

**Problems of Overdues of Regional Rural Banks;
A case study of Assam Gramin Vikash Bank
Kamrup and Nalbari District**

Librany Gm

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PREFACE

IT IS OF GREAT PLEASURE THAT THE UGC IS SPONSORING VARIOUS RESEARCH PROJECTS IN THE COLLEGES OF ASSAM GIVING AMPLE OPPORTUNITIES TO UNDERTAKE RESEARCH WORK BY THE LECTURERS OF THE COLLEGES. IN OUR COLLEGE TOO A FEW OF OUR LECTURERS HAVE BEEN ENGAGED IN SUCH NOBLE RESEARCH WORKS ON DIFFERENT TOPICS. SUCH A STEP BY THE UGC HAS ENHANCED THE ACADEMIC ATMOSPHERE AND INTEREST OF OUR LECTURERS. IN THIS REGARD PROF. SUBODH CH. CHOUDHURY, THE HEAD OF THE DEPARTMENT ECONOMICS OF OUR COLLEGE HAS TRIED HIS BEST TO COMPLETE HIS MINOR RESEARCH PROJECT ON "THE PROBLEMS OF OVERDUES OF REGIONAL RURAL BANKS: A CASE STUDY OF ASSAM GRAMIN VIKASH BANK OF KAMRUP AND NALBARI DISTRICTS." I HAVE BEEN PLEASED WITH HIS SINCERE ENDEAVOR TO MAKE IT A SUCCESS. NOW HE HAS COMPLETED HIS PROJECT TO THE SATISFACTION OF THE ENLIGHTENED CLASS LIKE US.

I THINK MR. CHOUDHURY'S MINOR RESEARCH PROJECT WILL BE OF MUCH BENEFIT AND USE AND ITS CONTRIBUTION WILL BE OF LASTING IMPACT IN THE FIELD OF EDUCATION AS WELL AS OF ACADEMIC INTEREST. MR. CHOUDHURY'S ACHIEVEMENT IN THE PARTICULAR FIELD OF WORK IS PRAMISE WORTHY. I CAN'T BUT APPRECIATE IT.




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The Overdues- Syndrome: computation; Problems, causes Impact Repayment.

Repayment of the loan together with interest thereon by the borrowers is central to the smooth functioning of institutional credit. The assumption while providing credit, is that its application to production generates enough production which in money terms would be sufficient to repay the loan together with interest and leave a reasonable surplus. Credit can be said to be effective only if this basic postulate is borne out. However, this in itself is not sufficient the generation of incremental income has also to be accompanied by willingness of the user to repay. A default in repayment can, therefore, occur if either the assumption regarding production does not turn out to be valid or even when the validity of the first assumption is not in question, the second assumption proved wrong. Efficient management of recovery of dues is, therefore not only of crucial importance but also amongst the most complex of all problems associated with institutional credit.

The incidence of overdues in the agricultural credit system has been increasing over the years and has been steadily eroding the financial soundness of the system. This therefore, has been and continues to be the burning issue. It has consequently attracted considerable attention and has been examined by several committees and research workers. Various other committees have also subsequently dealt with the issue in general terms, though the study by the RBI study Team of 1974 still remains the most comprehensive documents on the subject.

In simple terms, overdues are loan and interest thereon not repaid on due date. The quantum of overdues in a credit institution may accordingly vary widely and even significantly depending on the reference date. But irrespective of the reference dates, the level of



overdues is among the most important indicators of the financial health of a lending institution. Levels of overdues in the credit system could be measure either in relation to "demand" for the year as in the co-operative credit structure or in relation to "outstandings" at the end of the year as was the case earlier in the commercial banks. At present however, the accepted standard of measurement of overdues is in relation to "demand". The rationale for the "demand" as the standard base for assessing the recovery position is that it is the quantum of loans which have fallen due and not those which are yet to become due for repayment is what is relevant in this context. Thus illustratively out of term loans of Rs. 15 lakhs granted for a dug well programme repayable in 15 equal annual installment the first installment of Rs. 1 lakh only will fall due at the end of the first year and if Rs.0.60 lakh is recovered, the balance of Rs. 0.40 lakh i.e. 40 percent of demand is considered as having fallen overdue. If, on the other hand, the overdues are assessed with reference to out standings at the end of the year, they would work out to less than three percent. Quite clearly this gives a distorted picture of the real overdue position and hence of the recovery performance. Taking the example of crop loans, assuming the sum outstanding at the end of the year is Rs. 20 lakhs and if these amounts have been disbursed, as often is the case, during different periods during the year, not all would have fallen due at the end of the year. Assuming such short term loans are issued for a period of nine months and out of Rs. 20 lakhs, Rs. 10 lakhs had been issued only six months prior to the close of the year, these obviously would not be due for repayment at the end of the year and what would be due would only be Rs. 10 lakhs. If out of this, Rs. 5 lakhs have been collected, the overdue amount to demand for the year would be Rs. 5 lakhs and it would constitute 50 percent of demand. Whereas, if it is assessed in terms of the outstanding the

overdue amount would constitute only 25 percent. Commercial banks have traditionally been assessing overdues in terms of outstanding and not in terms of demand as is the practice in co-operative, although in recent years commercial bank also have started falling in line with the co-operative. It cannot however, still be said in all cases whether their overdues are calculated really on this basis or in terms of all loans outstanding at the end of the year. Since recovery performance is a major indicator for adjudging the quality of the loan portfolio of a lending agency, if needs to be assessed in terms of that portion of the loan which has fallen due and not of the total loans outstanding, a substantial portion of which might not have become due for repayment. It is, therefore, our considered view that overdues should necessarily be related to demand for the year. Since this alone will be a true indicator of the actual recovery performance of the lending institution.

It also seems necessary to set at rest a belief sometimes entertained that overdues in the credit system are infact, only a euphemism for bad debts. While the high incidence of overdues in the agricultural system is undoubtedly a matter of great concern, it would be erroneous to treat these on par with bad debts. A substantial portion of overdues is often of a transitional nature. This is so because amounts which become overdue on a particular date may get repaid soon thereafter and would cease to be dues to the bank/credit institution. If this happens successively over a period of years, this would only point to the fact of fixation of due date for the repayment of the loan being not rational and needing a change. This is not to say that overdues in all cases are of this nature. The failure of the lending agency to approach the borrower for recovery of dues before the due date could also be a reason for their becoming overdues. A bulk of the overdues of this type is realizable and it is a common experience that recoveries do come,

though belatedly, in a large number of cases. In fact the period wise classification of overdues discussed later in this would reveal that the quantum of overdues tends to decline sharply with age. It is those overdues which are not realized over a period of five to seven years that could be considered doubtful of recovery. But even here they are only potential bad debts and they constitute a comparatively small proportion of the local overdues at any point of time. Estimates of provisions for bad and doubtful debts made in the chapter, reveal that while the amount of overdues under agricultural loans at the end of June 1986 was quite large at Rs. 3,942 crore forming 24 percent of the total agricultural credit outstanding at Rs. 16,409 crores, the estimated quantum of bad and doubtful debts was Rs. 846 crores only, forming 5.1 percent of the total agricultural loans outstanding. It is, therefore, important to realize that all overdues are not per se bad debts. They are, all the same, a matter of serious concern and should be considered a warning signal, calling for suitable steps for close and continuous monitoring of the concerned accounts.

□ **The Magnitude of the problem**

While the factors which contribute to non-repayment resulting in defaults and consequent overdues are analyzed later, it would be useful first to take a look at the problem as it exists as well as the future outlook, having regards to past trends. As all available indicators point to, overdues seem to be increasing year after year over the past few years. In quantitative terms the overdues of all the credit agencies at the level of the ultimate borrowers quadrupled in the last decade i.e. from Rs. 853 crores at the end of June 1976 to Rs. 4,262 crores at the end of June 1986 when they constituted about 42 percent of the total demand.

Overdues under agricultural loaning carried by various credit agencies over the last decade i.e. 1975-76 to 1985-86 may be seen from table 1.

Agency	1975-76	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
Commercial bank	200-(48)	727-(47)	893-(48)	1089-(47)	1351-(48)	1568-(46)	1744 (43)
R.R.Bs	NA	54 (48)	89 (50)	158 (48)	242 (50)	322 (52)	413 (51)

Co-operatives

Agency	1975-76	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
PACs.	561-(34)	1376-(43)	1205-(50)	1308- (40)	1577-(43)	1630-(42)	1807 (41)
L.D.Bs	34	291(46)	252 (40)	289 (44)	267 (36)	285 (40)	298 (39)

(Figure in brackets indicate percentage of overdues to demand)

As the statement brings out, overdues seem to be an all pervasive phenomenon and are neutral to the type of credit institution. Despite the efforts of the different credit institutions to improve recoveries, overdues have been increasing over the years with only some exceptions. Further, whereas the short-term and term loans issued by different institutions increased from Rs. 1,478 crores during 1975-76 to Rs. 6,825 crores during 1985-86 showing an annual average growth rate of 16.5 percent, the total overdues against ultimate borrowers increased from Rs. 853 crores as on 30-6-1976 to Rs. 4,262 crores as on 30-6-1986, showing an annual average growth rate of 17.5 percent. Thus overdues in the aggregate grew at a faster rate than the issue loans during the ten year period under review.

The aggregate overdues of the different systems of lending institutions ranged between 39 percent and 51 percent of demand in 1985-86. The over all recovery position of all agencies is therefore, far from satisfactory. The recovery position of PACs and LDBs is relatively better than that of the commercial banks though the latter has

progressively improved, the percentage of overdues to demand having declined from 48 in 1981-82 to 43 at the end of 1985-86. The recovery is the lowest in the RRBs loans around 50 percent and the general trend has been towards deterioration over the years. PACs had achieved recovery upto 60 percent of demand in the year 1982-83 but in the subsequent years their recovery performance marginally declined. Among the credit agencies, the recovery performance of LDBs had marginally improved from 60 percent in 1981-82 to 61 percent in 1985-86.

□ **Regional Variations**

A comparative position of region wise overdues of different lending agencies under agricultural loans during 1985-86 is given in the following table.

Table-2

Overdues- Regional Variations

Agency	Northern	North eastern	Eastern	Central	Western	Southern	Overall
1. CBs	38.7	64.0	57.0	47.0	49.0	39.0	43.0
2) RRBs	53.0	60.0	60.0	53.0	52.0	42.0	51.0
3) PACSs	30.0	34.0	57.0	53.0	42.0	36.0	41.0
4) LDBs	44.7	72.9	32.7	33.7	55.1	41.4	39.0

(Figures show percentage of overdues to demand)

It will be seen that although there were inter-institutional difference in the recovery Performance in different regions, generally the Northern and Southern regions, had shown a somewhat better overall recovery performance, on the other hand, recoveries were lower in the Eastern region in all credit agencies except LDBs and lower in the North-Eastern region, both regions being economically backward.

The state wise position of overdues during the year 1985-86, shows that the recovery performance of PACs was above 60 percent of

demand in Punjab (79), Kerala (75) Jammu and Kashmir (70) , Haryana (66), Gujrat (65) and Himachal Pradesh (61). The states having recovery of less than 40 percent of demand comprised Orissa (33), Goa (27), Assam (9) Meghalaya (8) and Manipur (5). In the case of LDBs, the states having recovery of 60 percent of demand and above were Punjab (86) U.P. (76) , Kerala (77), Haryana (67), M.P. (66), Jammu & Kashmir (62). On the other hand, the states where LDBs recovery performance was 40 percent or less were Assam (40) Tamil Nadu (36), Goa (36) and Tripura (76). The other state had recovery performance ranging between 40 to 60. In the case of rural branches of commercial banks, the recovery performance was 60 percent or more in Punjab (72), Kerala (71) Tamil nadu (63), Pondichery (61), Haryana (60) and Andhra Pradesh (60), on the other hand, the states where commercial bank branches show recovery performance of 40 percent or less where Manipur (21), Jammu and Kashmir (31), Assam (35), Tripura (33) and Goa (39). The overall recovery performance of RRBs was worse than that of any other credit agencies. The sates in which RRBs had shown a recovery performance of more than 60 percent of demand were Kerala (77), Tamil Nadu (65), Punjab (84), Himachal Pradesh (60) and Mizoram (63). These states however, have only a few RRBs. The states where recovery of RRBs was 40 percent or less were Orissa (40), Tripura (29), west Bengal (39) and Nagaland (22). The data show that recovery was cconsistently better in certain states viz Punjab, Kerala and Haryana irrespective of the type of agency disbursing credit whereas it was far from satisfactory in some other states like Manipur, Tripura, Assam and Meghalaya.

Table-3

Overdues of commercial Banks under-

Name of State	1983-84 overdues	Pc. Of overdues to demand	1984-85 overdues	Pc. Of overdues to demand	1985-86 overdues	Pc. Of overdues to demand
Assam	5.70	64.7	6.50	64.9	11.06	64.9
Manipur	1.05	80.1	1.11	78.8	1.41	79.1
Meghalaya	1.40	53.4	1.80	4.3	1.83	55.6
Nagaland	0.54	33.3	0.86	55.6	1.06	58.3
Tripura	2.48	66.5	3.04	68.3	3.96	67.5
Arunachal Pradesh	0.09	57.9	0.12	49.0	0.12	46.1
Mizoram	0.06	61.	0.11	48.1	0.12	4.4
Sikkim	0.06	21.3	0.17	28.4	0.45	50.1

(The Table shows the overdues position only North Eastern Region)

□ **Overdues and classes of Defaulting Borrowers**

According to the field survey covering 73 commercial bank branches, 4 RRBs 41 PACs and 30 PLDBs, the incidence overdues (i.e. percentage of overdues to demand) among different classes of borrowers viz marginal, small, and large farmers and landless labourers as on 30.-06-1986 was as shown in table -4

Incidence of overdues Among Different classes of Borrowers.

	Large Farmers	Small Farmers	Marginal Farmers	Landless Labourers	Overall for the survey sample
CBs	46	42	37	45	43.4
RRBs	46	66	48	34	51.0
PACs	37	40	45	47	42.0
LDBs	39	49	44		42.0

While from these data, which relate to a Particular date, no trend can be deduced they do show that no definite relationship exists between the

incidence of overdues and different classes of borrowers. They also establish the dictum that overdues in agricultural loans and universal and neutral to the type of agency and variations in the incidence of overdues and between different classes of borrowers are in most cases only marginal.

□ **Overdues Under Agricultural and Non-agricultural Loans:**

The statistics compiled by NABARD on overdues of PACs and RRBs give the aggregate overdues at Rs. 1,807 crores and Rs. 413 crores respectively but their break-up into those under agricultural and non-agricultural loaning at the macro-level is not readily available. The field survey data reveal that the proportion of agricultural and non-agricultural overdues pertaining to the selected sample was 89:11 in the case of PACs and 69:31 in the case of RRBs using these as proportions, the overdues under agricultural loaning have been arrived at Rs. 1,615 crores in the case of PACS's and Rs. 385 crore in the RRB's as on 30th June 1986. The comparative position on that basis would thus be as indicated in table.

Position of Overdues at the ultimate Borrower level- (in crores)

	PAC's	PLDB's	RRB's	CB's	Total
Agricultural	1,615	298	285	,744	3,942
Non-agricultural	192		128	NA	320
Total	1,807	298	413	1,744	4,262

Impact of Overdues

At the end of June 1986 overdues of all the agricultural credit agencies at the ultimate borrowers level amounted to Rs. 4262 crores, Whereas the total direct finance (outstanding) by all credit agencies to the agricultural sector aggregated Rs. 16,409 crores. Thus , nearly 26 percent of the resources deployed by the credit agencies for the

agricultural sector were locked up in overdues and were not available for recycling. At the institutional level, the clogging of overdues had severely impaired the eligibility of the credit agencies, for refinance from NABARD. The number of primary and development banks, branches of state land development having restricted eligibility for schematic lending was 1102 or 66 percent of the total number of regional rural banks. Similarly, on account of high level of overdues 42 RRB's did not qualify for the general line of credit and 11 out of 366 district central co-operative banks did not qualify for short term and medium term credit limits from NABARD during 1987-88.

Defaults which, as we have already seen, are all pervasive, involve heavy costs all round. They effect adversely the interests of both the borrower and the credit agencies. As a defaulter, the borrower is out off from any aces to credit from institutions. This effects his productive enterprise even if he has some informal source of credit available because he pays a much higher price for it. Similarly, the lending capacity of the credit agency is also equally adversely affected due to its inability to recycle the resources, or to raise more resources from higher financing agency. If the credit agency is unable to recover from its borrowers even interest due on loans, its profitability declines and its viability to itself jeopardized after some year. This apart, a disproportionately large amount of managerial time and manpower have to be spent on monitoring the accounts in defaults adding avoidable costs to transaction costs of lending operations. The worst and most expensive aspect of overdues is that the agriculturists and other related rural enterprises, still outside the purview of institutional credit, suffer on account of non-availability of adequate supply of credit for investment and working capital.

The high incidence of overdues in the system has become a major constraint to the expansion of credit and development of agriculture in the country. Under the existing system of financing agriculture where most of the lending is do not in the form of fixed loans repayable on re-determined due dates, prompt recovery of loans is of crucial importance. In a developing economy faced with serious resource constraint, recycling of available resources assumes special significance for all institutional structures handling credit so as to ensure the optimum utilization of available funds. Further, since repayment are expected from out of incremental income generated by the productive use of loans, recoveries serve also as an indicator of the quality of loaning.

A lending institution engaged in rural lending has, therefore, to ensure that- (a) loan appraisal systems are sound so that the recovery of loan becomes assured (b) the delivery system is able to ensure timely availability of credit not only to the borrowers but also for financing inputs, marketing, storage facilities etc. and (c) repayment schedules are realistically drawn up. In other words, rural banking institutions have to ensure that lending and recovery procedures in themselves do not lead to investment failure and consequently, non-repayment by borrowers. This aspects is however, dealt with separately. In the discussion which follows, we are concerned mainly with the impact of overdues on lending institutions and consequently the need for enduring proper recovery disciplines.

(a)Borrowers:- A borrower in default not only becomes liable to pay penal interest on his overdue loan amount but also loses his eligibility to obtain a fresh loan. However, in recent years loan policies have under gone qualitative change in as much as distinction is now made between willful defaulters and non-willful defaulters consequently, such of those who are forced into

defaulting on account of causes arising out of circumstances beyond their control, the policy in vogue currently enables grant of relief to them in the form of conversion/rescheduling etc. of the outstanding amount so that they are in a position to borrow afresh. Ordinarily, such relief is available only to (a) borrowers in area affected by natural calamities and (b) the small/marginal farmers having small amount in default not exceeding 10 percent of their eligibility under seasonal agricultural operations (SAO) loans in each case (relaxed to 20 percent of eligibility in the case of eastern states namely Bihar, Orissa, West Bengal and Eastern U.P. as recommended by Sen committee. In almost all other cases defaulters are deemed 'wilful' and therefore, denied access to fresh finance whether from the agency to which they are in default or from any other.

(b)Lending Institutions: As far as the impact on lending institutions is concerned, overdues affect the overall liquidity and in due course the Solovenly of the credit institutions, particularly co-operatives and RRB's having serious resource constraints and inspire their capacity to undertake fresh lending. In course of time, a portion of the overdues also becomes irrecoverable thereby eroding the net-worth of the lending agencies. Arrears in recovery of occurred interest affect the profitability of the institutions. This apart, a major impact of overdues on the lending agencies particularly co-operatives and RRB's having low level of their own deposit resources, in that overdues impair their capacity to obtain refinance from NABARD as recovery performance among other things, constitutes a major item of eligibility criterion. The ability of the co-operative banks to operate on the credit limits sanctioned to them is closely linked to the level of their overdues since drawals

on the credit limit are subjects to the discipline of seasonality non-overdue cover etc. In certain states, where sizable number of RRB's/DCCB's is laden with heavy overdues and ineligible for NABARD credit limits, the credit flow to agricultural sector gets seriously affected. Normally DCCB's and SCB's in states with two tier structure, having overdues exceeding 60 percent of demand are ineligible for credit limits. Till recently, this was rigid criterion totally cutting off refinance for all banks having overdues in excess of 60 percent of demand. However, considering the need for keeping up the flow of credit to specified under developed areas, some production schemes of national importance and also as a part of the package of measures for facilitating revival of central co-operative banks, NABARD has relaxed the criterion in several cases; for instance 'weak' DCCB's under rehabilitation programme and DCCB's in the pilot project districts in which case the cut off point has been relaxed from 60 percent to 65 percent. For providing adequate credit support for the cultivation of oilseeds in the area covered by National oilseeds Development programme (NODP), NABARD has been sanctioning credit limit to DCCB's, otherwise ineligible therefore to the extent of their credit requirements for financing cultivation of oilseeds under NODP. In the case of banks in the North- Eastern states, the overdues criterion has been totally removed.

For schematic term loaning the refinance facilities from NABARD are governed by eligibility criteria (EC) envisaging different levels of refinance depending on the recovery levels of the lending institutions, viz. DCCB's, PLDB's, RRB's and branches of commercial banks, SCB's and SLDB's. Issues relating to eligibility criteria have been examined separately.

□ **Causes of overdues :**

A wide range of factors influence the level of and the trends in overdues of the agricultural credit institutions. Although defaults/floods, in large parts of the country, their basic causes lie much deeper and range from the non-viability of the agricultural occupation itself in some cases, lack of the forward/backward linkages and infrastructural facilities and services which support agriculture, the socio-political environment in which the credit institutions are functioning, to legal and other government support available to the agricultural credit system, besides adverse weather conditions, affecting the output of crops, particularly in the rain-fed areas. These are external factors over which the credit institutions have little or no control and for their mitigation they have to depend almost entirely on the outside agencies, particularly government and its agencies. The other causes of overdues which are internal to the credit institutions themselves are inadequate supervision over credit, unsound lending policies and procedures, unsatisfactory management of the credit institutions, etc. Overdues are often the result of a combination of various factors. The different factors which lead to overdues, under both the categories are discussed in the following sections.

□ **Factors internal to the system:-**

The field studies undertaken for study it show that apart from non-viable borrowers whose income generated is not adequate to repay the bank loans and who constitute a class by themselves, defective loan policies and procedures, emphases on targeting, disbursement in loan melas and ineffective supervision over credit have contributed to some extent to defaults.

□ Defective Loan policies and procedures.

(a) Crop Loans- In the case of crop loans, delays in the sanctioned disbursement of loans unrealistic scales and finance and so sanction of loans in excess of the need repaying capacity or, at the other extreme inadequate loan amounts compelling the borrowers to resort to borrowing from money lenders and other in formal sources of credit and fixation of due dates unrelated to the harvesting and marketing seasons are among the important lacunae which have resulted in defaults. It is also observed that there are several deficiencies in the implementation of the loan policies and procedures, evolved over the years, which contributed to ineffective credit flow and also incidence of overdues e.g. although there is a provision that Technical Committees constituted for each district should, in consultation with the officers of the Agriculture Department on input requirements of various crops in different areas, lay down scale of finance for each crop, irrigated and unirrigated separately, it was observed that in many states the scales of finance were laid down by the Registrar of co-operative societies on and adhoc basis.

(b) Term Loans- In regard to term loans, field studies are conducted by consultants as also NABAD's^R evaluation studies have revealed several lacunae in the implementation of loan policies and procedures leading to overdues; the major among them were as follows:-

(i) Selection of schemes unsuited to the areas and the borrowers concentration on a few types of schemes at time only single occupation within a limited area which affected the productive capacity or marketability of the produce and income generated therefrom. For instance, during the field

studies it was observed that disbursement of cattle loan to tribals who were not traditionally rearing cattle had resulted in defaults in Tamil Nadu.

- (ii) Over emphasis on the target approach and attraction of subsidy under government sponsored schemes thereby relegating to secondary importance the economic significance of the scheme of the quality of lending.
- (iii) Fixation of un-realistic repayment schedules, amounts of instalments and due dates of repayment without reference to the cash flow pattern of the borrowers. The evaluation studies conducted by NABARD have brought out the extent of wide disparity between the repayment periods for various types of investment recommended by NABARD vis-à-vis those fixed by different banking institutions in practice
- (iv) Fixation of low unit costs and sanction of loans for amounts less than the unit cost leading to misutilisation of the loan NABARD'S evaluation studies show that in the case of following schemes, the approved unit cost was lower than the actual cost by 16 percent to 32 percent and as a result, the down payment far exceeded the stipulated percentage.

About 60 evaluation studies conducted by NABARD and commercial banks have revealed that more than 50 percent of the borrowers under any scheme were under financed. As a result, the beneficiaries were either forced to raise the balance resources from the informal agencies at a much higher rate of interest or they had to settle for assets of poor quality. Field studies conducted by our consultants also showed that the bank managers often reduced the loan amount, arbitrarily, even below the approved unit costs for

various types of investments, mainly on account of their anxiety to use available resources over a large number of borrowers. This led to under financing and drove client either to money lenders or to misutilize the loans.

- (v) Inadequate initial grace period especially in the case of investments where the gestation period is fairly long. Raising of demand by the financing banks during these years forces the farmers either to repay from other sources and where they have no such sources to default in repaying their dues on the due dates.
- (vi) Financing of assets not in keeping with the actual farming occupation of the beneficiaries. For instance, in the case of tractor loans it was observed that the banks in many cases had financed tractors with high horsepower exceeding (35 H.P) which was not related to the actual requirements of the beneficiaries resulting in over capitalization and higher debt burden. Lack of suitable implements and accessories had also contributed to sub-optimal use of the tractors.

II) Absence of Linkage of credit with Marketing:

Although the all India Rural credit survey committee envisaged what has been known as the Integrated scheme of rural credit in actual practice it was not given desired attention or emphasis. The case study conducted for study shows that linking of credit with marketing as a measure of recovery, has largely failed to develop except in a few cases like sugarcane cultivation in Maharashtra where co-operative sugar factories under take effective recovery of credit through sale price of sugarcane. Firstly, the marketing societies have not become strong enough to secure better prices for the farmer member's produce. Secondly, dropped line societies and/or sell the produce under fictitious

names to avoid recovery of loans. Thirdly, the functional societies themselves are reluctant to recover dues of credit agencies lost such a step affects their procurement programmes. For example, in Madhya Pradesh the oilseeds societies and their federation have refused to recover dues on behalf of primary agricultural credit societies. Even under the scheme of monopoly procurement of cotton in Maharashtra it has not been possible for the cotton grower's federation to recover all loans due to PAC's through district central co-operative bank, although the DCCB's in Maharashtra have a recovery rate of 56 percent through linking.

□ **Investment credit Lack of provision of working capital:**

One of the causes of overdues is the absence of proper synchronization of investment credit with working capital provision. While in the co-operative sector, this is generally attributed to investment credit and working capital being provided by two separate institutional structures viz short term and long-term, in the case of commercial banks including regional rural banks, the investment credit and working capital loans are disbursed by the same agency and consequently the farmers have one contact point. At the time of field studies it shown that sufficient interest is not taken by the commercial banks for provision of crop loans although they carry relatively higher interest margins. The commercial bank branches seem to find the crop loan business to exacting, costly and time consuming, at the crop loan cycle repeats every year. The crop loaning activity, therefore, over burdens the field staff of commercial banks. In the case of commercial banks and RRB's the stock reply received to our queries was that the borrowers did not need any production credit or did not apply for it. The facts remains that there exists a gap between provision of working capital needs of the

borrowers under investment credit and timely catering of funds to them from the credit institutions.

□ **Lack of Access to Institutional credit for consumption purposes:**

At the field survey report it revealed that 43 percent of the institutional borrowers were also restoring to borrowings from private sources. About 36 percent of such households borrowed for consumption purposes and 13 percent for social and religious ceremonies. The need for borrowing from informal sources normally arises under the following three circumstances.

- (i) Inadequacy of scales of finance/unit costs for meeting in full the agricultural credit needs of the farmers.
- (ii) The need for sustaining the family and meeting unforeseen family contingencies like illness, birth, deaths, and social/religious ceremonies.
- (iii) Need for acquisition of consumer durables. In addition to the cost of inputs and hired labour, imputed cost of family labour, service charges for hiring machinery and equipment from leasing agents etc. the cultivator incure between the sowing and the harvesting seasons, consumption expenses for substenance of his family and has also to meet the cost of maintenance of agricultural machinery, tools, implements and draught animals. The scales of finance in vogue, usually provides besides the cost of inputs, cost of hired labour and inputed cost of family labour. Though provision of credit in "kind" reduces the farmers tendency to divert production credit for meeting their consumption needs, there is no fool-proof method of preventing large scale diversion of funds as long as needs for consumption credit exists. When such

borrowers under investment credit and timely catering of funds to them from the credit institutions.

□ **Lack of Access to Institutional**

purposes:

At the field survey report it is the institutional credit agencies. The borrowers were also restoring to be cultural operations goes first to About 36 percent of such households carrying high rates of purposes and 13 percent for social and religious ceremonies need for borrowing from informal sources normally arises under the following three circumstances.

- (i) Inadequacy of scales of finance/unit costs for meeting in full the agricultural credit needs of the farmers.
- (ii) The need for sustaining the family and meeting unforeseen family contingencies like illness, birth, deaths, and social/religious ceremonies.
- (iii) Need for acquisition of consumer durables. In addition to the cost of inputs and hired labour, imputed cost of family labour, service charges for hiring machinery and equipment from leasing agents etc. the cultivator incure between the sowing and the harvesting seasons, consumption expenses for substenance of his family and has also to meet the cost of maintenance of agricultural machinery, tools, implements and draught animals. The scales of finance in vogue, usually provides besides the cost of inputs, cost of hired labour and inputed cost of family labour. Though provision of credit in "kind" reduces the farmers tendency to divert production credit for meeting their consumption needs, there is no fool-proof method of preventing large scale diversion of funds as long as needs for consumption credit exists. When such

names to avoid recovery of loans. Thirdly, the functional societies themselves are reluctant to recover dues of credit agencies lost such a step affects their procurement programmes. For example, in Madhya Pradesh the oilseeds societies and their federation have refused to recover dues on behalf of primary agricultural credit societies. Even under the scheme of monopoly procurement of cotton in Maharashtra it has not been possible for the cotton grower's federation to recover all loans due to PAC's through district central co-operative bank, although the DCCB's in Maharashtra have a recovery rate of 56 percent through linking.

□ **Investment credit Lack of provision of working capital:**

One of the causes of overdues is the absence of proper synchronization of investment credit with working capital provision. While in the co-operative sector, this is generally attributed to investment credit and working capital being provided by two separate institutional structures viz short term and long-term, in the case of commercial banks including regional rural banks, the investment credit and working capital loans are disbursed by the same agency and consequently the farmers have one contact point. At the time of field studies it shown that sufficient interest is not taken by the commercial banks for provision of crop loans although they carry relatively higher interest margins. The commercial bank branches seem to find the crop loan business to exacting, costly and time consuming, at the crop loan cycle repeats every year. The crop loaning activity, therefore, over burdens the field staff of commercial banks. In the case of commercial banks and RRB's the stock reply received to our queries was that the borrowers did not need any production credit or did not apply for it. The facts remains that there exists a gap between provision of working capital needs of the

diversion of institutional credit is not sufficient to meet their consumption needs, small farmers often resort to borrowings at high rates of interest from informal sources like relatives/friends or money lenders. The high rates of interest on borrowings from informal sources adversely affect the farmer's repayments to the institutional credit agencies. The income generated out agricultural operations goes first to discharge such private borrowings carrying high rates of interest and repayment of institutional loans gets lower priority, resulting in defaults.

□ **Ineffective Supervision:**

In a situation where agricultural finance instead of being provided against the specific production plan of each borrower cultivator, the credit agencies are called upon to retail credit to thousands of small and economically weak tillers on pre-determined scales of finance/unit cost, close and constant supervision over sanction, disbursement and end-use of credit and its recovery assumes all the more importance. Inadequate supervision often results in improper appraisal of loan proposals, under financing or over-financing and failure of credit agency to approach borrowers after harvesting/marketing seasons when they are in funds and are in a position to repay. Virtually non-existent or ineffective supervision gives rise to many malpractices culminating in overdues, which range from misutilisation of credit, disposal of assets and diversion of sale proceeds for consumption purposes, diversion of funds obtained at concessional rates of interest for non-agricultural business purposes to downright fraudulent practices like borrowing larger amounts than warranted by agricultural operations by showing inflated acreages/cropping pattern carrying

higher scales of finance with a view to deceiving the lending agency and even reloaning of concessional finance at higher rates of interest to the needy.

Deficiencies in supervision arrangement relates as much to the inadequacy of staff, lack of qualifications technical knowledge, or training to staff as to the unsatisfactory quality of their work. A common feature noticed in the course of field studies conducted for study the inadequacy of field staff in most of the commercial bank officers/branches visited. Agricultural lending involving a large number of small advances to borrowers in scattered villages calls for more man-power, more mobility and more time than for lending in urban centres. Unfortunately, the controlling offices of commercial banks guided by considerations of profitability keep down costs of rural branches generally by cutting down the staff strength with the result that supervision gets neglected. The bank themselves do not want to pay much attention to supervise large number of these small accounts due to high costs involved.

In the short term co-operative credit structure, the supervisors of DEEB's are not comparable to the supervisors of commercial banks. The principal responsibility for recovery is that of PACS's and the supervisor of DCCB's are only meant to assist them through the actual practice these supervisors themselves often undertake recoveries. DCCB's try to follow the norm of one supervisors for 10 societies recommended by RBI in the past. The actual position, however, varies from bank to bank.

In the long-term co-operative credit structure, the survey findings bring out that a field officer attached to a branch of LDB had charge of 678 accounts on an average involving loaning of Rs.29.4 lakhs scattered over 53 villages. The data on group-wise villages covered,

the number of accounts and the amounts handled per field staff are given. The charge per supervisor appears to be too large. Particularly, in the tribal and hilly areas, both in terms of the coverage of villages as also the number of accounts to be supervised and calls for rationalization.

□ **Factors External to the System:**

i) **Problems of agricultural economy-**

The increasing incidence of overdues of overdues being faced by all the agricultural credit agencies, is very closely connected with the complex nature of agricultural economy and unless the basic issues involved to agricultural sector are tackled effectively, it will be difficult to find a lasting solution to the problems of overdues. In the sphere of agriculture, given the small sizes of holdings of large number of borrowers, the basic issue is one of viability of the operating size of holding. The period after the 1960's witnessed the world over, rapid advances in the field of agronomy, genetics and bio-technology and their impact on agricultural productivity was significant. The Green Revolution in India was, however, restricted only to a few crops, in a few regions. Considering the economy as a whole, the development thrust or the agricultural push has been rather modest.

During the 10 years span from 1970 -71 to 1980-81, the number of operational holdings has increased from 70.49 million to 89.39 million, mainly due to the continuing process of sub-division of holdings as the area operated increased by just 0.67 million hectares. Consequently, there has been a sharp reduction in the average size of operational holdings from 2.7 hectares in 1960-61 to 1.8 hectares in 1980-81. The proportion of marginal holdings has steadily gone up from 50.6 percent in 1970-71 to 56.5 percent

in 1980-81. Most of the 89.3 million holdings comprise four to eight scattered plots; the fragmented land holdings in several tiny plots tend to erode the viability of the cultivator. The sustained pressure on land has led to the cultivation of even the most marginal quality lands. Further, the fact of the bulk of the cultivated land being unirrigated and thus agriculturally somewhat unstable, also adds to non-viability of small/marginal farmer and his capacity for prompt repayment of loans.

Natural calamities:

Incidence of natural calamities like draughts, floods and hail storms cause substantial damages and impair the repaying capacity of the borrowers and the resultant defects choke up the channels of credit. This is a major cause of defaults to which 22.6 percent of the respondents attributed their defaults. The issues relating to event of natural calamities have been examined in details.

Linkages and Supporting Services:

Schemating lending implies well orchestrated planning by various development agencies and tie up of credit programmes with other development programme as well as establishing suitable backward and forward linkages. The absence of such linkages and non-availability of supporting services have been a serious lacuna and this has led to impairment of effective use of the assets impeding the productivity itself. In the case of minor irrigation schemes non-energisation of pumpsets/machinery and delays in providing power lines/connections have virtually brought many programmes to a standstill.

In the case of the weaker sections the major problem in recovery arises from the failure of activities themselves not only on account of lack of linkages/supporting services but mainly due to lack of entrepreneurial skills on the part of the selected beneficiaries. This often reflects itself in their inability to select the right activity with good market potential for the product. Lack of economic strength and staying power, primitive, technology, uneconomic scale of operations etc. further compound the problems caused by ignorance and social backwardness. In the case of crop loaning, unlike co-operative which have within the system the necessary infrastructural organization to some extent, the commercial banks and RRB's have no in-built linkages with input supplies on the one hand and marketing arrangement on the other. This seriously hampers the quality of their loaning.

RBI SCHEMES OF DEFAULTERS LISTS-GIST OF

Gist of RBI Schemes of Defaulters' Lists

1. Scheme for disclosure of information regarding borrowers of banks and financial institutions.

In its circular DBOD No. BC/CIS/47/20. 16.002/94 dated April 23, 1994 addressed to scheduled commercial banks and financial (FIs), Reserve Bank of India has advised the details of scheme, as under:

As announced by the Hon'ble Finance Minister in his Budget Speech on February 28, 1994, in order to alert the banks and FIs and put them on guard against borrowers who have defaulted in their dues to other lending institutions, the Reserve Bank of India was putting in place arrangements for circulating among banks and FIs names of defaulting borrowers above a threshold limit. He further mentioned that the Reserve Bank would also publish a list of defaulting borrowers in cases where suits have been filed by banks and FIs.

2. Accordingly, the Reserve Bank of India has prepared a scheme (vide Annexure) to collect and disseminate information on the defaulters and suit-filed accounts. The salient features of the scheme, as modified further, are as under: The banks and FIs will be required to submit to the Reserve Bank of India by 15th of April and October every year the details of the borrowal accounts which have been classified as doubtful, loss and suit-filed with outstandings (both under funded and non-funded) aggregating Rs. One crore and

- (i) above. However, the details on suit-filed accounts are since required to be submitted only annually as on March 31.

RBI SCHEMES OF DEFAULTERS LISTS-GIST OF

- (ii) The Reserve Bank of India will circulate to the banks Fis the information on the defaulters (i.e. advances classified as doubtful and loss) for their confidential use. The banks and Fis may make use of the information while considering on merits requests for new or additional credit limits by existing and new constituents.
- (iii) Based on the information so collected, Reserve Bank of India will be publishing every year in a booklet/CD form the list of suit-filed accounts and also an update of the list on a quarterly basis, containing the lists of 'added' and 'deleted' accounts during the quarter.
- (iv) The first statement by banks and Fis containing the information would relate to the position as March 31, 1994 and should reach the Reserve Bank of India before the end of May, 1994 (thereafter by 15 April and 15th October of each year)

3. In case banks have difficulties in providing the information relating to defaulters of their overseas branches on account of secrecy laws of those countries, banks may refer such cases to us for our consideration.

4. This circular is issued under the powers vested with the Reserve Bank of India by the provisions of Chapet III- A of the Reserve Banks of India Act, 1934.

ANNEXURE

Disclosure of information regarding defaulters of banks and financial institutions

1. Objectives

- (i) To alert banks and financial institutions (FIs) and to put them on guard against borrowers who have defaulted in their dues to lending institutions.
- (ii) To make public the names of the borrowers who have defaulted and against whom suits have been filed by banks/Fis.

II. Collection of information

1. The source will be banks and Fis including State Financial Corporations (SFCs) and State Industrial Development and Finance Corporations, which come under the purview of Chapter III- A of the Reserve Bank of India Act, 1934.
2. The information will be collected in respect of borrowal accounts classified by the institutions under any of the under noted categories irrespective of whether they are outstanding in the Indian books of any or in the foreign branches of Indian banks:
 - a. Doubtful Assets
 - b. Loss Assets and
 - c. Suit-filed Accounts
3. The basic unit for the purpose of reporting will be the legal entity i.e. a company (irrespective of whether it is in private, public, co-operative or joint sector), a firm, an individual, etc.
4. For the present, reporting will be required in respect of borrowal accounts with outstanding both under funded and non-funded facilities aggregating Rs. One crore and above.
5. The information to be furnished by the reporting institutions will include the name of the institutions will include the name of the institution, the name of its branch, the name of the party and its registered address, the names of the directors / partners

/proprietors/ members, the outstanding amount, asset classification, date of classification, etc.

6. Information is to be submitted to the Reserve Bank of India by the 15th of April and October showing the position of borrowal accounts as on March 31st and September 30, respectively, of every year. However, information on list of suit filed accounts is since required to be submitted annually as on March 31, followed by its updates on quarterly basis.
7. Information should be furnished to the Reserve Bank of India in computer compatible media, viz. floppy diskettes in the format specified.

III. Dissemination of information

(i) List of Defaulters:

- (a) Banks and FIs coming under the purview of Chapter III-A of the Reserve Bank of India Act, 1934, will be entitled to receive information on defaulters.
- (b) Reserve Bank of India will furnish to the Head Offices of all the eligible institutions the database on defaulters in floppy diskettes.
- (c) In due course, online access to the database in the computer system at the Reserve Bank of India will also be available to the authorized officials of the eligible institutions.
- (d) Banks and FIs will not make available to any outside agency, without the prior approval of the Reserve Bank of India, information on defaulters received by them from the Reserve Bank of India.

(2) List of suit-filed accounts:

- (a) Reserve Bank will publish information on suit-filed accounts in a booklet/CD form annually and also place the same on RBI website, along with a disclaimer.
- (b) Updates of the list will be placed on RBI website by the Reserve Bank of India on quarterly bases.
- (c) These booklets/CDs will be available to all eligible Institutions, associations of industry and trade, press and the general public.
- (d) These booklets/CDs will be appropriately priced.

List of suit filed (including decreed) accounts with aggregate outstandings of Rs. 1 crore and above.

II. Scheme on collection and dissemination of information on cases of willful defaults of Rs. 25 lakh and above.

Pursuant to the directions of the Central Vigilance Commission, Reserve Bank of India introduced above scheme in terms of circular DBOD No. BC. DL (W) 12/20.16.002(1)/98-99 dated February 20, 1999 addressed to banks and FIs under which it collects and disseminates information from/to them on cases of willful defaults of Rs. 25 lakh and above on a quarterly basis commencing from the quarter April-June 1999. As subsequently advised to the banks and the notified FIs, as per circular DBOD No. DL (W) BC.110/20.16.003/2001-02 dated May 30, 2002 the term 'Wilful defaulter' has been redefined in supersession of earlier definition/illustrations, as follows:

A willful default would be deemed to have occurred if any of the following events is noted:

- a. The unit has defaulted in meeting its payment/repayment obligations to the lender even when it has the capacity to honour the said obligations.
- b. The unit has defaulted in meeting its payments/repayment obligations to the lender and has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
- c. The unit has defaulted in meeting its payment/repayment obligations to the lender and has siphoned of the funds so that the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.

<p>List of cases of wilful defaults against which Banks and Financial Institutions have filed suits for recovery of funds (Rs. 25 lakhs and above)</p>

The term 'Diversion of funds', referred to at para (b) above, would be construed to include any one of the under noted occurrences:

- (i) Utilization of short-term working capital funds for long-term purposes not in conformity with the terms of sanction;
- (ii) Deploying borrowed funds for purposes/activities or creation of assets other than those for which the loan was sanctioned.
- (iii) Transferring funds to the subsidiaries/Group companies or other corporates by whatever modalities;
- (iv) Routing of funds through any bank other than the lender bank or members o consortium without prior permission of the lender;
- (v) Investment in other companies by way of acquiring equities/debt instruments without approval of lenders;

- (vi) Shortfal in deployment of funds vis-à-vis the amounts disbursed/drawn and the difference not being accounted for.

The term 'Siphoning of funds', referred to at para (c) above, should be construed to occur if any funds borrowed from banks/Fis are utilized for purposes un-related to the operations of the borrower, to the detriment of the financial health of the entity or of the lender. The decision as to whether a particular instance amounts to siphoning of funds would have to be a judgment of the lenders based on objective facts and circumstances of the case.

Availability of list of suit-filed accounts on RBI Website

Particulars of willful defaulter against whom defaulters against whom suits have been filed are published annually as on March 31 along with the list of suit-filed accounts of Rs. One crore and above in booklet/CD form. As indicated above, the booklet/CD containing suit-filed accounts will be available to all eligible institutions, associations of industry and trade, press and the general public. Accordingly, this list of suit filed accounts as on March 31, which is a priced publication, is also put on RBI website, along with a disclaimer. Urther, the list of suit-filed accounts of willful defaulters is placed on RBI website on quarterly basis.

Assam Gramin Vikash Bank

(A Brief Performance of the Bank in various Functional Areas)

Introduction:

Assam Gramin Vikash Bank, the only restructured Regional Rural Bank of the N.E. Region was set up on 12th January, 2006 by amalgamating the erstwhile Pragjyotish Gaonlia Bank, Lakhimi Gaonlia Bank, Cachar Gramin Bank and Subansiri Gaonlia Bank as per provision under section 23 (A) of Regional Rural Bank Act, 1976. The Head office of the Bank is situated at G.S. Road Bhangagarh, Guwahati- 781005, Assam. The operational area of Assam Gramin Bikash Bank consists of the entire area of operation of the aforesaid four pre-amalgamated Regional Rural Banks which covers 25 districts out of 27 districts in the state of Assam, barring only the two hill districts viz Karbi Anglong and North cachar Hills.

The objectives set before the Regional Rural Banks remain in fact for Assam Gramin Vikash Bank also. Assam Gramin Vikash Bank gives maximum emphasis for developing the rural economy by providing credit for agriculture, trade, industry, and other productive activities, particularly to the small and marginal farmers, agricultural labours, artisans and small entrepreneurs etc. and also transacts business as defined in section 18(2) of the Regional Rural Bank Act, 1976 and Section 6(1) of Banking Regulation Act, 1949.

Assam Gramin Vikash Bank, the only amalgamated Regional Rural Bank of the N.E. Region has emerged as the largest bank in the state of Assam in terms of branch network. Further, in terms of number of district covered, Assam Gramin Vikash Bank tops the list of Regional Rural Banks in the entire country.

Under the restructuring programme share capital Deposit amounting to Rs.85632 thousand have been sanctioned as well as released to the bank by the Govt. of India in the proportion of 50% : 15%: 35% respective till 31-03-2007. No additional share capital deposit has been received by the bank after 31-03-2007.

During the period, the bank could mobilise additional deposit amounting to Rs. 4021960 thousand from existing as well as new customers. The bank recorded the deposit growth of 20% as against 15% during the previous year. Further emphasis continued for increasing the share of demand deposit so as to bring down the cost of deposits and to increase the spread. The bank has successfully achieved this objectives. The share of demand deposits increased to 67% during the year from 63% in 2006-07. In spite of upward revision of interest rates in June with the market conditions, the cost of deposits could be reduced to 4.44 on account of increase in the share of low cost deposits.

Table-1

(Amount in Rs. Thousand)

Category	As on 31-03-2007			As on 31-03-2008		
	Account	Amount	Growth %	Account	Amount	Growth %
1)Current account	168455	1228973	76	181955	2172611	77
2) Savings Bank	1654657	11167924	18	1789713	13697599	23
3)Demand deposit	1823112	12396897	22	1971668	1580210	28
4)Term deposit	513041	7250375	4	592558	7799022	8
Total	2336153	19647272	15	2564224	23669232	20

During this year, the bank availed refinance to the extent of Rs. 178160 thousand from NABARD. There was no default in repayment of either instalment or interest by the bank. As on 31-03-2008 an amount of Rs.

793442 thousand remained outstanding borrowing as against Rs. 998998 thousand as on 31-3-2007.

The position of cash in hand of the Bank, as on 31-3-2008 stood as follows.

Table-2 (Amount in Rs. Thousand)

Particulars	2006-07	2007-08
Cash at the year end	280613	327538
Average cash in hand	221196	240682
Average cash as % to average deposit	1.21	1.16

The average cash holding has been marginally brought down from 1.21% to 1.16% inspite of sincere efforts, bank could not contain the average cash holding within the permissible limit. The reason behind the same is mainly considered to be due to non availability of adequate cash with the feeding banks branches, non- existence of bank's won currency chests, involvement of high amount of expenditure for carrying even small amount of cash with security arrangement in the vulnerable areas etc. However, in order to further lowering down the average cash holding, bank is actively considering to open currency chests in some identified locations to ensure uninterrupted supply of cash to the nearby branches as and when required.

The balance in current account held by the Bank was as follows—

Table -3 (Amount in Rs. Thousand)

Particulars	Amount
Current account balance with	
Reserve Bank of India	17,60396
UBI & other Banks	1034770
Total	2795166

As on 31-03-2008 the outstanding amount of investment made by the Bank in Govt. and Approved securities stands at Rs. 11359706 thousand as against Rs. 255237 thousand and as on 31-03-2007. investment to deposit ratio stands at 48%.

The break up of the SLR and Non SLR investment along with comparative position o the previous fiscal is furnished.

At the end of the financial year 2007-08 the gross outstanding position of loans and advances stands Rs. 12241469 thousand as against Rs. 10476561 thousand during the previous year.

The percentage of priority sector advances comprises 71.71% of total loans and advances outstanding as on 31-03-2008. The category wise break up of loans and advances outstanding as on 31-3-08 is furnished below along with comparing position of the last fiscal.

Table-5 (Amount in Rs. Thousand)

Category of Advances	2006-07			
	Amount	As % of total Loans Disbursed	Amount	As % of total loans disbursed
Kisan credit card (KCC) SI crop loan	197868	5.47	315882	8.40
MT Agril & Allied	384545	10.63	681268	18.12
S.S.I	299575	8.28	21073	7.74
Services & Others	1192472	32.98	802104	21.33
Housing Loan	258247	7.42	760401	20.22
Total priority sector	2342707	35.22	909488	24.19
Non-priority sector	1273653	35.22	909488	24.19
Total	3616360	100.00	3760216	100.00

Recovery of Loans:

During the period 1745 no Recovery camps were organized besides conducting joint recovery drives with the help of branches /offices /sponsor / agencies / local panchayats / recovery agents etc. Further

special trust was given to recover long sticky overdues through compromise settlement. The demand, collection and Balance and also age wise classification of overdues as on 30-06-2007 are furnished below.

Table-6

Sector	Demand	Collection	Balance	Recovery %
Farm sector	848296	305137	543159	36.97
Non-farm sector	2882364	2034333	848031	70.58
Total	3730660	2339470	1391190	62.71

Age wise classification of overdues as on 30-06-2007 was as follows:-

Table-7

Periods	Sector		
	Farm	Non-Farm	Total
Below 1 year	157379	296793	454172
1 to 3 years	138319	136037	334356
Above 3 years	247461	355201	602662
Total	543159	848031	1391190

Assistance to women beneficiary:-

Bank has initiated special steps to cover more number o women under various types of credit facilities of the Bank. The women development cell has taken special interest in conducting Gender Sensitization meets, Awarness camps, SHG promotion, Melas, Exhibition etc. This has helped to finance to 9721 women beneficiaries during the year with credit support of Rs. 361172 thousand which formed 10% of the total Bank credit. Thus the bank has complied with R.B.I instructions of

ensuing minimum credit flow of 5% of total credit to women. The outstanding amount of credit delivered to women stands at Rs. 1235526 thousand against 45352 beneficiaries registering a growth of 13% over the previous year.

SELF HELP GROUP/JOINT LIABILITY GROUPS:

Promotion and credit linkage of Self-Help Group empowerment of rural populace particularly women in the lowest strata by developing the habit of thrift and credit lopped the list of agenda for the social institutions including banks. This has motivated the institution organizations to to with the concept of Self-Help Groups. Against this backdrop, the Bank is actively associated in promotion and credit linkage of Self-Help Groups. (SHGs) in its area of operation, since inception of the concept. The scheme for credit linkage of S.H.G. has got momentum in the operational area of the bank during the period under reviewed.

Special Attention to Weaker Sections and SC/ST Baneficieries:-

Credit to weaker Sections increased to Rs. 4810924 thousand as at march 31-2009 registering and increase of Rs. 1632926 thousand Rates of Weaker Section Advances to total Advances was 34.39%. During the year loan amounting to Rs.1269442 thousand was disbursed as against Rs. 936886 thousands during the year.

Credit to SC/ST beneficiaries increased by 104% to Rs. 2484008 thousand in 2008-09. Loan amounting to Rs. 407169 thousand was disbursed during the year as against Rs. 312726 thousand in the previous year.

Loans to Minority Community:

During 2008-09 loan amounting to Rs.159180 thousand was disbursed to Minority communities as against Rs.281269 thousand during the previous year. The outstanding advances to Minority communities Rs.

1859091 thousand registered a growth of 27% over the position as on 31-03-2008.

ORGANISATION OF AWARENESS CAMPS:

In order to create awareness among the targeted group of clientele like SHG's JLG's. etc. awareness and motivation camps are considered to be a primary requirement. NABARD has also suggested various designs of such awareness programme and extends financial support for organizing such camps. During the year under report, a good nos. of Awareness camps/customer Meets were organized by the branches/offices of the Bank. While many such awareness camps helped the Bank in initiating formation of SHG's, SHG's, SHG-Band linkage camps organized by the Bank has enabled the Bank to bring in many SHG's into the fold of Bank credit. The Bank has also organized a good nos. of borrower's education programmes for the KCC borrowers in association with Farmer's clubs.

Agriculture credit plays an important role in rural economy. The credit requirement of rural areas was mainly met by co-operative credit institutions till the mid-sixties. In order to fulfill the increasing credit needs of agriculture, the efforts of the co-operatives were supplemented by commercial banks in a substantial way. Under the multi-agency approach to rural lending, co-operatives, commercial and Regional Rural Banks (RRB's) formed an integral part of the rural credit structure. The problem of overdues in the agricultural credit system has been increasing over the years. The high overdues have affected the overall financial health of the rural structure. The soundness of the co-operative credit structure depends on the prompt recovery of loan but the growing problem of overdues has affected the flow of short and medium term agricultural credit. Heavy overdues act as a constraint on the efficiency of lending institutions.

In the present day institutional financing, the problem of overdues is assuming a great dimension. Particularly the situation of repayment of loans worsen very much with the introduction of the Agriculture and Rural debt Relief (ARDR) Scheme. In reality the ARDR scheme has vitiated the whole atmosphere of lending in rural areas. One of the primary factors determining the ability of lending by banks is the repayment culture of their borrowers. An unprecedented poor demand to recovery ratio for each and every bank in the country raises the question as to how in the long run banks can effort to lend in rural areas if they have to lose on an average, 50% for each lending.

The recovery position of all loans have deteriorated in all areas of banking barring short-term advances in the agricultural sector. According to expert opinions, the deterioration in recovery rates has been particularly due to very low recoveries in the case of government sponsored schemes such as Integrated Rural Development programme

(IRDP) self Employment Scheme for Registered unemployed (SESRU), Sel- Employment Scheme for Educated unemployed youth (SFEUY), Self Employment Scheme for the urban poor (SESUP) and small scale entrepreneurial programme (SSEP). For this reason focus of the present study will be agricultural loans as well as on government sponsored programmes.

Objectives of the Study:

The present study concerns with the following objectives:--

- (i) To find out incidence of overdues among different classes of borrowers in rural areas.
- (ii) To get the relationship overdues have with operational holding, literacy of borrowers and quantum of lending.
- (iii) To identify internal and external factors responsible for increasing overdues in institutional finances.

Methodology—

The present study has been conducted on both secondary and primary data. Secondary data has been collected from the reports of the Reserve Bank of India, Nationalised banks the Gramin Vikash Bank and the Block offices.

For collecting primary data, the sample survey method has been followed. The population comprises all branches of gramian Vikas Bank in Nalbari and Kamrup districts. There are altogether 20 branches of G.V.B in Kamrup district and 24 branches in Nalbari 2 branches from Kamrup i.e. Ramdia & Kulhati and 2 branches from Nalbari district i.e. Rampur and Jagara have been selected at random. The defaulters list has been collected from these 4 branches. The primary data has been collected by personal interviewed from the beneficiaries and non beneficiaries from the collecting data the amount of overdues, amount of loan disbursement,

nos of loans have been counted. The collecting data then be tabulated as per as possible.

Gramin Vikash Bank: Rampur^{re} Branch , Nalbari.

The Rampur branch of Gramin Vikash Bank of Nalbari District. It is an important branch of this bank and it renders the valuable services in that locality. This bank fulfils the rural credit needs of the people not only by agricultural credit but by government sponsored programme also. My study comprise the problems of overdues faced by the bank from the year 2001 to 2008. the problems of overdues is very acute in these responsible years. As per examples, this bank supplied total loan Rs. 30998295 lakhs to 822 loanees and it fced total overdues Rs. 60,64442 lakh. The percentage of overdues of all loan in the year 2001 was 19.5%. The total overdues in the year 2004-05 was very high i.e. the total loan in this period was Rs. 109, 88062 lakh and the total overdues was Rs.61,58,914 lakh and the percentage 56%. The total disburshment amount of loan and overdues in the period from 2001 to 2008 and the total nos of loanee is shown in a tabular form.

Period	Total Nos of Loanees	Loan Disburshment amount (in Rs.)	Total Overdues	P.C.
2001-2002	822	30,9,98,295	60,64,442	19.5%
2002-2003	841	3,03,06,654	6,3,53,897	21%
2003-2004	803	3,55,56,232	62,49,230	17.5%
2004-05	803	1,09,88,062	61,58,914	56%
2005-06	744	1,18,50,290	50,63,382	43%
2006-07	742	1,38,89,088	60,58,308	28%
2007-2008	738	2,10,04,790	58,53,339	28%
2008-2009	750	1,83,42,803	59,87,125	33%

(N.B. The data supplied by the branch manager of the branch)

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The classification of loan amount is not possible at the study because the bank did not supplied the amount separately.

Gramin Vikash Bank: Jagara Branch.

The Jagra branch of Gramin Vikash Bank is situated in the Chamata development block of Nalbari district. It is also an important branch of Gramin Vikash Bank of Nalbari. The overdue problem of this branches is also very acute. The supplied datas of the bank from the year 2001 to 2008-09 are shown in tabular form.

Period	Nos of Loanees	Disburshment amount	Total amount of Overdues	P.C.
2001-2002	1236	78,00,000	16,00,000	20.5%
2002-2003	1249	80,00,000	18,00,000	22.5%
2003-2004	1254	84,00,000	15,27,000	18.1%
2004-05	1261	85,00,000	47,55,000	56%
2005-06	1289	98,00,300	46,20,000	47.1%
2006-07	1361	11,01,3,000	47,20,206	43%
2007-2008	1387	200,00,000	5558200	28%
2008-2009	1257	15782000	51,61,000	33%

(N.B.- The data supplied by the field officer of the branches)

Gramin Vikash Bank: Ramdia Branch- Kamrup

The Ramdia branch o Gramin Vikash Bank is an important branch of the Regional Rural Bank situated at Hajo Development Block. It renders valuable services to the rural peoples of that locality. The benefit of this branch availed by the agricultural farmers, blacksmithean, Potterian and other classes o the peoples. The total overdues of this branch was Rs, 61.75 lacs out of total disburshment amount of loan Rs.

1.36 lacs of the 138 beneficiaries. The total overdues of the bank branches are given in a tabular form.

Period	Total Nos of Loanees	Disburshment amount	Total amount of Overdues	P.C.
2003-2004	1138	91.36	61.75	68%
2004-2005	1213	191.27	56.45	30%
2005-2006	1190	147.43	43.22	29.3%
2006-2007	1070	84.10	57.63	69%
2007-2008	1089	173.13	68.55	40%
2008-2009	1144	104.61	84.54	81%

(N.B. The official data supplied by the field officer of the branch)

Kulhati Branch: Gramin Vikash Bank- Kamrup

The Kulhati branch of Gramin Vikash Bank is also situated at the Hajo Development Block. The position of overdues of this branch also very acute as other branches of the bank. The position of overdues of this branch supplied by the office is shown in a tabular form.

Period	Nos of Loanees	Disburshment amount	Total amount of Overdues	P.C.
2003-04	930	75.30	33.88	45%
2004-05	880	105.25	32.62	31%
2006-07	910	70.45	33.11	47%
2007-08	1010	106.55	64.99	61%

(N.B- The data is supplied by field officer of the bank)

Causes of overdues:

The problem o overdues of RRBs in the Gramin Vikash Banks is very serious today. The repayment of loan in the RRB's and other institution is quite dissatisfactory. As a result of the poor repayment system the financial institutions have been suffering from heavy financial losses which adversely affects the yearly income of the institutions. Due

to continuation of this unhealthy situation the financial institutions have been compelled to abstain from taking new schemes for sanctioning loan to the borrowers.

At the personal interviewed to the borrowers the following results are found—

- (i) In case of agricultural loan the natural calamities are the main causes of non-repayment of loan. Natural calamities like droughts, floods and hail storms have badly affected the agricultural crops year to year. Due to poor economic condition such type of loanee could not repay their loan instalment at due time and ultimately it will go overdues.
- (ii) The younger generations of a poor family are not habituated to repay loan to the financial institution. They compelled their guardian to expend their money income to other activity. As a result, the guardian not repay their loan as per rules o the bank and it goes overdues.
- (iii) There is a big gap between loan sanction and disburshment of loan by the bank to the loanee. As a result sometimes when the bank authority disburshed the loan the harvesting o crops was already over. In such cases also the repayment of loan goes default and overdues.
- (iv) Illiteracy and ignorance is also another causes of overdues of loan. Due to illiteracy the loanee is not keep in mind the exact time o repayment of his loan or he ignore to repay the loan to the bank.
- (v) Improper utilization of loan is also one main cause of overdues. Some loanee expends their loan amount to the consumption and luxurious purposes. Major portion of his loan

expends in such cases ultimately he fails to repay loan and it goes overdues.

- (vi) Lack of proper supervision by the bank is also one causes of overdues. In this cases the authority expresses that they ails to supervision because of lack of staff member and time. After sanctioning and disbursh the loan there is no co-operation with the bank and the loanees. Negligence of the bank supervision the loanee did not properly used their loan and he fails to repay the loan.

From the study, it has been felt that overdue problems of Gramin Vikash Bank of the two districts now becomes a serious disease which can not be cured by legislation only. It need to be tackled with all seriousness and by means of comprehensive ventures like postponing further lending in areas where bank dues are heavy, filing targets for sponsoring authorities in respect of collection of dues. Recovery of bank dues can not be done only by bank oficeals. Amelioration of this disease calls for co-ordinated efforts of everyone working in the development sphere. The recovery position need to be monitored regularly in all development meetings at the block, district and state levels.

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