CHAPTER – II
REVIEW OF LITERATURE

2.1 INTRODUCTION

This Chapter includes a review of past literature on various facets of co-operative movement in India vis-à-vis in Maharashtra and various Regions. The studies carried out the performance and problems of cooperative banking more particularly in the matter of Non Performing Assets, its management etc. The review of the past literature provides guidance to the researcher for conducting research in the right direction. The review also helped to adopt an appropriate methodology for completing an investigation. Thus, it helped in proper understanding of the concept, methodology, analytical issues relating to the problem under study.

Co-operative credit system has been regarded as an old and time honoured institution in the country. It plays an important role in meeting the growing credit needs of rural India. Therefore, the policy makers and academicians have always paid a great deal of attention to its functioning and performance. Each time co-operative credit system has been subjected to review by a committee or a working group, it has been made to follow newer prescriptions. The history of co-operative credit system has thus been the history of alternating periods of growth, stagnation and reorganization and yet quantitatively, the achievements of the co-operative system have by no means been insignificant.

The literature on co-operative credit system exists in abundance, especially in the form of reports of different committees, working groups and commissions appointed to examine and recommend for better functioning of co-operative credit institutions. However, so far as the performance of the Primary Agricultural Credit
Societies the literature available is scanty. However, the concept of Non Performing Assets in Cooperative Banks is the same that of the PACS the literature on this class of institutions has proved to be useful in understanding the subject in right perspective. To review such vast material of literature in one Chapter is a difficult task.

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### 2.2 PREVIOUS PH. D. RESEARCH

**Individual Research Studies on Co-op. Banking**

The Ph. D. theses are useful for the researcher to undertake his research as per gaps in the earlier research work. These theses are considered by the researcher as the background for his research study.

**Sanjay Namdev Aswale (2004)**, studied, “The Impact of PACS in village Development” (A case study of Osmanabad District), unpublished Ph.D. thesis of Dr. BAMU University, Aurangabad (M.S.) focused on the assessment of the performance and impact of PACS in village development of Osmanabad District and rendered the plan of action for development of PACS. He found that PACS are highly dependent on external financial sources and recovery is not satisfactory.

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J.P. Bhosale (2005)\textsuperscript{7}, in his study on “A Study of PACS in Junnar, Ambegaon and Khed Talukas of Pune District” unpublished Ph.D. thesis in the University of Pune, examined working of PACS to improve the efficiency of the societies for the benefit of the members. His study was focused on the role of PACS in rural development loan advancement, various services provided, organization and management of PACS.

Dr. T. G. Gite (2005)\textsuperscript{8} submitted his thesis titled, “An Economic Analysis of Mechanization of Agriculture in Pune District, Maharashtra state” to University of Pune. The broad objectives of his study were:

\begin{itemize}
\item To Review of overall farm mechanization of agriculture at global, national level and in particular State of Maharashtra.
\item To study the trends of Mechanization in the State of Maharashtra in general and Pune district in particular.
\item To study the impact of mechanization on cropping pattern and yield and returns and employment.
\item To suggest measures for improvement in the present stage of farm mechanization in the context of changed scenario after emergence of WTO.
\end{itemize}

\textbf{Broadly his observations include}

\begin{itemize}
\item In India the farm mechanization is limited to use of tractors and implements which are used along with the tractor. Special purpose modern farm equipment is beyond the reach of the common Indian agriculturists as it involves high capital investment. The use of farm equipment can allow farmers to increase their yields and reduce their consumption of water, seed, fertilizers, and pesticides. Farming being a time and
\end{itemize}

\textsuperscript{7} J.P. Bhosale (2005), unpublished Ph.D. thesis in the university of Pune “A Study of PACS in Junnar, Ambegaon and Khed Talukas of Pune District”

\textsuperscript{8} Dr. T. G. Gite (2005) thesis titled, “An Economic Analysis of Mechanization of Agriculture in Pune District, Maharashtra state” to University of Pune
climate sensitive process, critical farm operations such as land preparation, sowing and crop protection need to be completed within a short span of time.

- In the context of globalization farm mechanization is considered to be the most essential in the adoption of modern technology.
- It is clear that the tractors which have multiple uses to the farmer such as ploughing, leveling, water lifting, seed and fertilizer drills, mechanization. Farm mechanization is a key to development of agriculture.
- The use of the draught animals in the agricultural operation has been declined over the years.
- Where the farmers have resorted to farm mechanization the farmers have started taking multiple crops.
- In Pune district Daund Taluka is thickly tractor populated tahsil.
- The study also revealed that where farm mechanization has taken place the family labour of the tractor owners and users have declined to a great extent.
- As a result of general increase in the cost of living even the labour charges have gone up considerably. If one compares the cost of a particular operation by mechanized device vis-à-vis the manual operation, it has been observed that the mechanized operations are cheaper apart from being as per exact requirement of the farmer.
- Human labour is not a dependable whereas the mechanization is more dependable.
- In the State of Maharashtra Pune Division ranks third with 22.86% in the use of electric motors, ranks second with 3567% in the use of tractors and ranks third in the use of threshers.
- In the study area the tractor owners cultivate commercial crops (cash crops).
- It has been observed that in the study that there is a positive increase in the yield of all the crops.
Dr. Latika Anil Bali (July 2012), submitted her thesis titled, “A study of the performance and problems of district central co-operative banks with special reference to Pune region (1998-2007)”. In this research work Dr. Bali has studied the financial performance of District Central Cooperative Banks in Pune region. Pune District Central Cooperative Bank Ltd. which is the subject matter of this research has also been covered by her. Particularly her findings about the non performing assets are relevant for this research is concerned.

Recovery of loans is an important factor for the sound functioning of co-operative bank. Recovery of loans in time strengthens the resources position of co-operative institutions and helps to repay the borrowed loans to the Apex financing agencies in time. Poor recovery of loans leads to adverse effect on the functioning of co-operative institutions. It results in cumulative increase in overdues on any co-operative institution, limiting its borrowing capacity from the financial market.

The average annual growth rate of percentage of overdues to demand of Pune, Ahmednagar and Satara DCCBs declined due to debt relief policy of the State government. The main causes of overdues are less effective recovery mechanism, natural calamities, and debt relief policies of Government etc.

While dealing with Non Performing Assets of these District Central Cooperative Banks Dr. Bali has stated that Narasimham Committee on economic reforms recommended prudential norms viz. income recognition, asset classification, provisioning, capital adequacy were made applicable to commercial banks since 1992 under the financial sector reforms. These norms were also made applicable to SCBs and DCCBs from 1996-97. A non-performing asset is one where

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interest and/or repayment of installment have not been paid within six months from its due date. This norm is changed further, reducing the time period for NPA to 90 days, instead of 180 days from 31st March 2004 when RBI introduced new norms for identification of NPAs both for commercial and co-operative banks. The co-operative banks started classifying their assets as per the new prudential norms introduced by RBI since 1996-97.

The classification of assets is under four categories i.e., Standard assets, Sub-standard assets, Doubtful assets and loss assets. Sub-standard assets, Doubtful assets and loss assets are individually and collectively known as NPAs. On the basis of the classification of assets, the bank is required to set aside prescribed provision for the NPAs from profit of the bank as per RBI guidelines. Provisioning is allocation of money every year to meet a probable future loss.

Average annual percentage of NPAs to loans and advances outstanding in Pune, Solapur, Ahmednagar and Sangli DCCBs were larger than the region’s percentage.

Dr. Bali has also recorded her observation about the causes of Non Performing Assets, in the following words:

“There are different reasons for asset becoming NPA. There are number of socio-economic, legal and political factors which are responsible for the poor recovery of agricultural loans and advances outstanding subsequently leading to increase in overdues, for example, low prices for agricultural produce, miss-utilization of credit, over financing, lack of proper supervision, willful defaulters, inadequate recovery staff etc.”
It is worthwhile to state hereunder that this researcher’s observation and findings are in agreement with those of Dr. Bali.

2.3 RESEARCH PAPERS

**K.A. Suresh and E. Vinai Kumar (1993)**

The authors studied PACS in Kerala. They have tried to formulate a conceptual frame work for analyzing the problem of economic viability of societies.

One of the main objectives of their study was to develop as many methods as possible to iterate determinates of viability / non-viability. The basic approach of the authors is to measure viability in terms of positive net worth i.e. excess of assets over liability of PACS. Since net worth is the criterion, all the sub components of assets and liability such as loan advances, outstanding, share capital, deposits, investment etc. are relevant under the study.

Among the various variables considered the most important are low overdue to loan outstanding followed by proportion of borrowers to total members. The least important factor identified is share of agri-loans to total loans. At micro level organizational viability was estimated on the basis of response, behavior of the members, directors and employee.

**Sourindra Bhattacharjee (1998)**

In his article “Factors Influencing Viability of PACS” studied the viability of PACS. He pointed out that the market in which PACS operate are imperfect as loan business, involves dealing in future transactions and further the market is oligopolistic as only few financial institutions operate in rural sectors. Under this content the author has developed as multi-

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10 K.A. Suresh and E. Vinai Kumar (1993), studies PACS in Kerala to formulate a conceptual frame work for analyzing the problem of economic viability of societies

11 Sourindra Bhattacharjee (1998), article title “Factors Influencing Viability of PACS”
variant econometric model to examine the relative influence of factors determining profitability of PACS.

**Satish and Gopalkrushna (1998)**\(^{12}\), in their article “Viability of Rural Banking” published in Economics and Political Weekly gave the framework regarding viability of rural banking and have examined the macro level components of financial structure of rural banking institutions, to see whether non-viability structurally inbuilt.

Their study is based on macro level proportion of assets and liabilities to the overall assets and liabilities of rural financial institutions. They reveal that margin between total cost of liability and total returns on assets of various financial institutions is positive.

The author suggested that rural banking could be viable if:

- They increase the business level and reduce the transaction cost.
- Improve the recovery / NPA management to obtain higher yields from advance and reduce the risk cost.

Based on their analysis the authors argued that there is nothing intrinsically non-viable about rural banking operation and pointed out that excepts for the views expressed in Khusro Committee that, none of the propositions regarding the non-viability of rural banking operation is based on detailed well studied grounds.

**Pawar A.M. (2006)**\(^{13}\) in his study of “Review of Agricultural Credit Provided by DCCB in Pune District”, found that the Pune District Central Co-operative Bank (PDCCB) has adopted Kisan Credit Card (KCC) method for advancing the crop loans to the farmers. The

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\(^{12}\) Satish and Gopalkrushna (1998), article published in Economics and Political Weekly “Viability of Rural Banking”

\(^{13}\) Pawar A.M. (2006), “Review of Agricultural Credit Provided by DCCB in Pune District”
state of Maharashtra has been implementing National Agricultural Insurance Scheme since 1999. PDCC bank has also implemented this scheme for some crops. It was observed that PDCC bank provided maximum amount of short-term credit to agriculture as compared to medium-term and long-term credit. The PDCC bank has also provided other types of loans but proportion of other types of total loan decreased, whereas the proportion of agricultural loans to total loans increased during 1996-97 to 2003-04. Thus it was found that the production and productivity of agriculture as well as income and standard of living of the farmers has increased due to agricultural credit provided by sample branches of PDCC bank to the farmers in Pune district. It was found that overdues of loans were due to drought, irregular electricity supply and natural calamities. The effect of new economic policy on working of PDCC bank is good.

**Munniappan (2002)**\(^{14}\) studied the diseases of NON PERFOMING ASSET into two factors. One is internal factor in respect of portfolio of funds for expansion, modernization and diversification, accept new projects etc. Second is external factor in respect of recession in economy, other countries suffered from non performing assets assessment, input/power shortage, price up and downs uncertain natural calamities etc.

**Banerjee, B. and Dan A.K (2006)**\(^{15}\) analyzed that NON PERFOMING ASSETs are one of the most crucial problem which is faced by bank to require attention for improvement in the management of PSBs are increasing very speedily at present scenario due to following reason. One is government has got to bail out banks with monetary fund provisions sporadically and ultimately taxpayers bear the value. Second is cash borrowed for investment, for not utilized properly, affects the creation of assets and therefore the


\(^{15}\) Banerjee, B. and Dan,A.K (2006) analyzed “NON PERFOMING ASSETs”
growth of economy is vulnerable. The author has urged many strategic measures to manage non-playing assets of Public sector banks.

Pujari, Suhag & Malik (2009)\textsuperscript{16} in their article published in Indian Co-operative Review on “An evaluation of performance of PACS in Karnataka State” reveals that the share of different size groups of land holdings to PACS membership was almost stagnant in relative term. A majority of the borrowers were small cultivators. They suggested that, Govt. should increase share in working capital to advance more credit to rural people to meet their capital requirement. PACS should initiate steps to recover the amount of overdues to increase the efficiency of societies.

Dr. P. Hosmani & Hudagi Jugdish (2011)\textsuperscript{17} found that a slight improvement in the asset quality reflected by downsize in the NON PERFOMING ASSET percentage. NON PERFOMING ASSET is an improvement scale for assessing financial performance of Indian banks. The mounting value of NON PERFOMING ASSETS will adversely affected to financial position in term of liquidity, profitability and economic of scale in operation. Bank has to take timely necessary steps against degradation of good performing assets.

Dr. A Dharmendran (2012)\textsuperscript{18} examine the position & growth of standard assets, substandard assets, loss assets, gross nonperforming assets provision for non performing assets & net non performing assets with the help of percentage analysis method & compound growth rate for all the state Co-operative banks in India.

\textsuperscript{16} Pujari, Suhag & Malik (2009) article published in Indian Co-operative Review on “An evaluation of performance of PACS in Karnataka State”

\textsuperscript{17} Dr. P. Hosmani & Hudagi Jugdish(2011) analyzed “NON PERFOMING ASSETS”

\textsuperscript{18} Dr. A Dharmendran (2012), Report on “NON PERFOMING ASSET”
Anil S. Memane, in his research paper titled “Performance of Primary Agriculture Co-operative Societies during 2000-01 to 2009-10 in India” concluded as under:

1. Agriculture Co-operative Credit societies are working positively. Though there is negative direction found in the establishments in number of societies but the total numbers of members are increased during the ten years of 2000-01 to 2009-10. There is significant thing found that the SC membership are rapidly increased in that decade.

2. Increasing number of members in Primary Agriculture Co-operative credit societies are indicating, that the farmer are getting awareness about the societies motivate and its benefits and so the farmer are like to take a membership in those societies. So the total numbers of members are increased by 8.13 percent to 10.28 percent during 2001-02 to 2009-10 respectively. Though it is not significant growth but it is showing farmers positive attitude about the PACs.

3. Total borrowing, total deposits and working capital also increased. It is indicating the positiveness of primary agriculture societies in view of farmer’s response. Farmer are depositing their money in society and they have a belief in the process of primary agriculture co-operative societies.

4. About the loans issued and outstanding the gap between both accounts are decreasing. That means farmer are repaying the loans to the primary credit co-operative society and these loans are not considering as a non-performing assets in a large frequency.

5. Though the farmer is repaying their loans but the overdue are increasing. That means even farmer are repaying the loans but not in time or not in before the due date. So the over dues are increasing.

6. It is shown that the primary agriculture co-operative societies are rapidly developing. So these societies are getting popularity in the farmer, so even the number of societies is decreasing but the member in societies are increasing.

Overall the performance of primary agriculture co-operative societies has shown not much better but good performance in the scene of progress and development.

Dr. Jaynal Ud-din Ahmed\textsuperscript{20}, in his research paper titled, “Management of Non-performing Assets of Commercial Banks: The Evidence from Indian Banking Sector” has observed as under:

Non performing assets (NPAs) of the Indian banking system are now comparable to several advanced economies and significantly lower than several economies in the Asian region. RBI rates reduction in NPAs as one of the major achievements of the Indian banking sector in recent year .But still the Indian banking sector is facing a serious problem of mounting quantum of NPAs. The commercial banks in India in general suffer a tendency to minimize their NPA figures. There is the practice of ‘ever greening’ of advances through understated techniques. The earning capacity and profitability of banks has been adversely affected by the high level of NPAs. The reduction of NPAs in banks is position the biggest challenges in the Indian economy.

\textsuperscript{20} Dr. Jaynal Ud-din Ahmed, research paper titled, “Management of Non-performing Assets of Commercial Banks: The Evidence from Indian Banking Sector”
There are number of factors responsible for increasing size of NPAs of commercial banks. A few prominent reasons for assets becoming NPAs are mentioned as under:

- Poor credit appraisal system.
- Lack of vision, foresightedness while sanctioning/reviewing or enhancing credit limits.
- Lack of proper monitoring.
- Reckless advances to achieve the budgetary targets.
- Lack of sincere corporate culture
- Inadequate legal provisions on foreclosure and bankruptcy.
- Change in economic policies, environment at the macro level.
- Non transparent accounting policy and poor auditing practices.
- Lack of coordination between banks and their customers.
- Directed schematic lending to certain sectors.
- The failure on the part of the promoters to bring in their portion of equity from their own sources or public issue due to market turning lukewarm.

This researcher has also come across among other reasons the above detailed causes for turning the account into NPAs.

Although this study was related to the Commercial banks now there is very thin difference between the functioning of the commercial banks and the cooperative sector financing through PACS.

Prof. Lengare K. B. (2011)\textsuperscript{21}, in his research paper titled “District Central Cooperative Banks in India: An Assessment” has analyzed the performance of DCC Banks in India for the period 1998-2008. He has observed that District Central Cooperative Banks exist as intermediaries between base level primary credit societies and apex State level Cooperative Banks. Such a three tiers and mixed structure

\textsuperscript{21} Prof. Lengare K. B. (2011), research paper titled “District Central Cooperative Banks in India: An Assessment”
exist in 20 states where in the rest of the country there is two tired structure. DCCBs are expected to function as balancing centre of finance for the primary societies in district by providing them with funds when they have shortages while servicing as a clearing house whenever there is surplus. They are also expected to provide safe place for investing the reserves of primary societies. Apart from the above they are also expected to supervise, guide and control the working of member societies in their respective districts.

The researcher has observed that at the national level DCCBs have weak capital structure and do not comply with the capital adequacy ratio recommended by the RBI. In recent years on the recommendations of the Prof. Vaidyanathan Committee, the states and Central Government have been infusing funds in the DCCBs but still their capital structure remains weak. For improving profitability apart from control over NPAs, strengthening of capital base is a prerequisite.

Due to rising NPAs, the reserves over the years are rising rapidly. As a percentage of total assets, the reserves have increased from 8.9 per cent in 1999 to 12.2 percent in 2008. As a consequence owned funds have increased. However, if we consider huge NPAs these seem to be inadequate.

While concluding the paper the author has observed that they DCCBs have a weak capital base and huge NPAs. Moreover, due to poor recovery these NPAs are being converted from sub-standard assets into doubtful and loss assets. To improve the financial performance of the DCCBs it is essential to improve their recovery performance. In fact, bulk of the NPAs of DCCBs are contributed by the agricultural loans. Unless effective measures to improve conditions of the agricultural sector are initiated, the recovery performance of the DCCBs is not going to improve.
2.4 BOOKS, JOURNALS AND PUBLICATIONS RELATED TO THE STUDY

The research articles provide update information on the topic of research and the researcher has made the use of such information whenever it is necessary to bring his research work in update manner.

S. Vydhianathan (2004-05)\textsuperscript{22}, In his book titled “The cooperative movement” has observed that it is unfortunate that the cooperative movement in India, which is 100 years old, is passing through a difficult phase. Gone are the days when cooperative sugar mills, spinning mills, banks and supermarkets in Tamil Nadu were models to the entire country. Now the majority of the cooperative institutions, especially spinning mills, sugar mills and supermarkets are facing financial crisis. The same situation prevails throughout the country except in a few states.

The advent of globalization and liberalization has forced cooperatives to face multiple challenges of a market-oriented economy. Besides, over a period of years, the movement has become politicized with politicians replacing genuine people interested in the cooperative movement. Now wresting control of cooperative societies has become a political prestige. This, in turn, has led to alleged inclusion of bogus members in a majority of cooperative societies with the connivance of a ‘pliable bureaucrat’ at the time of cooperative elections.

Hence, if the cooperative movement has to sustain, a clean break from the past has to be introduced in the management of cooperative societies, which the author has stressed in this book. This book is largely an outcome of his studies during his tenure as Registrar of Cooperatives and from his personal experience. He has

\textsuperscript{22} S. Vydhianathan (2004-05), “The cooperative movement”
critically examined the present governance structure of the cooperative movement, especially the cooperative credit system.

He has rightly pointed out that in the absence of institutional credit, many poor and marginal farmers in the State would have become victims of private moneylenders. After seeing symptoms of deep-rooted malaise in credit flow to farmers, he initiated a new focus and management initiatives to face the challenges. For this he stresses the need for transparency lest people suspect credit distribution itself.

The author also deals with the history of the cooperatives, problems related to credit and banking, policy and operational aspects related to the functioning of cooperatives, especially with relation to credit in Tamil Nadu, and the public distribution system.

**B. B. Goel (2006)**\(^{23}\), In his book titled, Cooperative Legislation – Trends & Dimensions” the author has brought out historical perspective of the cooperative legislation in India and has covered and traced out the growth of Cooperative law in retrospect (1904 and 1912) Acts, recommendations of Committees and Commissions and other latest developments. He has explained the rationality of traditional legislation, model act, multi-state Cooperative Societies Act. The book has also covered the efficacy and inevitability of subordinate legislation (Byelaws and amendments).

**Dr. Partho Pratim Roy (2007)**\(^{24}\), In his recent book titled as “Management of Urban Co-Operative Bank”. The book has lucidly brought out important aspects of management of Urban Cooperative Banks in India. He has also identified the main challenges that the

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\(^{24}\) Dr. Partho Pratim Roy (2007), book titled as “Management of Urban Co-Operative Bank”.
Urban Cooperative Banks in India are facing. The book has proved to be an asset to understand the present challenges before these banks.

According to him banking has always been the major vehicle for any nation’s economic development. With the liberation economy, a paradigm shift has taken place in Indian banking to help the country’s liberalized economy perform as per global standards. In the process, banking sector—be it commercial, development of co-operative has been witnessing a whirlwind of changes and challenges. These challenges are manifold, multi-faced and multi-dimensional. Urban Co-operative banks (UCB’s) which are functionally more akin to commercial banks than to their co-operative counterparts, have considerably been affected by the super-cyclonic winds of change.

The main challenges for UCBs are, inter-alia,

- To retain and enhance their market share,
- To develop skills and expertise to combat diverse banking operations,
- To professionalize and de-politicize management,
- To profitably manage funds in-flow and out-flow as also recovery of NPAs,
- To retain and develop human resources for qualitative productivity,
- To cope with increased customer-expectations by developing better and newer products and services,
- To recognize, accept and translate latest information and communication.

M. L. Tannan (2007), Banking Law and Practice in India, This is the 27th edition of the book. In fact this book is considered as the Bible of the banking industry. The first edition of the book was published in the year 1926. The subsequent editions have been edited

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by eminent authors (Bankers) and the contents have been updated from time to time. In its chapter I, introductory chapter, the author has extensively dealt with the various aspects of cooperative banks, progress of credit cooperatives, Regional Rural Banks etc.

**D. P. Sarda (2008)**, In his book titled as “Handbook on Lending to Micro, Small and Medium Enterprises – A Practical Guide” has discussed at length the role of micro, small and medium enterprises (MSMEs) in an economy such as ours cannot be over emphasized. In fact, it would not be an exaggeration to say that small and medium industries form the backbone of the country’s economy. Apart from contributing to national income, exports and employment opportunities, MSME sector has certain advantages, better utilization of local resources, low capital requirement, high employment generation, ability to cater to the local consumption needs and widening of entrepreneurial base. However, as is the case with all industries, providing timely and sufficient financial assistance at a reasonable rate of interest is of paramount importance.

Government has included financing to MSMEs as part of the mandatory priority sector finance. Banks and financial institutions are required not only to extend financial assistance to this sector at a lower rate of interest but also to convey their decision on finance proposals to the small and medium scale entrepreneurs within the shortest possible time. This, however, calls for having specially trained staff in the banks and financial institutions. Training, thus, assumes vital importance as the lending norms and other stipulations are revised frequently, keeping in view the prevailing economic conditions.

It is in this context that the book assumes great significance. As indicated by the title, the book is a practical guide, providing valuable

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information regarding term loans and working capital loans to the MSME sector. The author has meticulously analyzed different aspects of the subject. Covering technical, commercial, financial and management appraisals the author has devoted an exclusive chapter on the actual disbursement, supervision and follow-up of advances.

With his long experience in the banking field, the author has taken pains to provide valuable insights into many areas of lending not usually touched upon by many writers. For instance, he has even covered related subjects such as income recognition, asset classification and provisioning norms and thereby provided value addition to the publication. Besides the book has some useful chapters on credit rating for risk management and special features for financing the MSME sector, which highlight among others, its limitation.

Going through the various chapters, one is impressed by the author’s simple but effective language whereby he succinctly conveys in no uncertain terms certain principles of sound and safe lending. At the same time, he is candid enough to admit that despite the best efforts of the financial institutions, some accounts could become NPAs and subsequently even bad. This does not mean that bankers should adopt a casual attitude about the defaulting account or lose heart but actually strive hard to ensure that such things are not repeated.

In this connection, one is tempted to follow his advice regarding management appraisal. According to him, this is of vital importance as the person or entrepreneur behind the project is what matters most from preventing even a sound project turning into an NPA account. He further adds that a second rate project run by a sound management team is better than a first rate project in the hands of a second rate management. The experience of sick industrial units indicates that
many of them have become sick owing to inefficient and dishonest management.

R. K. Uppal, (2008)27, “Changing Scenario of Indian Banking”. In this book the author has compiled various articles and research papers which have bearing on the title of the book. In this book there is one article titled “Banking Sector Reforms: Policy, Issues and Fresh outlook”. In this article the author has studied five manor bank groups on the basis of the ownership and has studied the impacting of the reforms on these banks. While summarizing his findings, so far as Non Performing assets he has observed that the problem is a matter of serious concern. It is a very serious problem for public sector banks. The report of the RBI on NPAs says that reducing NPAs should be treated as a “national priority”. The average rate of NPAs is very high i.e. 6.03 percent in old private sector banks whereas public sector banks are in succession with 5.29 percent and 4.62 percent in public sector banks and SBI group respectively.

Internal factors such as business failure, inefficient management strained labour relations, inappropriate technology and product obsolescence have also contributed to the rise in NPAs whereas external factors like raw material shortage, price escalation, power shortage, industrial recession, excess capacities and the natural calamities like foods, accidents which leads waiving heavy loans contributed to the rise in NPAs on the books of banks.

In the present research the researcher has also observed that for the NPAs, both internal and external causes are responsible.

Dutta and Basak (2008)28, The authors have suggested that Co-operative banks should improve their recovery performance, adopt

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28 Dutta and Basak (2008),
new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment.

**R. Mayilasamy and Revathi Bala** (2009), It has been observed that total Non-Performing Assets (NPAs) of DCCBs were Rs.5,223.85 crores in 1996-97. This has increased to Rs.15,712.46 crores in the year 2006-07. They suggested some strategies to be adopted by the DCCBs to tackle the problem of NPAs. There is need for strengthening pre-sanction appraisal and post sanction supervision. DCCBs should set up independent recovery cell as well as recovery camps should be organized frequently in rural areas. Incentives can be given to honest borrowers. All DCCBs should be computerized for monitoring loan accounts more effectively and efficiently. DCCBs should approach Lok Adalats for settlement of their claims against borrowers under chronic NPAs. Government should not announce any waiver schemes and loans melas. DCCBs should take some measures to gain personal touch with the customers through effective customer relationship management.

**Dr. G. Vijayaragavan, (2009)**, In his book titled, “Bank Credit Management – Texts & Cases” the author has elaborately discussed all aspects of management of bank credit and has also incorporated various latest statistics. He has covered latest banking developments. The fourth unit of the book covers non-performing assets, its genesis, concept, definitions, RBI directive on the subject, causes and effects of NPAs on the bank, and what preventive steps can be taken to contain the NPAs in banking industry.

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29 R. Mayilasamy and Revathi Bala (2009)
Amit Basak (July 2010)\textsuperscript{31}, In his book entitled, “Cooperative Banks in India – Functioning & Reforms” has dealt in with greater details the functioning of the cooperative banks. Co-operative banks are an integral part of the Indian financial system. They comprise urban co-operative banks and rural co-operative credit institutions. Co-operative banks in India are more than 100 years old. Urban Co-operative Banks (UCBs), also referred to as primary cooperative banks play an important role in meeting the growing credit needs of urban and semi-urban areas of the country. UCBs mobilize savings from the middle and lower income groups and purvey credit to small borrowers, including weaker sections of the society. Scheduled UCBs are under closer regulatory and supervisory framework of the RBI. Rural co-operative banks operate mainly for the benefit of rural areas, particularly the agricultural sector.

Though much smaller as compared to scheduled commercial banks, co-operative banks constitute an important segment of the Indian banking system. They have an extensive branch network and reach out to people in remote areas. They have traditionally played an important role in creating banking habits among the lower and middle-income groups and in strengthening the rural credit delivery system.

This book focusing on UCBs provides a vivid account of the functioning of co-operative credit institutions in India including recent reforms. Besides, it includes a case study of the working of UCBs in the Indian state of West Bengal.

Manas Chakrabarti (2011)\textsuperscript{32}, In his book titled, “Rural Banking in India”, he has stated that the renewed emphasis on agricultural and rural development by the Government of India would lead to a

\textsuperscript{31} Amit Basak (July 2010), book entitled, “Cooperative Banks in India – Functioning & Reforms”

\textsuperscript{32} Manas Chakrabarti (2011), book titled, “Rural Banking in India”
growing demand for different types of financial services in the rural areas. The present structure of rural credit may not be able to cater to the same.

So far as the topic related to the present research he has discussed the concept of Non Performing assets, identification of NPAs, impact of non-performing assets, recovery performance in greater detail. He has observed that the introduction of prudential norms had been one of the defining moments in the reforms process of the Indian banking industry. The prudential norms which were introduced in 1992-93 for commercial banks, were also pertinent with the exception of capital adequacy and provisioning to RRBs with effect from 1995-96 in a phased manner from 1996-97. The norms were introduced not only to ensure transparency in financial position but also to facilitate the banks to manage their assets more efficiently. Again, these norms served as yardstick to judge the performance of the banks interest and provide a uniform level playing field for all the banks. He has observed NPAs are those loans given by a bank or banking institution where the borrowers default or delay in repayment of interest or principal money. An asset which ceases to generate for the bank is called NPAs.

He has aptly quoted from Narsimham Committee II 1998, that “NPA constitute a real economic cost to the nation in that they reflect the application of scarce capital and credit funds to unproductive uses. The money locked up in NPAs are not available for productive use and to the extent that the banks seek to make provisions for NPAs or written them off, it is a charge on their profits. NPAs, in short, are not just a problem for banks; they are bad for the economy”.

Rais Ahmad (2012)\textsuperscript{33}, in his book titled Agriculture Rural Banking and Micro Finance in India, contains 12 well researched

\textsuperscript{33} Rais Ahmad (2012), book titled “Agriculture Rural Banking and Micro Finance in India”
papers, authored by experts in the field of agriculture finance, which provide in-depth analysis of current state of agricultural /rural finance in India, emergence of micro finance, financial inclusion efforts and related matters. It contains a paper on Agriculture Finance in India by A. N. Tamragundi and S. G. Hundekar it brings out importance of agriculture in the following points of information:

- It is a source of food supply and fodder for animals.
- It supplies various kinds of raw materials to industries.
- It earns valuable export foreign exchange through export of agriculture products.
- It constitutes predominate share in National Income.
- It improves the rural welfare.
- It gives employment to a large number of people.
- It creates demand for industrial produces and constitutes expansion of secondary and tertiary sectors.

He has summarized factors responsible for low productivity of agriculture as follows:

- Agriculture practices are controlled by customs and tradition.
- Old and obsolete techniques of production.
- Lack of improved seeds, fertilizer, pesticides.
- Poorly maintained irrigation facilities.
- Poor infrastructure, marketing facilities are inadequate.
- Fragmentation of land holdings.
- Increasing cost of agriculture because of over regulation, price risks and uncertainty.
- Government intervention in labour, land and credit markets.
- Ignorance and illiteracy of agriculturalists

The author has brought out problems of agriculture finance in nut shell as under:

- **Limited coverage of agriculture credit** : Complicated procedures are to be made to avail loans. Majority of the
farmers are illiterate and are unable to furnish required information to avail credit facilities.

- **Wastage of time and manpower:** All financial institutions situated in cities. Farmers have to visit the bank office for a number of times to fulfill many formalities to sanctioning of loans. This leads to wastage of time.

- **Lack of co-ordination:** in respect of credit planning, the lack of co-operation exists between co-operatives and commercial banks. So paucity of funds has been greatly responsible for low production of agriculture, thus poverty of cultivators.

- **Mis-utilization of loans:** The gap between disbursement and requirement in the farm sector should be mis-utilized by farmers for unproductive purposes in rural areas of the country.

- **Inefficient administration:** Administrative person keen for their personal benefits and do not work for the betterment of the farming community.

- **Regional Imbalance:** The states of Gujarat, Andhra Pradesh, Punjab, Tamil Nadu and Maharashtra avail 52 percent of total agriculture credit and get rapid growth in crop productivity. Other states lack the credit facilities leads to low productivity.

To conclude he has observed that as the agriculture is the backbone of the Indian economy, agriculture credit is a nucleus of the system of farm operation; The RBI formulates guidelines to lending institutions regarding financing of priority sector, targets / sub targets. Agricultural credit through institutional channel is the only way to break agriculture stagnating. Even though some problems are associated with agriculture finance, the adequate and timely credit to the cultivators is vital and indispensable for the rehabilitation and progress of agriculturists.
• **Babita Agrawal (2012)**, In her book titled, “Co-operatives in India, History, Problems and Reforms” she has provided a comprehensive account of the historical evolution of co-operatives in India, their problems, policy measures to strengthen them and their role in the changed scenario in the context of liberalization, privatization and globalization.

While discussing the measures to strengthen cooperatives she has rightly observed the need for improvement of personnel. Many of the managerial and supervisory functions call for specialized knowledge and technical skill. The co-operatives ought to recruit qualified men and get the existing adequately trained. Cooperatives are often criticized for being dominated by vested interests. The solutions sought so far have in the nature of limiting the number of terms of office etc.

She has stated that that it is clear that cooperatives have a significant role to play in the future settings of the Indian economy. It is only the presence of a strong and wide network of cooperatives that can make the process of globalization less painful and global integration smooth.

### 2.5 REPORTS OF THE IMPORTANT COMMITTEES OR WORKING GROUPS OR COMMISSIONS

The reports of different committees and commissions on the topic of research are also useful to make this in-depth study. The recommendations of such committees/commissions are being implemented at various levels by the state and central governments. While analyzing the problem of research these recommendations and suggestions are very useful to the researcher.

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Agricultural Credit Review Committee (1989)\textsuperscript{35}, the Committee under the chairmanship of Prof. A.M. Khusro was to examine the problems of agricultural and rural credit, take stock of structural and operational deficiencies, constraints, quantitative and qualitative gaps and recommend major systemic improvements.

**Recommendations**

The Committee recommended:

- Prompt elections
- Changes in Cooperative Law against protracted supersession
- Completion of reorganization of primary societies based on viability norms, wherever the exercise has not been done
- A programme of development for all such PACS which have not reached the loaning business of Rs 10 lakhs to be taken up for increasing its loan business, enlarging its package of profitable non-credit activities, augmentation of resources (deposits) and reduction in overdues
- Improvement in quality of staff and accountability
- Staff to be selected by societies
- Incentive system
- National Cooperative Bank of India

The Committee has suggested that the Eighth Plan should, in fact, become the plan for revival of the weak primary agricultural credit societies.

**Report of the Task Force (2000)\textsuperscript{36}** - To study the co-operative credit system and suggest measures for its strengthening a committee was appointed under the Chairmanship of Jagdish Capoor, Dy.

\textsuperscript{35} Agricultural Credit Review Committee (1989), under the chairmanship of Prof. A.M.Khusro


**The Committee made following important recommendations**

The co-operative banks should work like professional organizations. DCCBs with good deposit base should have their own staff. It is necessary to evolve a sound personnel policy and appropriate training modules for the staff in different categories on a continuing basis.

DCCBs should diversify their business products, as there is imperative need for devising attractive banking products for mobilizing savings in their area of operations.

If necessary by voluntary amalgamation / merger based on economies of scale, particularly in areas where DCCBs are unviable and are not in a position to ensure uninterrupted credit flow to agriculture. The higher tier in the system has to decide about the need for amalgamation / merger. Where PACS are wound up, the neighboring PACS may finance individuals or in exceptional cases if this is not happening, branches of DCCBs may directly finance individuals.

The PACS maintains statutory reserves created out of profit which are required to be kept as deposits with DCCBs. Considering the poor resource base of PACS, task force is of the opinion that there should be no compulsion that reserves should be invested as deposits with DCCBs.

There is a need to evolve compromise settlement procedure for closing of long pending overdue loans. For this, committee may be constituted at the district level and base level unit may be invited at the DCCB level for taking decisions on write-off.
The audit responsibility of DCCBs should be entrusted to Chartered Accountants.

Reserve Bank should give the Scheduled Bank status to DCCBs so as to enable them to accept deposits from government departments and other statutory bodies.

It is recommended that apex co-operative banks and DCCBs may be asked to disclose certain critical information in their balance sheets like the movement of Non Performing Assets (NPAs), provisions, return on assets, business per employee, profit per employee etc. These disclosures suitably adapted, need to be captured in the audit reports of co-operative banks.

The share of central and state governments may be in the form of bonds issued in favour of the DCCBs bearing a reasonable rate of interest. The bond received by a DCCB would have to be notionally allocated to the targeted PACS in accordance with their respective shares as determined under rehabilitation package.

**Shri S. S. Kohli Committee (2001):** Working Group on Willful Defaulter 37 - While we deal with causes of turning an account into NPA many times certain terminologies are used by the banks quite often e.g. Willful Default, Diversion of Funds, Siphoning of funds, end use of funds etc. Hence, in order to have uniformity in understanding these in right perspective the recommendations of the working group constituted under the chairmanship of Shri S. S. Kohli are useful. On the basis of the recommendations of the working group of Willful defaulters the Reserve Bank has advised the banks and notified financial institutions as under:

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37 RBI/2012-13/43DBOD No. CID.BC. 10/20.16.003/2012-13July 2, 2012

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

- A unit has defaulted in meeting its payment/repayment obligations to the lender even when it has the capacity to honour the obligations.
- A unit has defaulted in meeting its payment/repayment obligations to the lender and has not utilized the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
- A unit has defaulted in meeting its payment/repayment obligations to the lender and has siphoned off the funds. When the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
- Diversion of Funds: Diversion of funds should be construed to include any one of the under noted occurrences:
  - Utilization of short-term working capital funds for long-term purposes not conformity with the terms of sanction.
  - Deploying borrowed funds for purposes/activities or creation of assets other than those for which the loan was sanctioned.
  - Transferring funds to subsidiaries / group companies or other corporates by whatever modalities.
  - Routing of funds through any bank other than the lender bank or members of consortium without prior permission of the lender.
  - Investment in other companies’ byway of acquiring equities/debt instruments without approval of lenders.
  - Shortfall in deployment of funds vis-à-vis the amounts disbursed/drawn and the difference not being accounted for.
  - Siphoning of funds: It should be construed to have occurred if funds borrowed from banks/FIs are utilized for purposes unrelated to the operations of the borrower, to the detriment of the financial health of the entity or of the lender. The decision
as to whether a particular instance amounts to siphoning of funds would have to be a judgment of the lenders based on objective facts and circumstances of the case.

End-use of Funds: In cases of project financing, banks /FIs, inter alia, obtain certification from chartered accountants to ensure end use of funds. In case of short term corporate /clean loans, lenders should observe due diligence and to the extent possible, such loans should be limited to only those borrowers whose integrity and reliability above board. Banks and FIs, therefore, should not depend entirely on the certificates issued by Chartered Accountants but strengthen their internal controls and credit risk management system to enhance the quality of their loan portfolio. Ensuring end-use of funds by banks and FIs should form a part of their loan policy document for which appropriate measures should be put in place.

2.6 LECTURES

Mrs. Thorat\textsuperscript{38} – Dy. Governor, RBI, has very aptly referred to some of the vital aspects of corporate governance. She has in detail talked about the role and duties of the directors of these banks. There must be transparency, compliance, public accountability, individual governance in order to perform the collective duties. The banks should have integrity, competence, commitment and competence.

Shri Vepa Kamesam\textsuperscript{39} at Intensive Management Development Programme, IIRM, Mumbai on June 16, 2004 at Institute for Development and Research in Banking Technology delivered a speech on the topic Vision with Action for Managers.

\textsuperscript{38} Mrs. Thorat – Dy. Governor, RBI, Lecture
\textsuperscript{39} Shri Vepa Kamesam at Intensive Management Development Programme, IIRM, Mumbai on June 16, 2004
In his speech he referred to Mr. Brook Montagna, a Life Coach in USA, states that there are 10 steps to set and achieve meaningful goals. The Steps to Success can be used over and over, whenever it's time to chart your course again. The researcher fully agrees with his evaluation of steps to success viz. The ten steps are given hereunder in brief:

**a) Release**

It is important to release negative energy caught up in past events. Say goodbye to past mistakes, frustrations, or disappointments and keep your focus on now. In order to reach new goals, you will need all the positive energy you can muster!

**b) Create a Vision**

A vision for your life is like a magnet pulling you forward. A clear and meaningful vision is essential to staying motivated and focused. This is your dream, purpose, and mission you know you want to live. It is important to be able to see it, feel it, taste it and know it is possible for you. Write it, draw it, collage it, sing it, whatever keeps it alive!

**c) Prioritize**

From your vision, decide what aspects are most important. For example: If your vision includes several new business projects, create a priority list starting with the project that you are most passionate about.

**d) Set Definite Goals**

Achievable goals are reasonable and specific. They are written down, and specify what, when, and how. Create deadlines, detailed steps, visible reminders, daily reviews, and consistent action. This takes time, but it's critical to getting the results you want. Remember the carpenter's rule for increasing effectiveness, "Measure twice. Cut once".
e) Commit

What does commitment to your goals mean to you? Do you think of drudgery, or excitement? Success over the long term stems from a commitment that is grounded in excitement. Read your vision every day to keep the excitement fresh.

f) Create a Foundation for Success

Increase your chances for success by including a plan for each of the following:

- **Mind Management** - Take charge of your thinking. Negative thinking is like an anchor when you are trying to move forward into new territory. Write out positive, confident beliefs and thoughts that you will entertain for your success, and read them frequently.

- **Time Management** - Schedule your time for effectiveness, and be accountable to the actions you have planned. Use a calendar! Don’t over commit, and curb your time wasters.

- **Emotion Management** - What helps you get back on track when you experience disappointment, discouragement, or doubt? Set up a support system of friends, peers, service providers, and a good self care program so that you bounce back quickly. Be sure to include fun and humor as part of the process in reaching your goals.

- **Environment management** - How will you handle all the distractions? The phone calls, e-mail, noise, too many ideas in your own mind? It pays to address each potential distraction with concrete action. For example, if you find that responding to e-mail is a time thief and reduces your productivity, select a reasonable amount of time to respond to e-mail, schedule it, and stick to it!

- **Gremlin management** - Gremlins are everything else within your own make up, the patterns and behaviors that get in the way of your success. Procrastination is one of the most familiar to all of
us. With mindfulness and conscious attention to your thinking and actions, you can change old habits. If you need help making a change, try coaching. Don’t let anything stop you!

**g) Take action**

Each goal can be broken down into small steps. Think about each long term goal and "rewind the tape" in your mind. How did you get there? What did you need to learn along the way? What steps did you take? Write down the steps, put them on your calendar in such a way that each task can reasonably be accomplished.

**h) Evaluate**

This is very important! Schedule a review session each week where you look at your results so that you may: * Learn from mistakes * Celebrate successes (no matter how small) * Revise plans if needed

**i) Confidence**

Who or what will you call on to remind you of your greatness and your ability to reach your goals? Support Group? Inspirational Books? Friends? Peers? Life Coach? Be prepared to use these resources.

### 2.7 NEWS PAPER ARTICLES / INTERVIEWS

**D.N.A. Pune** dated 11th January 2014, Mr. Ritesh Mehta of Zee Business, the Economist interviewed K. C. Chakrabarty, Deputy Governor, Reserve Bank of India on various current issues relating to banking. Following are few points relating to Non Performing Assets which deserves mention over here:

NPAs are not a cause for concern, but they are certainly a challenge. NPAs, when combined with restructuring, are a problem.

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40 D.N.A. Pune News Paper dated 11th January 2014
Banks have handled such high NPAs earlier also. The speed of increase in NPAs is a cause for concern. If the NPA situation is not tackled, it can go out of hand.

The way banks are doing restructuring is not proper. Restructuring is a legitimate instrument. Banks should not do restructuring to hide NPAs. Restructuring should happen across the board in all categories. The restructuring process does need modification. Banks should classify all restructured accounts as NPAs. All NPA accounts should also be considered for restructuring. If all things are done properly then banks will be fair in doing restructuring. One common complaint is that banks largely give preference to big customers whereas small customers are neglected.

He has further observed that there is a trend of giving differential treatment to the underprivileged in Indian society. RBI is trying to incentivize banks to give same preference to all customers. Business can only grow when small customers are kept alive. Banks in their own interest should focus on small borrowers. Commerce for the poor is more viable than commerce for the rich.

On write-off loans he observed that banks are always blamed for higher NPAs. Corporates not repaying loans should also be blamed for NPAs. Giving loan in a risk business and at times it goes wrong. Banks have to cover the risk while giving loans. Write-off is not a wrong method. Write-off can be done only after the proper recover process.

If promoters don’t pay, banks don’t have any option other than write-off. Technical write off should be totally stopped. There should be some yardstick for banks to do write-off.
Here this researcher has to state that the position in regard to restructuring and write offs is not different in cooperative banks, they are also following the suit of the public sector banks and hence it is a cause for concern.

**Sakal Pune, Sunday** the 9\(^{th}\) March 2014 Weekly supplement, article by Shri Mukund Lele titled, “Overdue loans – Whose burden on whose shoulders?” In this article Mr. Lele has taken a review of few broad events that have taken place in respect of banking industry in India. The thrust of the article on the rising Non Performing Assets in banking industry particularly the banks in Public Sector Banks. The author has given the details of NPAs of public sector banks in the following table:

<table>
<thead>
<tr>
<th>Financial Year Ending</th>
<th>Overdue loans Rs. in crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.03.2008</td>
<td>39,030</td>
</tr>
<tr>
<td>31.03.2009</td>
<td>44,954</td>
</tr>
<tr>
<td>31.03.2010</td>
<td>59,927</td>
</tr>
<tr>
<td>31.03.2011</td>
<td>74,664</td>
</tr>
<tr>
<td>31.03.2012</td>
<td>1,17,000</td>
</tr>
<tr>
<td>31.03.2013</td>
<td>1,64,461</td>
</tr>
</tbody>
</table>

*Source:* www.rbi.org.in

The author has further reported that in respect of the United Bank of India with headquarter at Kolkata there is 188\% rise over the 31\(^{st}\) March 2013 figure till 31\(^{st}\) December 2013. He has observed that nobody seems to go to the root cause of the NPAs. The government has failed to address this issue with due seriousness. Recently the Reserve Bank of India has published figure of NPAs at Rs. 1,82,829 crores and this figure has now reached to over 2.50 lakh crores. The RBI has pointed out only in respect of 30 large size borrowers the overdue amount is exceeding 63,671 crores. The author has observed that this high percentage of overdue in large accounts is due to the policy of Corporate Debt Restructuring followed by the Indian banks.

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This he stated was a deliberate attempt to face lift the financial statements. After bringing out the current serious situation the author has suggested the following measures:

1) On the lines of water theft, electricity theft and theft of plots where police action under Indian Penal Code is taken on the same lines there should be penal action against the willful defaulters and it should be a cognizable offence and the defaulter borrowers be sent to jail as they are the economic offenders. For this purpose requisite amendment may be made to the Indian Penal Code.

2) Unless and until those borrowers who do not repay the loans fully they should be prohibited from contesting any election and for that necessary amendment be made in the concerned acts.

3) Under the pretext of secrecy banks are not publishing the names of these defaulters. This information is also not available under Right to Information Act. (RTI) Keeping in view that the money lend is public money the banking transactions should also be brought under R.T.I. Act.

**DNA Pune City Edition**

3rdMarch 2014, news titled, “RBI may put cap on NPAs at 5% of advances”. PSU banks with over 5% bad loans may have to sell their loans to asset restructuring companies (ARCs) in future. The Reserve Bank of India (RBI) and the ministry of finance are considering the option of putting cap at the maximum amount of bad loans that a bank can have on its books.

The finance ministry as well as the central bank is appalled at the rising level of bad debts of the Public Sector Banks. According to the latest figures the 26 PSU banks of the country have close to 5% on NPAs on their book. If the amount of restructured loan is also taken

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42 DNA Pune City Edition, News Paper 13thMarch 2014, news titled, “RBI may put cap on NPAs at 5% of advances”
into account, then the figure touches 10%. According to Finance Ministry the banks have been asked to focus on recovery of their loans in the next two quarters. However to avoid such a situation in future Finance Ministry have to have strict rules. Any bank with above 5% of NPAs is the danger zone.

In the same paper of the same date one more news relating to NPAs is titled as “Fear of losing money behind bulging NPAs”. Mr. OP Thomas correspondent states that it is the fear of losing more money rather than putting a stop to losses that have made banks hold on to non performing assets.

Especially for public sector banks, it’s largely political interference that has led to ‘willful’ NPAs and any government owned banks have been facing the backlash for this, the recent case being the United Bank of India saddled with Rs.1,238. crore loss as of December quarter. The bas been stuck with ad debts of Rs.8,546 crore, or 10.82% of its net advances.

The news further states that it is the mismanagement and abuse of political clout that appears to have invited the wrath of RBI to now think of a cap of NPAs banks can have on their books at any given time.

This researcher is of the view that the case of cooperative sector banking is no different than the public sector banks. In the primary cooperative credit societies which are studied by this researcher the same amount of seriousness is there. Considering the size of the PACs the total NPAs amount may not be that huge as that of the PSUs. But the seriousness is more in PACs as there is a systemic reason that adds to the problem. There is no machinery in place to verify the end use of the funds borrowed by the agriculturists, no proper recovery
mechanism and the position continues till the dues reach to the tune of value of the asset is charged to the bank.

Further the researcher has observed that up till now whatever decisions the Reserve Bank of India has taken in the past in respect of the PSUs or Commercial Banks those are also made applicable in respect of Cooperative Banking sector and in turn to the PACs. This is how the concept of NPAs has been introduced in PACs.

**Daily Loksatta**\(^{43}\) (Pune Edition) dated 31\(^{st}\) May 2014, in this paper while covering a news about United Bank of India which states that the bank has given a notice to the King Fisher Airline loan account in consortium with several banks with State Bank of India as a leader of the consortium. The bank has alleged that the borrower is a willful defaulter in the true sense of the definition of Willful Defaulter given by the Reserve Bank of India. The definition of willful defaulter given by RBI is as under:

**Definition of willful default**\(^{44}\)

The term "willful default" has been redefined in supersession of the earlier definition as under:

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

(a) The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.

(b) The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilized the finance from the lender for the specific purposes for

\(^{43}\) Daily Loksatta (Pune Edition) dated 31\(^{st}\) May 2014
\(^{44}\) RBI/2013-14/63 DBOD No. CID.BC. 3 /20.16.003/2013-14 July 1, 2013
which finance was availed of but has diverted the funds for other purposes.

(c) The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.

(d) The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given by him or it for the purpose of securing a term loan without the knowledge of the bank/lender.

Reserve Bank of India has also spelt out the penal measures about the willful defaulter borrower’s accounts.\textsuperscript{45}

In order to prevent the access to the capital markets by the willful defaulters, a copy of the list of willful defaulters (non-suit filed accounts) and list of willful defaulters (suit filed accounts) are forwarded to SEBI by RBI and Credit Information Bureau (India) Ltd. (CIBIL) respectively.

The following measures should be initiated by the banks and FIs against the willful defaulters identified as per the definition indicated at paragraph 2.1 above:

a) No additional facilities should be granted by any bank / FI to the listed willful defaulters. In addition, the entrepreneurs / promoters of companies where banks / FIs have identified siphoning / diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions should be debarred from

\textsuperscript{45} ibid
institutional finance from the scheduled commercial banks, Development Financial Institutions, Government owned NBFCs, investment institutions etc. for floating new ventures for a period of 5 years from the date the name of the willful defaulter is published in the list of willful defaulters by the RBI.

b) The legal process, wherever warranted, against the borrowers / guarantors and foreclosure of recovery of dues should be initiated expeditiously. The lenders may initiate criminal proceedings against willful defaulters, wherever necessary.

c) Wherever possible, the banks and FIs should adopt a proactive approach for a change of management of the willfully defaulting borrower unit.

d) A covenant in the loan agreements, with the companies in which the banks / notified FIs have significant stake, should be incorporated by the banks / FIs to the effect that the borrowing company should not induct a person who is a promoter or director on the Board of a company which has been identified as a wilful defaulter as per the definition at paragraph 2.1 above and that in case, such a person is found to be on the Board of the borrower company, it would take expeditious and effective steps for removal of the person from its Board.

It would be imperative on the part of the banks and FIs to put in place a transparent mechanism for the entire process so that the penal provisions are not misused and the scope of such discretionary powers are kept to the barest minimum. It should also be ensured that a solitary or isolated instance is not made the basis for imposing the penal action.
Daily Loksatta\textsuperscript{46} 30\textsuperscript{th} July 2014: Reserve Bank of India’s strategic move against Willful Defaulters: Reserve Bank of India has drawn out a strategy aiming at all the roads for raising funds by willful defaulters need to be blocked. For defaulting corporate borrowers there should be no access to capital market and that Security and Exchange Board of India (SEBI) should also associate in blocking the access to the capital market for such defaulting borrowers.

In the same paper there is a news item that the bank should strengthen their internal loan assessment system. For flouting the RBI guidelines the Reserve Bank of India has taken a stern view and imposed monetary fine for the defaulting banks. (E.g. 12 banks have been fined totally to the tune of Rs.1.5 crore for non-observance of its guidelines for the defaulter borrower Deccan Chronicles).

Loksatta\textsuperscript{47} 31\textsuperscript{st} July 2014: Package for District Central Banks and Primary Agricultural Cooperative Societies: On the face of the ensuing general election the Govt. has offered assistance of Rs.231 crores. Under the guise of strengthening the DCC Banks and the PACS the government of Maharashtra has taken a decision to assist the DCC Bank Rs.136 crores and for PACS Rs.95 crores. There are 31 DCC Banks and at village level there are 21,382 Primary Agricultural Cooperative Credit Societies which are providing crop loans to the agriculturists. Nearly 60 to 70\% of the agriculturists receive credit supply through these PACS. Until 2005-06 the DCC Banks from out of interest received on these loans were effecting salary payment of the staff at the PACS. However, after 2006-07 when these banks are lending crop loans to agriculturists at a low rate of 6\% these banks were finding it difficult to meet this liability. So also

\textsuperscript{46} Daily Loksatta: 30\textsuperscript{th} July 2014: Reserve Bank of India’s strategic move against Willful Defaulters

\textsuperscript{47} Loksatta 31\textsuperscript{st} July 2014: Package for District Central Banks and Primary Agricultural Cooperative Societies
frequently granted loan waivers have also adversely affected the economics of these banks. Now all the DCC banks will receive interest subsidy at 2.5% for which a provision of Rs.136 crores has been made and in respect of PACS depending upon their size based on their distribution of agricultural credit these PACS will get interest subsidy from 0.5% to 1.5%.

Mr. Deepak Narang, (2015), Executive Director, United Bank of India, in his article in the Financial Express dated the 28\textsuperscript{th} February 2015, titled, “Make willful default a serious crime – Banks need more teeth – possibly through a new law – to curb deliberate diversion of money and willful default. The commotion about NPAs of the public sector banks has made all concerned to sit up and think of ways to address the problem in all seriousness. He further observed that the inevitability of direct and active support of the government in dealing with willful default is discernible if you look at how gross NPAs of most of public sector banks have trended upwards in Quarter 3 of F.Y. 2015 as well. Bankers have suggested that diversion of funds and willful default be made a cognizable offence. The Sarfasesi Act, of 2002 must be amended so that loopholes are plugged and the delay is curtailed significantly. Another special law is required, with a gamut of regulations, rules and procedures, prescriptions to deal with willful defaulters. Even the presiding officers of Debt Recovery Tribunal strongly recommend such a law. Mr. Narang has also cited few cases in support of his observation.

While pointing out the gravity of the issue he observed that the NPAs of public sector banks roughly total Rs.2.24 lakh crore, and if we safely assume that 60% is because of willful default and diversion of funds, then the loss to the exchequer is of rs.1.34 lakh crores approximately. Parliament was informed that PSBs had written off

\textsuperscript{48} Financial Express dated the 28\textsuperscript{th} February 2015, titled, “Make willful default a serious crime – Banks need more teeth – possibly through a new law – to curb deliberate diversion of money and willful default.
Rs. 1.06 lakh crore in the last 5 years. This clearly is a loss to the exchequer as recovery is not more than 10% while the annual addition to this category is even higher. Recovery through tough measures suggested, or evens a new law, can provide at least 0% of the capital required by Public Sector Banks under the Basel III norms.

Although what Mr. Narang has observed about the willful defaulters and diversion of funds, the researcher is of the considered view that it is equally valid so far as this category of borrowers from agriculture sector. In fact the large volume of NPAs in agriculture sector comes from these two categories of borrowers and hence it is essential some stern laws need to be framed to curb this tendency.

**Loksatta**[^56] (Pune) 17th June 2015, news titled, “Half of the Primary agriculture credit societies are heading to liquidation”. During the past 5 years the number of PACS showing losses has increased by 540”. Mohan Takalkar, Amaravati.

The PACS are the important institutions providing short term agriculture credit are now heading to liquidation. Currently there are 21,238 PACS of which 11,435 PACS i.e. 53% societies are showing losses and thereby these institutions have become handicapped.

PACS are performing a vital role in providing primary agriculture credit in the form of short term loan in the primary agricultural operations. However, during the last two decades the heavy percentage of overdue, thereby insufficient funds for lending, and the irregular availability of the funds for lending has resulted in weakening the PACS. According to the sources from the Cooperative Commissioner’s office, at present there are 21,185 PACS are functioning wherein the working capital of about Rs.16,887 crores is

[^56]: Loksatta (Pune) 17th June 2015, news titled, “Half of the Primary agriculture credit societies are heading to liquidation”
there and there are total 35.01 lakh members, of which 28 lakh are small farmers and the remaining are marginal farmers. For various reasons totally 11,279 PACS are in losses and the percentage of these societies to the total PACS works out to 53.2 per cent. Therefore, the agriculturists have to approach the Sahukaras. PACS borrow from DCC Banks at 4 per cent and lend to their members at 6 per cent. However, on this margin of 2%, it is difficult to run the PACS throughout the year. During the last year the State Govt. has provided financial assistance to those PACS who have provided agriculture loan on the basis of their loans provided, but this has not been enough to arrest the sinking position of these PACS.

This researcher is of the view the Govt. should take a serious view of this situation and initiate steps to improve the position on war footing failing which the situation is likely to go out of control. There should be altogether a new approach to the agriculture loan distribution which should address timely, adequate amount of loan to the agriculturists and strict post disbursement supervision and ensuring reasonable prices of the agricultural commodities which will enable the agriculturists to repay the loan and earn reasonable profit for sustenance. This will ensure recycling of funds which are scarce. Instead of providing frequent financial support due to various natural calamities and writing of the bad debts of these PACS at periodical interval it will be a right approach to implement the above stated policy and ensuring close supervision of the funds usage. The entire rural credit delivery system needs to be overhauled.

### 2.8 WEBSITES

**N. Ramu**, Dimensions of Non-performing Assets in Urban Cooperative Banks in Tamil Nadu\(^5\)\(^0\).

\(^5\)\(^0\) http://gbr.sagepub.com
The Urban Cooperative Banking (UCB) system has come a long way since 1904 when the first UCB was started at Kancheepuram in Tamil Nadu. UCBs remain not-for-profit, owned and controlled by the members who use their services. They are unit banks of the American model rather than branch banks of the British model. With the tightening of prudential norms, the banking sector has been consistently conforming to and adopting international prudential norms and accounting practices. Such strengthening of prudential norms have resulted in increased levels of Non-Performing Assets (NPAs) for the Urban Cooperative Banking Sector. As per CAMELS rating model, the highest weight is given to asset quality components. Today, UCBs are compelled to maintain superior asset quality in the competitive market for their survival. In the wake of large scale defaults of UCBs in India, this study is an attempt to analyze the asset quality in select UCBs in Tamil Nadu. This paper also traces the Non-Performing Assets of financial cooperatives in other countries. A comparison of UCBs with financial cooperatives abroad is also done.

2.9 KNOWLEDGE OUTCOME

Through this review of literature the researcher got himself acquainted with the earlier research in this area through the Ph. D. thesis, research papers, books and articles in journals and news papers. The researcher has also surfed various websites to get enlightened as to the current thinking on this sensitive subject. This study of related literature relating to various current developments on NPA front has helped the researcher in examining the working of the PACs with greater enlightenment.

2.10 RESEARCH GAP

On carefully going through the literature cited in this chapter the researcher was able to understand the research in this area so far made and to ascertain whether there is any research gap exists in this area. The researcher strongly feels that that there was a need for an in
depth study of the functioning of the PACs with specific reference to NPAs and its impact on profitability. Hence the researcher is of the considered view that there existed a research gap and hence this study was undertaken.

2.11 SUMMARY

The review of the past literature is necessary to provide guidance to the researcher for conducting research in right direction. This chapter made an attempt to review studies related to this research. It is classified in seven parts. The researcher has also recorded the knowledge gained as well as the researcher gap that existed in this area and hence study was undertaken.