PART II

ANALYSIS OF PRIORITY SECTOR ADVANCES AND RECOVERY FACTORS

ANALYSIS OF PRIORITY SECTOR ADVANCES AND RECOVERY FACTORS

II.1 RECOVERY OF AGRICULTURAL ADVANCES

II.1.1 Overall Assessment of Bank Performance

In order to make an overall assessment of bank performances in respect of recovery of advances, it is imperative to consider other factors which have bearing on recovery. As such, the factors ` outstanding credit ', ` demand ' etc, were also examined.

The relevant data for the period 1984 to 1988 were collected from the lead banks in Valsad and Surat districts for all the 189 branches in Valsad and 243 branches in Surat. These data were summarised bankgroup-wise and year-wise and are given in Annexures 1.1(a) to 1.1(d) for Valsad and 1.2(a) to 1.2(d) for Surat.

The overall summaries for the entire 5-year period are given in Table II.1.1 for Valsad and Table II.1.2 for Surat.

Table II.1.1 : BANK-WISE RECOVERY AND CONTRIBUTION TO DEMAND, RECOVERY, OUTSTANDING CREDIT AND NO. OF BRANCHES FOR AGRICULTURE IN VALSAD FOR THE PERIOD 1984 TO 1988

Bank	Recovery % to demand	CONTRIBUTION TO			
		Demand (%)	Recovery (%)	Outstanding (%)	Branches (%)
Bank I	54.53	53.87	55.19	48.55	40.24
Bank II	50.25	10.84	10.27	13.08	15.34
BankIII	29.83	8.94	5.00	7.97	14.91

Contd...

Bank	Recovery % to demand	CONTRIBUTION TO			
		Demand (%)	Recovery (%)	Outstanding (%)	Branches (%)
Bank IV	59.86	22.25	25.34	25.34	16.63
Bank V	58.79	3.80	4.20	5.06	12.88
Overall	53.23	100.00	100.00	100.00	100.00

Source : Personal Survey

Table II.1.2 : BANK-WISE RECOVERY PERCENT AND CONTRIBUTION TO DEMAND, RECOVERY, OUTSTANDING CREDIT AND NO. OF BRANCHES FOR AGRICULTURE IN SURAT FOR THE PERIOD 1984 TO 1988

Bank	Recovery % to demand	CONTRIBUTION TO			
		Demand (%)	Recovery (%)	Outstanding (%)	Branches (%)
Bank I	30.31	55.89	41.84	42.72	34.48
Bank II	49.02	12.31	14.90	13.78	13.49
Bank III	47.07	8.54	9.93	10.76	14.76
Bank IV	59.00	20.18	29.40	29.44	19.56
Bank V	51.68	3.08	3.93	3.30	17.71
Overall	40.50	100.00	100.00	100.00	100.00

Source : Personal Survey

It is seen from Table II.1.1 that the recovery per cent to demand varied between 30 per cent and 59 per cent amongst the five bank-groups in Valsad district.

It is further revealed that Bank I had the highest contribution towards the parameters demand, recovery, outstanding credit and number of branches, followed by Bank IV, Bank II, Bank III and Bank V in descending order.

However, Bank I ranked third in terms of recovery per cent. As against this, Bank V stood second in terms of recovery per cent but fifth in the case of other parameter.

In the case of Surat district (Table II.1.2), the recovery per cent varied between 30 per cent and 59 per cent from bank to bank. Withregard to contribution to demand, recovery, outstanding and number of branches, the Bank I ranked first followed by Bank IV, Bank II, Bank III and Bank V in descending order. It is also revealed that Bank I had as low as 30 per cent recovery to demand, while the contribution in respect of other parameters was relatively higher (42 to 56 per cent contribution). As against this, Bank V recorded 52 per cent recovery while its contribution in respect of other parameters were very low (3 to 4 per cent contribution).

A comparison between the performances of Valsad and Surat districts shows that the overall recovery was higher in Valsad (53%) than in Surat (41%). The difference is also statistically significant.

It appears that the lower recovery in Surat district was due to poor recovery by Bank I, which contributed maximum in total outstanding credit, demand for repayment of loan by the beneficiaries and number of branches.

The recovery data have been further analysed and discussed in Section II.1.2.

II.1.2 Bank-wise and Year-wise Performance in Respect of Recovery

Annexure II.1.3 gives a summary of recovery for five banks for the five years 1984 to 1988 in Valsad District. The data have been statistically analysed by the technique of Analysis of Variance to test if there were any differences in performances between the banks and between the years. The Analysis of Variance Table is also given in Annexure 1.3.

The analysis has revealed that the performance of the banks with respect to recovery varied significantly. The performances between the years were, however, not found to be statistically significant, although there appears to be an increasing trend in recovery per cent over the years.

Table II.1.3 gives the overall per cent recovery for the five banks in Valsad for the period 1984 to 1988.

Table II 1.3 : BANK-WISE RECOVERY (VALSAD)

Bank	Overall Recovery (%)
I	54.53
II	50.25
III	29.83
IV	59.86
V	58.79

In order to test the significance of difference between any two banks, further analysis (Critical Difference Analysis) has been done. On the basis of this analysis, the best and poorest groups of banks have been identified (Table II.1.4).

Table II.1.4: CATEGORIES OF BANKS (VALSAD)

Category	Bank Group	Overall Recovery (%)
Best	I, IV, V	56.2
Poorest	III	29.8

Similar analysis has been carried out for data on recovery per cent for surat district. The data on recovery per cent, bank-wise and year -wise, are given in Annexure 1.4 and the corresponding analysis of variance table is also given in Annexure 1.4. The performances in respect of recovery per cent between the banks were found to be statistically highly significant. The differences between the years were, however, not statistically significant. Table II.1.5 gives the overall per cent recovery for the five banks in Surat for the period 1984 to 1988.

TOble II.1.5: BANK-WISE RECOVERY (SURAT)

Bank	Overall Recovery (%)
I	30.31
II	49.02
III	47.07
IV	59.00
V	51.68

On the basis of further analysis (by Critical Difference Method), the best and poorest groups of banks have been identified (Table II.1.6).

Table II.1.6 : CATEGORIES OF BANKS (SURAT)

Category	Bank Group	Overall Recovery (%)
Best	IV	59.0
Poorest	I	30.3

Thus, the above analysis reveals that while the performance of Bank IV was among the best in both the districts, Bank I performed relatively well in Valsad district, but poorly in Surat district.

It may be noted that eventhough the bases (demand values) was not same for each bank/year, the conclusions drawn from the analysis of variance for the data on recovery per cent will still remain valid for all practical purposes.

II.1.3 Relationship Between Outstanding Credit And Demand

In order to examine if there is any relationship between outstanding credit and demand the data given in Table II.1.7 were analysed separatly for Valsad and Surat districts by using the Correlation and Regression techniques (Simple Linears).

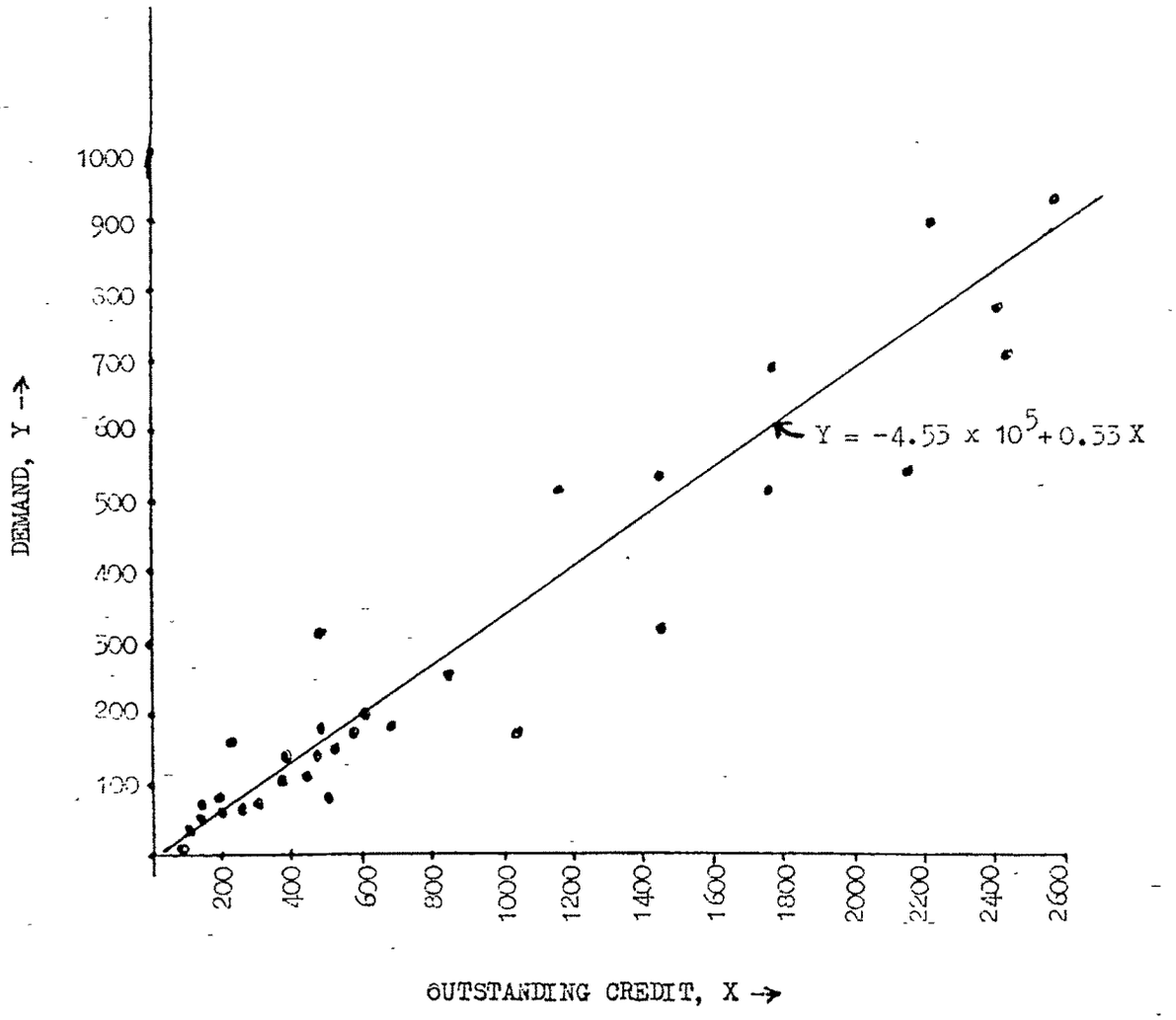
Table II.1.7: BANK-WISE AND YEAR-WISE OUTSTANDING CREDIT AND DEMAND FOR AGRICULTURE (RS IN '000)

BANK	YEAR	VALSAD		SURAT	
		Outstanding (X)	Demand (Y)	Outstanding (X)	Demand (Y)
I	1984	114507	51162	161744	127693
	1985	141738	54283	172400	127506
	1986	176005	68820	178814	134374
	1987	242837	70476	208621	139433
	1988	258299	93226	242718	141609

BANK	YEAR	VALSAD		SURAT	
		Outstanding (X)	Demand (Y)	Outstanding (X)	Demand (Y)
II	1984	30912	7656	54177	31369
	1985	41649	11306	57297	16551
	1986	51816	15068	56045	19134
	1987	59290	15972	68982	36577
	1988	67736	18056	74597	44025
III	1984	19035	8012	25822	16619
	1985	22025	16047	29348	19855
	1986	26952	6869	29872	18473
	1987	37243	10920	54447	20246
	1988	47918	14068	103360	27308
IV	1984	37458	14364	74882	31895
	1985	47588	18161	93308	36347
	1986	83244	25424	93259	45399
	1987	144362	32161	158953	63197
	1988	174551	51402	244102	65362
V	1984	8716	238	7509	1829
	1985	10605	4499	11623	6545
	1986	13196	5316	12548	7524
	1987	15098	6460	14614	8647
	1988	49837	7358	28128	12397

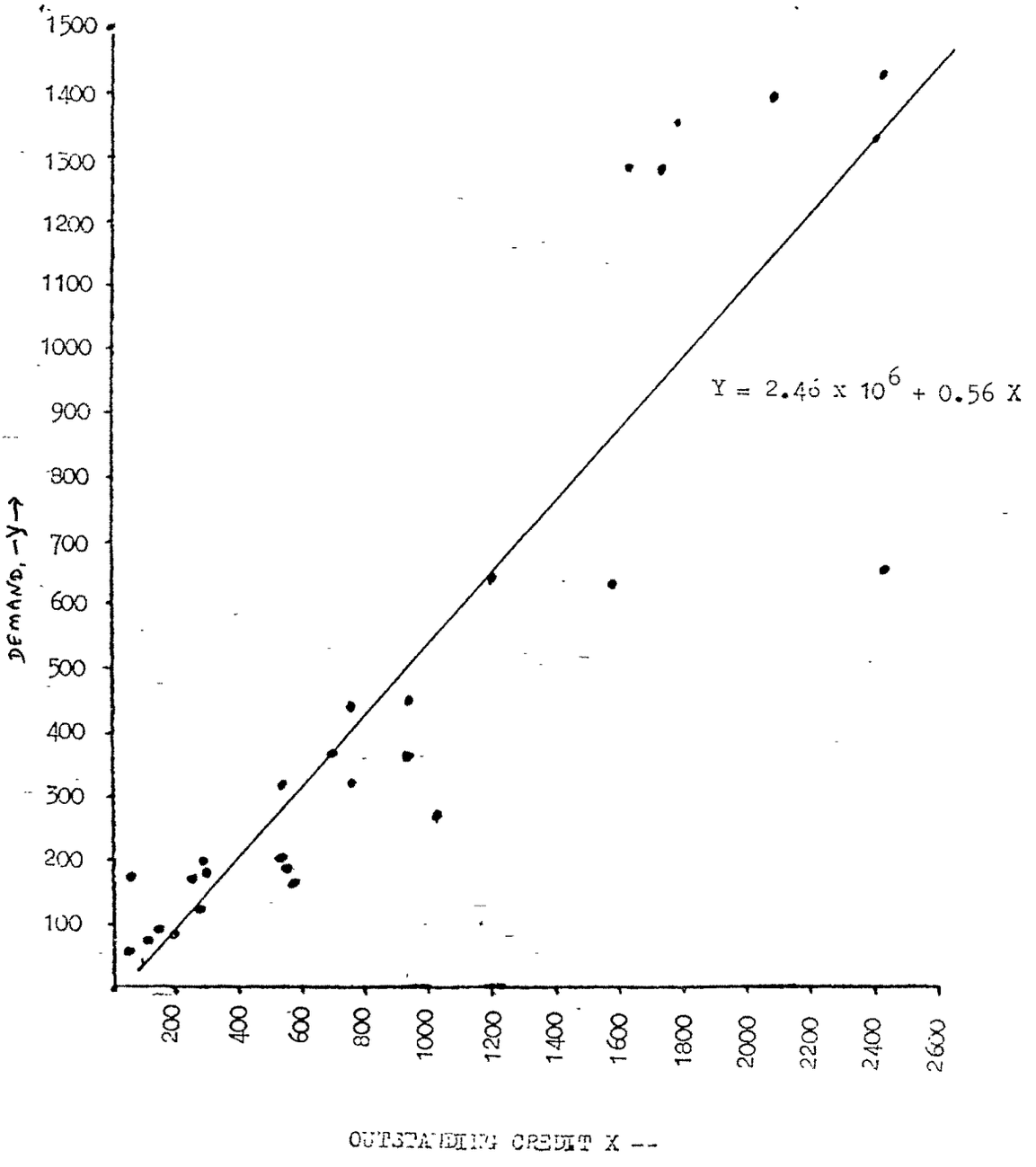
An idea of relationship can be had from the Figures 1.1 and 1.2 (Scattered Diagrams) for Valsad and Surat districts respectively. The analysis has revealed that there was a high linear correlation between outstanding credit and demand, particularly in the case of Valsad district. The results are summarised below :

Fig 1.1 SCATTER DIAGRAM:
OUTSTANDING CREDIT VS. DEMAND (AGRICULTURE - VALSAD DISTRICT)



All figures are in Rs.lakhs

Fig 1.2. SCATTER DIAGRAM:
OUTSTANDING CREDIT VS. DEMAND (AGRICULTURE - SURAT DISTRICT)



Figures are in Rs. in lakhs.

Table II.1.8: CORRELATION BETWEEN OUTSTANDING CREDIT (X) AND DEMAND (Y)

DISTRICT	Correlation Coefficient (r)	coefficient of determination r^2 (%)	Regression line of Y on X
Valsad	0.965	93.1	$Y=-4.533 * 10^{5} + 0.332X$
Suart	0.884	78.1	$Y= 2.464 * 10^{6} + 0.559X$

As seen from the above table, the degree of correlation as measured by the correlation coefficient (r) was higher in the case of Valsad district, although in both the cases high degree of correlation was observed. In other words, about 93 per cent of total variation in demand could be explained by the linear relationship between demand and outstanding credit for the cases in Valsad district. The corresponding figure for Surat district was about 78 per cent. The results so obtained can be used for projection of demand for any given value of outstanding credit within the range observed, by using the equations given in Table II.1.8

II.1.4 Ageing of Overdues and its Association with Recovery

In order to study the ageing pattern of overdues and the extent of its effect on recovery,the relevant data as on 30th June 1988 were collected from sample branches from Valsad district (10 branches) and Surat district (13 branches) and are presented in Annexure 1.5 and Annexure 1.6 respectively,alongwith the recovery figures. Summaries of the data are given in Table II.1.9 and Table II.1.10 for

Valsad and Surat districts respectively.

Table 1.9: BANK-WISE SUMMARY OF AGEING OF OVERDUES AND RECOVERY OF SAMPLE BRANCHES AS ON 30TH JUNE 1988 IN VALSAD DISTRICT IN AGRICULTURAL ADVANCES

BANK	Overdues (Rs.in '000)				Recovery to demand(%)
	Up to 1 Year	1 to 3 Years	Above 3 Years	Total	
BANK I	3132 (19.77)	5660 (35.71)	7054 (44.52)	15846 (100)	46.08
BANK II	603 (71.53)	---	240 (28.47)	843 (100)	57.14
BANK III	263 (39.73)	146 (22.05)	253 (38.22)	662 (100)	20.71
BANK IV	71 (19.09)	101 (27.15)	200 (53.76)	372 (100)	35.41
BANK V	21 (38.89)	15 (27.78)	18 (33.33)	54 (100)	58.73
Overall	4090 (23.00)	5922 (33.32)	7765 (43.68)	17777 (100)	

Figures in parenthesis indicate bank-wise % to total overdues

Source : Personal survey.

Table II.1.10 : BANK-WISE SUMMARY OF AGEING OF OVERDUES AND RECOVERY OF SAMPLE BRANCHES AS ON 30TH JUNE 1988 IN SURAT DISTRICT IN AGRICULTURAL ADVANCES

BANK	Overdues (Rs.in '000)				Recovery to demand(%)
	Up to 1 Year	1 to 3 Years	Above 3 Years	Total	
Bank I	2341 (6.56)	3388 (9.51)	29901 (83.93)	35630 (100)	31.69
Bank II	533 (9.17)	2731 (47.10)	2536 (43.73)	5800 (100)	55.02

BANK	Overdues (Rs.in '000)				Recovery to demand(%)
	Up to 1 Year	1 to 3 Years	Above 3 Years	Total	
Bank III	685 (20.09)	342 (10.05)	2378 (69.86)	3405 (100)	31.74
Bank IV	237 (15.79)	535 (35.64)	729 (48.57)	1501 (100)	65.11
Bank V	22 (61.11)	6 (16.67)	8 (22.22)	36 (100)	88.46
Overall	3818 (08.23)	7002 (15.09)	35552 (76.68)	46372 (100)	

Figures in parenthesis indicate bank-wise % of total overdue

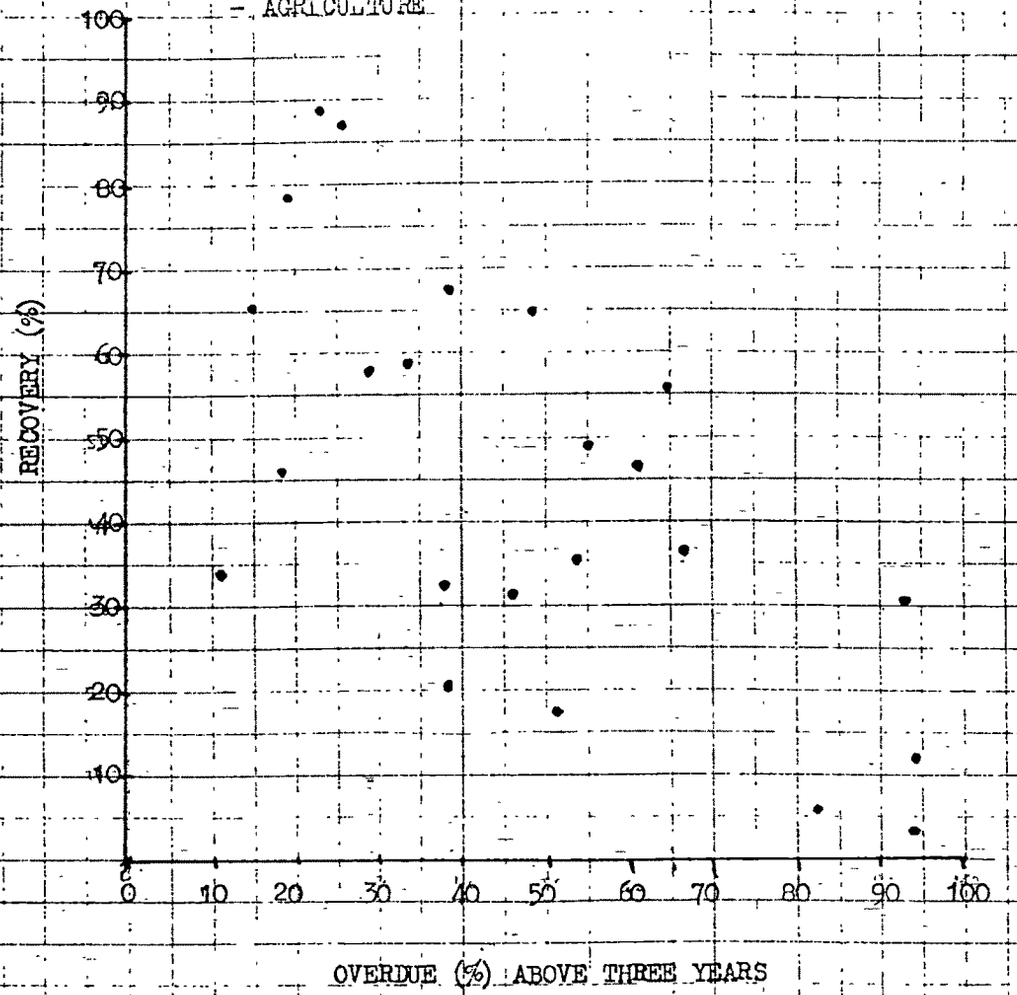
Source : Personal survey

It can be seen from Table II 1.9 that in Valsad district the proportion of overdues was highest in the age group of above 3 years (43.7%), followed by the age group of one to three years (33.3%) and upto one year (23%). The same pattern was observed in Surat district(Table II 1.10), the corresponding figures being 76.7%, 15.1% and 8.2%.

Bank-wise comparison shows that the proportion of overdues above three years was more than 40 per cent in the case of Bank I and Bank IV in Valsad district and all the banks except Bank V in Surat district.

Further analysis (Correlation and Regression analysis) has revealed that there was significant linear relationship between overdues above three years and recovery. A diagrammic representation (Scattered diagram) is shown in Figure 1.3 for

Fig 1.3: SCATTER DIAGRAM:
RECOVERY (%) AND OVERDUE (%) ABOVE THREE YEARS
– AGRICULTURE



Valsad and Surat districts taken together. There is a negative correlation between the above mentioned variables.

As the overdue per cent above three years increases, the recovery per cent generally decreases. The correlation coefficient (r) was worked out to be -0.657. Thus the coefficient of determination (r^2) was worked out to be 43.1%. This indicates that about 43 per cent of variation in recovery could be explained by the linear relationship between the two variables. In other words, higher the overdue above three years, lower was the recovery, in general. The regression equation was worked out to be as follows :

$$\mathbf{Y = 74.350 - 0.623X}$$

where Y = Recovery per cent and X = per cent overdue above three years

II.1.5 : Scheme-wise Demand and Recovery

In order to examine the scheme-wise performances in recovery, data on demand and recovery in agriculture for different schemes financed by the Banks to fourty-six sample beneficiaries (20 in Valsad and 26 in Surat) were collected. These data are given in Annexure 1.7.

Further information was collected from the beneficiaries to find out the causes of defaults.

A summary of the data given in Annexure 1.7 is presented in Table II.1.11.

Table II.1.11 : SCHEME-WISE RECOVERY OF AGRICULTURAL ADVANCES OF SAMPLE BORROWERS IN VALSAD DISTRICT AS ON 30TH JUNE 1988.

Scheme	Contribution to Demand (%)	Recovery (%)	Contribution to Recovery (%)
Irrigation	0.52	73.33	3.23
Dairy	0.42	13.33	0.47
Tractor	12.63	55.24	58.71
Fishery	86.11	5.10	37.00
Gobar gas	0.32	22.22	0.59
Overall	100.00	11.88	100.00

Source : Personal survey

It is seen from Table II. 1.11 that the recovery was only about 12 per cent for all the sample beneficiaries taken together in Valsad district. This poor overall recovery appears to be due to the fact that although the contribution to demand was as high as 86 per cent in the case of scheme 'Fishery', its contribution to the total recovery is to the extent of only 37 per cent. It is further seen that the Contribution to demand by the scheme 'Tractor'was only about 13 per cent, while its contribution to recovery was to the extent of about 59 per cent.

Table II. 1.12 Gives a similar summary for surat district.

Table II.1.12 : SCHEME-WISE RECOVERY OF AGRICULTURAL ADVANCES OF SAMPLE BORROWERS IN SURAT DISTRICT AS ON 30TH JUNE 1988.

Scheme	Contribution to Demand (%)	Recovery (%)	Contribution to Recovery (%)
Irrigation	4.99	17.73	1.83
Dairy	0.73	24.39	0.37
Tractor	21.21	77.50	34.00
Crop loan	23.40	9.81	4.75
Poultry	42.85	55.28	48.97
Land development	6.82	71.50	10.08
Overall	100.00	48.36	100.00

Source : Personal survey

It is revealed that, on the whole, proportion of recovery to demand was about 48 per cent as against 12 per cent in the case of Valsad district.

The main reasons of higher recovery appears to be the higher contribution to demand as well as recovery for the schemes 'Poultry' and 'Tractor'.

The reasons for better performance and poor performance by the sample beneficiaries in respect of repayment of loan were investigated by personal contacts with beneficiaries. The findings are as under :

The reasons for better performance under purposes other than fishery and crop loan were adequate income generation in good number of cases and better project formulation and implementation of two poultry projects, in which case there was 100 per cent recovery. The reasons for irregular repayment were summarised scheme-wise for Valsad and Surat districts respectively. This summary is given in Annexure 1.8. There were in all 13 reasons for defaults. There were certain reasons which were typical for certain schemes. For instance, 'crop failure' was one of the major causes in the case of irrigation and crop loan schemes, 'mismanagement' in the case of poultry and 'death of cattle' in the case of dairy. Table II. 1.13 gives the major reasons for default, irrespective of schemes. It is seen from the table that 7 out of 13 reasons (54%) accounted for 80 per cent of the cases of the defaults.

Table II. 1.13 : MAJOR REASONS FOR DEFAULT (PARETO ANALYSIS)

Sr. No.	Major causes for dafault	No. of defaults V *	S +	Total	%	Cum. %
1	Diversion of funds	2	5	7	20.0	20.0
2	Crop failure	0	5	5	14.2	34.2
3	Mismanagement by Co-op.	0	4	4	11.4	45.6
4	Death of cattle	2	1	3	8.6	54.2
5	Second cattle not financed	2	1	3	8.6	62.8
6	Poor appraisal	3	0	3	8.6	71.4
7	Inadequate income	3	0	3	8.6	80.0

Sr. No.	Major causes for dafault	No. of defaults V *	S +	Total	%	Cum. %
8	Others (six causes)	4	3	7	20.0	100.0
	*** TOTAL **	16	19	35	100.0	

* V - VALSAD + S - SURAT

II.1.6 Study of Relationship Between Recovery and Influencing Factors for Agriculture

In order to find out the factors which have signficant effect on the recovery, simple linear and multiple correlation and regression analyses have been carried out for the data as on 30.6.1988. In this analysis, recovery per cent has been considered as dependent variable and the following nine factors as independent or controllable variables :

FACTOR	CODE
Education (literate/illiterate)	X1
Distance of bank from residence	X2
Labour problem (Yes/No)	X3
Demand amount during the year	X4
No. of visits to beneficiaries by bank staff	X5
Total advance outstanding per number of bank staff	X6
No. of years completed by the bank	X7
Ratio of number of earning members to the total number of members in the family of the beneficiary	X8
Ratio of irrigated land to total land (except in the case of Fishery & Poultry)	X9

As mentioned in Part-I, ten branches were identified in

Valsad and thirteen in Surat district. From each of these identified branches, beneficiaries were randomly selected and personal contacts were made with the beneficiaries to get the relevant information through structured questionnaire on the above-mentioned variables. The data are given in Annexure 1.9 for Valsad and Annexure 1.10 for Surat. Analysis of relationship between the dependent variable and the independent variables individually revealed that the factor **X**8 (Ratio of earning members to the total number of members), **X**5 (No. of visits by bank staff) and **X**9 (Ratio of irrigated land to total land, except for Fishery and Poultry) had individually high correlation with recovery in the case of the beneficiaries under Agriculture in Valsad district. A summary is given in Table 1.14.

Table II.1.14 : SIMPLE LINEAR CORRELATION AND REGRESSION ANALYSIS (AGRICULTURE-VALSAD DISTRICT)

Case	Dependent variable (Y)	Independent variable (X)	r	r^2 (%)	Regression equation of Y on X
1	Recovery (%)	X8	+0.897	80.5	Y= -5.5 + 210.84 X
2	-do-	X5	+0.855	73.1	Y=2.76 + 32.85 X
3	-do-	X9	+0.865	74.9	Y=6.33 + 85.12 X

Note : Fishery scheme was excluded in Case-3.

It is seen from Table II.1.14 that 73 per cent to nearly 81 per cent of the variation in recovery could be explained by the factors **X**8 or **X**5 or **X**9 individually.

Further analysis (linear multiple correlation and

regression analysis by step-wise method) was carried out to examine the effect of all the independent variables taken together.

Table II.1.15 gives the significant independent or controllable factors, the linear multiple regression equations and the values of the coefficient of determination (R^2) for two cases of Agriculture in Valsad district. In Case-1, all schemes were considered and since the factor **X**9 is not relevant to the schemes Poultry and Fishery, it was excluded from the analysis. In Case-2, **X**9 was also considered and as such all schemes except Poultry and Fishery were taken into account.

Table II.1.15 : SUMMARY OF LINEAR MULTIPLE CORRELATION AND REGRESSION ANALYSIS FOR AGRICULTURE IN VALSAD DISTRICT

Case	Schemes	No of sets of data	Significant Controllable factors	Regression equation	Coefficient of determination (R^2)
1	All	20	X8, X5 and X6	Y=7.44+94.54 X8 + 24.18 X5 $-1.30*10^{-5}$ X6	94.6%
2	All excluding Fishery	14	X5, X2 and X9	Y=34.34+20.10X5 -3.30 X2 +33.92 X9	94.2%

As is seen from Table II.1.15, very high percentage of variation in recovery could be explained by the multiple regression of Y on **X**8, **X**5 and **X**6 in the case of all schemes taken together and the variables **X**5, **X**2 and **X**9 for the

schemes excluding Fishery.

Table 1.16 gives the results of simple linear correlation and regression analysis for Surat district.

Table II.1.16 : SUMMARY OF CORRELATION AND REGRESSION ANALYSIS (SURAT DIST.)

Case	Dependent variable (Y)	Independent variable (X)	r	r^2 (%)	Regression equation of Y on X
1	Recovery (%)	X5	+0.868	75.4	Y= 6.44 + 23.64 X
2	-do-	X9	+0.680	46.3	Y=-3.60+70.66 X

Note : Poultry and Dairy schemes were exculded in Case-2

As in the case of Valsad district, the multiple correlation and Regression analysis was also done under two cases for Surat district. Table II.1.17 gives a summary.

Table II.1.17 : SUMMARY OF LINEAR MULTIPLE CORRELATION AND REGRESSION ANALYSIS FOR AGRICULTURE IN SURAT DISTRICT

Case	Schemes	No of sets of data	Significant Controllable factors (X)	Regression Equation	(R^2) (%)
1	All	26	X5	Y=6.44+23.64 X	75.4%
2	All excluding Poultry & Dairy	22	X5, X2 and X9	Y=13.03+18.72X5 -2.41 X2 +23.90 X9	81.6%

II.1.7 Reasons of Default - Opinions of the Beneficiaries

In order to have a better understanding of the recovery performance at borrower level, an attempt was made to interview the beneficiaries through a structured questionnaire.

Out of 20 sample beneficiaries in Valsad, 16 beneficiaries (80%) were irregular. According to various research studies, work experience and observation, the possible reasons for default were identified and administered to the borrowers for the purpose of determining the most powerful reasons for default and which were the main reasons in case of each sample beneficiary.

Factor No.	Reasons of Default	Factor Code
1.	Insufficient income	A
2.	Repayment on the due date not possible	B
3.	Lower amount not accepted for repayment	C
4.	Timing of branch for repayment not convenient	D
5.	No guarantee of second loan	E
6.	Others are not repaying	F
7.	Exigencies in the family/social needs	G
8.	Production less than expected	H
9.	Price of product less than expected	I
10.	Not aware of how much to repay and when to repay	J
11.	Clearing of earlier debt	K

Factor No.	Reasons of Default	Factor Code
12.	Problem of implementing the scheme	L
13.	Hopefully waiting for declaration of relief by Government	M

Pareto analysis (Table II.1.18) was done on the responses to identify the most important reason/s of default in Valsad district.

Table II.1.18 : REASONS OF DEFAULT (VALSAD DISTRICT)

Factor No	Reasons of Default	Factor Code	No.of resp-* onses	Per cent to total resp-onses	Cumulative per cent
1	Insufficient income	A	14	45.16	45.16
2	Problem of implemen-ting the scheme	J	7	22.58	67.74
3	Production less than expected	H	5	16.13	83.87
4	Price of product less than expected	I	3	9.68	93.55
5	Hopefully waiting for declaration of relief by Govt.	M	2	6.45	100.00
	*** TOTAL **		31	100.00	

* The reasons cited were more than one in some cases,

It is observed that insufficient income was the predominant factor for default in the repayment of loan, followed by problem of implementing the scheme and production less than expected, according to the opinions of the sample

beneficiaries.

These three reasons taken together accounted for as high as 94 per cent of the responses.

Table II.1.19 summarises the opinions of sample beneficiaries in Surat district.

Table II.1.19 : REASONS OF DEFAULT (SURAT DISTRICT)

Factor Sr.No.	Reasons of Default	Factor code	No. of Respo-nses	Per cent to total responses	Cumulative per cent
1	Insufficient income	A	15	37.50	37.50
2	Problems of implementing the scheme	L	6	15.00	52.50
3	Production less than expected	H	5	12.50	65.00
4	Exigencies in the family social needs	G	4	10.00	75.00
5	Not aware of how much to repay and when to repay	J	4	10.00	85.00
6	Hopefully waiting for declaration of relief by Govt.	M	3	7.50	92.50
7	No guarantee of second loan	E	2	5.00	98.00
8	Price of product less than expected	I	1	2.50	100.00
	*** TOTAL **		40	100.00	

It is observed that in Surat district also 'insufficient income' was the predominant factor for default in the repayment of loan, followed by 'the problem of implementing

the scheme' and 'production less than expected,' according to the opinions of beneficiaries.

The four reasons taken together accounted for 75 per cent of the responses.

II.1.8 Factors for Poor Recovery-Perception of Bank Officers

In order to find out the perception of Branch Managers/Agricultural Officers about the reasons of poor recovery, a structured questionnaire was designed on the basis of findings of various research studies/work experiences and the same was circulated to the financing officers of the sample branches. They were asked to give ranking to any five factors which they felt most important reasons for poor recovery.

The responses obtained were given scoring marks for the purpose of analysis of the same. The scoring procedure adopted is as follows :

RANK	SCORE
I	100
II	80
III	60
IV	40
V	20
No Rank	5

The summary of the data so obtained is given in Table II.1.20

Table II.1.20 : FACTORS FOR POOR RECOVERY - BANK LEVEL

Sr. No.	Factors for poor recovery	Factor code	Total Score		Overall score	Percent to grand total	Cumulative (%)
			VALSAD	SURAT			
1	Lower priority given to follow up work due to inadequate staff	A	615	945	1560	17.78	17.78
2	Targets-oriented lending	H	390	615	1005	11.45	29.23
3	False propaganda by leaders for relief of debt	D	330	665	995	11.34	40.57
4	Repayment attitudes of the borrowers	R	275	655	930	10.60	51.17
5	Diversion of fund	E	465	450	915	10.42	61.59
6	Ineffectiveness of legal measures	K	340	335	675	7.70	69.29
7	Branch is not involved in identification of work	J	275	100	375	4.27	73.56
8	Lower price of product	M	175	140	315	3.60	77.16
9	Lower priority given to follow up - reasons other than staff	B	200	65	265	3.01	80.17
10	Lack of psychological fears amongst borrowers	J	55	190	245	2.79	82.96
11	Inadequate marketing facility	L	95	145	240	2.74	85.70
12	Disputes amongst joint borrowers	C	50	150	200	2.28	87.98
13	Unwillingness to plough back profit	F	100	65	165	1.88	89.86
14	Social ceremonies	Q	100	65	165	1.88	91.74

Sr. No.	Factors for poor recovery	Factor code	Total Score VALSAD	Total Score SURAT	Overall score	Percent to grand total	Cumulative (%)
15	Inadequate financing by bank	P	50	100	150	1.71	93.45
16	Giving shorter maturity period	G	50	65	115	1.31	94.76
17	Access to inputs seeds fertilizer	N	50	65	115	1.31	96.07
18	Agroclimatic vagaries	O	50	65	115	1.31	97.38
19	Inadequacy of unit cost	S	50	65	115	1.31	98.69
20	Unrealistic repayment schedule	T	50	65	115	1.31	100.00
	*** GRAND TOTAL **		3765	5010	8775	100.00	

It is seen from Table 1.20 that the most influencing factor according to the respondents was "lower priority given to follow-up work due to inadequate staff". The other important factors cited were "target - oriented lending", "false propaganda by leaders for relief of debt", "repayment attitude of the borrower" and "diversion of funds". These five factors taken together accounted for about 62 per cent of the grand score.

II.1.9 Survey of Bank Officials Involved in Lending and Follow-up Operations

A survey of branch staff involved in lending operation right from the pre-sanction appraisal stage till the repayment of loan stage was done to elicit their responses in respect of the main reasons for poor recovery performances of banks,

the steps taken by banks to improve recoveries and their suggestions in the matter. The survey revealed that,

1. In Valsad district respondents from nine branches, out of ten, reported that inadequate staff at the branch level to keep pace with the pre-sanction appraisal and post disbursement supervision for increased agriculture advances was the main factor responsible for poor recovery. Thirty per cent respondents further added that both these activities involved high costs and as such they were reluctant to perform the same.

In Surat district respondents from 10 branches out of 13 also confirmed that inadequacy of staff at the branch level for pre-sanction appraisal and post-disbursement supervision, was the main poor recovery factor. Further, respondents from Ten branches (Not essentially the ones quoted above) gave first priority to routine work and as such they could not spare more time for pre and post appraisal work. This was also an important factor responsible for the poor recovery.

2. Fifty per cent respondents indicated that targets assigned to the branches were unrealistic. According to them this was an important factor responsible for high levels of default in repayments. The other responsible factors identified by them in order of importance were : (a) The Government agencies do not co-operate in making the schemes successful in the real sense. They just desire that targets should be achieved, (b) Beneficiaries get subsidy which is

not to be repaid and accordingly they treat the bank loan also as non-repayable. Also, by and large, borrowers solicit loans just for getting the subsidy money which is linked with bank loan. (c) Govt. agencies sponsor proposals without ensuring their feasibility and the genuine needs of the beneficiaries, and branches do not systematically canvas the business.

In Surat district respondents from six out of 13 branches indicated that Government agencies sponsor proposals without ensuring their feasibility and the genuine needs of the beneficiaries. This, therefore, results into default. The other factors in order of importance were : (a) Borrowers solicit loans only for getting the subsidies as subsidy is linked with the bank loan and (b) Government agencies do not co-operate in making the schemes successful, (c) Borrowers treat loan at par with subsidy which is not to be repaid. The other responsible factors according to the perceptions of the respondents were the fixing of unrealistic targets which cannot be achieved and that the branches do not systematically canvass the business.

In short, the above-mentioned perception based factors have been mainly responsible for the poor recovery performance of banks.

3. Thirty per cent of respondents felt that recovery performance has direct relationship with the detailed recovery studies at the branch level. However, it is revealed

that, in Valsad district all the ten branches did not conduct any recovery studies, even from the data collected for the purpose of computing recoveries for submitting to the higher authorities. It was also observed that seven branches did not attempt to organise recovery camps. During the discussion with those three Branch Managers/Agricultural Officers who organised recovery camps, it was reported that, the results were encouraging.

In Surat district the same things repeated; all the thirteen branches did not conduct any recovery studies and 11 branches did not attempt to organise recovery camps. During the discussion with the two Branch Managers/Agricultural Officers who organised recovery camps it was reported that the results were encouraging.

4. There was a general agreement amongst the respondents that the rate of recovery is responsive to certain specific measures taken for effective recovery. However, the survey revealed that, in Valsad and Surat districts Branch Managers/Agricultural Officers have instead of trying to contact the borrowers in a systematic manner and ensure recovery, relied much on issuing notices only. Their efforts to obtain support from Govt. and other agencies for effective recovery were also not adequate and effective.

5. In both the districts, Branch Managers/Agricultural Officers have been directly associated with the beneficiaries and borrowers under banks' and governments' credit

programmes. Their suggestions were sought for improving the recovery perfomance. The suggestions given by them are as under :

- Liason with borrowers should be established
- Sufficient field staff should be provided to branch for follow-up work
- Field officers should take interest in operational difficulties faced by borrowers in thier activities.
- Pre and post-sanction inspection must be done.
- Recovery camps in co-operation with government agency should be frequently organised.
- Guidelines for recovery should be strictly followed by branches.
- Targets for recovery should be fixed for branch by the higher authority.
- New simple recovery laws should be framed and enforced and sufficient powers as given to revenue authorities should be given to bank Managers also.
- Borrowers should be educated through Radio, T.V. programmes and the News Papers to change their repayment attitude.
- Assets verification must be done periodically.
- Sponsoring agency should give more co-operation in recovery rather than target-oriented lending.
- Recovery cell at district level should be established.

II.2 RECOVERY OF SSI ADVANCES

II.2.1 Overall Assessment of Bank Performance

In order to make an overall assessment of the performance of banks in respect of recovery of advances, the factors which have a bearing on recovery, such as outstanding credit, demand etc., were examined.

The relevant data were summarised and are given in Annexures 2.1 (a) to 2.1 (c) for Valsad and 2.2 (a) to 2.2 (c) for Surat.

The overall summaries are given in Table II.2.1 for Valsad and Table II.2.2 for Surat.

Table II.2.1 : BANK-WISE RECOVERY AND CONTRIBUTION TO DEMAND, RECOVERY, OUTSTANDING CREDIT AND NO. OF BRANCHES FOR SSI IN VALSAD FOR THE PERIOD 1984 TO 1988

Bank	Recovery	Contribution to			
	(%)	Demand (%)	Recovery (%)	Outstanding (%)	Branches (%)
I	28.02	62.98	59.16	46.30	40.24
II	33.34	14.07	15.73	30.37	15.34
III	14.80	5.52	2.74	4.44	14.91
IV	43.27	9.52	13.81	13.12	16.63
V	32.32	7.91	8.56	5.77	12.88
OVERALL	29.84	100.00	100.00	100.00	100.00

Source : Personal survey

Table II.2.2 : BANK-WISE RECOVERY AND CONTRIBUTION TO DEMAND, RECOVERY, OUTSTANDING CREDIT AND NO. OF BRANCHES FOR SSI IN SURAT FOR THE PERIOD 1984 TO 1988.

Bank	Recovery (%)	Contribution to			
		Demand (%)	Recovery (%)	Outstanding (%)	Branches (%)
I	42.61	47.45	43.74	35.23	34.48
II	41.85	13.90	12.59	20.91	13.49
III	37.34	3.77	3.04	7.61	14.76
IV	56.26	21.47	26.13	20.53	19.56
V	49.96	13.41	14.50	15.72	17.71
OVERALL	46.22	100.00	100.00	100.00	100.00

Source : Personal survey

It is revealed from II.2.1 that the recovery performance varied considerably between Banks in Valsad district. Bank IV recorded the highest recovery per cent (about 43%) while Bank III recorded the lowest (15%). The data further shows that though the contribution of Bank I was the highest in terms of demand, recovery and outstanding as well as number of branches, its performance in recovery was relatively poor. Bank III performed poorly in recovery and had also minimum contribution in all the parameters.

In case of Surat district, Bank IV also proved to be the best amongst the banks in respect of recovery (56%). The performance of Bank III was the poorest. Bank I had the maximum contribution in case of demand, recovery, outstanding

and number of branches. Its performance in recovery was relatively poor as in the case of Valsad district. The performance of Bank III was better in Surat district as compared to Valsad district with respect to recovery and its contribution to other parameters remained very low as in the case of Valsad district. Bank IV was the second, in terms of other parameters, but remained first in terms of recovery.

A comparison between the performance of Valsad and Surat districts shows that the overall recovery was higher in Surat (46%) than in Valsad (30%). The difference is also statistically highly significant.

The lower recovery in Valsad district was due to poor recovery performance of all banks compared to Surat district and the main reason for good performance in Surat district by banks was due to Textile industries, whose performance remained good compared to the Chemical and Engineering industrial firms which are more in Valsad district.

The recovery data have been further analysed and discussed in Section II.2.2.

II.2.2 Bank-wise and Year-wise Performance in Respect of Recovery

Annexure 2.3 gives a summary of recovery for five banks for the five years from 1984 to 1988 for Valsad district. The data have been statistically analysed by the technique of Analysis of Variance to test if there were any difference in

the performance across the banks and the years. The Analysis of Variance is given in Annexure 2.3.

The analysis revealed that the performance of the banks with respect to recovery varied significantly. The performance across the years were, however, not found to be statistically signficant.

Table II.2.3 gives the overall per cent recovery for the five banks in Valsad for the period 1984 to 1988.

Table II.2.3 : BANK-WISE RECOVERY (VALSAD)

Bank	Overall Recovery (%)
I	28.02
II	33.34
III	14.80
IV	43.27
V	32.32

Further analysis (Critical Difference Analysis) was done to test the significance of difference between any two banks. On the basis of this analysis, the best and poorest groups of banks have been identified (Table II.2.4).

TABLE II.2.4 : CATEGORIES OF BANKS (VALSAD)

Category	Bank Group	Overall Recovery (%)
Best	IV	43.27
Poorest	III	14.80

Similar analysis has been carried out for data on recovery per cent for Surat district. The data on recovery per cent, bank-wise and year-wise and the corresponding Analysis of variance is given in Annexure 2.4. The observed differences across the banks and across the periods were not found to be statistically significant, eventhough there were apparent differences amongst the banks. This appears to be due to large random variation.

Table II.2.5 gives overall per cent recovery for the five banks in Surat for the period 1984 to 1988.

TABLE II 2.5: BANK-WISE RECOVERY (SURAT)

Bank	Overall Recovery (%)
I	42.61
II	41.85
III	37.34
IV	56.26
V	49.96

The above analysis reveals that in both the districts, Bank group IV performed relatively well,While bank group III performed poorly.

II.2.3 Relationship Between Outstanding Credit and Demand

Table II.2.6 gives bank-wise and year-wise outstanding credit and demand for SSI in Valsad and Surat districts.

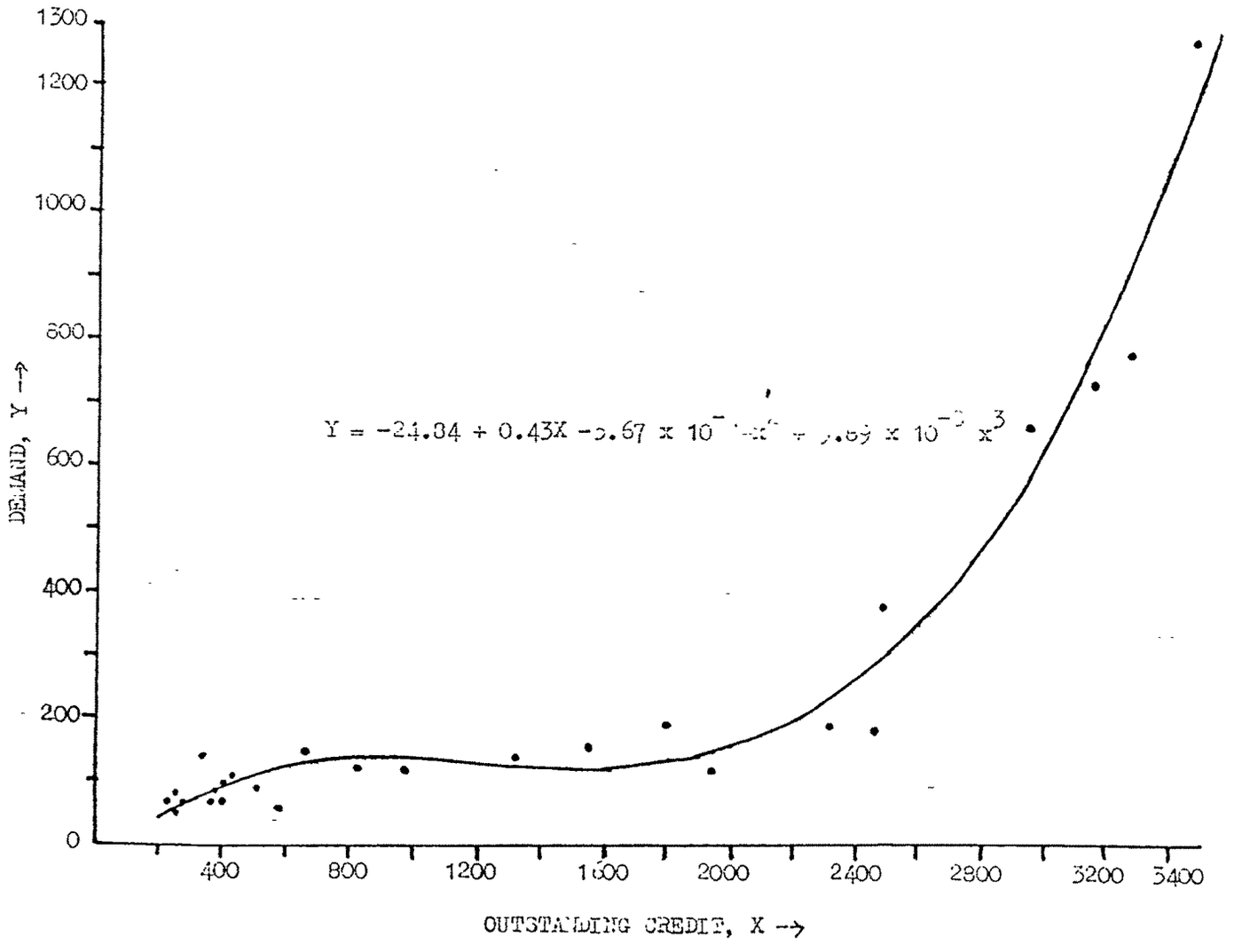
Table II.2.6 : BANK-WISE AND YEAR-WISE OUTSTANDING CREDIT AND DEMAND FOR SSI

(Rs. in '000)

Bank	Year	VALSAD		SURAT	
		Outstanding	Demand	Outstanding	Demand
I	1984	248685	37689	212405	40076
	1985	294703	66077	222145	49345
	1986	316502	72539	210071	56908
	1987	325649	77542	319431	62288
	1988	347141	126386	356713	83377
II	1984	155100	15809	83284	29359
	1985	179784	19094	147612	10840
	1986	193213	12083	145557	18797
	1987	245156	18488	172943	15017
	1988	232041	19482	234534	11539
III	1984	37505	6450	35049	2982
	1985	22140	6422	60931	2989
	1986	22702	5951	40179	1246
	1987	24925	7932	52156	10405
	1988	39745	6571	76885	5576
IV	1984	57543	6367	118641	22929
	1985	65738	14732	136260	19404
	1986	82128	12422	137231	34926
	1987	96988	11131	171868	25381
	1988	131728	12846	205769	29511
V	1984	26891	6375	47894	10952
	1985	33186	13936	82310	14778
	1986	38672	8498	102961	16543
	1987	42625	10686	169280	17671
	1988	49543	8200	187260	22595

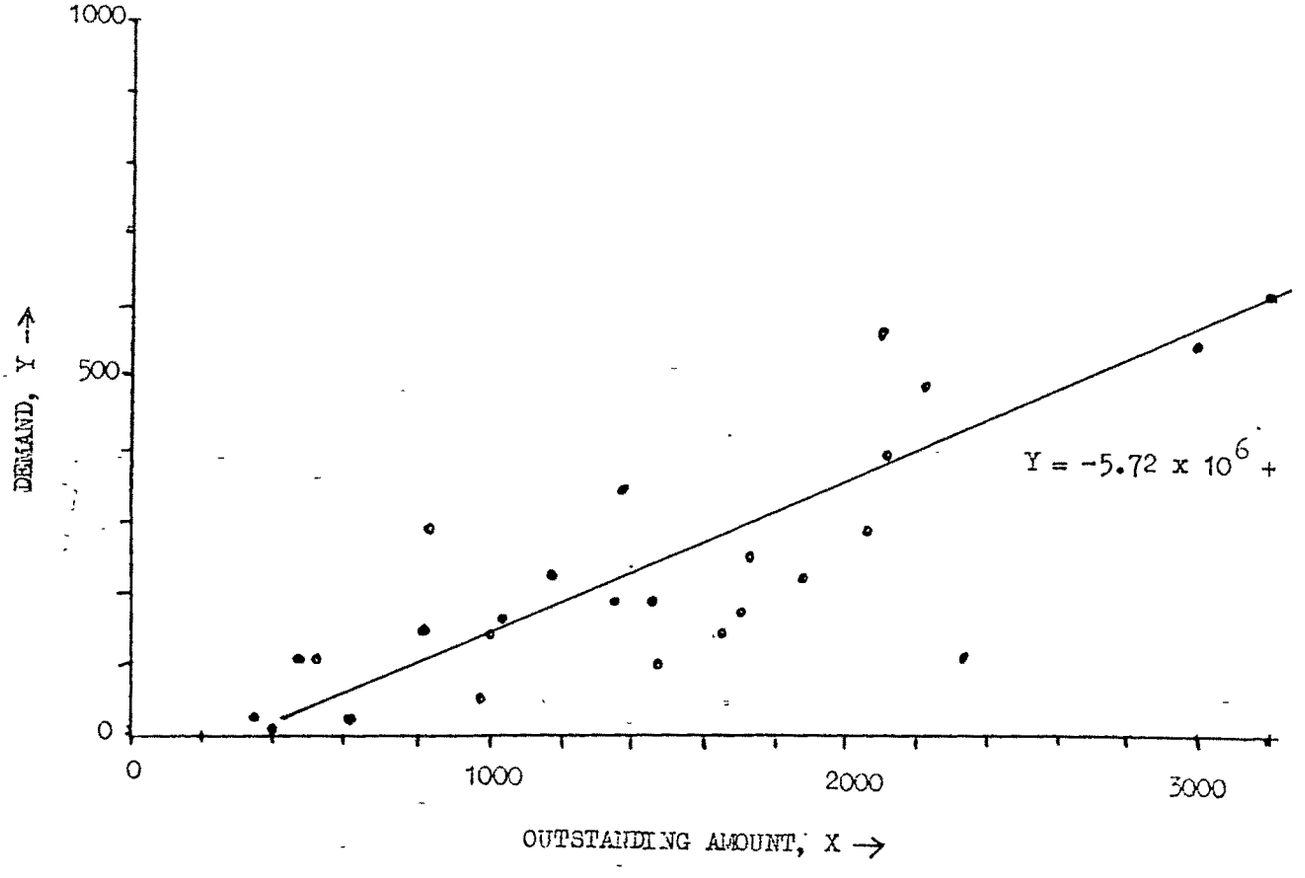
Figures 2.1 and 2.2 (Scattered Diagrams) give an idea of the kind of association between the two variables for Valsad and Surat districts respectively.

Fig 2.1 SCATTER DIAGRAM:
OUTSTANDING CREDIT VS. DEMAND (SSI - VALSAD)



Figures are in lakhs

Fig 2.2 SCATTER DIAGRAM:
OUTSTANDING CREDIT VS. DEMAND (SSI - SURAT)



Figures are in Rs. lakhs

The relationship was found to be curvilinear in the case of Valsad district and linear in the case of Surat district. The results of the analysis are summarised in Table II.2.7.

Table II.2.7 : CORRELATION BETWEEN OUTSTANDING CREDIT (X) AND DEMAND (Y)

DISTRICT	Coefficient of Determination r^2 / R^2	Regression Equation of Y on X
Valsad	73.2%	$Y = -24.84 + 0.43 X - 3.67 * 10^{-4} X^2$
Surat	68.6%	$Y = -5.71 * 10^{6} + 0.20 X$

II.2.4 Ageing of Overdues and its Association with Recovery

The relevant data as on 30th June 1988 were collected from ten sample branches from each of the two districts and are presented in Annexure 2.5 and Annexure 2.6, alongwith recovery data. Table 2.8 and Table 2.9 give the summaries for Valsad and Surat districts respectively.

Table II. 2.8 : BANK-WISE SUMMARY OF AGEING OF OVERDUES AND RECOVERY OF SAMPLE BRANCHES AS ON 30TH JUNE IN VALSAD DISTRICT IN SSI ADVANCES

Bank	Overdues (Rs in '000)				Recovery - to demand (%)
	Up to 1 Year	1 to 3 Years	Above 3 Years	Total	
I	4775 (7.08)	42316 (62.75)	20342 (30.17)	67433 (100)	23.34
II	9 (0.25)	26 (0.72)	3591 (99.03)	3626 (100)	9.70
III	- -	328 (14.51)	1933 (85.49)	2261 (100)	-

Bank	Overdues (Rs in '000)				Recovery to demand (%)
	Up to 1 Year	1 to 3 Years	Above 3 Years	Total	
IV	-	164	-	164	11.35
	-	(100)	-	(100)	
V	122	-	-	122	62.46
	(100)	-	-	(100)	
Overall	4906	42834	25866	73606	22.32
	(6.67)	(58.19)	(35.14)	(100)	

Figures in parenthesis indicate bank-wise per cent to total overdue.

Source : Personal Survey

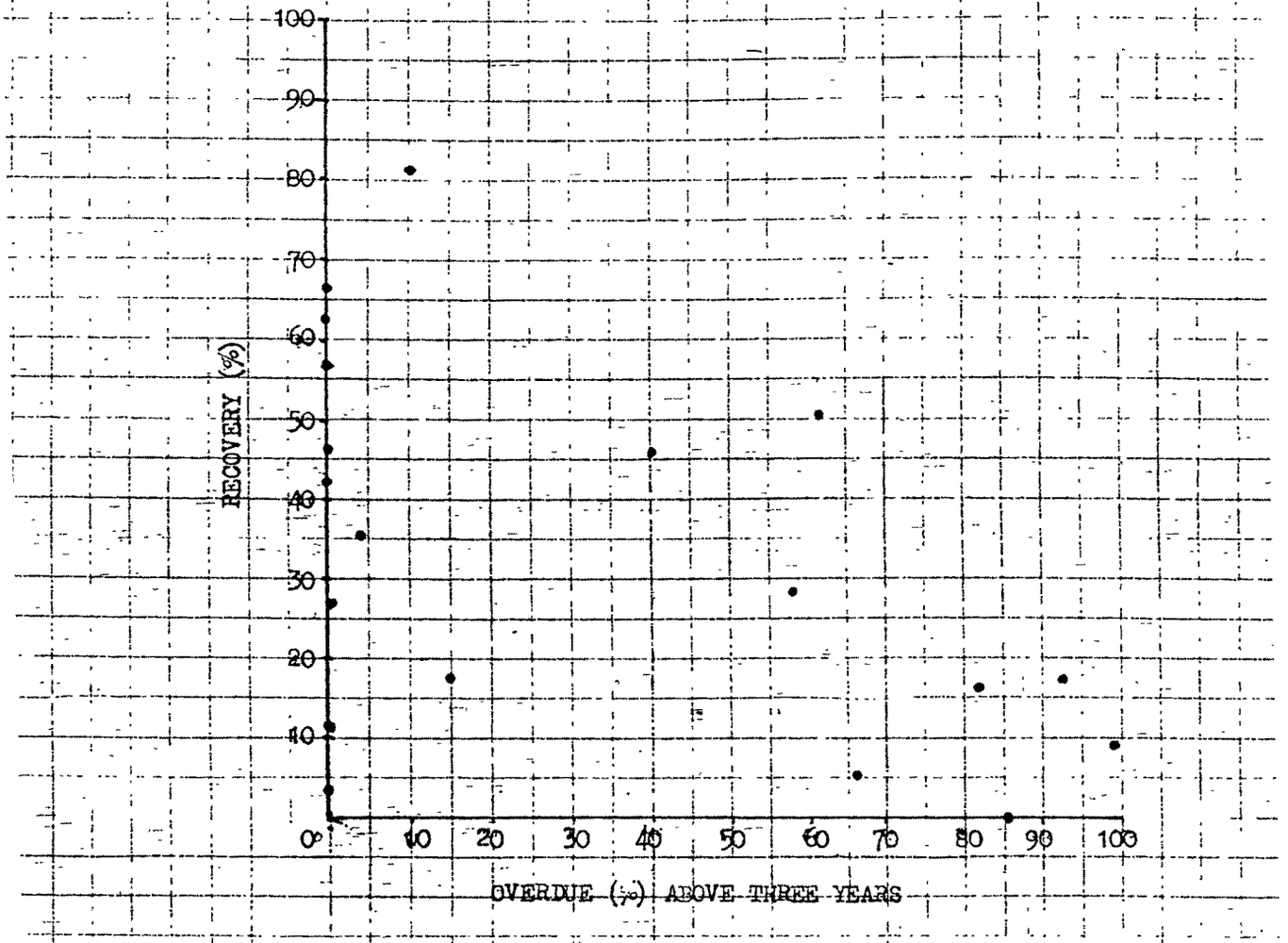
Table II. 2.9 : BANK-WISE SUMMARY OF AGEING OF OVERDUES AND RECOVERY OF SAMPLE BRANCHES AS ON 30TH JUNE 1988 IN SURAT DISTRICT IN SSI ADVANCES.

Bank	Overdues (Rs in '000)				Recovery to demand (%)
	Up to 1 Year	1 to 3 Years	Above 3 Years	Total	
I	13716	7765	7763	29244	22.27
	(46.90)	(26.55)	(26.55)	(100)	
II	1620	3240	9430	14290	5.15
	(11.33)	(22.67)	(66.00)	(100)	
III	-	238	-	238	56.88
	-	(100)	-	(100)	
IV	-	1134	1545	2679	28.31
	-	(42.33)	(57.67)	(100)	
V	-	205	23	228	81.50
		(89.91)	(10.09)	(100)	
Overall	15336	12582	18761	46679	19.81
	(32.85)	(26.95)	(40.20)	(100)	

Figures in parenthesis indicate bank-wise per cent to total overdue.

Source : Personal Survey

Fig 2.3: SCATTER DIAGRAM:
RECOVERY (%) AND OVERDUE (%) ABOVE THREE YEARS
- (SSI)



It can be seen from Table II.2.8 that in Valsad district the proportion of overdues was the highest (58.2%) in the age group of one to three years, followed by 'above three years', whereas in Surat district the proportion of overdues was highest (40.2%) in the age group of above three years.

Bank-wise comparison shows that Bank II in both the districts, Bank III in Valsad district and Bank IV in Surat district had high proportion of overdues in the age group of above three years.

Scattered diagram (Fig 2.3) shows that the points are too scattered, eventhough, by and large, there appears to be a negative linear relationship between recovery (%) and overdue (%) above three years. This is also reflected in the value of correlation coefficient which works out to only -0.495, coefficient of determination being only 24.5%.

II.2.5 Industry-wise Demand and Recovery

Data were collected for different Industries to find out the Industry-wise performance in recovery, financed by the banks to twenty sample beneficiaries (10 each in Valsad and Surat). These data are given in Annexure 2.7.

A summary of the data is presented in table II.2.10

Table II.2.10 : INDUSTRY-WISE RECOVERY OF SSI ADVANCES TO SAMPLE BORROWERS IN VALSAD DISTRICT AS ON 30TH JUNE 1988.

Scheme	Conrtibution to demand (%)	Recovery to demand (%)	Contribution to recovery(%)
Chemical	55.42	43.07	43.54
Engineering	32.89	78.88	47.32
Furniture	1.34	72.41	1.76
Tiles	2.53	0.00	-
Packaging	6.35	51.44	5.95
Note Book Preparation	1.47	53.12	1.43
*** TOTAL **	100.00	54.82	100.00

Source : Personal survey

It is revealed that the recovery was about 55 per cent for all the sample beneficiaries taken together in Valsad district. The contribution to recovery was very poor by all industry except Chemical and Engineering. Performances of the Engineering and Furniture industries ware satisfactory.

Table II.2.11 gives a similar summary for Surat district.

Table II.2.11 : INDUSTRY-WISE RECOVERY OF SSI ADVANCES OF SAMPLE BORROWERS IN SURAT DISTRICT AS ON 30TH JUNE 1988.

Scheme	Conrtibution to demand (%)	Recovery to demand (%)	Contribution to recovery (%)
Chemical	9.32	6.06	1.03
Engineering	0.18	36.36	0.13
Textile	58.11	90.73	96.25

Scheme	Conrtibution to demand (%)	Recovery to demand (%)	Contribution to recovery (%)
Plastic	2.52	46.80	2.15
Computer	0.29	83.00	0.44
Flour Mill	29.58	-	-
*** TOTAL **	100.00	54.78	100.00

Source : Personal survey

It is seen from the Table II.2.11 that the overall recovery per cent was same in both the districts. It is further seen that Textile industry performed extremely well and its contributin to recovery was quite high compared to its contribution to demand which was also much higher compared to other industries. There was nil contribution by the lone sample Flour Mill while its contribution to demand was next to the Textile group.

The reasons for better performance in Engineering, Textile and Computer industry have been due to good planning, technical and professional experience, adequate generation of fund, good quality of product and timely finance provided by bank.

The reasons for irregular repayment were summarised scheme-wise for Valsad and Surat districts. This summary is given in Annexure 2.8.

There were in all 11 reasons for defaults. Table II.2.12 gives the major reasons for default irrespective of schemes.

Table II.2.12 : MAJOR REASONS FOR DEFAULT (PARETO ANALYSIS)

Sr. No.	Major causes for Default	No. of defaults			%	Cumulative (%)
		V	S	Total		
1	Diversion of Fund	3	3	6	24	24
2	Inadequate generation of fund	2	2	4	16	40
3	Financial problems	1	4	5	20	60
4	Shortage of raw material	1	1	2	8	68
5	Others (Seven causes)	6	2	8	32	100
	*** TOTAL **	13	12	25	100	

It is seen from Table 2.12 that four out of eleven reasons (36%) accounted for 68 per cent of the total causes of defaults.

II.2.6 Study of Relationship Between Recovery and Influencing Factors for SSI.

The following independent or controllable factors were considered to examine their effect on recovery in SSI.

Factor	CODE
1. Technical qualification of the managing person	**X**1
2. Professional experience of the managing person	**X**2
3. No. of follow-up visits by banks' staff	**X**3
4. Outstanding credit per bank staff	**X**4

Ten branches in each of the two districts were identified and from each of these identified branches two beneficiaries were randomly selected and personal contacts were made to get relevant information through structured questionnaire on the above-mentioned variables. The data as on 30th June 1988 are given in Annexure 2.9 for Valsad and Annexure 2.10 for Surat.

Table II.2.13 gives a summary of the Simple Correlation and Regression Analysis for both the districts.

Table II.2.13 : SIMPLE LINEAR CORRELATION AND REGRESSION ANALYSIS (SSI).

District	Case	Dependent variable (Y)	Independent variable (X)	r	r^2 (%)	Regression Equation of Y on X
Valsad	1	Y	**X**3	+0.932	87.0	Y=21.05+20.84 **X**3
Surat	1	Y	**X**3	+0.905	81.8	Y=17.89+20.71 **X**3
	2	Y	**X**2	+0.789	62.2	Y=12.67+6.44 **X**2

As seen from Table II.2.13 the variable **X**3 (No of follow-up visits) alone explained 87 per cent of variation in recovery in the case of sample beneficiaries in Valsad district and about 82 per cent in Surat district.

Further analysis (Linear Multiple Correlation and Regression Analysis by step-wise method) was carried out to examine the effects on recovery of all the independent variables taken together.

The analysis showed that in the case of Valsad district the variable **X**3 only was the significant factor, whereas in the case of Surat district the variable **X**3 and **X**2 became significant. These two factors taken together explained about 84 per cent (R^2) of the total variation in recovery in Surat district. The linear multiple regression equation is given below :

$$\mathbf{Y = 12.50 + 1.82\ X2 + 16.78\ X3}$$

The independent variables or factors considered in the above analysis are those which could be controlled by a bank so far as recovery is concerned. Once the loan is sanctioned, there would be some other kinds of factors which are likely to have bearing on the repayment potential of the beneficiaries. The established guideline is to make bimonthly stock inspection and machinery inspection by the banks.

In order to test the hypothesis that regular stock inspection will result in higher recovery, the relevant data for the year 1988 were collected from the selected banks for the 29 sample beneficiaries who were financed for working capital as well as term loan. The data for Valsad and Surat districts have been combined and summarised in Table II.2.14 for stock inspection and Table II.2.15 for machinery inspection.

Table II.2.14 : CONTINGENCY TABLE : STOCK INSPECTION AND RECOVERY

Stock Inspection	Recovery		Total
	High (>=80%)	Low (<80%)	
Regular	11 (78.6%)	3 (21.4%)	14 (100%)
Irregular	2 (13.3%)	13 (86.7%)	15 (100%)
*** Total **	13	16	29

Figures in parenthesis indicate per cent of total.

Chi-square Test has been used and it is concluded that there was highly significant association between stock inspection and recovery. When stock inspection was regular, recovery was high in a large percentage of cases.

Similar analysis has been done to test the assumption that there is an association between the follow-up work in the form of machinery inspection and recovery. The relevant data were obtained for 40 beneficiaries of term loan in Valsad and Surat districts. Table II.2.15 gives a summary.

Table II.2.15 : CONTINGENCY TABLE : MACHINERY INSPECTION AND RECOVERY

Machinery Inspection	Recovery		Total
	High (>=80%)	Low (<80%)	
Regular	14 (77.8%)	4 (22.2%)	18 (100%)
Irregular	4 (18.2%)	18 (81.8%)	22 (100%)
*** Total **	18	22	40

Figures in parenthesis indecate per cent to total.

Using the Chi-square test, it is concluded that when the follow-up work in the form of machinery inspection was regular, recovery was high in a significantly large proportion of cases.

It was further observed that when capacity utilisation was low, recovery per cent was also low in most of the sample cases (about 94%).

II.2.7 Reasons of Default - Opinions of the Beneficiaries

An attempt was made to interview the beneficiaries to have a better understanding of the recovery performance at borrower level through a structured questionnaire.

According to various research studies, work experience and observation, the possible reasons for default were identified and administered to the borrowers for the purpose of determining the most powerful reasons for default.

Factor No.	Reasons of Default	Factor Code
1	Insufficient operational profit	A
2	Inadequate sanction of loan	B
3	Poor realisation of debtors	C
4	Low quality of product/services	D
5	Stiff competition prevailing in the market	E
6	Problems of managing the business such as marketing / financial / labour / administrative	F
7	Exigencies in the family/social needs	G
8	Production less than expected	H
9	Price of product less than expected	I

Factor No.	Reasons of Default	Factor Code
10	Lower generation of fund	J
11	Fund used for clearing earlier debts	K
12	Problem of implementing the scheme	L
13	Hopefully waiting for declaration of relief by Government	M
14	Change in Government policy	N
15	Overdue due to non-performing status of the unit	O
16	Under utilisation of capacity	P

Pareto analysis was done on the responses to identify the most important reasons of default in both the districts.

Table II.2.16 : REASONS OF DEFAULT (VALSAD DISTRICT)

Factor No	Reasons of Default	Factor Code	No.of respon-ses *	Per cent to total responses	Cumulative (%)
1	Lower generation of fund	J	6	16.22	16.22
2	Stiff competition prevailing in the market	E	6	16.22	32.44
3	Problems of managing the business such as marketing/labour/ administration	F	5	13.50	45.94
4	Under utilisation of capacity	P	4	10.81	56.75
5	Insufficient operat-ional profit	A	4	10.81	67.56
6	Inadequate sanction of loan	B	4	10.81	78.37

Factor No	Reasons of Default	Factor Code	No.of respon-ses *	Percent to total responses	Cumulative (%)
7	Poor realisation of debtors	C	3	8.11	86.48
8	Production less than expected	H	3	8.11	94.59
9	Low quality of product/services	D	2	5.41	100.00
	*** TOTAL **		37	100.00	

* The reasons cited were more than one in three cases.

It is seen that lower generation of fund was the predominant factor for default in the repayment of loan. Next to this was stiff competition prevailing in the market the problem of managing the business such as marketing/labour/administrative problems were also responsible for defaults. It is also revealed that first five reasons taken together accounted for about 68 per cent of the responses.

Table II.2.17 Summarises the opinions of sample beneficiaries in Surat district.

Table II.2.17 : REASONS OF DEFAULT (SURAT DISTRICT)

Factor No	Reasons of Default	Factor Code	No.of respon-ses *	Per cent to total responses	Cumulative (%)
1	Problem of managing the business such as marketing/financ-ial/labour/administ-rative	F	8	27.59	27.59

Factor No	Reasons of Default	Factor Code	No.of respon-ses *	Per cent to total responses	Cumulative (%)
2	Stiff competition prevailing in the markets	E	7	24.14	51.73
3	Overdue due to non-performing assets	O	4	13.79	65.52
4	Lower generation of fund	J	3	10.34	75.86
5	Poor realisation of debtors	C	3	10.34	86.20
6	Insufficient operational profit	A	2	6.90	93.10
7	Inadequate sanction of loan	B	2	6.90	100.00
	*** TOTAL **		29	100.00	

It is observed that, in Surat district, problem of managing the business, such as marketing/financial/labour/administrative was the predominant factor for default in the repayment of loan, followed by the problem of stiff competition prevailing in the market. It is also revealed that first four reasons taken together accounted for about 76 per cent of the responses.

II.2.8 Factors for Poor Recovery-Perception of Bank Officials

A structured questionnaire was designed on the basis of findings of various research studies/work experiences and the same was circulated to the Financing Officers of the sample branches in order to find out the perception of officers about the reasons of poor recovery. They were asked to give

ranking to any five factors which they felt most important reasons for poor recovery.

For the purpose of analysing the information, scoring procedure was adopted which is as follows :

RANK	SCORE
I	100
II	80
III	60
IV	40
V	20
No Rank	5

The summary of the data so obtained is given in Table II.2.18.

Table II.2.18 : FACTORS FOR POOR RECOVERY - BANK LEVEL IN SSI

Sr. No.	Factors for poor Recovery	Factor Code	Total Score		Overall score	Per cent to grand total	Cumulative (%)
			Valsad	Surat			
1	Lower priority given to follow-up work due to inadequate staff	A	615	520	1135	14.12	14.12
2	Ineffectiveness of legal avenue to recover loans	H	590	270	860	10.70	24.82
3	Diversion of fund	C	285	475	760	9.45	34.27
4	Wilful defaults	K	410	280	690	8.58	42.85

Sr. No.	Factors for poor Recovery	Factor Code	Total Score		Overall score	Per cent to grand total	Cumulative (%)
			Valsad	Surat			
5	Labour/marketing/financial management	L	210	180	390	4.85	47.70
6	Unwillingness to plough back the profit	D	50	325	375	4.66	52.36
7	Poor debt/equity ratio	Y	215	140	355	4.42	56.78
8	Lack of psychological fear amongst borrowers	G	180	160	340	4.23	61.01
9	Higher inventory holding more than the norms prevailing in the industry	X	120	190	310	3.86	64.87
10	Giving shorter maturity period than norms	E	160	125	285	3.54	68.41
11	Disputes amongst joint partner	B	160	105	265	3.30	71.71
12	Government control/policy	O	50	215	265	3.30	74.01
13	Non-availability of raw material	M	95	155	250	3.11	78.12
14	Bank is not involved in identification of beneficiaries in Govt. Sp.programme	F	105	105	210	2.61	80.73
15	Increase in overhead cost	W	50	160	210	2.61	83.34

Sr. No.	Factors for poor Recovery	Factor Code	Total Score		Overall score	Per cent to grand total	Cumulative (%)
			Valsad	Surat			
16	Market saturation	P	125	50	175	2.18	85.52
17	Multiplicity of labour unions	U	105	50	155	1.93	87.45
18	Debt/service coverage ratio below norms	Z	85	60	145	1.80	89.25
19	Natural calamities	R	85	50	135	1.68	90.93
20	Power shortage	N	65	65	130	1.63	92.56
21	Lower price of product	I	50	50	100	1.24	93.80
22	Inadequate finance	J	50	50	100	1.24	95.04
23	Product absolete	Q	50	50	100	1.24	96.28
24	Political situation	S	50	50	100	1.24	97.52
25	Strike	T	50	50	100	1.24	98.76
26	Import cost increased	V	50	50	100	1.24	100.00
	*** TOTAL **		4060	3980	8040	100.00	

It is observed that first six factors taken together accounted for about 52 per cent of the overall score.

II.2.9 Survey of Bank Officials Involved in Lending and Follow-up Operations

In view of the fact that branch staff is directly and continuously involved in the process of lending management right from the initial stage of receiving the application for loan to the complete recovery of the loan disbursed, a survey of the officers in the sample branches was conducted. The survey revealed that,

1. Pre-sanction appraisal and post-sanction follow-up was not done adequately and effectively in the process of lending to the priority sectors. According to 90 per cent of the respondents in Valsad district and 80 per cent respondents in Surat district, inadequacy of staff for the purpose was the most important reason for poor appraisal and follow-up. However, 80 per cent of the respondents in both the districts felt that in branches greater emphasis is given to the completion of other routine work and as such there was no man power or time left to do the appraisal and follow-up work effectively, for which also inadequacy of staff is a contributing factor.

2. Respondents strongly felt that stock inspection, inspection of machinery, review of accounts on a regular basis and appraisal of credit proposals as per the rules and guidelines are the other main factors affecting recoveries. The survey revealed that,

(a) In Valsad district, out of ten branches only four branches carried out stock inspection, and inspection of machinery regularly, whereas in Surat district, out

of ten branches, four branches carried out stock inspection and six branches carried out machinery inspection regularly. It shows that post-disbursement follow-up was very poor,

(b) In Valsad district, out of ten branches, six branches and in Surat district, out of ten branches, three branches, reviewed the borrowal accounts regularly,

(c) In Valsad district only 4 branches and in Surat district only 3 branches were regular in giving notices for frequent return of cheques,

(d) In both the districts branches were not obtaining undertaking from the borrowers to the effect that their plant and machinery did not exceed prescribed limit.

(e) In Valsad district only one branch and in Surat district only two branches were following the guidelines strictly, out of ten branches in each district.

3. By and large, respondents agreed with the observation that a detailed analytical study of recovery and behaviour of borrowal accounts should improve the quality of lending, monitoring and this ensure a higher level of recoveries.

4. The respondents, from all the branches in Valsad and Surat districts, felt that follow-up by personally contacting the borrowers for repayment of dues significantly improves the recoveries. Thus according to them 'Follow-up by personal contact' is an important recovery factor. However, the survey

revealed that in both the districts branch Managers and the financing officers relied more on just issuing notices to the defaulting borrowers and did not try sincerely to recover the dues by personally visiting the borrrowers, contacting them again and by involving the Government or other agencies in the recovery process.

However, it was revealed that, in Valsad district none of the branches conducted any recovery studies even from the data collected for the purpose of computing recovery and submitting to the higher authorities. It was also observed that not a single branch attempted to organise recovery camp in Valsad, and in Surat district; the same position was observed and none of the branches conducted any recovery studies or organised any recovery camp.

5. In both the districts, Branch Managers/Financing Officers have been directly associated with the beneficiaries and borrowers under Banks credit programme, their suggestions were sought for improving the recovery performance. **The suggestions given by them are as under** :

- Banks should be given powers at par with the state finance corporations, so that steps can be taken without intervention of Court.
- Big SSI units should be inspected by technical and financial expert and powers should be given to financing bankers to have an indepth inspection and verification of financial transactions of the borrowers.

- Incentive should be given to staff for good recovery percentage at Branch.
- Electricity Board and Insurance Company should ask borrowers to produce no due certificate from Bank every year before giving them power supply.
- Adequate staff should be given for follow-up work.
- Special Court should be set up for Banks to handle recovery cases.
- Recovery cell at district level should be formulated by each bank.
- Liasion should be established and economic activity of the borrowers should be closely monitored by Bank.
- Composit Loan for cash credit and Term Loan with repayment period should be given.
- Repayment period for working capital should be fixed and limit of working capital should be reduced every year.
- Indepth study should be undertaken at the time of nursing the unit.
- Borrowers should be educated in respect of repayment and end use of fund.

SECTION II.3 RECOVERY OF OTHER PRIORITY SECTOR (OPS) ADVANCES

II.3.1 Overall Assessment of Bank Performance

Study of the data relating to recovery per cent, demand, collection, outstanding and number of branches are given in Annexure 3.1(a) to 3.1(d) forValsad district and 3.2(a) to 3.2(d) for Surat district and summarised in Table II.3.1 for Valsad district and Table II.3.2 for Surat district.

Table II.3.1: BANK-WISE RECOVERY PER CENT AND CONTRIBUTION TO DEMAND, RECOVERY, OUTSTANDING CREDIT AND NO. OF BRANCHES FOR OPS IN VALSAD DISTRICT FOR THE PERIOD 1984 TO 1988.

BANK	Recovery (%)	Contribution to			
		Demand (%)	Recovery (%)	Outstanding (%)	Branches (%)
I	47.60	51.54	50.61	45.98	40.24
II	46.88	14.49	14.01	19.67	15.34
III	31.02	5.51	3.53	8.15	14.91
IV	49.26	19.70	20.01	17.07	16.63
V	65.53	8.76	11.84	9.13	12.88
Overall	48.48	100.00	100.00	100.00	100.00

The data exhibited wide range of variation in recovery from 31% (Bank III) to about 66% (Bank V) in Valsad district.

Bank I had the maximum share in demand, collection, outstanding and number of branches, however, it recorded a modest percentage of recovery at 47.60. Bank IV, Bank II and Bank V had the ranks at two, three and four in terms of demand, collection and outstanding. Bank III proved to be least performer exihibiting recovery percentage at 31.02 and least contribution in demand, collection and outstanding.

Table II.3.2 : BANK-WISE RECOVERY PER CENT AND CONTRIBUTION TO DEMAND, RECOVERY, OUTSTANDING CREDIT AND NO. OF BRANCHES FOR OPS IN SURAT DISTRICT FOR THE PERIOD 1984 TO 1988.

BANK	Recovery (%)	Contribution to			
		Demand (%)	Recovery (%)	Outstanding (%)	Branches (%)
I	47.71	44.61	44.91	38.34	34.48
II	46.96	13.43	13.30	18.38	13.49
III	38.00	7.96	6.38	10.96	14.76
IV	46.97	27.03	26.80	22.25	19.56
V	58.56	6.97	8.61	10.07	17.71
Overall	47.40	100.00	100.00	100.00	100.00

It is seen from the above table that in case of Surat district,the overall value of recovery per cent was 47.40 with maximum being about 59% achieved by Bank V and minimum being 38% recorded by Bank III. Other Banks, namely Bank I, Bank II and Bank IV had almost average percent of recovery around 47.40 per cent. Bank I had the maximum contribution in case of demand, collection, outstanding and number of branches followed by bank IV, Bank II, Bank III and Bank V. The overall performances between the two district, were of the same order (around 48%).

II.3.2 : Bank-wise and Year-wise Performance in Respect of Recovery

Further analysis (Analysis of Variance) of the data on bank-wise and year-wise recovery for the year 1984 to 1988 given in Annexure 3.3 for Valsad district has shown highly significant differences across the Bank-groups, as was found

in the case of both Agriculture and SSI. Similar analysis of the data for Surat district (Annexure 3.4) showed somewhat significant differences among the banks with respect to recovery performance. Somewhat significant differences were observed across the years in valsad district. (The last two years 1987 to 1988 showing poorer performances). On the basis of the Critical Difference Analysis, the best and poorest performing bank-groups were identified as given in Table II.3.3.

Table II.3.3 : CATEGORIES OF BANKS

Category	VALSAD		SURAT	
	Bank group	Recovery (%)	Bank Group	Recovery (%)
Best	V	65.5	V	58.6
Poorest	III	31.0	III	38.0

It is thus seen that Bank V performed relatively well and Bank III performed poorly in both the districts.

II.3.3 Relationship Between Outstanding Credit and Demand

Table II.3.4 gives bank-wise and year-wise outstanding credit and demand for OPS in Valsad and Surat districts. The diagrammatic representations (Scattered diagrams) of the data are given in Figures 3.1 and 3.2 for Valsad and Surat respectively.

Table II.3.4 : BANK-WISE AND YEAR-WISE OUTSTANDING CREDIT AND DEMAND FOR OPS IN VALSAD AND SURAT DISTRICTS.

Bank	Year	VALSAD		SURAT	
		Outstanding (X)	Demand (Y)	Outstanding (X)	Demand (Y)
I	1984	71203	18079	75030	22270
	1985	78923	30961	81987	33557
	1986	80260	48133	84613	43024
	1987	87097	49516	94655	53910
	1988	88307	44160	97207	60874
II	1984	28669	7417	32127	12642
	1985	31179	8996	31008	12607
	1986	34320	7524	41957	13363
	1987	40763	12656	45881	13343
	1988	38674	15640	56820	12333
III	1984	9204	3043	21090	5341
	1985	9527	2843	31642	4776
	1986	9504	3438	23278	4230
	1987	13117	4430	36218	13499
	1988	30572	6116	11698	10289
IV	1984	27560	6716	15691	9538
	1985	29434	12612	24144	13064
	1986	27866	18398	29343	14868
	1987	32618	16822	28066	11262
	1988	33157	16482	32225	12083
V	1984	9767	902	12909	4944
	1985	12576	4934	16346	6254
	1986	17459	6214	18096	5445
	1987	15922	8396	27904	8213
	1988	24816	11158	38580	8524

The relationship was found to be linear in the case of Valsad district and curvilinear in the case of Surat district. The results of the analysis (correlation and regression analysis) are summarised in Table II.3.5.

Fig. 3·1 SCATTER DIAGRAM:
OUTSTANDING CREDIT AND DEMAND
(OPS - VALSAD)

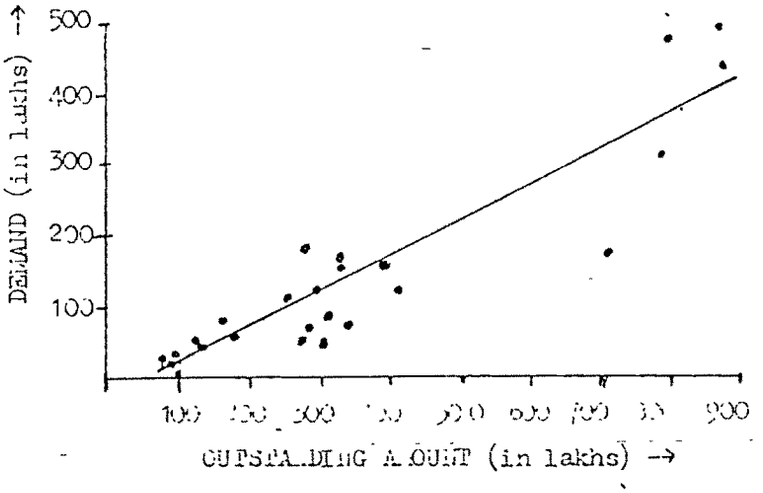


Fig. 3·2 SCATTER DIAGRAM:
OUTSTANDING CREDIT AND DEMAND
(OPS - SURAT)

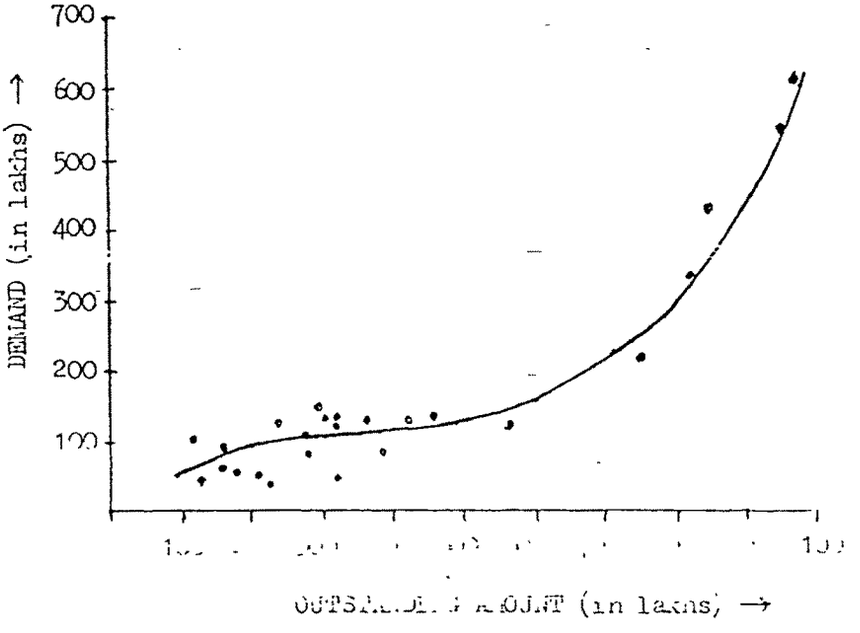


Table II.3.5 : CORRELATION BETWEEN OUTSTANDING CREDIT (X) AND DEMAND (Y), OPS.

District	Coefficient of determination r^2 / R^2	Regression Equation of Y on X
Valsad	92.2%	$Y = -3.31 * 10^{6} + 0.51 X$
Surat	97.9%	$Y = -11.72 + 0.83X - 2.07 * 10^{-3} X^2 + 1.93 * 10^{-6} X^3$

II.3.4 Ageing of Overdues and its Association with Recovery

The relevant data as on 30th June 1988 were collected from ten sample branches in Valsad and thirteen sample branches in Surat. These are presented in Annexures 3.5 an 3.6 respectively, alongwith recovery data. Table II.3.6 and Table II.3.7 give summaries for Valsad and Surat respectively.

Table II.3.6 : BANK-WISE SUMMARY OF AGEING OF OVERDUES AND RECOVERY OF SAMPLE BRACHES AS ON 30TH JUNE 1988 IN VALSAD DISTRICT IN OPS ADVANCES

BANK	Overdues (Rs. in '000)				Recovery to demand (%)
	Up to 1 Year	1 to 3 Years	Above 3 Years	Total	
I	2275 (38.05)	2324 (38.86)	1380 (23.09)	5979 (100)	41.74
II	130 (44.52)	162 (55.48)	- -	292 (100)	51.00
III	35 (30.97)	22 (19.47)	56 (49.56)	113 (100)	11.71

BANK	Overdues (Rs. in '000)				Recovery to demand (%)
	Up to 1 Year	1 to 3 Years	Above 3 Years	Total	
IV	47 (26.86)	90 (51.43)	38 (21.71)	175 (100)	58.62
V	8 (72.72)	3 (27.28)	- -	11 (100)	15.38
Overall	2495 (37.98)	2601 (39.60)	1474 (22.42)	6570 (100)	42.48

Figures in parenthesis indicate bank-wise overdue

Source : Personal survey

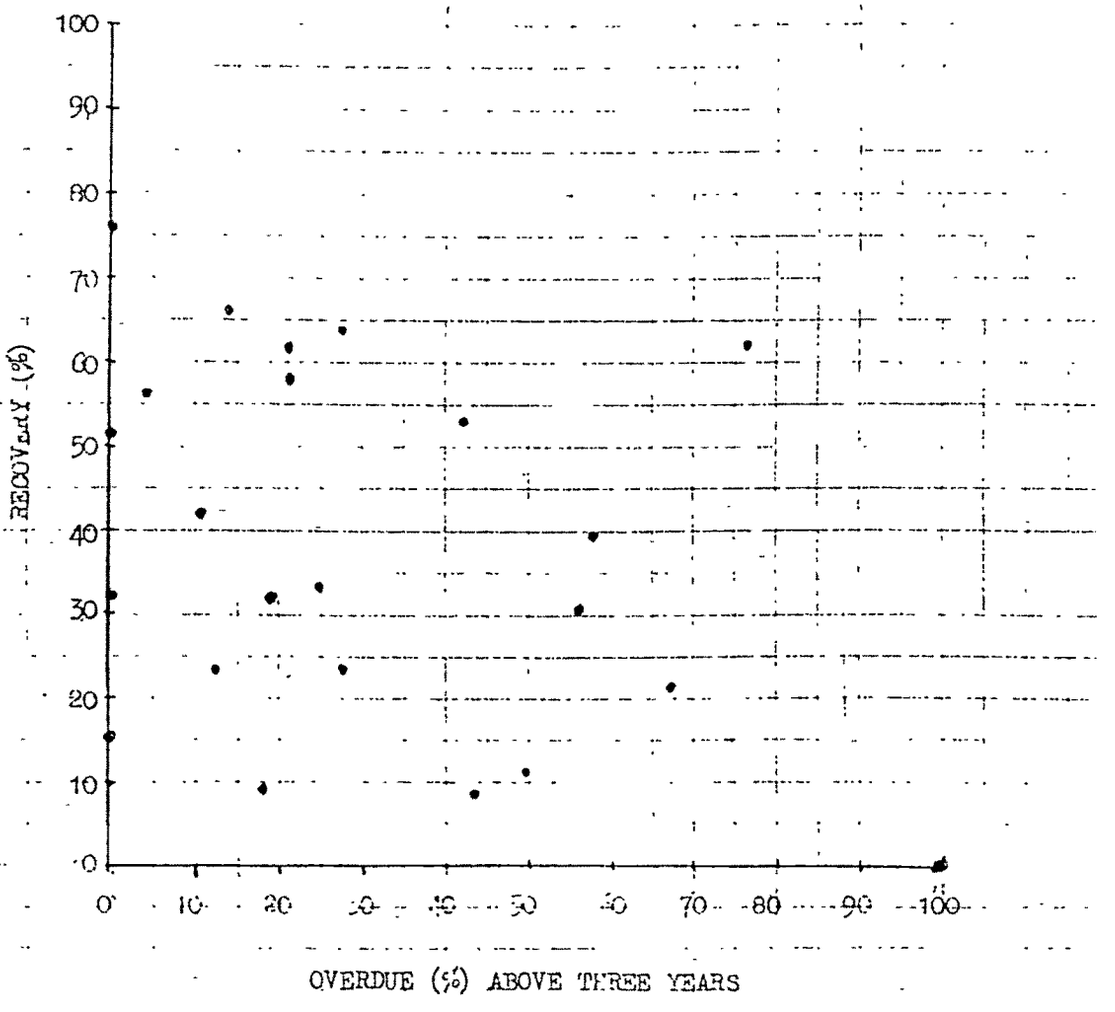
Table II.3.7 : BANK-WISE SUMMARY OF AGEING OF OVERDUES AND RECOVERY OF SAMPLE BRACHES AS ON 30TH JUNE 1988 IN SURAT DISTRICT IN OPS ADVANCES

BANK	Overdues (Rs. in '000)				Recovery to demand (%)
	Up to 1 Year	1 to 3 Years	Above 3 Years	Total	
I	1333 (25.18)	2468 (46.63)	1492 (28.19)	5293 (100)	44.20
II	306 (41.01)	118 (15.82)	322 (43.17)	746 (100)	37.93
III	32 (3.60)	218 (24.60)	637 (71.80)	887 (100)	9.02
IV	59 (21.00)	171 (60.85)	51 (18.15)	281 (100)	31.79
V	35 (87.50)	5 (12.50)	- -	40 (100)	75.75
Overall	1765 (24.35)	2980 (41.12)	2502 (34.53)	7247 (100)	40.79

Figures in parenthesis indicate bank-wise overdue

Source : Personal survey

Fig. 5.3: SCATTER DIAGRAM:
RECOVERY (%) AND OVERDUE (%) ABOVE THREE YEARS - OPS



A good feature that is revealed about the overall performance of the sample branches in Valsad district for OPS is that the proportion of overdue in the age-group above three years (22.4%) was lower compared to that in the lower age-groups (about 38 to 40%). The pattern was however somewhat different in the case of Surat district, where the proportion of overdue above three years (34.5%) was lower compared to that for the age-group 1 to 3 years (41.1%) but higher compared to that for the age upto 1 year (24.4%).

Bank-wise summary reveals that Bank-group III in both the districts had higher proportion of overdue in the age-group of above three years (nearly 50% in Valsad and 72% in Surat) which resulted in poor recovery performance (11.7% in Valsad and 9.0% in Surat).

In order to examine if there is any association between recovery (%) and overdue (%) above three years, Scattered diagram (Fig.3.3) was drawn for the data corresponding to sample beneficiaries of Valsad and Surat districts.

The diagram does not indicate any association between the two variables in Other Priority Sector.

II.3.5 Activity-wise Demand and Recovery

In order to examine the activity-wise performance in recovery, data on demand and recovery in other priority sector for different activities financed by the banks to 46 sample beneficiaries (20 in Valsad and 26 in Surat) were collected. These data are given in Annexure 3.7 for both the

districts. Information was also collected from the beneficiaries to find out the causes of the defaults.

A summary of the data given in Annexure 3.7 is presented in Table II.3.8 for Valsad district and II.3.9 for Surat district.

Table II.3.8 : ACTIVITY - WISE RECOVERY OF OPS ADVANCES OF SAMPLE BORROWERS IN VALSAD DISTRICT AS ON 30TH JUNE 1988.

Activity	Contribution to demand (%)	Recovery to demand (%)	Contribution to Recovery (%)
Sewing machine	4.09	46.66	5.53
Provision store	33.70	65.18	63.64
Cycle store	9.56	0.00	00.00
Juice machine	2.05	6.66	0.40
Kirana store	5.18	18.42	2.77
Ready-made garments	23.19	0.00	0.00
Carpenter	1.36	100.00	3.95
Pan-bidi stall	2.05	100.00	5.93
Optical store	8.59	15.87	3.95
Typewriting machine	10.23	46.66	13.83
OVERALL	100.00	34.51	100.00

It is seen from the Table II.3.8 that the recovery in Valsad district was only about 35% for all the sample beneficiaries taken together. The activity 'provision store' had the highest contribution to both demand (33.7%) and recovery (63.6%). For this activity the proportion of recovery to

demand was also high (65.2%).

Table II.3.9 : ACTIVITY-WISE RECOVERY OF OPS ADVANCES OF SAMPLE BORROWERS IN SURAT DISTRICT AS ON 30TH JUNE 1988

Activity	Contribution to demand (%)	Recovery to demand (%)	Contribution to Recovery (%)
Sewing machine	0.59	0.00	-
Provision store	21.72	31.51	20.41
Cycle store	2.32	63.82	4.40
Juice machine	5.32	18.51	2.95
Black-smith	6.90	42.85	8.81
Auto-rickshaw	1.72	100.00	5.14
Electric store	2.91	35.59	3.08
Tea stall	3.15	9.37	0.88
Motor garage	2.46	20.00	1.47
Road Transport operator	52.91	33.51	52.86
OVERALL	100.00	33.54	100.00

It is seen from Table II.3.9 that the overall recovery was to the extent of only 33.5% similar to Valsad district. In this district, the activity 'Road Transport Operator' contributed maximum to recovery as well as demand (about 52.9%), while recovery to demand was to the extent of only 33.5%. The activity 'Provision Store' followed 'Road Transport Operator' in respect of contribution to recovery and demand (20 to 22%), while recovery from this activity was to the extent of 31.5%.

The reasons for better performance and poor performance by the sample beneficiaries in respects of repayment of loan were investigated by personal contacts with the beneficiaries. The findings are as under:

The reason for better performance in activities like carpenter, sewing machine, provision store and pan-bidi stall has been adequate income generation. As against this the reasons for irregular repayment were summarised scheme-wise for Valsad and Surat districts respectively. This summary is given in Annexure 3.8. There were in all six reasons for defaults. Table 3.10 gives the major reasons for default irrespective of schemes.

Table II.3.10 : MAJOR REASONS FOR DEFAULT (PARETO ANALYSIS)

Sr. No.	Major causes for default	No. of Defaults			(%)	Cum. (%)
		Valsad	Surat	Total		
1	Wilful default	4	2	6	20.00	20.00
2	Inadequate income	4	7	11	36.67	56.67
3	Diversion of fund	-	7	7	23.33	80.00
4	Social problems	2	1	3	10.00	90.00
5	Change in place of Business	1	1	2	6.67	96.67
6	Vahicle confisca-ted by policy	-	1	1	3.33	100.00
	OVERALL	11	19	30	100.00	

It is seen from the above table that three out of six reasons (50%) accounted for 80 per cent of the cases of the default. These three reasons were wilful default, inadequate income

and diversion of funds.

II.3.6 Study of Relationship Between Recovery and Influencing Factor for OPS.

The following independent factors were considered to examine their effects on recovery in OPS;

Factor	Code
1. Distance of bank from residence of prospective beneficiaries	X1
2. Ratio of nubmer of earning members to the family size	X2
3. Number of follow-up visits by banks' staff	X3
4. Outstanding credit per bank staff	X4

Ten branches in Valsad and thirteen branches in Surat were identified and from each of them two beneficiaries were randomly selected and personal contacts were made to get the relevant information through structured questionnaire. The data as on 30th June 1988 are given in annexure 3.9 for Valsad and Annexure 3.10 for Surat.

Table II 3.11 gives a summary of the simple correlation and regression Analysis for both the districts.

Table II.3.11 : SIMPLE CORRELATION AND REGRESSION ANALYSIS (OPS)

District	case	Dependent variable (Y) recovary %	Independent variable (X)	r	r^2 (%)	Regression Equation of Y on X
Valsad	1	Y	**X**2	+0.793	62.9	Y=-15.22+204.24 **X**2
	2	Y	**X**3	+0.716	51.3	Y= 26.67+18.24 **X**3
Surat	1	Y	**X**3	+0.792	62.7	Y= 1.73+156.79 **X**2
	2	Y	**X**2	+0.726	52.7	Y= 16.26+ 21.22 **X**3

The factors **X**2 and **X**3 considered separately had positive correlation with recovery. If **X**2 or **X**3 increases, Y also generally increases.

Further analysis (Linear Multiple Correlation and Regression Analysis by step-wise Method) was done to examine the effects of all the independent variables taken together on recovery. A summary is given in Table II.3.12.

Table II.3.12 : LINEAR MULTIPLE CORRELATION AND REGRESSION ANALYSIS FOR RECOVERY PER CENT (Y) AND INFLUENCING FACTORS (X) FOR OPS.

District	No. Of sets of data	Significant independent factors (X)	Coefficient of determination (R^2)	Regression Equation
Valsad	20	**X**2, **X**3	75.1%	Y=-12.17 + 143.05 **X**2 +10.49 **X**3
Surat	26	**X**3, **X**2, **X**4	75.5%	Y= 16.09 + 13.47 **X**3 +93.88 **X**2-1.19*10^{-5} **X**4

It is seen from Table II.3.12 that two factors **X**2 and **X**3, that is, the ratio of number of earning members to family size and the number of follow-up visits by bank staff, had significant positive effects on recovery in both the districts. The factor **X**4, that is, Outstanding Credit per bank staff had also additional effect (negative).

II.3.7 Reasons of Default - Opinions of The Beneficiaries

In order to have a better understanding of the recovery performance at borrowers' level, an attempt was made to interview the beneficiaries through a structured questionnaire.

Out of 20 sample beneficiaries in Valsad, 9 beneficiaries (45%) were irregular. The possible reasons for default were identified and administered to the borrowers for the purpose of determining the most important reasons for default.

Factor No.	Reasons for Default	Factor Code
1.	Insufficient income	A
2.	Repayment on the due date not possible	B
3.	Lower amount not accepted for repayment	C
4.	Timing of branch for repayment not convenient	D
5.	No guarantee of second loan	E
6.	Others are not repaying	F
7.	Exigencies in the family/social needs	G
8.	Production less than expected	H

Factor No.	Reasons for Default	Factor Code
9.	Inadequate sanction of loan	I
10.	Stiff competition prevailing in the market	J
11.	Clearing of earlier debt	K
12.	Problem of implementing the scheme	L
13.	Hopefully waiting for declaration of relief	M

Pareto analysis (Table II.3.13) was done on the responses to identify the most important reason/s of default in Valsad district.

Table II.3.13 : REASONS OF DEFAULT (VALSAD DISTRICT)

Factor Code	Reasons of Default	Factor Code	No of responses	Per cent to total responses	Cum. (%)
1	Insufficient income	A	11	57.89	57.89
2	Problem in implementing the scheme	L	4	21.05	78.94
3	Exigencies in the family/ social needs	G	2	10.53	89.47
4	Hopefully waitinig for declaration of relief by Government	M	2	10.53	100.00
	*** TOTAL **		19	100.00	

Note : The reasons cited were more than one in some cases.

It is observed that insufficient income was the predominant factor for default in repayment of loan followed by problems in implementing the sheme. These two factors taken together

accunted for as high as 79 per cent responses.

Table II.3.14 summarises the opinions of sample beneficieries in Surat district.

Table II.3.14 : REASONS OF DEFAULT (SURAT DISTRICT)

Factor No	Reasons of Default	Factor Code	No of responses	Per cent to total responses	Cum. (%)
1	Insufficient income	A	16	47.07	47.07
2	Clearing of earlier debt	K	6	17.65	64.72
3	Exigencies in the family/ social needs	G	4	11.76	76.48
4	Problem in implementing the scheme	L	4	11.76	88.24
5	Others are not repaying	F	3	8.82	97.06
6	Hopefully waiting for declaration of relief by Government	M	1	2.94	100.00
	*** TOTAL **		34	100.00	

Note : The reasons cited were more than one in some cases.

It is observed that in Surat district also 'insufficient income' was predominant factor for default in the repayment of loan followed by clearing of earlier debt, exigencies in the family/social needs and problems in implementing the scheme. These four factors taken together accounted for about 88 per cent of responses.

II.3.8 Factor For Poor Recovery-Perception of Bank Officers

In order to find out the perception of Branch Managers/Financing Officers about the reasons of poor

recovery, a structured questionnaire was designed and the same was circulated to the financing officers of the Sample Branches. They were asked to give ranking to any five factors which they felt most important for poor recovery.

The responses obtained were given scoring marks for the purpose of analysis of the same. The scoring procedure was adopted as given below :

Rank	Score
I	100
II	80
III	60
IV	40
V	20
No rank	5

The summary of the data so obtained is given in Table II.3.15 It is seen from Table II.3.15 that the lower priority given to follow-up work due to inadequate staff was the predominant factor, followed by target-oriented lending, false propaganda by leaders for relief of debt, repayment attitude of the borrowers, diversion of funds and ineffectiveness of legal measures. Thus, six out of twenty factors (30%) accounted for about 69 per cent of the grand score.

Table II 3.15: FACTORS FOR POOR RECOVERY - BANK LEVEL

Sr. No.	Factors for poor Recovery	Factor code	Total Score		Overall Score	Percent to grand total	Cumulative %
			Valsad	Surat			
1	Lower priority given to follow-up work due to inadequate staff	A	615	945	1560	17.78	17.78
2	Targets-oriented lending	H	390	615	1005	11.45	29.23
3	False propaganda by leaders for relief of debt	D	330	665	995	11.34	40.57
4	Repayment attitudes of the borrower	R	275	655	930	10.60	51.17
5	Diversion of fund	E	465	450	915	10.42	61.59
6	Ineffectiveness of legal measures	K	340	335	675	7.70	69.29
7	Branch is not involved in identification of work	J	275	100	375	4.27	73.56
8	Lower price of product / services	M	175	140	315	3.60	77.16
9	Lower priority given to follow-up/reasons other than staff	B	200	65	265	3.01	80.17
10	Lack of psychological fears amongst borrower	I	55	190	245	2.79	82.96
11	Inadequate marketing facility	L	95	145	240	2.74	85.70
12	Disputes amongst joint borrowers	C	50	150	200	2.28	87.98
13	Unwillingness to plough back profit	F	100	65	165	1.88	89.86
14	Social ceremonies	Q	100	65	165	1.88	91.74
15	Inadequate financing by bank	P	50	100	150	1.71	93.45
16	Govt. control/policies	G	50	65	115	1.31	94.76

Sr. No.	Factors for poor Recovery	Factor code	Total Score Valsad	Total Score Surat	Overall Score	Percent to grand total	Cumulative %
17	Insufficient experience of the managing person	N	50	65	115	1.31	96.07
18	Natural calamities	O	50	65	115	1.31	97.38
19	Non-availability of raw materials	S	50	65	115	1.31	98.69
20	Giving shorter maturity period	T	50	65	115	1.31	100.00
	*** GRAND TOTAL **		3765	5010	8775	100.00	

II. 3.9 Survey of Bank Officials Involved in Lending and Follow-up Operations

A survey of branch staff involved in lending operations right from the pre-sanction appraisal stage till the repayment of the loan, was conducted to ascertain their views about the factors responsible for poor recovery. Information about the steps taken to improve recoveries and their suggestions were also solicited.

An analysis of their response revealed the same findings as were revealed by a similar survey conducted for Agriculture. The findings of the similar survey have already been discussed in Section 1.9 under Agriculture. It can, thus, be inferred that the factors responsible for poor recovery are common for Agriculture and for the OPS.

II.4 RECOVERY OF TOTAL PRIORITY SECTOR ADVANCES

II.4.1 Introduction

In the previous sections of this part the recovery

performance in each sector- Agriculture, SSI and OPS-was analysed separately. This section presents an overview of the performance for all the sectors taken together, termed as Total Priority Sector.

II.4.2 Overall Assessment of Bank Performance

In order to make an overall assessment of the performance of bank in respect of recovery of advances, and other parameters viz.,demand, recovery, and outstanding credit were examined.

The relevant data were summarised and are given in Annexure 4.1(a) to 4.1(c) for Valsad district and 4.2(a) to 4.2(c) for Surat district.

The overall summaries are given in Table 4.1 for Valsad and Table 4.2 for Surat.

Table 4.1: BANK-WISE RECOVERY PER CENT AND CONTRIBUTION TO DEMAND, RECOVERY,OUTSTANDING CREDIT AND NO. OF BRANCHES FOR PRIORITY SECTOR IN VALSAD DISTRICT FOR THE PERIOD 1984 TO 1988.

BANK	Recovery (%)	Contribution to			
		Demand (%)	Recovery (%)	Outstanding (%)	Branches (%)
I	41.96	56.80	57.07	46.96	40.24
II	42.39	12.89	12.63	23.39	15.34
III	25.46	6.86	4.03	6.09	14.91
IV	53.54	16.97	20.99	17.53	16.63
V	48.62	6.48	7.28	6.03	12.88
OVERALL	43.28	100.00	100.00	100.00	100.00

Source : Personal survey

It is revealed from Table II.4.1 that the recovery performance varied considerably from 25.5 per cent (Bank III) to 53.5 per cent (Bank IV). The data further show that the contribution of Bank I was the highest in terms of demand, recovery and outstanding as well as number of branches. However, its performance in recovery was relatively poor. Bank III performed poorly and had also minimum contribution in all the parameters.

Table II.4.2 :BANK-WISE RECOVERY PER CENT AND CONTRIBUTION TO DEMAND, RECOVERY, OUTSTANDING CREDIT AND NO. OF BRANCHES FOR PRIORITY SECTOR IN SURAT DISTRICT FOR THE PERIOD 1984 TO 1988.

BANK	Recovery (%)	Contribution to			
		Demand (%)	Recovery (%)	Outstanding (%)	Branches (%)
I	36.52	51.27	43.08	38.09	34.48
II	46.51	12.97	13.87	18.25	13.49
III	43.58	7.14	7.16	9.14	14.76
IV	55.19	21.96	27.88	23.62	19.56
V	52.26	6.66	8.01	10.90	17.71
OVERALL	43.47	100.00	100.00	100.00	100.00

It is seen from the Table II.4.2 that in case of Surat district also Bank IV proved to be the best amongst the banks in respect of recovery (55.2%).Bank I had the maximum contribution in all the parameters but its performance in recovery was poor.Bank IV was the second in terms of other parameters but remainded first in terms of recovery.As

against this Bank V which performed poorly in respect of other parameters was second best in respect of recovery.

A comparison between the performance of Valsad and Surat districts shows that the overall recovery was same (about 43%)in both the districts. The recovery data have been further analysed and discussed in Section II.4.3.

II.4.3 Bank-wise and Year-wise Performance in Respect of Recovery

Annexure 4.3 gives a summary of recovery for five bank-groups for the five years 1984 to 1988 in Valsad district for the Total Priority Sector. Annexure 4.4 gives similar summary for Surat district. The data have been analysed by the technique of Analysis of Variance. The Analysis of Variance Tables are also given in Annexure 4.3 and 4.4.

The analysis has shown that there were significant differences among the banks. No significant differences were, however, found across the years. Table II.4.3 gives the per cent recovery for the five bank-groups in Valsad and Surat districts for the entire preiod of five years.

Table II.4.3 : BANK-WISE RECOVERY (TOTAL PRIORITY SECTOR - 1984 TO 1988)

Bank-Groups	Recovery (%)	
	Valsad	Surat
I	41.96	36.52
II	42.39	46.51
III	25.46	43.58

Bank-Groups	Recovery (%)	
	Valsad	Surat
IV	53.54	55.19
V	48.62	52.26
OVERALL	43.28	43.47

Further analysis (Critical Difference Analysis) was done to test the significance of difference between any two banks. On the basis of this analysis, the best and the poorest groups of banks have been identified (Table II.4.4).

Table II.4.4 : CATEGORIES OF BANKS (TOTAL PRIORITY SECTOR)

Category	Valsad		Surat	
	Bank-group	Recovery(%)	Bank-group	Recovery(%)
Best	IV	53.54	IV & V	54.50
Poorest	III	25.46	I	36.52

It is seen that Bank IV performed relatively well in both the districts, while the performance of Bank III in Valsad and Bank I in Surat were the poorest.

II.4.4 Trend in Recovery (%)

The trend in recovery (%) in different sectors can be seen from Fig 4.1 (a) for the entire Valsad district and from Fig 4.1 (b) for the entire Surat district.

It appears from Fig 4.1 that

i) there had been some increasing trend in recovery (%) in Agriculture since 1985 in both the districts;

ii) recovery on OPS was initially higher compared to Agriculture and SSI but then declined gradually, particularly in Surat district;

iii) recovery in SSI had been consistently lower in Valsad district with a marginal declining trend, whereas in Surat district the overall level was higher compared to Valsad district and remained more or less at same level except in 1986;

iv) the level of recovery remained almost static at around 43% for the Total Priority Sector in both the districts.

An idea of the trend in recovery for both the districts taken together can be had from Fig 4.2. It is seen that, on the whole, the recovery performance in Agriculture showed improvement over the years. On the other hand, while the performance in OPS sharply declined from a level of 55% in 1984 to 44% in 1988, the performance in SSI remained more or less same at around 39% during 1984 to 1987 but declined to the level of 34% in 1988.

The recovery performance in Total priority sector varied between 41% and 45% during 1984 to 1988.

II.4.5 Trend In Outstanding Credit, Demand, Recovery And Overdues

In order to examine the amount involved and the trends in outstanding credit, demand, recovery and overdue for the Total Priority Sector, the time series data have been plotted (Fig 4.3). The time series data are given in Annexure 4.5.

It can be seen from Fig 4.3 that the outstanding credit increased sharply from Rs. 322 crore in 1984 to as high as Rs. 617 crore in 1988. There was also a huge and increasing gap between outstanding amount and demand.

It can be further seen that although both demand and recovery had been increasing, the recovery was not increasing at the same rate of increase as in demand. As a result, the overdue amount had shown an increasing trend.

Fig. 4.1: SECTOR-WISE TREND IN RECOVERY (%)

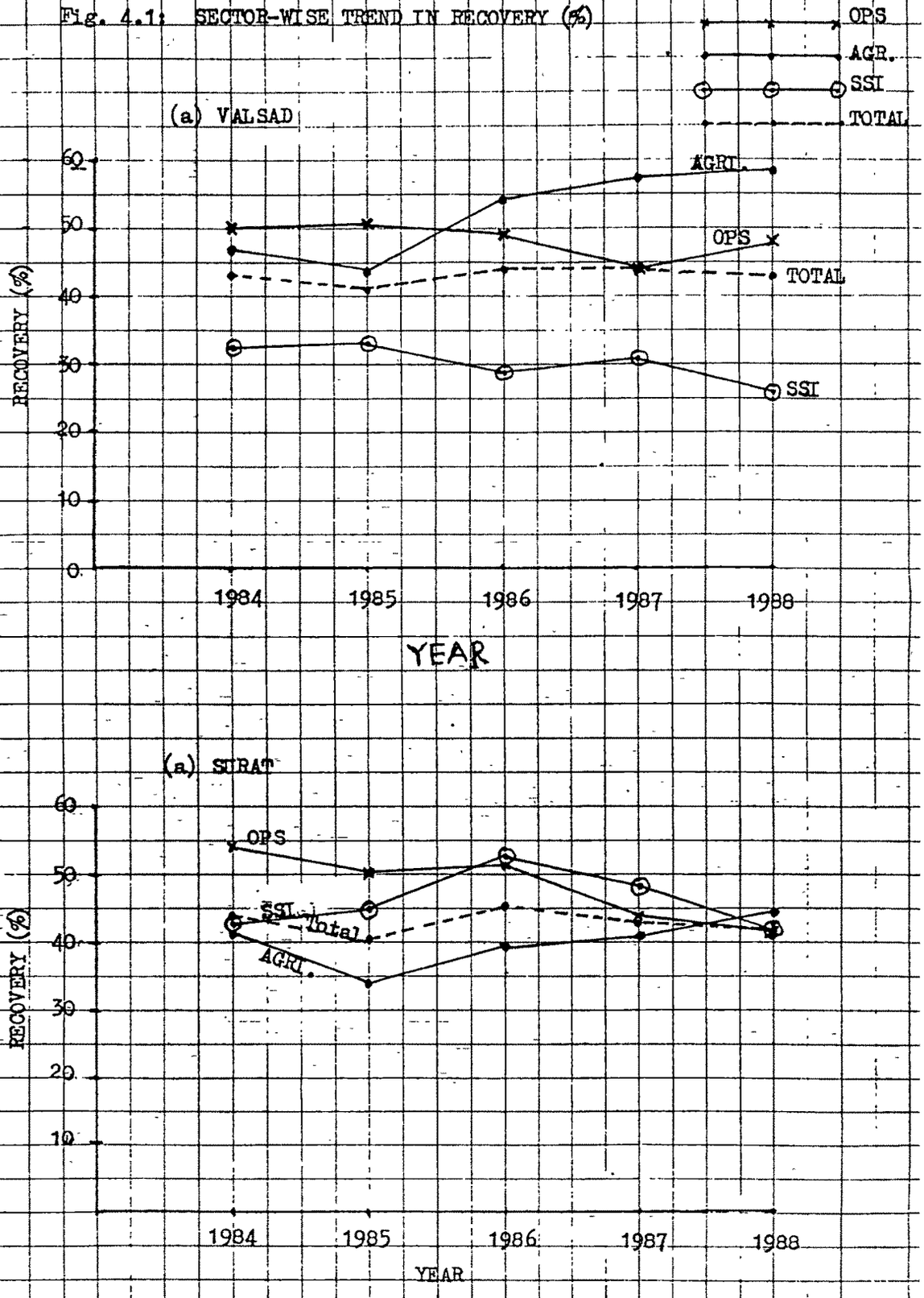


Fig. 4.2: TREND IN SECTOR-WISE RECOVERY (%)
(VALSAD + SURAT)

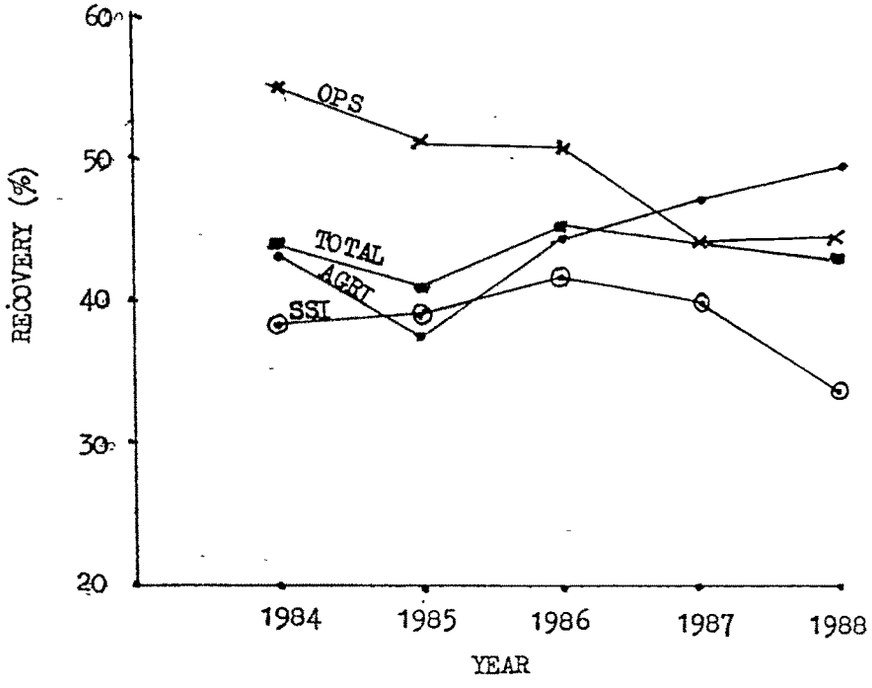
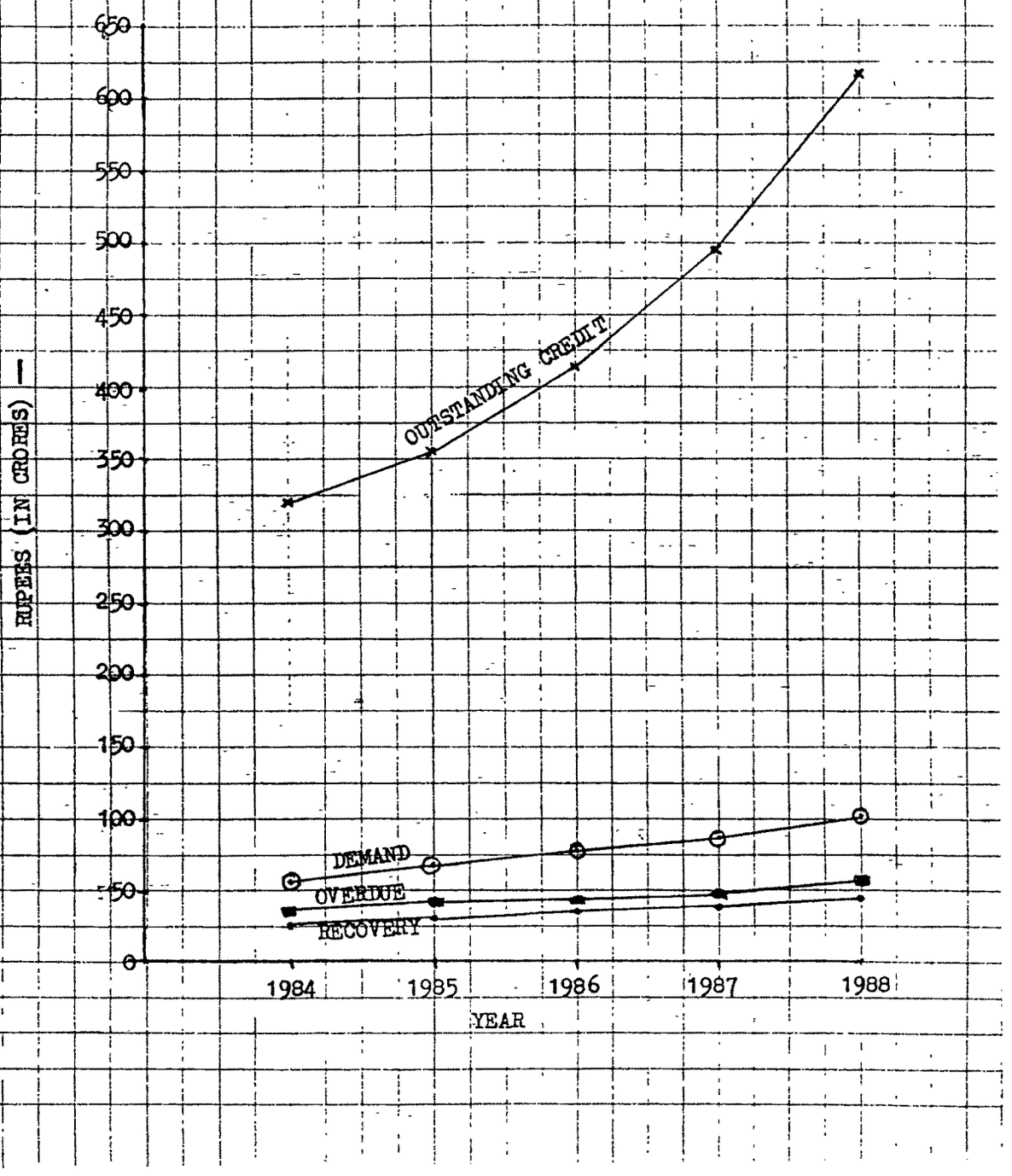


Fig. 4.3: TREND IN OUTSTANDING CREDIT, DEMAND, RECOVERY AND OVERDUE FOR TOTAL PRIORITY SECTOR



II.5 Implementation of Reserve Bank of India Guidelines

The Reserve Bank of India (RBI) issued guidelines to the commercial bank in respect of certain organisational and operational aspects of recovery of direct agricultural advances. The basic assumption behind the issuing of these guidelines was that the implementation of these guidelines will improve the quality of monitoring and follow-up of advances which in turn should imporve the level of recoveries. The guidelines were issued by the RBI in November 1984. Our analysis of agricultural advances reveals that the recoveries have changed from 43.22 per cent of demand in 1984 to 49.31 per cent of demand in 1988. Thus, there has been an improvement of 6.09 per cent in the levels of recoveries in agricultural. However, the recoveries in SSI and OPS did not improve, rather there was a decrease in the recoveries level during the period, resulting in the overall decrease in the recovery of Total Priority Sector Advances. It is felt that increase in incomes and improvement in the extent and magnitude of follow-up should have been the main factors responsible for improvement in the recovery levels in agriculture and inadequate follow-up to be the main factor for poor recoveries in the SSI and OPS advances. Thus, it can be hypothised that **improved follow-up leads to improved recoveries**. Assuming that improved follow-up was the result of the implementation of RBI guidelines, it is proposed to evaluate the implmentation of these guidelines by commercial banks during the period of this study.

To ascertain the extent of implementation of RBI guidelines, a survey of 43 branches was carried out. Branch Managers and a few other officers involved in the activity were covered by the survey. The survey was carried out in 1988 and factual information and opinions of the respondents were solicited through a structured and pre-tested questionnaire. The responses obtained gave an idea about the extent to which the banks responded to the RBI guidelines and implemented them.

II.5.1 Agriculture

For the sake of clarity, guidelines issued by the RBI were grouped under five heads. These have been briefly described below, followed by the findings of our survey in respect of their implementation.

The guidelines have been grouped under five categories, as given below :

A) Staffing
B) Formulation and Appraisal
C) Procedural
   i) Pre-sanction-Appraisal
   ii) Disbursement
   iii) Post-Disbursement Follow-up
D) Review - Monitoring and Analysis
E) Other Relevant Aspects

A.Staffing

A vaible recoovery system should be established by appointing suitable and adequate field staff who would keep in touch with the borrowers and agricultural operations, supervise the end use of credit and assist in sorting out problems (guideline No. 12)

The organisational structure both at the controlling offices and field level should be strengthened and geared up to the extent necessary for better recovery performance (guideline No. 13)

B. Formulation and Appraisal

Since agricultural lending has to be necessarily production oriented, the scale of finance has to be in consonance with the scale of inputs when lending for crop raising and in consonance with the cost of asset vis-a-vis incremental income when lending for investment. Either over financing or under financing can lead to misutilisation of fund and recovery of loan will become doubtful (guideline No. 2).

As the recovery of agricultural loans is expected out of the sale of farm produce, it is necessary to ensure that the repayment schedule for loan will coincide with the time when the cultivator generally sells his produce and is in possession of funds (guideline No. 6).

A schematic approach in lending to clusters of borrowers or villages should be adopted to facilitate effective supervision (guideline No. 14).

C. Procedural

i. Pre-sanction Appraisal.

The pre-lending appraisal system should be thorough and up-dated from time to time (guideline no. 5)

ii. Disbursement

Apart from adequacy of the loan amount, it is necessary to ensure that funds are disbursed in time

and more so when lending for crop raising. Thus applications for loans should be received, processed and sanctioned promptly (guidelines No. 3).

While arrangements should be made to pay the cost of assets directly to suppliers as far as possible, the disbursement of a part of the loan for raising crop in cash cannot be avoided. However, it should be ensured that the scale of cash component is not exaggerated (guideline No. 4).

iii. Post Disbursement Follow-up

It is also necessary to follow-up the use of loan and the conditions of resultant produce from time to time so as to ensure that loan has been properly used and there is no apparent reasons for expecting failure of produce and consequent failure of borrower to repay the loan. This should be done by careful monitoring of disbursement, issue of notices and contacting the beneficiaries as and when necessary (guideline No. 7).

Efforts of recovery shoud commence well in advance of the due date soon after the crop is harvested. Banks which are systematic in appraising borrowers about the due date one or two weeks in advance and whose field staff have been active are far more successful at recovery than banks that merely waited for the repayment to flow in (guideline No. 8).

D. Review - Monitoring and Analysis

The recovery performance of each branch should be constantly and closely reviewed by the controlling office (guideline No. 11).

There should be a careful branch-wise analysis of mounting overdues where overdues exceed 50 per cent of demand and agricultural advances are sizeable. Separate recovery cells should be created for continuous and effective supervision and recovery (guideline No. 16).

E. Other Relevant Aspect

Banks should inculcate among the borrowers the habit of regular repayment so that a psychosis of default does not develop (guideline No. 9).

Block-wise recovery campaign should be organised in which association of officers of concerned departments of the State Government such as revenue and agriculture may be ensured (guideline No. 10).

Banks should also take advantage of the legislation passed by the State Governments for speedy recovery of dues. They should promptly file with the State Government authorities certified cases for recovery of dues (guideline No.17).

As the recovery performance in several cases looks poor on account of old overdues, banks should not only pay special attention to recovery of such overdues but should also monitor the progress of recovery of current dues and arrears separately (guideline No. 18).

Implementation of Guidelines

Findings

A. Staffing

Banks have not taken very seriously the matter relating to establishing viable recovery system by appointing suitable and adequate field staff. The study revealed that scant attention had been paid in this regard by banks. Banks have not provided staff according to the business of the branch and where some officers have been provided, the effectiveness of their role has not been realised. This is due to the fact that the job-role, functions and responsibilities of the staff have not been clearly defined. The officers have been performing various functions in which taking care of qualitative lendings was one of the several functions.

The organisational structure, both at the controlling office and the field level has remained weak and has not been strengthened to the extent necessary for better recovery performance. It was observed during the discussion with branch managers / agricultural officers at the field level as well as at the controlling office level that the staff did not respond to meet the needs of an efficient recovery system mainly because at the controlling offices, the concerned staff has to perform several other functions also.

B. Formulation and Appraisal

The credits sanctioned by the branches were generally related to the purposes and were not based on the package of

practices or the related production effort.

The guideline relating to the scale of finance to be in consonance with the scale of inputs when lending for crop raising and cost of assets vis-a-vis incremental income for investment loan was followed very rigidly by the branches. The branches computed credit needs for crop raising on the basis of morms fixed by District Central Bank, and unit cost fixed by NABARD (National Bank for Agriculture and Rural Development) for investment purpose. However, the borrowers and the branch managers felt that these scales were very low and did not reflect the rising costs in terms of inflation and overall costs of inputs in the market resulting in underfinancing of activities or assets by banks.

Normally branch managers scheduled the repayments considering the marketing seasons. However, the problems of marketing and sales on below the expected prices experienced by the farmers came in the way of repayment of loan.

The study revealed that a schematic approach in lending to clusters of borrowers or villages, was not adopted to facilitate effective supervision. On the contrary financing was done in scattered villages until very recently till the service area approach was introduced.

C. Procedural

Pre-lending system has been found ineffective since in a large number of cases pre-sanction inspection was not carried out. The approach of the government agencies was just to

sponsor applications in bunch and that too without adequately examining the technical feasibility and economic viability of the loan proposals.

Inadequacy of the staff and scattered lending, made per-sanction inspection difficult, costly and was therefore not followed in many cases.

The funds were disbursed directly to suppliers in almost all cases. However, it was felt by the respondents that the suppliers resorted to various malpractices in delivering the right type of assets.

Post-disbursement supervision and follow-up was found to be very weak in a large number of cases mainly due to inadequacy of staff and scattered lending. Asset verification was not done properly and in all cases. Problems faced by the borrowers in the successful implementation of various scheme had not been identified by the branches and could not be resolved mainly due to indifferent attitude of the government officials who felt that they had no role in that. Also, recovery efforts were not planned well in advance and by and large all actions were governed by the urgency of the immediate requirements. In many cases it was a walk in recovery process and very meagre efforts were made by the branches to move in the village for this purpose.

D. Review Monitoring and Analysis

Recovery performance of the branches were not constantly and closely reviewed by the controlling offices. Separate

recovery cells had not been set-up where overdues were more than 50 per cent. Inadequate staff at the controlling office was the main reason for inadequate monitoring and reviewing of the recovery performance.

E. Others

Banks have not been able to inculcate the repayment habit amongst the borrowers as the government had vitiated the recovery climate. Block-wise recovery campaigns were not organised and the government agencies did not co-operate in the matter. The legislation passed by the government was found to be simply on paper and not a single case was found to have been dealt with by the state government as desired under the legislation. Banks did not segregated the old overdue accounts from the current overdue accounts at the branch where staff was inadequate. It may thus be observed that the RBI Guidelines have not been adequately followed by the banks in this respect.

II.5.2 Small Scale Industry

The growing sickness in industry has been a matter of grave concern not only to the commercial banks and to the financial institutions having a direct stake in such units, but also to the government of India as well as the Reserve Bank of India. In this connection the Reserve Bank of India had issued guidelines from time to time to all the commercial Banks to prevent industrial sickness and improve their recovery position. The commercial banks were advised to review the accounts of the borrowers to identify those units which were

already sick or prone to sickness, so that corrective action could be taken without loss of time. Banks were also advised to set-up cells which could make use of the information system suggested by the Tandon Study Group and detect sickness through the early warning signals.

Subsequently, while issuing guidelines on the scrutiny of statements suggested by the Tandon Study Group, it was emphasized by the Reserve Bank that the information system prescribed could serve as an early warning system to throw up signal of incipient sickness in industrial undertakings. The warning signals that could be identified as early symptoms of incipient sickness and were apparent from a scrutiny of the borrowal accounts were primarily the following :

i. Non-submission or incorrect submission of stock statements and other control statements.

ii. Inability to maintain the stipulated margin on a continuous basis.

iii. Widening difference between the outstanding balance and drawing power/sanctioned limit.

iv. Periodical interest remaining unrealised rendering the account irregular.

v. Attempt to divert sale proceeds through accounts with other banks.

vi. Frequent return of cheques or bills.

Early warning signals of sickness could also be had from the audited accounts of the borrowers, other financial statements submitted by the borrowers, and from the banker's periodic visits to the place of the borrowers activity as also from other sources. Based on an examination of the symptoms, banks could put themselves on guard about the onset of sickness and

intiate prompt remedial actions including a dialogue with the borrower to arrest the trend by elimination of the factors causing sickness.

Implementation of Guidelines

Findings

The study revealed that scant attention was paid in this regard by the banks. In both the districts, branches reported that the field staff was inadequate at the branch level to keep pace with the pre-sanction appraisal and post-disbursement supervision for increased SSI advances. In both the districts, only 40 per cent branches carried out stock inspection regularly and most of the branches did not review accounts regularly. Also most of the branches were irregular in giving notices for frequent return of cheques and were not following the guidelines strictly in respect of follow-up and supervision. In both the districts branch Managers/financing officers felt that a low priority given to the follow-up work was the most important factor responsible for poor recovery. In both the districts banks did not set-up recovery cells as required by the guidelines issued by the Reserve Bank of India. It was also evident that bank officials, by and large, failed to establish liason with the borrowers which also resulted in the poor recovery.

Thus, the survey revealed that the RBI issued guidelines for the recovery of advances in respect of Agriculture only. For SSI advances, some guidelines to deal with the sick units

were issued but no comprehensive guidelines for improving the monitoring and follow-up of SSI advances with a view to improving the recoveries, have been issued so far. As such the relevant guidelines for sick SSI units were assumed here to be the guidelines for recovery of SSI advances. The survey also revealed that the RBI did not issue any specific guidelines for recovery of OPS advaces inspite of the fact that the recoveries in OPS have been poor to the extent that they nullified the improvement in agricultural recoveries and brought down the level of recoveries in the Total Priority Sector advances.