percent and less (lowest) are 27.8, 19.2 and 23.3 respectively for SC/ST, OBC and upper class. The corresponding figures in the overdue size of 76-100 are 47.9, 50.0 and 48.8 percent. Thus, overdues are comparatively less for lower caste group than those of upper caste group.

#### **f) Investment size / size of loan**

Distribution of borrowers according to the size of loan amount they received also revealed no impact on the size of the overdues. However borrowers received lowest loan amount paid comparatively more than those of the beneficiaries received more amount of loan.

#### **g) Age of the borrowers**

An interesting observation as revealed from the table is that beneficiaries within the age group of 36-45 have paid lowest repayment of loans, 55 percent of this group have overdues in the range of 76-100 percent. Whereas, the highest repayment was made by the age group 46 and above (Only 45.3 percent have highest overdue size). And 37.5 percent of the beneficiaries of the age group 18-25 have overdues 50 percent & less. This signifies that beneficiaries in the age group of 18-25 and 46 and above are better from the bank point of view than the age group of 26-45. It is therefore, desirable that bank give due consideration to these age groups while granting loan.

## **Defaulters and non-defaulters : Relationship with their respective size of Land, Income, Family, age group and Educational status and caste.**

To see the relationship between the behaviour of payments of dues with their respective size of Land, Income, Family, Age group, Caste and Educational status, the borrowers are divided into two categories Viz, defaulters and non-defaulters. The Borrowers those who have paid 0 to 50% of their dues are treated as defaulters and who have paid 51 to 100% as non-defaulters.

### **a) Land Size**

A close look into the table 4.7.2 reveals that 72.8% of the borrower having land size up to .66 acre (upto 2 bighas) have not paid their dues. In the next land size group (.67 to 1.65 acre or above 2 to 5 bighas) 59.2% have defaulted. The corresponding figure is 66.7% for the highest land size group (Above 1.65 aere or above 5 bighas). Thus, no definite relationship was found with the size of the land of the borrowers. However, the percentage of defaulters in the medium land size group was the lowest.

### **b. Income Level**

Distribution of borrowers on the basis of their level of income indicates some impact of higher income. It appears from the table that in the lowest income group (less than Rs. 6000 p.a.) the percentage of defaulters was the highest 78.9 as against the percentage of 68.1 and 64.1 of the next two higher income groups (Rs. 6000-10,000 and above Rs. 10,000 p.a.). This clearly indicates some impact on the payment behaviour of the borrower defaulted. That is the higher income groups have paid more than those of the low income groups.

### **c. Educational status**

It can also be seen from the table. That the proportion of defaulters in the highest educational status group (i.e. qualification of Higher Secondary and above) was the highest 77.6%. The correes ponding figures for the lowest status group (i.e. those who are illiterate) are 70.7% and 61.7% having qualification up to primary level. This indicates that comparatively beneficiaries of higher educational status

have paid less. However, no definite relationship exists between them.

#### **d. Caste**

There exists relationship in the payment behaviour with the caste group of the borrowers. The proportion of defaulters was the highest among the Muslim 92.3%, followed by upper Hindu 72.3%. whereas this proportion of the lowest caste group (SC, ST and OBC) was 65.3%. Thus, the lowest caste group are comparatively better than higher caste in payment of their dues. Similar observation was made by M.Sarkar.

#### **e. Family Size**

It can be observed from the table that the size of the family has no impact on the payment of dues of the beneficiaries . The percentage of defaulters in the lowest family size (1-3 nos) was he highest (86.7%) followed by highest size group (above 7) 82.1%. This percentage was the lowest (62.5%) for the family size of 4-7. that is the lowest family size group has paid the lowest, indicating its no impact on the payment of dues.

#### **f. Age of the borrowers**

It has been observed that the proportion of non-defaulters in the age group of 18.30 was the highest (39.5%). The corresponding figures for the next two age groups (31-45 and above 45) are 27.7 ad 31.8 percent respectively. That is the proportion of defaulters was the highest (72.3%) in the age group of 31-45 and it was lowest (60.5%) in the lowest age group (18-30). It may therefore be an important consideration to the bank while granting loans.

### **Causes of defaults: Field survey observations.**

#### **a) Views of the borrowers**

To study the problems 261 beneficiaries were interviewed during field survey with a view to ascertain their perception about the reasons of defaults. The findings of the survey are presented in table 4.8. It is seen from the table that only 21

borrowers (8%) have fully paid all their installments due and 239 i.e. 92 percent have defaulted with different size of overdues.

Data presented in the table shows that (i) inadequate income generation due to supply of poor quality of assets; (ii) failure of the assets/scheme due to disease or death of livestock and (iii) unforeseen domestic problems like, marriage, death, birth, illness etc; are the major reasons to which 30%, 17.2% and 14.2% respectively of the respondents have attributed their defaults. These three factors together accounted for more than 61 percent of the total defaults. Another two important factors are (iv) misutilisation and (v) defaults wilfully to which 13.8 and 13.4 percent respondents respectively attributed their defaults. Thus these five factors together are responsible for more than 88.5% of total defaults. The remaining 11.5% defaults are caused by (vi) expectation of debt relief (5.9%) (vii) liberal attitude of the govt. agencies (1.3%), (viii) lack of initiative of the bank staff (1.7%), (ix) faulty or wrong selection of scheme (1.7%) and for failure of crops (0.8%).

The survey also revealed that supervision and follow-up visits by the bank staff for the end use of credit was very negligible to which more than 50 percent of the borrowers have expressed their views. While, 15.3 percent beneficiaries have diverted their funds for other purposes. Inadequate supervision often resulted in improper appraisal of loan proposal and failure of credit agency. Virtually non-existent or ineffective supervision gives rise to many malpractice (like, misutilisation of loan, disposal of assets, diversion of fund etc.) culminating in overdues.

#### **b) Views of the bank staff for poor recovery of loans.**

To assess the problems as well, bank personnel both at the branch and head office levels were interviewed through a structured questionnaire designed for this purpose. The results of the interview is presented in table 4.9.

The major reasons of poor recovery to which the bankers attributed their views (expressed in percentage to total scores of various priorities) are:

- i) selection of unsuitable and unviable scheme (16.5%),
- ii) political interference and change of govt.(16.2%)

- iii) lack of initiatives and interest of the govt. agencies (14.1%),
- iv) Absence of proper infrastructure and marketing facilities (12.9%),
- v) Inadequate laws to take appropriate steps (10.8%).
- vi) Inadequate pre-section scrutiny and appraisal of loan proposal 8.7%.
- vii) Defaults wilfully due to liberal govt. attitude and expectation of debt relief (8.1%)and
- viii) lack of initiative of the bank staff 5.4%

Thus, it is seen that 93 percent of defaults is being caused by the above eight factors as viewed by the bank staff.

It also appears that both the beneficiaries and the bank staff have pointed out some common factors like, default wilfully, faulty or wrong selection of scheme which adversely affected the recovery of dues. Hence, appropriated steps are need to be taken in this direction.

#### **A comparative assessment with the previous study.**

The Khusro Committee, 1989, observed that the inadequate income generation accounted for 31.6% of the surveyed defaulters of RRBs. Our study also confirmed the similar results (30%). The unforeseen domestic problems was relatively a less important factor to the study of Khusro committee, The percentage of which was just 3.6% for RRBs, but in our study the percentage increased to 14.2 percent. Diversion of fund/misutilisation (i.e. consumed other than creation of assets)which accounted for 6.2 of the defaulters of RRBs (Khusro Committee), whereas, the percentage is as high as 13.8 in our study.

The cropfailure due to adverse weather condition was one of the major factors, according to the Khusro committee, to which 32.3 percent of the respondents of RRBs attributed their defaults. In our study the percentage is however very low i.e. only 0.8%.

Thus, there has been a shift in the nature and incidence of overdues over times in respect of crop failure (favorable) and as regards unforeseen domestic problems and diversion or misutilisation of loan (unfavourable), the problems for which are becoming more acute day by day. The percentage of wilful defaults are also in rising tendency. The percentage in our study of which is 13.4 as against 12.4 in Khusro Committee. The shift in the nature may also be due to different socio-economic condition. Hence, the study suggests immediate measures for combating with this growing problems for better recovery performance. Sarkar<sup>13</sup> observed that the borrowers having higher social status, higher income level and better education have paid less than lower social status, lower income and less educated borrowers.

Dr. Sarkar also used the tool "discriminant function to identify the dominant factor responsible for poor repayment performance on the basis of his 200 sample borrowers from Cooch Behar district. The variables - caste, education, occupation, per capita income, per capita borrowing, increase of income after the use of credit utilisation of loan, contract with the officials, timely receipt of loan, adequacy of loan, condition of the house, rate of interest, problems in getting loans are used for the purpose of his analysis.

The conclusion, based on the above analysis, was that the characteristics like incremental income after the use of credit, occupation, utilisation, of loan, contact with the lending agency and officials of the Govt; timely receipt of the loan, per capita borrowing and adequacy of loan are very helpful to classify the borrowers into defaulters and non-defaulters. Among these, the incremental income and occupation have the highest discriminating power. And the incremental income and per capita borrowing are the prominent determinant of classification of defaulters into wilful and non-wilful. One important findings was that the borrowers who have effectively utilised the credit and generated income by it have been defaulted more wilfully.

The analysis also indicated that high per capita borrowing was an important factor for increasing the overdues. The relationship with the influential person and other functionaries help the borrowers in getting loan and protection for their defaulting behaviour towards repayment of loans.

### **The quality of lending**

The credit quality warrants technical expertise for project/scheme appraisal and viability study. It is also essential that the supply of credit is well spaced over time horizon and is speedily disposed at a particular point of time according to the needs of the beneficiaries. The bank also need to diversity the credit port-folio for reducing the risk and better credit recovery.

Of the respondents (bank personnel) 65 percent have viewed that there has been a direct or indirect pressure from the govt. agencies for lending to unsuitable and unviable scheme(from the marketing and infrastructural point of view). Again, 94 percent of the respondents also expressed that there were negligible scope for rejecting the loan applications selected by the govt. agencies if not technically defects (table 4.10).

Hence, it is observed that due to political pressure for lending to unsuitable and unviable scheme with no scope of rejection hampered the quality of lending which ultimately led to the poor performance of the bank.

It has also been observed that credit programmer are often hastily drawn up to fulfill the target at the cost of quality of credit. The success or failure of the programme primarily depends on howmuch credit has been given in a given period of time. The scrutiny and appraisal of loan proposal and the recovery aspects are not important consideration while granting loans but assumes significance subsequently when defaults become a problem.

The lack of technical & professional skill of the staff for lending to non-target and non-priority sector needs to be trained properly in this direction. The bank also needs to acquire the expertise specialising in rural development.

### **Impact of overdues**

Table 4.1 reveals that the overdues at the ultimate borrowers level as at the end of December 1984 amounted to Rs. 376 lakh as against outstanding credit of Rs. 1423 lakh (table 3.2) Thus, more than 26% of the resources deployed were

locked up in overdues and were not available for recycling. In march 1996 the amount of overdues increased to Rs. 2961 lakh against outstanding loan of Rs. 6287 lakh i.e. more than 47 percent of the loan amount were locked up. The percentage of overdue to demand increased from 50.8 to 72.7 during the same period. The average overdue percentage of 65.7 for UBKGB during the 12 years period was much higher than the state average of 63.2 and national average of 53.5 (table 4.1). This clogging of overdues had severely impaired the eligibility of the bank for refinance from NABARD in general terms from 1993 onwards (table 4.5).

Defaults involved heavy costs all round. They affect the interest of both the borrowers and the credit agency. The negative and negligible percentage of growth of borrowal accounts over previous year (table 3.1) indicates the impact on borrowers' interest. Again, as a defaulter, the borrower is cut off from any access to fresh credit from the bank. This in turn affect his productive enterprise. Similarly, the lending capacity of the bank is also equally affected due to its inability to recycle the resources, which in turn affect the growth of credit and to raise more resources from higher financing agency (table 3.1 & 4.5).

If the bank is unable to recover from its borrowers even interest due on loans, its profitability declined and affect the viability. The another important aspect of overdue is that the agriculturists and other related rural enterprises, still outside the preview of banks credit suffered on account of non-availability of adequate supply of credit which sometime forced them to lend from money lenders or non-banking financial institution, which has been observed during our field survey. Thus, the higher incidence of overdues has become a major constraint to the expansion of credit of the bank as well as of the RRBs in the country which ultimately affected their financial viability. Huge non-performing advances with an increasing trend has been the major contributor to the loss of the bank as well as to other RRBs.

Therefore, the RRBs in the country like our bank must have to be given proper attention to reduce their overdues and non-performing assets by adopting an appropriate credit delivery system that will ensure effective use and timely recovery of loans for attaining the viable financial conditions.

## **The credit delivery system: lessons from two successful rural banks**

The successful management of rural credit in India specially the RRBs, at the instance of their mounting losses, requires cost effectiveness of the rural credit system which in turn requires relaxation in the practice of subsidizing interest rates to better off section, reduction of overdues and increase in the supply of credit to the marginalized sections of the rural population.

The Agricultural Credit review Committee (ACRC 1989) highlighted the yawning gap between the income generated and the cost incurred by rural credit institution including RRBs. The Narasimham Committee on financial sectors reforms(1991) among other things recommended a redefined priority sector, gradual phasing out of directed credit and deregulation of interest rates.

### **The Grameen Bank of Bangladesh (GBB)**

#### **The salient feature.**

**The back ground :** The GBB began as a development project in 1976 and it was made and independent bank by a government ordinance in 1983. The project was launched by Dr. Yunus, then professor of Economics, Chittagong University and currently, the Managing Director of GBB. The project's aim was to test the hypothesis that if financial resources can be made available to the rural poor on reasonable terms and conditions, they can generate productive self-employment without any external assistance. This pilot experiment proved successful. Subsequently, the Govt. ordinance was issued in 1983, transforming the project into a specialized financial institution for the rural poor, Viz., the Grameen Bank.

In 1983, the govt. ordinance provided for an authorised capital of taka 80 million and paid up share capital of taka 30 million, with an ownership pattern of 60% with the govt. and 40% with the borrowers. The authorised share capital was raised to taka 100 million and the paid up share capital to taka 72 million by an amendment in 1986, with the govt. subscribing to 25% and the borrower shareholders to 75%. In 1991, the authorised share capital stood at taka 250 million

and the paid up share capital at 114.4 million and Dec 1994 the paid up share capital at taka 216.52 million and authorised capital at taka 500 million, facevalue taka 100 each.

In 1983, there were 77 branches of the bank covering 1025 villages in five district. As on Dec 1994, the activities of the GBB had spread over all the districts of the country and 1045 branches operating in 34913 villages and a membership of 2.01 million and loanee member Land less (male) 10889 and Landless (female) 1751775 (5.9 and 94.1 percent respectively). Of the total member only 6% are landless male and the balance 94% are landless women. (Appendix - X and L.M.Bhole and R.V. Bhawani).

**Objective and functions : The basic objectives of the GBB are :**

- 1) To extent banking facilities to the landless persons specially to women. Without collateral searities in cash or in kind.
- 2) To eliminate exploitation by the money lenders.
- 3) To create oppòrtunities for self-employment.
- 4) To bring disadvantaged people with in the folds fo some organisational format.
- 5) To reverse the age-old vicious circle of low income - low investment low income into low income - credit investment - more income - more credit investment - more income.
- 6) To promote cooperation and solidarity thòugh its institutional frame work of groups and centre.

**Credit Delivery and Repayment System :**

One of the major distinguishing aspects of the GBB is the system of sanctioning, disbursing, utilizing, recovering and reloaning of credit. The major features of this system can be discussed as follows :

**a) Focus on Target Groups :**

A clearly defined target group is the starting point of this system. It avoids middlemen between itself and the borrower - members. The group as a whole qualifies for the loan. The members of the groups are given intensive training regarding the objectives of the GBB, the rules and regulation of the credit programme, functions of the group chairperson and the centre chief group savings and the educational, health and other social development programmes. Loan disbursement starts only when all the members of the group fulfil the prescribed conditions and the bank recognizes the group formally. The group as a whole, stands guarantee for the individual members. The members take loans for productive activities and default by them is checked by peer pressure.

Loans proposals are processed and disbursements and repayments are made at the centre meetings. Usually, the loans are short-term in nature and are in small amounts varying between 1000 to 5000 taka. The loan has to be used immediately, after which the repayments has to be made in 52 equal instalments. The member themselves select income generating activities, based on their knowledge and skill and prepare the loan utilization plan. The selection of activity is discussed at the centre meeting and has to be approved by the group. Loan utilization is intensively monitored and supervised.

**b) Resource generating through savings :**

Generating resources for the loan business through compulsory contributions to, or compulsory savings in different funds (group fund, Emergency fund, children's welfare fund, Disaster fund etc.) is an integral part of the loan business of the GBB.

**c) Training of staff :**

The training of various constituents is an integral part of the credit delivery system of the GBB. The Bank has created a strong cadre of middle-level officers through intensive practical and locally-oriented training. Induction training courses for newly recruited officers and bank workers, span over six months. The GBB also organizes training programmes for the borrowers in the form of periodical workshops.

## **Financial resources of GBB**

It is an important feature of the GBB that the member borrowers themselves are the major suppliers of funds to the Bank. They contribute to the resources of the GBB in the form of share capital and compulsory savings to the various funds mentioned earlier. Apart from these, the other sources are deposits from public, revolving funds and borrowings from the central bank of Bangladesh, domestic commercial banks and international organisations.

### **Interest Rates**

The GBB has been charging an interest rate of 16% p.a. on its non-housing loans. On housing loans, the GBB charges an interest rate of 5% p.a. It earns interest on fixed deposits at 14% p.a and short-term deposits at 8.5% p.a. Interest paid on compulsory saving deposits is 8.5% p.a. Funds borrowed from the bank, under its refinance scheme, bear an interest rate of 8.5% p.a. Loans under rural housing finance scheme are given at an interest rate of 3% p.a. Loans from International Fund for Agricultural Development (IFAD) on highly concessional terms (2 to 3 percent)<sup>7</sup>.

### **The Progress of GBB (Appendix - X).**

The performance and progress of GBB can be studied with the help of some indicators as given in appendix X. During 1980-94 i.e. over 15 years. The number of member and borrowers increased by 143 and 169 fold. The number of groups, villages and the branches increased by 140, 132 and 42 folds respectively. The credit disbursement increased by 1898 fold and the outstanding credit by 574 times. The credit disbursement to recovery Ratio was as high as 82.3 during 1983-96.

In terms of profitability, the GBB operated at a profit amounting to 2.8% of the volume of loans and advances. In 1985 and 1986 it just broke even. In 1991, it accumulated a loss of 1.2 million taka due to administrative and training cost incurred in the process of expansions. During 1993-94 its total income to total expenses was 100.73 and 101.09 and the Net Profit to Net Worth was 4.79 and 7.55 percent respectively.

### **Recovery of Loans :**

The GBB has applied a standardized rigid structure of loan repayments to achieve financial discipline. The pattern of regular weekly repayment has been critical in preventing borrowers from accumulating cash that they might have been tempted to spend, rather than use it to repay the loans. Maintaining and increasing the group's eligibility has been a crucial incentive for timely repayments. The GBB has consistently been able to maintain a 98% recovery rate.

The main factor contributing to the unhealthy situation of our rural credit system is that it has not produced desired results in terms of direction, quantum and quality of the flow of credit. The group lending approach may be one way in which the marginalized section may benefit from credit. The Grameen Bank of Bangladesh's working and other evidence show that the group lending programme have had relatively low delinquency and default rates. (recovery rate is about 98%).<sup>7</sup>

Though the GBB's structure and functioning differ significantly from our RRBs, the broad aims are the same. The RRBs were envisaged to overcome the weakness of commercial Banks (CBs) in catering to the credit needs of the rural poor, but they have not been able to generate the kind of staff commitment and organisation as per requirement. The strong management system, decentralization of power and responsibility and intensive training of the staff are features that have enabled the GBB to function successfully. The GBB has introduced a scheme of staff incentives which promotes staff member according to the profit made by branch and distributes 10% of those profits to its staff. By tying employee bonus to quantifiable performance criteria, its incentive scheme has succeeded in increasing the staff accountability and motivation.

The introduction of social mechanism that lowers transaction costs screen loan applicants and ensures loan repayments appears to be key to success. The GBB has also demonstrated that the poor can utilise credit efficiently, when their level of awareness is raised and they work in a group. Significantly, per capita income of GBB loanee household rose by 32 percent over the two years period when Bangladesh's per capita income as a whole increased by 26 percent<sup>9</sup>.

### **The Bank partanian Malaysia (BPM) :**

The BPM is a leading bank involved in rural banking in Malaysia. The BPM was a sick bank with huge accumulated losses, today enjoys a high profile status in the banking fraternity of the country. The bank introduced a number of scheme to mobilise deposits. the Bank strive to give attractive returns to the depositors such as rewards on renewal of deposits, bonus to savers out of the annual profits and penalty free pre-mature withdrawal. Despite a high rate of interest (about 34%) on advances : its rate of recovery is very high, a little less than 100 percent. The policy of the bank is to first make a person convert to the saving habit and then extend financial assistance. The return on assets is around 12%. which was marginally less than the top commercial bank in the country<sup>10</sup>.

### **Interest Rates :**

The GBB has been charging an interest rate of 16 percent p.a. on its non housing loans, almost since its inception. The policy of GBB that it has stressed is the greater availability of credit rather than the lower cost of credit. Whereas, the BPM charges, an interest rate of about 34 percent on advances.

From the success story of the above two banks and their experience highlights the critical issues that need to be considered while tackling the growing problems for providing financial services to the rural population by the RRBs.

### **LESSONS TO LEARN.**

From the success story of the two banks, few lessons to be learned are that:

- i. Access to credit is more important than the low rate of interest.
- ii. There is a large potential for savings among relatively low income people in rural areas.
- iii. The introduction of social mechanism that lowers transaction costs, screens loan applicants and ensures loan repayments. appears to be a key

to success.

- iv. The strong management system, decentralization of power and responsibility and intensive training of the staff together with the incentives for better performance can do better in increasing the staff accountability and motivation for better financial performance of RRBs.

Thus, the RRBs in the present scenario will have to be evolved a separate and simple set of system and procedure that will ensure timely recovery, cost effectiveness i.e. lowering the transaction cost in extending small loans quickly. The credit delivery mechanism devised by the GBB has lessons to offer in this regard.

### **Linking of self-help groups (SHGs) with banks**

The concept of SHGs is that it is a group of rural poor generally comprising small/ marginal farmers, landless agricultural labourers rural artisans, women folk and other micro entrepreneurs organised themselves to achieve economic development by raising their resources. Its working is described as follows:

- a. The SHG collects deposits from their members and do on lending to the needy members for production purpose and also for subsistence and costumption needs.
- b. It takes loans from banks/voluntary agencies/ NGOs etc. to meet the needs of the member.
- c. The group itself or with the help of NGO makes assessment of individual credit needs of its member and submit to the bank for sanction of collective loans in its name
- d. The NGO helps the SHGs in procuring raw materials and also in marketing of the produce.
- e. Finally, the SHG collectively ensures repayments of banks loans
- f. The entire loan amount disbursed to SHGs is refinance by NABARD to the financing bank.<sup>11</sup>

Thus, it is clear that financing through SHGs will take care of four important aspects of viable business for RRB.

- i. The loan released to SHGs by bank is eligible for 100 percent refinance from NABARD which can solve the problems of funds
- ii. NABARD lends this funds at 6.5% interest to the financing bank which can be lend at 12% interest to SHG. Leaving a clear margin of 5.5 percent higher than our bank margin (table 5.2)
- iii. The problems of supervision, monitoring of end use and recovery of dues can be solved. The NGOs or SHGs themselves monitor the loans and ensure repayments.
- iv. The financing through SHGs will considerably reduce the transaction cost to the bank, (the emerging problems).

### **SHGs- the overall progress**

Up to the date of report, 16 commercial Banks and 12 RRBs are involved in the linkage projects. The SHG. scheme was launched in Feb, 1992. Till March 1996 the state (W.B.) had 153 SHGs spreading over nine districts. However, UBKGB has not yet opened any such group except a few farmers' society in Jalpaiguri district, the performance of which are very satisfactory Right now, most of the SHGs in West Bengal have the track record of making an almost 100 percent repayment<sup>12</sup>.

Hence, it is suggested that our bank including other RRBs should come forward to form and finance SHGs for solving the growing problems of recovery, cost effectiveness and other related problems.

Bankers. View: 54 percent of the respondents of the bank staff have expressed the views in farowr of linking of SHGs for financing to the rural poor (table 4.11).

## Summary

1. The recovery performance of UBKGB as well as RRBs at the state and national level were very unsatisfactory during the period under reference and it deteriorated steadily over the years. The percentage of recovery to demand of UBKGB decreased from 49.2 in Dec, 1984 to 27.3 in 1996 as against 38.0 and 32.9 at the state and 50.1 and 50.98 at the national level. In comparison with the RRBs at the national level, the performance of which is improving in the recent years, UBKGB's performance was very unsatisfactory.

2. The recovery of short-term agricultural loans was comparatively better than the term-loan for agriculture and allied activities for the bank.

3. The better recovery performance of Jalpaiguri district was due to its better socio-economic condition and initiatives of the staff concern.

4. The over-dues in the aggregate grew at a faster rate than the disbursement of loan. The recovery to disburse ratio fell from 77.5 during 1984-90 to 50.3 during 1991-96. Hence an early action is needed to overcome the shortage of fund for the growing needs of credit of the rural area.

5. The bank (UBKGB) has lost its eligibility criteria for refinance facilities in general term from 1993 onwards due to the poor recovery performance in the recent years. The clogging of overdues had severely impaired the lending capacity of the bank table (3.1 & 3.2) as well as of others RRBs in the country, due to its inability to recycle the resources.

6. The loan advances by the RRBs in the country as well as by UBKGB have a positive and direct bearing on the overdues both per branch and per loan account. That is overdue per branch and per account will increase with the increase of advances per branch and per account under the present situation as indicated by the positive regression coefficients of advances on overdues both per branch and per account. This indicates poor business and inefficient management and decrease of repaying capacity of the borrowers for improper utilisation of loans which led to heavy losses to the bank.

7. The overdue size has not been influenced much by the respective size of land, level of income, educational status, caste, family size and the age of the borrowers. Comparatively, beneficiaries with higher educational status, lower income, upper caste group and the age group of 26-45 have paid less their dues than those of lower educational status, upper income, lower caste and the age group of 18-25 and above 45 years.

8. The impact of the size of the land, family size; level of income, educational status, caste and the age of the borrowers defaulted/non defaulted was also found very negligible on their payment behaviour.

9. Inadequate income generation due to supply of poor quality of assets and low productivity, failure of assets or scheme due to lack of support & assistance from the govt. agencies, unforeseen domestic problems due to extravagant social customs and tradition, ineffective supervision and follow-up visits and appraisal of loan proposal, selection of unsuitable and unviable scheme due to lack of infrastructural and marketing facilities, and lack of initiatives and interest of the govt. agencies and bank staff were the major reasons for poor recoveries of loan to which the majority of the respondents attributed their views.

10. There has been a shift in the nature and incidence of overdues over times. The problems are becoming acute day by day as regards the misutilisation of loan. Defaults wilfully are increasing due to lack of legal steps, lack of initiatives and interest by the govt. agencies as well as on the part of the bank staff and on the expectation of relief of debt.

11. The poor quality of lending as has been observed in the form of unsuitable loan mix (lending to retail trade and small business at a higher proportion than requirement), pressure from the govt. agencies for lending to unviable and unsuitable scheme, limited scope of appraisal of loan proposal for drawing up of credit programme very hastily to reach the target, is also responsible for poor recovery performance.

12. Defaults involved heavy costs all round. It has been observed during field survey that as a defaulter, the borrower remain cut off from any access to fresh credit which inturn affected his productive enterprise and in the generation of income. The lending capacity of the bank also affectd adversely due to its inability to receycle the resources, which in turn affected the growth of credit and to raise more resources from higher financing agency and thus declined its profitability. The worst and most expensive aspect of overdue is that the agriculturists and other rural enterprises, still outside the preview of bank credit suffered on account of non-availability of adequate supply of credit, which sometime forced them to lend from non-credit institutions or money lender<sup>an</sup> has been observed during the course of our survey.

13. Lending through self-help groups (SHGs) with the support of Non-govt. organisation (NGOs) have a positive bearing on the delivery and use of credit, recovery and on the lowering of the cost of transactions. Right now, most of the SHGs in west Bengal like that of GB of Bangladesh have the track record of working on almost 100 percent repayment. Hence, it is imperative that our bank and other RRBs in the country would come forward for lending through SHGs for an effective credit delivery and use of credit and for better recovery of loans.

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Table No. 4.1

## Recovery performance and overdue position

Rs. In Lakh

Years	Percentage of Recovery to Demand					Percentage of overdues to demand					
	UBKGB	MGB	GGB	West Bengal	All India	UBKGB	MGB	GGB	West Bengal	All India	UBKGB Overdues Rs.
Dec 84	49.2	68.0	NA	38.0	50.1	50.8	32.0	—	62.0	49.9	376
Dec 85	39.2	44.0	NA	44.4	48.4	60.8	56.0	—	55.6	51.6	657
Dec 86	31.6	48.3	42.0	39.0	49.0	68.4	51.7	48.0	61.0	51.0	876
Dec 87	31.0	46.4	40.5	37.0	50.0	69.0	53.6	59.5	63.0	50.0	953
March 89	30.9	49.3	42.0	39.8	48.6	69.1	50.7	48.0	60.2	51.4	1090
March 90	28.0	33.5	69.0	37.1	33.5	72.0	66.5	31.0	68.9	66.5	1270
March 91	60.0	35.4	63.9	53.8	45.2	40.0	64.6	36.1	46.2	54.8	1168
March 92	18.2	33.9	25.3	28.2	40.9	81.8	66.1	74.7	71.8	59.1	1062
March 93	23.6	30.0	27.8	27.3	41.2	76.4	70.1	72.2	72.7	58.8	1336
March 94	30.0	30.1	30.2	30.3	46.2	70.0	69.1	69.8	69.6	53.8	1153
March 95	29.5	30.0	30.2	33.5	51.0	70.5	70.0	69.8	66.5	49.0	2364
March 96	27.3	33.0	30.9	33.9	50.9	72.7	67.0	69.1	66.1	49.1	2961
Average	31.7	38.9	38.0	36.2	45.9	65.7	58.6		63.2	53.5	

Source : Computed from Annual Reports (DCB statement) & Statistics on RRBs.

Note : Recovery percentage of 1991 includes Debt relief received by the bank from the Govt. as per ARDRS - 1990.

Table No. 4.2

**Purpose-wise recovery position of the Bank (UBKGB)  
(percentage of recovery to Demand)**

<i>Years</i>	<i>Short term (ST) Agricultural Loan</i>	<i>Term Loan (TL) for Agri. &amp; Allied Activities</i>	<i>Overall Agri ST &amp; TL</i>	<i>Non Agriculture</i>	<i>Total of Agri &amp; Non Agri.</i>
Dec 84	—	—	—	—	—
Dec 85	54.4	44.5	—	45.4	46.7
Dec 86	34.5	28.1	—	38.1	34.9
Dec 87	30.5	21.1	—	34.3	30.3
March 89	30.2	25.2	—	30.3	28.9
March 90	25.4	21.3	10.8	27.6	25.7
March 91	88.6	84.3	85.4	36.1	60.0
March 92	39.1	32.7	NA	14.0	19.5
March 93	24.0	20.7	21.8	12.2	16.2
March 94	21.6	12.8	16.9	32.3	27.8
March 95	26.3	16.6	20.7	34.3	30.4
March 96	28.6	15.6	20.7	24.3	27.3
Average					
1985-90	34.0	27.0	—	34.6	
93-96	25.0	16.2	19.9	24.0	

**Source :** Computed from Annual Reports.

**Note :** Recovery percentage of 1991 includes Debt relief received by the banking form the Govt. as per ARDRS - 1990.

Table No. 4.3

**District-wise Recovery Position of the bank  
Percentage of Recovery to Demand**

<i>Year</i>	<i>Cooch Behar</i>	<i>Jalpaiguri</i>	<i>Darjeeling</i>	<i>Bank total</i>
Dec 84	56.8	47.1	44.2	49.2
Dec 85	41.0	41.7	34.1	39.2
Dec 86	30.0	41.0	25.0	32.0
Dec 87	30.2	34.6	27.4	31.0
March 89	31.0	35.0	26.0	30.9
March 90	27.0	31.0	24.0	28.0
March 91	NA	NA	NA	60.0
March 92	20.2	19.1	14.0	18.2
March 93	22.7	25.3	22.7	23.6
March 94	27.9	31.8	30.7	28.7
March 95	29.6	32.3	29.8	29.5
March 96	26.7	31.0	22.3	27.3
Average				
Durieng				
1985-90	34.8	38.0	29.4	
1992-96	25.2	27.4	25.1	

**Source** : Computed from Annual Reports.

Table No. 4.4

### Recovery to Credit disburse Ratio

(Account in thousand & Ammount in Rs. lakh.)

Years	Loan disbursed		Recover		Ratio	
	No. of Account in thousand	Amount Rs. lakh	Account in thousand	Ammount Rs. lakh	Account	Amount
84	31.5	711	9.4	364	29.8	51.2
85	44.7	625	14.0	423	31.3	67.7
86	31.8	491	34.9	406	109.7	82.7
87	26.9	527	20.3	428	75.5	81.2
89	23.5	414	3.4	487	14.5	117.6
90	33.5	622	27.1	495	80.9	79.6
91	45.6	848	5.6	1666	12.3	18.4
92	19.5	899	35.2	236	180.5	26.3
93	21.3	691	4.2	444	19.7	64.3
94	14.9	467	1.0	494	6.7	105.8
95	45.2	1245	28.8	991	63.7	69.6
96	26.2	1792	76.3	1113	291.2	62.1
Average						
during						
1984-90					45.6	77.5
1991-96					41.9	50.3

Source : Computed from data based on Annual Reports .

Note : Recovery percentage of 1991 includes Debt relief received by the bank form the Govt. as per ARDRS - 1990.

Table No. 4.5

### Recovery and Refinance relationship

Years	Refinance/Borrowings from NABARD, CBI, IDBI etc.						Recoveries		
	NABARD General Rs.	NABARD Special Rs.	CBI General Rs.	CBI DRI Rs.	IDBI Rs.	Total Rs.	Total General Rs.	Amount Rs.	% of Recovery
Dec 84	431	188	181	22	2	824	612	364	49.2
Dec 85	586	250	181	21	4	1042	767	423	39.2
Dec 86	552	274	241	21	4	1092	793	406	31.6
Dec 87	466	260	213	21	2	962	769	428	31.0
March 89	337	294	237	21	1	890	754	487	30.9
March 90	228	255	190	21	-	696	418	495	28.0
March 91	191	323	174	19	-	707	365	156	6.8
March 92	5	503	97	19	-	630	102	236	18.2
March 93	-	710	21	19	-	750	21	444	23.6
March 94	-	825	-	16	-	841	-	494	30.0
March 95	-	774	-	12	-	786	-	991	29.5
March 96	-	886	-	51	-	937	-	1113	27.3

**Source :** Computed from Annual Reports

**Note :**  $r=0.58$  (1984-92 data) between recovery and refinance in general term.  
Recoveries of 1991 excluding ARDRS relief

Table No. 4.6

### Loan Amount & Overdue relationship

Amount Rs. In Lakh  
Account in Rs thousand

Years	UBKGB				All India			
	Advance Per Br. (X) Rs.	Advance Per Acct. (X) Rs.	Overdue Per Br. (Y) Rs.	Overdue Per Acct. (Y) Rs.	Advance Per Br. (X) Rs.	Advance Per Acct. (X) Rs.	Overdue Per Br. (Y) Rs.	Overdue Per Acct. (Y) Rs.
Dec 84	172	1.6	453	0.72	10.6	1.9	2.49	1.53
Dec 85	21.8	1.7	6.57	1.04	11.2	2.0	2.77	1.56
Dec 86	21.1	1.8	8.76	1.22	13.9	2.2	3.42	1.52
Dec 87	24.3	1.9	9.43	1.24	16.7	2.4	4.26	1.43
March 89	26.3	1.9	10.00	1.16	20.7	2.7	5.34	1.31
March 90	29.8	2.1	11.44	1.23	24.6	3.0	6.49	1.67
March 91	21.6	1.7	10.52	1.69	24.9	2.9	7.66	1.88
March 92	24.2	1.8	9.56	1.76	28.1	3.3	9.04	2.23
March 93	32.9	2.2	12.0	2.22	31.8	3.7	11.11	2.52
March 94	39.1	2.3	10.38	1.25	36.1	4.2	12.72	2.91
March 95	45.4	2.9	21.29	2.68	43.4	5.0	14.61	2.92
March 96	56.6	3.4	26.67	1.70	51.8	5.9	13.30	3.28

Source : Computed from Annual Reports and & Statistics on RRBs.

Table No. 4.7.1

**Overdue Size its relationship with operational holding  
Income, Family size, Educational Status, Caste,  
investment Size, Age**

Overdue Size in %	Operational Holding			Level of Income			Family Size		
	upto .66 Acre	.67-1.65 Acre	above 1.65	Less than Rs.6000	6000-10000	above 10000	1-3	4-7	8 & above
Upto 50	33 (23.2)	17 (28.8)	10 (26.3)	8 (19.5)	26 (23.6)	26 (29.5)	7 (20)	49 (28)	4 (13.8)
51-75	27 (19.0)	28 (47.5)	8 (21.1)	10 (24.4)	32 (29.1)	21 (23.9)	9 (25.7)	45 (25.7)	9 (31.0)
76-100	82 (57.7)	14 (23.7)	20 (52.6)	23 (56.1)	52 (47.3)	41 (46.6)	19 (54.3)	81 (46.3)	16 (55.0)
Total	142 (100)	59 (100)	38 (100)	41 (100)	110 (100)	88 (100)	35 (100)	175 (100)	29 (100)

Overdue Size in %	Education Status			SC&ST	Caste		Investment Size		
	Illiterate	Primary	Secondary & above		OBC & Muslim	Upper Hindu	upto Rs. 3000	3001-6000	above Rs. 6000
Upto 50	21 (31.8)	28 (25.9)	11 (16.9)	40 (27.8)	10 (19.2)	10 (23.3)	15 (23.8)	20 (28.2)	25 (23.8)
51-75	10 (15.2)	30 (27.8)	23 (35.4)	35 (24.3)	16 (30.8)	12 (27.9)	19 (30.2)	15 (21.1)	29 (27.6)
76-100	35 (53)	50 (46.3)	31 (47.7)	69 (47.9)	26 (50.0)	21 (48.8)	29 (46.0)	36 (50.7)	51 (48.6)
Total	66 (100)	108 (100)	65 (100)	144 (100)	52 (100)	43 (100)	63 (100)	71 (100)	105 (100)

Overdue Size in %	Age of Borrowers			
	18-26	26-35	36-45	above 45
Upto 50	6 (37.5)	19 (24.1)	16 (23.2)	19 (25.3)
51-75	2 (12.5)	24 (30.4)	15 (21.7)	22 (29.3)
76-100	8 (50.0)	36 (45.6)	38 (55.1)	34 (45.3)
Total	16 (100)	79 (100)	69 (100)	75 (100)

Source : Field Survey Data

Table No. 4.7.2

**Distribution of Defaulter and Non-defaulter Borrowers  
with their respective size of Land, Family, Level of Income,  
Caste, Educational Status and Age.**

<i>Borrowers</i>	<i>upto .66 Acre</i>	<i>Land Size</i>			<i>Family Size</i>		<i>Income Level</i>		
		<i>.67-1.65</i>	<i>above 1.65</i>	<i>1-3</i>	<i>4-7</i>	<i>above</i>	<i>Less than Rs. 6000</i>	<i>6000- 10000</i>	<i>above 10000</i>
Defaulters	91 (72.8)	29 (59.2)	24 (66.7)	26 (86.7)	95 (62.5)	23 (82.1)	30 (78.9)	64 (68.1)	50 (64.1)
Non- Defaulters	34 (27.2)	20 (40.8)	12 (33.3)	4 (13.3)	57 (37.5)	5 (17.9)	8 (21.1)	30 (31.9)	28 (35.9)
Total	125 (100)	49 (100)	36 (100)	30 (100)	152 (100)	28 (100)	38 (100)	94 (100)	78 (100)
	<i>SC&amp;ST OBC</i>	<i>Caste</i>			<i>Educational Status</i>		<i>18-30</i>	<i>Age</i>	
		<i>Upper Hindu</i>	<i>Muslim</i>	<i>Illiterate</i>	<i>Primary</i>	<i>Secondary &amp; above</i>		<i>31-45</i>	<i>above 45</i>
Defaulters	98 (65.3)	34 (72.3)	12 (92.3)	41 (70.7)	58 (61.7)	45 (77.6)	26 (60.5)	73 (72.3)	45 (68.2)
Non- Defaulters	52 (34.7)	13 (27.7)	1 (7.7)	17 (29.3)	36 (38.3)	13 (22.4)	17 (39.5)	28 (27.7)	21 (31.8)
Total	150 (100)	47 (100)	13 (100)	58 (100)	94 (100)	58 (100)	43 (100)	101 (100)	66 (100)

**Source :** Computed from field Survey data.

**Note :** 1. Figures in Parentheses are percentage share to total borrowers of the respective groups

2. Defaulters = Those who have paid 0%-50% of their dues

Non-Defaulters = Those who have paid 51%-100% of their dues.

Table No. 4.8

## Causes of defaults : views of the borrowers

Sl. No	Causes of defaults	Cooch- Behar	Julpai- guri	Darjee- ling	Total	Percentage to total
1.	Inadequate income generation (due to low productivity, poor quality of assets acquired and low investment)	23	23	26	72	30%
2.	Failure of the Assets/Schme/Non-existence of assets (due to disease, or death of live stock. etc.)	11	12	18	41	17.2
3.	Unforeseen domestic problem/household expenses/due to marriage, death, birth, disease or illness)	18	11	5	34	14.2
4.	Mis-utilisation of fund and non-creation of assets. (consumption for other purposes)	17	7	9	33	13.8
5.	Wilful defaults/defaults due to negligency	9	15	8	32	13.4
6.	Expectation of debt relief	2	11	1	14	5.9
7.	Liberal attitude of the Govt. agencies/Political influence	—	—	3	3	1.3
8.	Lack of initiaive of the bank staff	1	3	—	4	1.7
9.	crop failure due to natural calamities	2	—	—	2	0.8
10.	Faulty/wronf selection of the scheme (having no interest, experience etc.)	—	2	2	4	1.7
	Total	83 (89.24)	84 (89.36)	72 (97.30)	239	100

## Some other related problems.

1.	Insufficient supervision and follow-up visit (visit once or neve)	53	49	30	132	50.6
2.	Dversion of fund	17	15	8	40	15.3
3.	Paid commission for loan	—	5	7	12	4.6
4.	Salz of Assets	1	1	7	9	3.4
5.	Lack of marketig facility	5	2	4	11	4.2
6.	Paid fully all the instalment dues	10	9	2	21	8.0

Source : Field survey

Note : Figures in brackets are percentage of defaulters to total defaulters of the respective District.

Table No. 4.9

### Causes of Poor recovery of loans Bankers' view

Sl. No	Causes of poor recovery	Frequency of priorities				Total Score	Percentage to total Score
		1st	2nd	3rd	4th		
1.	Selection of unsuitable and unviable scheme	8	6	2	1	55	16.5
2.	Political interference and change of Govt.	10	1	3	5	54	16.2
3.	Lack of initiative & interest of the govt. ageneies.	3	7	5	4	47	14.1
4.	Absence of proper infrastructure & marketing facility	1	7	6	6	43	12.9
5.	Inadequate Laws to take aproprate steps	5	1	4	5	36	10.8
6.	Inadequate pre-sanction serutiny & appraisal of loan proposal	3	4	1	3	29	8.7
7.	Wilfully defaults for liberal govt. atitude & expectation of debt reliet.	2	3	4	2	27	8.1
8.	Lack of initiative of the bank staf and lack of positive relationship with the borrower	0	2	2	8	18	5.4
9.	Inadequate supervisions and follow-up	1	1	1	3	12	3.6
10.	Mis-utilisation of Fund	1	-	-	2	6	1.8
11.	Diversion of Fund	1	-	-	-	4	1.2
12.	Poor quality of Assets	-	1	-	-	3	0.9
Total						334	100

**Source :** Interview with the bank staff

**Note :** Score given to various Priorites : Four to 1st, Three to 2nd: two to 3rd and One to 4th

Table No. 4.10

## Quality of lending (Response of the bankers)

Questions	Total Respondent	Responses in favour	Percentage in favour
1. Direct or Indirect pressure for lending on unsuitable/non viable scheme	34	22	65
2. Nature of pressure:			
a. Regular	34	8	24
b. Occasional	34	14	41
			65
3. Scope of rejection of Loan application by the bank :			
a. very good scope to reject	34	1	3
b. No. Scope to reject.	34	1	3
c. Negligible scope to reject	34	32	94
			100
4. Causes of rejection			
a. Technical grounds	34	20	59
b. Suitability and viability grounds	34	8	23
c. Past records	34	6	18
			100

Source : Interview results

Table No. 4.11

## Bankers View as the method of lending for better recovery

Suggestion/Views	Total score obtained	Percentage to total Respondents	Percentage to total score
Full freedom in the selection of beneficiaries	29	83	38.2
Full freedom in the selection of scheme	26	74	34.2
Linking of self Help groups with the bank	19	54	25.0
Introduction of margin money	2	6	2.6
Total	76		100

Source : Field survey