

Non-Performing Assets of Commercial Banks: Thorns in the Flesh¹

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Abstract

The article delves into the fact that dependence on bank loan for the entirety of operations of companies is fraught with many problems. Non-Performing Assets of banks have been figuring as thorns in the flesh of not only banks, but also the Government and the Reserve Bank of India. For borrowing enterprises, interest continues to accumulate and in unfavourable externalities banks do not show any understanding of the difficulties faced by the entrepreneurs even when they are serious about payment of bank dues in time. The call by loaner banks and some other circles for the creation of Asset Reconstruction Companies for taking over all the bad loans does not appear to be a consistent solution of the problem .

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I. NPA - AN ENDEMIC FEATURE

For a long time since nationalization, major commercial banks in the country launched the massive programme of making funds available to medium and small industries under a scheme of social banking, so that entrepreneurs in these categories could embark on creative ventures on a countrywide scale. A number of investment banks, lead banks on a district-wise basis and regional rural banks established in different parts of the country aimed at reaching out to the potent entrepreneurs along with techno-managerial assistance to help them establish enterprises for augmenting growth of the economy and enhance the per capita income of the people at large. Large scale investments were mobilized for this purpose with the highly laudable objectives of initiating economic growth, enhancing employment, multiplying national income and improving the standards of living of the people at large. The upsurge continued as an adjunct of the funds allocated for various heads of development under the five year plans. A kind of hurry was instilled into the whole process of economic growth and development and for a time it appeared that the growth engine was on the fast track of fructification, with the rate of economic growth hovering around nine-ten per cent for quite some time and per caput income was on an upward slope despite the growth in population. The bounds of economic planning in the Indian democracy were severely challenged with the stepping in of the distinctive features of what goes by the brand name of *globalism* with the essential controls that guarded the economy from different untoward forces challenging the tenets of economic planning in a democracy being withdrawn, virtually opened the

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economy to the so-called free market forces. Thus, many of the investment banks playing the essential roles of long term financing of projects were converted into commercial banks marking a departure from their erstwhile roles, while the commercial banks themselves have undertaken the responsibility of funding start-up ventures in different lines of activities, deviating from their traditional roles. The mismatch of roles has created a number of far-reaching anomalies from which the commercial banks are finding it hard to come out. These anomalies remained unspoken for a long time till their ugly faces came in the open in very many manifestations. The problem is not that acute when the form of enterprise chosen is a company, especially a public limited company, because the initial capital is provided by the entrepreneurs and the role of banks is traditional in such start-up enterprises. The compulsion of capital contribution usual with companies is not present in such cases and banks are desired to provide seed money, starting capital and subsequent contributions in various forms, mainly loans; the other forms being usual commercial banking transactions involving receipts and payments and use of various instruments like cheques, bills and overdraft facilities. For a going concern the usual relationship is one of co-participation for a common cause. But dependence on bank loan for the entirety of operations was fraught with many a slip. More specifically, the problem with loans is that the interest on the loans given starts accruing right from day one, irrespective of whether proper usage of the money is being made or otherwise. Inexperience of the recipients, in many a case, has come in the way of economic utilization of the funds so received from banks as loans, while uneconomic and cost-inefficient doses of loan-funds have had their tolls on the economics of operations of these enterprises. The main planks of *social banking* were related to spreading in a planned manner, if one were to look back to those days of Mrs Indira Gandhi's government, the banking habits of the people to every nook and corner of the country. The foundations thus laid for an upsurge of the related activities for a rapid economic development, especially in the villages where India lives, were apparently more idealistic than realistic! To transform this idealism into fruit-bearing endeavours required an upsurge in village level administration to ensure that the funds so channelled were put into proper use. The banker-entrepreneur relationship soured for various reasons including the bellicose externalities, as stated earlier.

II. TENETS OF SOCIAL BANKING

Since the nationalization of banks, the slogan of '*garibi hatao*' acquired a new meaning and significance – also a new enthusiasm - so as to drag the poor out of the mire in which they found themselves for ages. The spurt in activities related to large scale expansion of branches of the nationalized banks, establishment of regional rural banks as also lead banks on a district-wise basis marked an alterity not seen before. The banking habits of the people did witness a sea change in many areas of the country and for a time it appeared that alongside a reasonably high growth rate coupled with a rise in per caput income alongside a rise in employment would be a systemic feature to give effect to the hallowed objectives of economic planning in a democracy, an apparent contradiction in terms. The idea of economic planning in a democracy required a whole host of controls and regulations to make it unidirectional, instead of making plan efforts dilutive. While economic planning required emphasis on capital-intensive-industries, higher employment was designed to come from a wider base of labour-intensive industries embracing the traditional, medium and small scale industries emphasizing on the initiative of the people at large. Banks were required to play a signal role in lifting the ravaged Indian economy from the morass of under development. Commercial banks along with the investment banks were expected to play a crucial role in this context. The large expansion in banking activities, establishment of a large number of branches, sanction and disbursement of loans almost led the country

towards fulfilment of the objectives behind all these policy initiatives. The Reserve Bank of India *Annual Reports on Currency and Finance, Annual Reports and Mid-term Reports of the RBI* and the monthly issues of the *Reserve Bank of India Bulletin* are all replete with facts and figures of functioning of the banks and all their adjuncts related to deposits and advances by these banks and their branches on a countrywide scale. All these classified data underline the huge, and growing, scale of activities in the commercial banking sector of the country. A good number of research studies on the growth and functioning of the bank-assisted small and medium scale industries and the bright prospects they held for attaining the desired and sustained rate of economic growth of the country with equity and inclusiveness as their main mantras, underlined in the process significant success of the Nehruvian brand of *socialistic pattern of society*, which was hailed the world over as a model for emulation by other developing countries. On a number of occasions, it so happened that India was able to absorb the shocks created by the open market economies of Europe, USA and the Far East, and come out of the economic quakes unscathed, no mean achievement by any count.

III. CONTRARIAN VIEWS GAIN GROUND

It came to be believed at the end of several decades of the economy under controls that it was time to relax the controls that suffocated several sectors of the economy and that controls instead of propelling growth tended to halt the process. These contrarian views gathered further strength with the onrush of the liberalization regime in 1991. Globalism in fact exposed the Indian economy to the global forces that anchored the economy to the market forces on an international scale, making fun with all that was being done earlier to disperse creative, productive efforts by way of small and medium scale industries on a countrywide scale as referred to earlier, which nosedived to all kinds of diseconomy. *De facto* withdrawal of official support witnessed many a unit crumble with failing business, growing diseconomies of high cost, lack of competitive ability and mounting burden of financial loss. Many of these units were in utter desperation, all their assets figuring finally in bad loans, as banks would call them. For a long time since bank nationalization, banks have been doling out funds to the small and medium industries, at times throwing all the usual precautions that banks insisted upon earlier to the winds. The schemes of social banking that Government of India launched did witness an upsurge for some period of time since nationalization and banks under the control of the Union Government spread their wings with dispensation of funds for building industrial and commercial enterprises all over the country. While in some parts of the country the initiative taken by the Government did bear fruit and enterprises in different lines of activities sprung up, in several states the results were not really as encouraging as in others. Not that this phenomenon of unequal distribution of funds was not noticed, even on a country-wide scale this issue persisted with all its ill-effects. The BIMARU states, for that matter, continued to remain in a state of abject poverty almost as a counter-dote to all that was sung about 'garibi hatao', or poverty alleviation. Social banking as a matter of fact did not touch the nook and corner of the country though in the aggregate, a large number of bank branches were entrusted with making funds available to intending entrepreneurs for building up small and medium scale enterprises in different lines of activities. A huge quantum of funds was spent in response to the requirements of the new programme by way of loans with the expectation that proper utilization of these funds would bring about all the desired changes in the world of the down-trodden by way of economic uplift. *The Report on Currency and Finance, The Annual* and the monthly issues of the *Reserve Bank of India Bulletin* over all these years have presented exhaustive details of funds lent out to the small and medium scale industries as also the casualty details of the small and medium industries in different parts of the country. A number of

research studies on the growth and functioning of these industries were undertaken by the universities and other institutions for highlighting the roles, problems and prospects of these industries as functional planks of the developmental concerns envisaged in the Nehruvian approach to planning in a socialistic pattern of society. That all was not well with this lofty scheme of things started coming to light with a good number of such funded projects failing to show the desired results. On the contrary, a large extent of their failures and a lackadaisical attitude of the recipients of such funds started posing as a veritable burden on the national exchequer. Non-performing assets of banks are a signpost of failure of the entrepreneurs engaging themselves in inutile ventures.

IV. PERVASIVE IMPACT

Non-performing assets of banks have been figuring as thorns in the flesh of not only the banks themselves, but also the government and the Reserve Bank of India. Many of these banks have taken recourse to the legal route for disposing of the assets of the units for which these loans were taken by the entrepreneurs. All this jerks the very cherished idea of social banking with the lofty ideal of initiating the country-wide processes of inclusive growth in the small and medium scale industrial sector. The newspapers of the country are replete with instances of the moves for take over of these properties and realization of money from the guarantors under the much vaunted Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and in exercise of the powers under section 13(2) of SARFESI Act, 2002, calling upon the borrowers and guarantors to repay the amounts mentioned in the Notice within sixty days from the notice date. This kind of threats against non-payment of dues is usual as one notices frequently in different newspapers published from different places. The aforesaid is a sample of the kind of contents that one comes across, as a direct contrast to the lofty objectives that government required of the banks to implement. There are several issues surrounding the idea of helping the entrepreneurs – large, medium and small – in their efforts to tide over financial stringencies that both militant externalities and indifferent internal organizational phenomena invariably create. There are numerous issues bearing on goal-realization that pose many a road-block to entrepreneurs, in their efforts to procure various inputs, process them into products and services and market them effectively in conditions of high competition, ever changing consumer tastes and the need for making the products and services available to customers at their beck and call. All this is not easy, especially when one takes into view the large number of entrepreneurs coming into fray with high dependence on bank loans and practically no clear idea of the numerous hazards that start-ups imply, especially in the cases of those first-generation entrepreneurs who do not have any experience of launching into such ventures either in similar types of activities or even as employees in such ventures. The following paragraphs seek to deal with some of the important issues that have affected the endeavours of the entrepreneurs in general their attempts to make both ends meet, in different lines of activities calling for both general and technical skills and resources matching the levels of activities envisaged. Inexperience has remained a major handicap in all this but on the job monitoring of progress, the hurdles faced and the ways to deal with them have been few and far between, leave aside the economics of utilization of financial and other resources deployed. No wonder, achievable progress in this respect has remained unattained.

V. SOME PRACTICAL ISSUES

When the entrepreneurs launch their new ventures in different lines of activities either as unitary concerns or as partnership firms, they must have the wherewithal for sustaining their ventures with no more than marginal dependence on bank loans, even though the banks may show their eagerness to fund

the projects under the schemes of social banking. The position is different in the cases of micro-finance projects which may generally be more concerned with activities based on personal skills or focusing on small scale production not calling for large outlay of funds, or dealing with meeting the local requirements of goods and services. The initial funds should in such cases come from their own pockets and services of banks should be used mainly for receipts and payments. High risks being out of question, the entrepreneurs may raise the initially required funds as advances, using banks as medium. As the scale of operations increases and credit sale becomes the modus operandi, the services of banks would come in handy. When both the markets and the customers are subject to cyclical fluctuations, the hapless entrepreneurs have no better alternative than to resign to fate, to suffer loss, decline in sales and dried up inflow of funds. When the organization is a company, relief comes from the fact that in the face of loss no dividend is required to be paid but when the dependence is on loans from banks, interest continues to accumulate and the unfavourable externalities, in their various shapes and impacts, are not taken into account at all while the interest liabilities continue to accumulate. The banks do not show any understanding of the difficulties faced by the entrepreneurs even when they are serious about payment of bank dues in time. When the fund inflows are haunted, entrepreneurs can hardly do anything other than hoping for good times to return to enable them to repay bank dues. One may cite the example of Stone India Limited which has not paid any dividend for a number of years but is still continuing its operations with high salaries given to the executives. Since dividend cannot be claimed as a matter of right, the shareholder is generally left at the mercy of the company. Not so in the case of loans from banks. Unthinking dependence bank loans and the half-mature cult of social banking, with a mix of tradition and modernity, have been at the root of many a problem in this country calling for identification, especially for finding antidotes appropriate for dealing with the crises faced, for bringing the entrepreneurs to a level playing field and for realizing the ideals behind the very idea of social banking.

Missing Checks and Balances

As normally happens, in pursuance of the lofty ideals usual checks and balances exercised for ensuring that the endeavours are for right causes and effects have a tendency of going amiss. Our research has revealed that the inherent problems in many a case begin at the very beginning, though they remain rather underplayed at the ends of the entrepreneurs themselves, the government and the banks. Many of these issues show up as the endeavour starts taking shape as an operating entity. The alternative forms of organization that the small and medium scale entrepreneurs could adopt for better performance, and a longer life-span, remain a matter of guess, their relative costs and benefits remain uncertain most of the time, the organizations are required to carry an interest overload during the period of gestation, affecting adversely the profitability of their operations. This aspect of the problem has remained in the shadows while the high death rates and stoppage of operations in this sector have been not a little due to almost total absence of appreciation of the typicality of the unitary organizations and partnership firms, while the corporate form is avoided because of the pre- and post-birth formalities to be observed. Not that companies are immune from the danger, but that companies are better placed for their discrete identities. The points underlined at this stage are that these start-up enterprises carry various embedded handicaps and diseconomies even before they start operations, including considerations of economies of *scale and scope*. The preference for company form is also because companies are discrete identities and are typified by a degree of watchfulness to which they are subject. Better surveillance and insistence on their abiding by law could do in practice a lot better than leaving them in the lurch to face the heat caused by the humdrum of business. At this stage it should be considered appropriate to know and judge what constitutes the so-called non-performing assets of banks despite the fact that the entrepreneurs badly

required assistance in the form of directions and expert advice for coming out of the morass in which they found themselves time and again in the course of their daily operations.

Some Definitional Aspects

A non-performing asset has been defined as a loan or an advance where:

- a) Interest and/or instalment of principal remain overdue for a period of more than ninety days in respect of a term loan;
- b) The account remains *out of order* in respect of an Overdraft/Cash Credit;
- c) The bill remains overdue for a period of more than ninety days in the case of bills purchased and discounted;
- d) The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops; and
- e) The instalment of principal or interest thereon remains overdue for one crop season for long duration crops.

An overdraft/cash credit when continuously remains in excess of the sanctioned limit/drawing power; even when there are no credits continuously for ninety days as on the date of the balance sheet or credits are not enough to cover the interest debited during the period, such accounts are considered 'out of order'.

A sub-standard asset is one that has remained non-performing for a period less than or equal to twelve months. An account can be classified as non-performing due to technical reasons as well but can be regularized when the problems are sorted out.

An asset would be dubbed doubtful if it has remained in the sub-standard category for twelve months, or if the security available is less than fifty per cent of the dues/balance outstanding.

When the realizable value of security available is not more than ten per cent of the balance outstanding/dues, such accounts are branded loss assets (Cf. Dena Bank, *Abridged Annual Report 2013-14*, pp. 45-46).

Incidentally, all these categories figure among non-performing assets but are not generally highlighted as such.

VI. FACTS OF THE SITUATION

The non-performing assets of banks in the country have been on an upward slope all this while. For instance, the gross non-performing assets of 40 listed banks rose by 35.2% to Rs. 2.43 trillion during the first nine months of 2013-14, implying an addition of Rs 63,386 crore to their gross non-performing assets. The accretion of non-performing assets during the said period was of the order of Rs 5,582 crore in the case of United Bank of India, a huge sum of Rs 16, 609.93 crore counted as gross non-performing assets in the case of State Bank of India and while Rs 791 crore was the figure in the case of ICICI. Ten of the 40 listed banks accounted for 70% of the total non-performing assets during the period. The net non-performing assets of these listed banks rose by 49 per cent to Rs 1.38 trillion. The prevailing higher interest rates and the slow-down in the economy are ascribed as reasons for the dismal state (Cf. *The Statesman*, Calcutta, 19 and 22 February, 2014). As reported, the Reserve Bank of India ordered a forensic audit by a firm, the results of which have not been disclosed yet. When the situation prevalent is of a general nature, caused by bellicose externalities, the forensic audit report may not reveal much, except instances of executive indiscretion on which issue these banks may not be faulted, if of course they exercised due diligence and the future could not be accurately anticipated at the time of decision making. The shocks caused by uncontrollable factors lasting for a long period can harm even the most

professionally managed banks, the very nature of their operations demanding reliance on the prevailing phenomena but jerking the funds inflow adversely in the end, nonetheless. The problem does not end here, it only begins, because NPAs not only affect profits adversely, they also eat into the capital structure calling for urgent funds replenishment. According to ICRA, as reported in the *Statesman*, Kolkata, 23. 6.14, 2014 the public sector banks' NPAs are expected to remain between 4.4–4.7 per cent by March 2015, as against 4.4 per cent as on March 2014. Plans are afoot for raising the capital of all the public sector banks substantially, during the coming years for meeting the crying needs for more funds. Professionalization of management and MBO with more and more personal touch with the recipients of funds are the urgent needs of the hour. All this may be like wild dreams at the moment but these are what the situation demands.

VII. PRESSURE ON BANKS

Banks operate under different types of pressure. First of all, they have to finance the development process, lending funds to entrepreneurs with respect to different types of projects with varying periods of gestation. The nationalized banks operate under direct Government dictates, so that the techno-commercial issues involved are not accorded the same priority that govern the considerations of non-government banks. The ensuing bank-customer relationship that develops in the process is a lasting one, from a mere lender of funds, it transgresses into one of financial advice as respects both the current projects and the future ones, including the projects undertaken by the entrepreneur including their viability of to-day and tomorrow. This relationship, centred on the funded projects as it is, carries the essential diktat of the project requirements, availability of the funds at the right moments, disposal of the products at the right prices – may be dictated by the market or the competitors. Secondly, the banks act as representatives of their customers with respect to issuing, endorsing and settling the causatives of different financial instruments, of which the entrepreneur may not be fully in the know. Selling products on credit and inordinate delay in realization of proceeds often create innumerable problems in repaying debts on time. Interest accruals on loans show no sympathy to the small and medium scale entrepreneurs. The entrepreneurs contacted by us over time have had the common complaints that even when they had the best of intentions to repay bank dues on time, delays in realization of proceeds made them defaulters, to say good bye to their ventures! In many a case, prices of raw materials of the right quality rose so much that it was next to impossible to make the going easier. While all the input charges have to be paid in cash, or at best within a short period, realization of proceeds took much longer, creating a mismatch! While the quality and quantity issues have engaged much attention, the timely payment questions have been pushed to the background. Many a time, small and medium scale enterprises are established by large scale enterprises for manufacturing parts and components according to designs and samples supplied by them. In such cases, both act as complements to each other. Finance is not much of a problem in such cases. Last but not the least, ideally the transactional relationships between the bankers and loanee-customers are firmly established only in a totally transparent framework, tracking all inflows and outflows of funds of different dimensions through various instruments like cheques, demand drafts, electronic transfers, bank guarantees and different derivatives mainly as modalities of risk aversion. These are possible when customers are companies, especially public limited companies and their capitalization is professionally planned and handled, with an eye on streamlining the gestation period. It becomes imperative in such cases that dependence on loans is kept at a minimum, while proper deployment of funds aiming at combating normal business risks goes on full steam. In the case of single stand-alones, bank loans have acted as the villains of the piece, especially due to the fact that interest at agreed rates

start accumulating right from day one, even before the units have started operation. Interest charges during the gestation period become an extra load, while inexperience in respect of handling critical issues during gestation such as installation of machinery, exploration of the market and entering into arrangements with customers, appointment of personnel and such other matters like arrangements with supply chains, ultimately spelt doom for them, mainly due to inexperience in handling such matters. Interest on loan during the gestation period is capitalized to make the rate of return on investment less attractive than otherwise. However, even the result of all this process of learning from experience had been, in many a case, thwarted by ineptitude. The killing, cumulative, effect of all these contributed to their high casualty rate.

VIII. POINTS AT ISSUE

Many a time, the questionable quality of inputs and outputs, high rejects calling for reworking, accounting for high costs, falling sales and diminishing output volumes as also disturbed supply chains, adversely affected, jointly and severally, the entire economics of their operations. These are issues that still await continuous watch and effective monitoring, especially in the context of the laid back attitude that has ruled the scene all this while. The points at issue relate to, among others: i) close assessment of the long and short term prospects of the project proposals submitted to banks for loans; ii) assessment of the funds required, long and short term; iii) disbursement proposals stage by stage; iv) monitoring the utilization of the funds stage by stage; v) realization of funds from the funded projects; v) the managerial issues concerning the projects funded in terms of : a) scheduling; b) procuring inputs; c) engagement of labour in the directions planned; d) production with an eye to quality; and e) marketing of the products in a competitive market. The scoring pointers In all this, the illustration of the one and only SIICOM comes to mind, along with that of ICICI. Both of these institutions used to closely monitor the utilizational issues and many of the units funded by these institutions flourished even in highly competitive conditions. The working results of the ICICI portfolio companies were available for scrutiny as yearly publications. The name of the first one is heard no more and that of the second one has been transformed into a bank. In the context of globalism, the role of financial institutions should have gathered further momentum; instead, almost all of them have changed their functional character and operational gear. Long-term financial assistance is not the job of commercial banks; the sudden change of gear that social banking thrust upon them caught most banks unawares. The attitudinal change that was essential for making a success of the new economic policy of the Government never came about. This was partly because of the absence of the dash and verve in seeing to the propriety and purposive utilization of the funds made available to the intending entrepreneurs. Thus, even in projects where failure was difficult to bring about, due to their inherent attractiveness, success remained illusory! Banks have to share the blame in almost equal measure with the recipients of the funds, if one were to consider all the related issues objectively.

IX. SANCTION-DISBURSEMENT GAPS

Sanction-disbursement processes concerning both financial institutions and nationalized banks over a decade, we found that gaps existed between them that caused diseconomies of various sorts. There was dilly-dallying in the process of making even sanctioned funds available to entrepreneurs in time causing disruption in planned investment in land acquisition, arrangement of input supplies, storage, application in productive processes, storage of products, transport to market destinations, sales and realization of sales proceeds. If there is any clogging of the movements, the whole process comes to

naught. In many a case studied by us, we found that considerable delay took place in making the funds available for financing various business needs. Bank loans in right quantum and at right moments held the key, but these are issues where banks were found wanting - and these were precisely issues where SIICOM and ICICI scored highly. KYC has become a fashion these days, with companies shooting letters for knowing and judging the detailed particulars of clients as a formality, not so much as an assistance to the customers for tiding over problems. In the context of the process of loan sanction and loan disbursement, the hassles are far too many and crucial time is wasted in repeated visits to the bank branches. This aspect of the countless problems faced by entrepreneurs has remained rather unsung while non-payment of dues has been in the lime light and all kinds of solutions have been offered without much of a real look at the problem. A probe into the obtaining conditions and the numerous problems coming in the way of making a success of the ventures is called for. In the obtaining conditions this appears far cry, indeed far from putting back the small and medium enterprises on the rail. In conditions of keen competition from the other manufacturers of same or similar products and substitutes, the obtaining cloggy phenomena have hit the entrepreneurs hard. These are reasons why entrepreneurs have been showing favour for acquiring existing enterprises rather than establishing new ones. The ruling atmosphere of suspicion in the public sector banks has rather badly affected the dash and verve on the part of technically qualified bank officers essential for making a success of the ventures. What is striking is that these banks have chosen, or have been made to operate under the irrevocable directions of the distant managers. An excellent policy step concerning social banking, with almost all the required auxiliary measures in place, was thus made to find its Waterloo due to ground level faltering! Tradition won over modernity, so to say.

X. THE FRUSTRATION INDEX

The extent of frustration from which the intending entrepreneurs have suffered has been typical of the inexperience on the part of the entrepreneurs and a laid back attitude of the states for assisting with advice, and even feasibility studies in different lines of activities, failed badly in their objectives as these studies did not recognize the typical features of different areas, the absence of trained personnel and even inadequacy of funds. As if all this was not enough, running from pillar to post for getting this facility or that, took a lot of time, sufficient to drain their patience. The issues and extents of frustration have been numerous – those related to both banks, government departments and others concerned with the start-ups, especially via the non-corporate route. While there have been several authorities concerned with such efforts causing inter-agency problems and delay, the focus in the present context is on bank-related hassles that the intending entrepreneurs suffered, coming as road-blocks to a smooth beginning of their ventures. There are many issues in this context which were either ignored or underplayed. The present discussion seeks to underline some of the tricky issues that have figured as handicaps against smoother and speedier dealing with problematic issues. The first item on the list is selection of the line of activities. The problem in this context arose from the reports on feasibility drawn up by the District Industry Centres in different parts of the country the contents of which were more or less standardized not taking into view the characteristics of particular regions, the natural resources available and the cost of plant and machinery that remained subject to changes over time but not accommodated in the feasibility study report on the basis of which loans were sanctioned. The consultants were ill-equipped with all the techno-economic data required, while the intending entrepreneurs or the banks were not prepared to fund the

entire cost of preparation of the feasibility studies. The result was that the projected profit and loss statement for some years as given at the end of the techno-economic feasibility studies proved in many a case to be inconsistent, irrelevant and imaginary. In many a case, such studies were prepared to make the projects look better than they really were, in terms of availability of inputs, outputs and sales at a profit. As it happens with most misadventures, the cat came out of the bag only later. And the idea of social banking, the way it found shape in practice, was a big one. In the last analysis, one finds it hard to admit that all this was a misadventure.

XI. SILVER LININGS IN THE CLOUD

Where these particulars were down to earth and the details presented were realistic, the projects were successful in the long run. One basic weakness thus remained in almost all cases. In the cases of some, it was noted that the entrepreneurs had job experience and they knew the nitty-gritty of business, especially where the shoe pinches – indeed, the shoe pinches at many places especially for the unwary. In such cases, the concerned entrepreneurs were resilient enough to withstand the demanding requirements of starting the enterprise and continuing with the operations. Many of such enterprises succeeded due mainly to their experience in the lines of activities chosen especially those established in industrial estates in different parts of the country, due mainly to their adnate relationships, both as ancillary units tagged on to large scale industries and even in independent lines with assured support from the big brothers on condition of quality assurance, prices offered and the regularity of supplies. Situational contiguity, regular interchange of ideas on problematic issues concerning aetiology and even ingression of funds and advice come as godsend. Several of such enterprises have done well in the process of farming out by the large units or even selling products in the open market, under schemes of ‘make or buy’ prevailing in several industries, especially engineering products, both heavy and light, in which parts and quality assurance and strict inspection. Unfortunately, these do not apply in all cases. In the context of all these issues described earlier, it is pertinent to point out that the frustration index heavily tilted against the aspirants on the basis of fifteen criteria on a ten point scale – five positive and five negative – the contents and contexture being both the external phenomena and the internal functioning. Quality, productivity and marketing being the key issues, most aspirants either lived from hand to mouth or bid adieu with a large debt burden to banks and suppliers. High stakes of failure have in effect touched not only the entrepreneurs themselves, but also the securities, guarantors, pledges and the net assets of the enterprises. There is hardly any respite available to them like applying for insolvency or starting afresh with the markets looking up. Improving asset quality is tough by all counts and requires a thorough and continuous assessment of all the factors and forces behind the sanction and disbursement of loans. It appears all too easy to put the entrepreneurs on the dock and ascribe ulterior motives for playing foul with the bank funds.

XII. ASSET RECONSTRUCTION COMPANIES OR TUFFER RECOVERY LAWS

The call by loaner banks and some other circles for the creation of asset reconstruction companies for taking over all the bad loans does not appear to be a consistent solution of the problem of bad loans. Not only that such attempts are tantamount to transferring the liabilities from the banks to these companies for showing better results by them by way of at least partially recovering the bad loans, the ultimate result would be the same national loss under a different head. It is therefore underlined in this context that the methods adopted by the ICICI and SIICOM should be inculcated by all commercial banks so that the defaulter banks are under intimate touch for knowing and judging their problems and the ways

in which the loanees could come out of the threatening problem of disturbed privacy, threats of attaching all their properties and those of the guarantors and marking them as defaulters for which they might not have been responsible, jointly or severally. In our view, it is urgent to study the reasons for the failure of the entrepreneurs to earn profit for sustaining their ventures and to repay bank dues in time and identify the centres of responsibility for failure to repay bank loans covering both banks and their erring customers - SMEs in particular. Patchwork solutions to a nagging problem would not help either the banks or the defaulting customers. *Loan mela* and all that have had their effects showing up over time. Our study of the frustration-related issues underlined that failure was writ large right from the beginning. Politicization in disbursement of loans in the name of assistance for setting up industries and tacit assurance by politicians the bank loans would not have to be repaid were behind non-repayment of bank loans. This is but a small part of the story. The larger issues behind bad loans were tuff business problems going beyond control, not in most cases connected with any ill-will or misdemeanour on the part of the loanees. Rather late in the day, the Union Ministry of Finance has constituted a panel to give more teeth to the debt recovery laws for effectively dealing with wilful defaulters and check bad loans totalling Rs 2.40 lakh crore. While the sum is staggering, the reasons for non-payment of loans are several, in many cases, beyond the control of the loanees. A better way to know and judge what is what would have been to introduce forensic accounting and audit on a continuing scale and covering the entire sector of small and medium scale entrepreneurs in particular.