CHAPTER II
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DESIGN OF THE STUDY

Statement of the Problem

The policy of Agricultural Credit in India continues to be one of providing adequate, time by and cheap credit to farmers and through the formal Institutional Agencies like Co-operatives, Commercial Banks and Regional Rural Banks to support agriculture and rural development. In accordance with this policy, there has been a substantial quantitative expansion in rural credit provided by these credit institutions over the years. However, quantum and the acceleration in the flow of credit to the rural economy, through a wide and net work of branches has created a number of problems, both managerial and operational. The mounting overdues is one of the major problems. The rural credit institutions relatively are not well-placed for recovery of loans. As such, this demands the attention of the rural credit institutions in the country to step-up measures for recovery (by the banker) as well as repayment of loan (by the borrower) within the stipulated time frame. The increase in the default ratio is causing concern to the bankers and the Central Bank authorities. It is not only the steady decline in the recovery rate which is causing great concern, but also factors which influence their deterioration. The non repayment of loan has certain negative effects on the structure and organisations of credit institutions; it cripples their operations, freezes their financial fluidity which in consequence tells heavily upon their lending capability.

Overdues in rural credit institutions are rising every year except for a few successful cases. In order to remedy, the malady of prevailing unhealthy situation in the banks, the need for effective recovery management and to speak of the end use of advances are found very essential. Moreover, the effectiveness and efficiency of the credit institutions is determined mostly by the extent of recycling of the funds or lending intensity. Poor recovery performance has direct implication on the profitability, viability and also on refinance availing capacity of the institutions. On the other hand, better
recovery would make the lending institutions operationally viable and functionally sound. Of course, recovery of loans by and large depends on prompt repayment of loan by the borrowers. But then, the financing institutions should not develop the attitude, "Borrowers are bound to repay". Perhaps, this kind of attitude could be justified where bankers have developed a fool-proof and in-built mechanism of recovery of loans from borrowers. But, not many rural credit institutions in this country have developed such a mechanism. This would therefore, mean that the bankers need to bestow adequate attention in finding out fool-proof recovery mechanism. They need to educate the farmers on utilisation, plan recovery, organise recovery campaigns, provide adequate trained staff, if possible exclusive staff to gear-up the recovery activities by monitoring the credit delivered in the process of effective recovery operations. But, are these functions systematically carried out by the institutions? What is the record of recovery performance of these institutions? What is the extent and nature of the problem of overdues in these institutions? What steps have been taken by the banks to reduce the problem of overdues? What are the causes of this problem? What is the impact of this on other important functions of these banks? In order to get answers and solutions to the above mentioned issues on rural credit institutions, the present study has been carved out with a main focus on Regional Rural Banks; Recovery and Overdues at three levels, viz., National, Regional and State levels with special emphasis on Regional Rural Banks in the State of Tamil Nadu. The present study addresses itself to the performance of Regional Rural Banks at National, Regional and State levels with special reference to recovery, and also makes an attempt to analyse the extent of overdues in Regional Rural Banks and to identify the factors causing overdues and aims at assessing the impact of overdues on the operations of Regional Rural Banks. The analysis of data generated both from the institutions and the borrowers would provide a base for designing a model for enhancing the recovery of loans to the banks which assumes crucial importance for sound and viable rural banking operations.
Review of Literature

There have been a number of studies examining the overall performance of formal financial institutions in general and rural credit institutions in particular. Studies have also been undertaken, and reported bringing out the reasons for the unrepayment of loans among the rural borrowers and for the cancerous growth of the overdues. However, the scope of these studies varies widely. Especially, after the adoption of Integrated Rural Development Programme and other related antipoverty schemes in which the rural banking institutions have a very important role to play. The scope for research on impact of bank credit on rural borrowers, their repayment behaviour, loan recovery and its overdues position increased considerably. Hence, many researchers were interested in studying the differential impact of institutional credit both on borrowers and lenders. Most of the studies have concentrated on impact of target oriented lending programmes, repayment, recovery and overdues. Therefore, brief review of some relevant and important published material related to the present study on overdues and recovery performance of Rural Financial Institutions in India including Tamil Nadu has been carried out in order to identify the areas already investigated so as to pinpoint the hitherto untouched and unexplored areas for further study.

Subramanian, Narayanasamy and Kalyanasundram have made an attempt by relating the socio-economic characteristics of the borrowers to the identified three categories of repayers, viz., regular, irregular and defaulters as well as the attitude of borrowers to their socio-economic features. Their study was confined to randomly selected two Co-operative credit societies and one Co-operative agricultural bank operating in Athoor Block in Madurai District. The study had covered 300 member borrowers of the selected

societies and bank. The study had revealed a string of reasons for non repayment. It was recorded that the major economic reason for non repayment were low yield of crops, low price for the produce and fluctuations in price. It was also that the lack of effort on the part of credit institutions, inadequacy of loan, untimely disbursement of credit were some of the consequent administrative factors in the cognitive frame of the respondents which served as a restraint on repayment of loan. The non-obligatory disposition and the tendency to postpone repayment, desire for collective security and political party support and security under the soft legal arm of the Government were some of the social factors influencing their attitude had been cited. Similarly social obligations like festivals and ceremonies, factions and feuds in the village, low literacy level were some of the crucial social factors which were found to have some influence on non repayment of loans. This study with a limited sample had brought out a large number of economic, administrative, social and psychological factors that influenced the non repayment of loans in the case of Co-operative credit societies.

George, Namasivayam and Ramachandriah\textsuperscript{12} had applied discriminant function in the farmers repayment performance in the study hi Chengalput district Tamil Nadu, to develop a criteria for classifying the borrowers into wilful, non-wilful defaulters and repayers of the loans borrowed from the Co-operative Credit Institutions, on the basis of quantifiable socio-economic factors. The characteristics of borrowers used in classifying the borrowers into defaulters and non defaulters were: (a) literacy, (b) percentage of income from "other sources", (c) percentage of cash expenditure for productive purposes to the total expenditure, (d) adoption-quotent, (e) percentage of borrowing from different institutions to the total production credit, (f) percentage of borrowings for production credit from the financial

institutions, (g) percentage of utilisation of credit to the total production credit, (h) irrigation potential and (j) cropping intensity. Similarly, the defaulters have been classified into wilful or non-wilful on the basis of stated factors. They have found out that the characteristics like literacy and percentage of income from "other sources" were the valid factors in both the analysis. The study has pointed out that the discriminant function was very helpful for the financial institutions to understand the characteristics of the borrowers before advancing loans and also help the policy makers to improve the borrower's credit worthiness by suitably changing the policy formulations. The application of this function also ensured large flow of credit to the borrowers which would result in better repayment performance in future.

In a similar study by Mohan, Veerachamy and Sivaraman\textsuperscript{13} the defaulters of Co-operative crop loan overdues in two blocks of Thanjavur district were classified into wilful and non-wilful defaulters and some important socio-economic characteristics associated with wilful default and were also identified by using Baysian Rate of probabilities as an analytical tool. The authors found that large farm size, large farm and non-farm (consumption) expenditures and high educational status were associated with the high probability of wilful default. Whereas, high probability of non-wilful default was associated essentially with small size of land holdings and low educational and caste status. All the three studies were micro level studies and have not attempted to match up with state or national situation.

The study conducted by the Economic Research Department of State Bank of India\textsuperscript{14} in two districts of Kerala viz., Palghat and Quilon, during 1983 with 70 borrowers with the objectives of assessing the extent of increase


in net income of the borrowers financed under the DRI scheme in small business segment and also for studying the changes in the quality of life of the borrowers in the post-loan period by estimating the extent to which this credit assistance helped the borrowers in crossing the poverty line. The study concluded that the utilisation of bank loans raised the levels of income and employment of borrowers, who in turn, found it possible to improve their quality of life at least in quantitative terms. The percentage of borrowers above the poverty line in the post-loan period was almost double in number than that of the pre-loan period. Even though the study covered two districts, the sample was small. Regarding repayment of loan, the study observed that the poor borrowers assisted by the bank were, by and large, conscious in meeting their repayment obligations. In only one activity, viz., mat weaving, repayment was poor and the recovery rate was only 20 per cent of the demand raised. Among the other six activities viz., Coir works, Handloom weaving, Hand Spinning, Basket making, Fish net making and Trading in Ruby stones, the recovery rate ranged from 53 per cent in ruby stone trading to 100 per cent in hand spinning. In the activity of the latter, the full repayment of the amount demanded was due to the fact that the women borrowers were regularly employed by the Sarvodaya Sangham.

Studying the impact of developmental programmes on women in four States viz., Bihar, Manipur, Rajasthan and Tamil Nadu, with a sample coverage of 400 women, the NIRD recorded that the majority of the IRDP cases (85.10 per cent) were financed by Commercial Banks while 14.30 per cent by the Co-operatives. Among the DWCRA (Development of Women and Children in Rural Areas) 79.60 per cent of the beneficiaries were awarded

financial assistance from Commercial Bank and the remaining 20.40 per cent from RRBs and the Co-operative banks have not helped any DWCRA beneficiary. The study indicated the need to motivate RRBs and Co-operative banks which were well placed in rural areas for their active involvement in development programme. Across the states, only in Tamil Nadu and Manipur, there had been 100 per cent recovery from the income of the assets owned and in Bihar and Rajasthan the corresponding figures were 91.30 per cent and 64.60 per cent respectively.

In a similar study, Pathak and Tara Shukla\textsuperscript{16} analysed the month wise repayment pattern for different short term loans as well as for medium term loans. For this study, 18 districts (out of 54 districts) and 103 rural branches (out of 248 branches) were considered. The study on repayment pattern, based on month wise data of repayers and amount repaid indicated that there was a good amount of spill-over in repayment, pointing out the need for longer repayment period. The study also suggested the strategy for creating debt capacity among poor farmers who do not have adequate scale of operation (for fully utilizing the created assets) thereby also suggesting to encourage or promote lease market for the asset created by the formal Rural Finance Market among them (other small borrowers).

Wignaraja Poona,\textsuperscript{17} while giving an account of the working of Grameen Bank of Bangladesh which was started in 1976 in a single village, pointed out that the Grameen Bank at the time of the study covered 7502 villages providing loans to over 3,39,000 persons, 81 per cent of whom were poor women. All the activities started with groups of poor borrowers and


each centre had a regular weekly meeting which concluded with the weekly repayment in instalments. There had been cent per cent recovery in the case of loans for women as against 98 per cent for men. Savings habit started simultaneously with credit operations. Grameen Bank was a major innovation in poverty alleviation, employment and income generating activities and asset creation for poor women. Income for borrowers was estimated to have increased by approximately 60 per cent or higher.

Lalitha\textsuperscript{18} in her study on bank credit to Women Purpose, Utilisation and Recovery in three blocks viz., Athoor, Shanarpatti and Nilakottai of Anna District in Tamil Nadu used multiple regression analysis to find out the relative importance of various factors influencing the overdues of women borrowers under different schemes. Specifically, one of the concerns of the study was to examine the utilisation modalities and the repayment behaviour of women borrowers. The another concluded that: (i) Quantum of overdues was directly proportional to the amount borrowed in all cases except agricultural schemes and retail trade, (ii) Quantum of overdues was directly proportional to the amount of transaction cost in the case of animal husbandry scheme of nationalised bank, (iii) Overdues was inversely proportional to scheme income in the case of dairy loans of both nationalised banks and PACs, (iv) Overdues were directly proportional to land size in the case of small business and dairy scheme of nationalised bank, (v) Overdues were directly proportional to scheme income in the case of ISB advances in PACs, (vi) Quantum of overdues was inversely proportional to other income in the case of ISB scheme under PACs and none of the variables was significant in explaining overdues in the case of agriculture, and this could be attributed to the psychology of the women borrowers in anticipation of loan waiver and related variables.

\textsuperscript{18} Lalitha, N. "Bank Credit to Women Purpose, Utilisation and Recovery". Unpublished Ph.D. Thesis submitted to the Mother Teresa Women's University, Madras, 1993, pp. 1-201.
Reddy\textsuperscript{19}, in his study on Overdues Management in Co-operative Banks operating in Anantapur, Cliittoor, Cuddapah and Kuniool districts of Audhra Pradesh also applied regression co-efficient to determine the socio-economic characteristics of wilful and non-wilful defaulters in explaining overdues. The study has identified the association between irrigation, cropping pattern, occupation, adequate and timely credit and family expenditure and repayment, while education, quantum of loan and net income had no association with repayment of loan. The study also brought out the following facts into light: (a) The size of operational holdings had no impact on repayment of Cooperative bank's loan, (b) Borrowers, growing commercial crops and having irrigated holdings default lesser than the borrowers who had not, (c) Borrowers growing crops and doing dairying defaulted less than those who raise crops only, (d) Defaulters were less when the credit was adequate and timely and (e) No association between the quantum of loan and education and repayment of loan. Thus, according to the study, the deciding factors in repayment were irrigation and pattern of crops.

Another related work had been done by Veerachamy\textsuperscript{20} on Priority Sector Lending by the Commercial Banks in Tamil Nadu. The study analysed the trends in lending, recovery and overdues of Commercial Banks in Priority Sector Scheme during 1986-1994, and observed that the overall performance of Nationalised Banks, State Bank of India and Regional Rural Banks in Priority Sector Lending Scheme was found impressive. These banks exceeded their targets (40 per cent) over the years, whereas, both the Private Sector Banks and Foreign Banks have failed to achieve the target in this sector. Regarding recovery performance, the study revealed that though the


Commercial Banks in Tamil Nadu showed improvement in recovery of advances lent in priority sector lending, the percentage of recovery was found less than 60 in all the years except in 1994. The percentage of overdues to demand had declined from 47.73 in 1986 to 38.50 in 1994, i.e., a reduction of 9.23 per cent between 1986 and 1994. The study concluded that the banks operating in Tamil Nadu have taken efforts in minimising their overdues position under Priority Sector Lending. However, they failed to achieve the reasonable limit of overdues i.e., 40 per cent to total demand in eight out of nine years under review.

Wadhva\textsuperscript{21} made a preliminary study on Regional Rural Banks and the objectives of the study were to assess the working of Regional Rural Bank in India with special reference to two selected Regional Rural Banks in India in Jharyana and Rajasthan States respectively only for two years (1976 and 1977).

The important findings of the study revealed that the Regional Rural Banks had operated as a "small man's" bank and that they had been deploying more resources within the local areas of their jurisdiction than raised from them. The study also pointed out that the selected two Regional Rural Banks seem to be suffering from the combination of worse features of the Commercial Banks without being given the benefits of some of the good features of both the Co-operatives and the Commercial Banks. Based on the findings, Wadhva suggested a frame work for reorganising the working of Regional Rural Banks for preserving the unique role of Regional Rural Banks. Even though the study concluded that Regional Rural Banks were doing a good job in a relatively short period and suggested for their reorganisation, it

is to be recorded that it was too early to pass judgements warranting reorganisation. However, Wadhva's work may be regarded as the first of its kind on Regional Rural Banks in India.

The observations of the Review Committee on Regional Rural Banks\(^{22}\) when examined in the context of the terms of reference to it by the Reserve Bank of India in 1978 viz.,

(i) Evaluation of the performance of Regional Rural Banks in the light of the objectives for which they were set up.

(ii) Indication of their precise role in the rural credit structure and

(iii) Making recommendations with regard to the scope, methods and procedures of their functioning and other matters germane to their inquiry are comprehensive in the sense that it touched the practical aspects of the working of the Regional Rural Banks based on results of several detailed sub-studies on the working of the twelve selected Regional Rural Banks.

The review committee made the following important observations,

(i) The performance of most of the surveyed Regional Rural Banks was generally "good" both in terms of qualitative and quantititative tests such as locations, branch expansion, deposit mobilisation, loan operations, deployment of local resources in local areas, taking banking services to unbanked and underbanked centres, recruitment of local staff and recovery performance etc.,

(ii) The surveyed Regional Rural Banks had been working in the right direction for fulfilling the social objectives set out for them.

(iii) Based on the financial performance of some of the Regional Rural Banks, the committee opined that a typical Regional Rural Bank with fifty branches was expected to become financially viable at a loan business of about Rs. 3 crore within a period of about three to four years.

The Review Committee on Regional Rural Banks, based on its findings such as right, location, better financial performance, better recovery performance, reaching the targeted weaker sections of the rural areas along with positive local response elicited by people made the following recommendations:

(i) Regional Rural Banks should form an integral part of the rural credit structure,

(ii) While establishing new Regional Rural Banks, priority must be given to areas served by weak Central Co-operative Banks,

(iii) Local participation should be provided for in the share capital as well as in the Management,

(iv) Transfer of rural business of Commercial Bank branches to Regional Rural Banks in a phased manner,

(v) The financing of large farmers too by Regional Rural Banks up to 40 per cent of the total advances for promoting rural savings and achieving viability.

Though the Review Committee on Regional Rural Banks had comprehensively dealt with all the terms of references assigned to it, the report suffered from some weaknesses. Prominent among them were:

(i) It was too early to judge the performance of the Regional Rural Banks in the country in a relatively short period of two and half years of their existence,
(ii) Further, detailed studies were limited to 12 selected Regional Rural Banks.

(iii) The Review Committee viewed that a typical Regional Rural Bank (with 50 branches) would be able to become financially viable and generate profits beyond the Rs. 3 crores level of annual loan business and that this could well be achieved with the period of three to four years. This appeared to be unrealistic under changing cost conditions and the time period within which this can reasonably expected to be achieved. The committee also failed to provide adequate reasoning for justifying its estimation on the level of annual loan business which would make a typical Regional Rural Bank financially viable.

(iv) The Review Committee had succumbed to the temptation of making some recommendations for which the solutions offered were simplistic and the desired results are unlikely to be achieved in practice by the proposed measures. The recommendation that while allowing the local participation in the proposed capital structure of the Regional Rural Banks due to safeguards against domination by vested interests should be ensured and in allowing the Regional Rural Banks to lend up to 40 per cent of their total loan amount to the larger farmers and other borrowers with ceilings on individual loans, misuse of this liberalisation could be ruled out.

Later, the working Group on Multi Agency Approach in Agricultural Finance (1978) had made observations on the specific role of Regional Rural Banks. The group opined that while the existence of the Regional Rural Banks (sponsored by the Commercial Banks) as part of the multi agency approach in financing agriculture had become an accepted fact, the other major components of the institutional agricultural credit system being the Co-operatives and the Commercial Banks.
The group had also called upon the Government to create a network of Regional Rural Banks. The role of the Regional Rural Banks according to the group was to supplement and not supplant the other institutional agencies in their field and the Regional Rural Banks should not enter into competition with the Co-operatives. The group clearly preferred the Regional Rural Banks to the Commercial Banks for the future expansion of banking in rural areas and also favoured the idea of allowing the Regional Rural Bank to allocate a part of their total loans to the larger and medium sized families. While assessing the functioning of public sector banks, a committee on functioning of Public Sector Banks\(^\text{23}\) found that the Regional Rural Banks were to be useful institutions. The committee even went to the extent of suggesting that expansion of Regional Rural Banks in future in rural areas but also take over gradually the existing network of branches of Commercial Banks, leaving the public sector Commercial Banks to open branches only in district headquarters.

Mohana Rao\(^\text{24}\) assessed the impact of financing by the Sri Visakha Grammeena Bank, a Regional Rural Bank in Andhra Pradesh in terms of (a) distribution of loans, (b) cropping pattern and (c) assets of different categories of beneficiaries. Seventy seven beneficiary households served by two branches of the bank were selected as a data base for this study. The findings of this study revealed that the bank functioned well in meeting the credit needs of the target groups. The rates of return to capital were high in all the business activities of the house holds. The average borrowing per member was Rs. 996 in the dry region and Rs. 703 in the wet region. The supply of credit by the bank significantly increased the cropping intensity on the farms and the value of assets of beneficiaries also increased considerably.


The study was confined to only one Regional Rural Bank and that too in one state, covering only two branches with a limited sample of borrowers. The study analysed the gains of credit in terms of credit, crops intensity and assets and not in terms of employment creation to the borrowers after availing credit.

A study on viability of Regional Rural Banks\textsuperscript{25} was undertaken in 1979 with the main objective of examining the viability of Regional Rural Banks which had completed three years or reached a loan business of Rs. 3 crores by December 1978. An attempt was also made to study the factors promoting the viability of Regional Rural Banks.

The study was confined to only 15 Regional Rural Banks and covered a period between 1976 and 1978.

The findings of the study revealed that:

(i) The Regional Rural Banks had so far been able to achieve the main objectives of purveying credit to the weaker sections in the rural areas, viz., small and marginal farmers, land less agricultural labourers and rural artisans, despite the constraint of a limited area of operation.

(ii) Eventhough, there was an increase in expenditure of the selected Regional Rural Banks, they had controlled their operating expenses quite efficiently.

(iii) The overall rate of growth in income was quite impressive and the gap between the income and expenditure was quite small, indicating that the Regional Rural Banks were nearing the Break Even point.

\textsuperscript{25} Reserve Bank of India, Rural Planning and Credit Cell, \textit{Viability of Regional Rural Banks - A Study}, March 1981, Bombay, pp. 1-43.
(iv) On an average, a Regional Rural Bank would require about six years time and a network of 70 branches to become viable with an outstanding loan business of Rs. 8 crores and a margin of about five per cent.

(v) A loan business level of Rs. 12 lakhs Per branch would ensure, by and large, viability of a branch. It was not possible for all the branches to become viable because some branches were located in centres where the potential was limited and could not expand business because of keen competition from branches of Commercial and Co-operative Banks.

(vi) The performances of Regional Rural Banks were encouraging, while four of the 15 selected Regional Rural banks had already become viable, other might reach viability in the next two to three years.

The study concluded that a three-years period was generally not a sufficient period for a credit institution to achieve viability, particularly for a rural credit institution, and more so far Regional Rural Banks which had been operating with some serious constraints.

Another Committee to Review Arrangement for Institutional Credit for Agriculture and Rural Development (CRAFICARD)26 in its comprehensive review of the institutional credit set up, found that the institution, viz., Regional Rural Banks were especially suitable for rural development. The committee recommended that the Regional Rural Banks should continue to confine their operations, to the weaker sections and that preference should be given to Regional Rural Banks in regard to licensing of branches in the rural areas. The committee also confirmed the views of the earlier committee that

the Reserve Bank of India should take necessary steps to facilitate the transfer of eligible business of Commercial Bank's rural branches to Regional Rural Banks as and when proposed.

The important recommendations made by the committee to improve the performance of the Regional Rural Banks were:

(i) Losses made by Regional Rural Banks should be made good by their shareholders and equity of Regional Rural Banks should also be raised.

(ii) Emoluments of the Regional Rural Banks' Staff should continue to be determined with due regard to State Government's pay scales.

(iii) Facilities from Sponsor Banks to Regional Rural Banks should continue for a period of ten years in each case.

(iv) The experts connected with agricultural development may be nominated on the Board of Regional Rural Banks and

(v) Since Regional Rural Banks serve the weaker sections exclusively, facilities of concessional refinance from Reserve Bank of India should continue.

Eventhough the committee recommended some measures as mentioned above, however, it was not made fully clear whether the Government of India and Reserve Bank of India accepted and carried out the recommendations of the committee in total or in parts for improving the performance of the bank.

Later, the Agricultural Finance Corporation27 took up more in-depth and objective study of two Regional Rural Banks along with their selected

oldest blanches covering a brief or less than four years in the states of Andhra Pradesh and Karnataka.

The main objective of the study, was to assess the performance of Regional Rural banks in terms of the indicators like (i) weaker sections of the rural population in the area, (ii) branch expansion, (iii) deposit mobilisation, (iv) loan operations, (v) credit deposit ratio, (vi) recovery performance, (vii) business and Break-Even, (viii) organisation, (ix) the role of sponsor banks and (x) the cost of operations of Regional Rural Banks.

The findings of the study indicated that the role played by the selected Regional Rural Banks, in a brief period of less than four years, could be considered remarkable in terms of the performance indicators. It also found that the Regional Rural Banks had demonstrated their abilities and hold promise in catering to the credit needs of weaker sections on an increasing scale in future.

Even though, the study was carried out in depth by covering the different aspects of the functioning of Regional Rural Banks, it was confined to two states only and that too covering two Regional Rural Banks sponsored by Syndicate Bank. The period covered by the study was also too short. Since the focus of the study was to analyse the performance of the Regional Rural Banks, the study did not make an attempt to study the benefits derived by the borrowers of Regional Rural Banks.

Varde and Singh\textsuperscript{28} attempted on the overall profitability performance of Regional Rural Banks over three years from 1978 to 1980 selecting a sample of 40 Regional Rural Banks with at least two years of performance.

For analytical comparison of profitability performance of the Regional Rural Banks, key indicators were developed and used. The general conclusion of the study indicated improved profitability performance of all Regional Rural Banks over the year viz., 1978 to 1980. As the main focus of the study was analysing the profitability performance between these two points, such other aspects of Regional Rural Banks, like productivity, cost efficiency and viability performance had received no treatment in this study. Eventhough, the study covered 40 Regional Rural Banks, the study examined their operations for three years only. However, the study’s utility as a research report was significant that the authors had developed selected ratios for analysing the profitability analysis of Regional Rural Banks.

A case study examining the utilisation of agricultural credit by the borrowers of the Pandyan Grama Bank was undertaken by Thanulingam. The study covered 60 borrowers of Kovilpatti Taluk who obtained loans from the branches of the Pandyan Grama Bank. The study revealed that out of 60 respondents 32 (53 per cent) repaid their loan within the due date and 28 (47 per cent) repaid loans after the expiry of the due date prescribed by the bank. The study concluded that sanctioning of insufficient amount of loan, delay in sanctioning the loan, lengthy formalities for sanctioning the loan, short repayment period, inadequate supervision and poor communication facilities in the village stood in the way of utilisation of the loan.

Siva Prasad while reporting a critical analysis of some of the important provisions of the Regional Rural Banks Act, incidentally analysed

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the performance of five Regional Rural Banks in Andhra Pradesh in 1983 and suggested that:

(i) The Government may, in right earnest, take necessary steps so that Private Sector Banks could sponsor Regional Rural Banks.

(ii) In the capital structure of Regional Rural Banks, the share of the Central Government could be reduced from 50 to 25 per cent, that of the State Government be increased from 15 to 25 per cent and Panchayat Raj Institutions be given a share of 15 per cent.

(iii) The staff of the Regional Rural Banks should be shifted annually to the sponsor bank in some agreed proportions with a view to maintain the efficiency of the staff of Regional Rural Banks at the desired level and to inject new blood in the Regional Rural Banks which would be good for their health. But the study had been confined to the provisions of Regional Rural Banks Act and critical aspects of some of its provisions threw some light on the performance of Regional Rural Banks in the State of Andhra Pradesh only.

Reviewing the provisions and overall progress of Regional Rural Banks in India from 1975 to 1983, Joshi31 attempted to trace overall progress of the Regional Rural Banks since their inception with restricted performance indicators like branch expansion, deposit mobilisation, deployment of credit, credit deposit ratio and profit and loss. The main findings of the study revealed that the progress in opening of new Regional Rural Banks in the country slowed between 1976 and 1978 and was brisk in establishment during 1981 and 1982 but with uneven spread across the states. The business of the

Regional Rural Bank was found to have grown faster than the number of branches.

The interesting feature, however, was that the Regional Rural Banks had not been utilising the borrowing facilities from the Reserve Bank of India and sponsoring banks and they tended to depend more on their deposits rather than on the borrowed funds.

It was also recorded by the study that till 1981, about 60 per cent of the Regional Rural Banks in the country were able to earn profit but slipped down to 36 per cent later, probably because of the bank's branch expansion and escalation in establishment costs. The study made an attempt to analyse the performance of Regional Rural Banks at macro level only with limited objectives.

The study by Sudhakara, Venkataram and Nagarajan32 aimed at an evaluation of the performance of Regional Rural Banks in Mysore district in Karnataka state and assessed the performance of the Cauvery Grameena Bank of Mysore with five sample bank branches. The study concluded that the Regional Rural Bank was relatively efficient in coverage of population, lending, recovery of loans and earning profit over the similar type of credit agencies in rural environment. While examining the reactions of the sample borrower farmers of the Grameena Bank, it was found that the bank satisfied them through adequate and timely supply of credit with suitable repayment schedule.

The study was based on a limited sample of branches and borrowers and covered only a short period of five years and the study did not make an attempt of assessing the impact of bank loan on borrowers.

Case studies examining the performance of the Cooperatives and comparing with that of the Commercial Banks and the Regional Rural Banks in the field of agricultural financing in the states of Maharashtra and Uttar Pradesh revealed that the Regional Rural Banks had an edge over Commercial Banks and Co-operative banks both in regard to loan disbursement and recovery. Regional Rural Banks and Co-operative banking sectors performed better than the commercial banking sector both in regard to credit disbursement and recovery of loans. Loaning policies and procedures of Regional Rural Banks were found to be more flexible and simpler than Co-operatives and Commercial Banks. The Commercial Banks were ill equipped in regard to technical staff and field staff. The insistence of "Landed Security" for loans and delay in sanctioning loans were the two major factors hampering the operations of Land Development Bank besides restricted eligibility for lending due to overdues in accordance with discipline imposed by Reserve Bank of India and NABARD.

A study on loan recoveries in the Regional Rural Banks in Bihar was brought out by Singh and Upadhyay with the reasons for low recovery of loans with suggested measures for improvement. A sample of four Regional Rural Banks operating in the State of Bihar had been selected for the study. Members of the Board of Directors (15), Managers of the bank branches (30)


and borrower (160) of the selected Regional Rural Banks were interviewed to elicit relevant information.

The authors of the study concluded that (i) The recovery performance of the Regional Rural Banks declined continuously during the period 1978-1980, (ii) In the opinion of the managers, inadequate arrangement for recovery was the most important reasons for overdues, (iii) The reason indicated by borrowers was the shortage of funds to repay the loans either due to crop failure or due to expenditure on marriage ceremonies or other social functions or illness of family members, (iv) Borrowers also supported the views of the managers regarding loan recovery. In the opinion of the borrowers, inadequate follow up by the banks for repayment and wilful default were more or less equally important reasons and (v) cluster lending, timely reminders to borrowers, tie-up arrangements, support from Government authorities and legal action against wilful defaulters were the suggested measures by the managers for improving the recovery performance.

Though the study examined the recovery performance of Regional Rural Banks, it was based on a small sample only. The results from Bihar State cannot be stretched too far and the period of the study was only five years.

A case study on Regional Rural Bank in West Bengal by Lakshminarayana35, on branch expansion, deposit mobilisation, outstanding and profits brought to light the impressive performance of the bank and highlighted the problems confronting the bank. They were : (i) an increasing number of wilful defaulters, (ii) pre occupation of the bank officials in recovery work in respect of overdues loans, (iii) practically non-existence of linkage between credit and marketing, (iv) large increase in the amount of outstanding and (v) mounting losses from the year 1977. The study also

suggested establishing effective link between credit and marketing functions and stressed the need for borrower educational programmes for usage and timely repayment of loan.

A comparative study of a Commercial Bank and a Regional Rural Bank branch(s) by Bank of India in terms of deposit mobilisation and advances by two rural branches in Uttar Pradesh revealed that in both the branches, time deposits constituted as high as 40 per cent of their total deposit. Amount wise, savings deposit dominated. However, an interesting observation made was that among time deposits, recurring deposits had not found favour with the rural depositors and not many current accounts were operated in both the branches under study. Another striking factor emerging from the study was that distance from the branch was a vital element affecting deposits mobilised.

In the Regional Rural Bank branch, however, term financing of agricultural operations had an edge. The retail traders and small business men dominated in the advances granted under priority sector accounts.

As regards recovery of loans, it was found by the study that in both the branches, there was an overall improvement in the rate of recovery. This study had also been confined to only one state and covered only two branches of the banks.

Jagadish Prasad and Sunil Kumar made an attempt to evaluate the role of Regional Rural Banks in financing rural poor in the Muzaffarpur district of Bihar in terms of assessing the impact of loans on the poor in terms of improvement in income and employment condition. The study had been

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36 Bank of India, *Deposit mobilisation and Advances by Two Rural Branches, a comparative study, (Commercial and a Regional Rural Bank Branch) - Study Report*, Regional Rural Banks' Special Studies Division, Bank of India, 1985, pp. 1-20.

confined to a particular branch of Vaishali Ksheteriya Gramin Bank in the
district of Muzaffarpur.

The findings of the study revealed the fact that the bank had covered
larger number of marginal and small farmers than business men and rural
artisans. It was found by the study that employment in terms of mandays and
average earnings increased in all house holds as compared to the pre-loan
period. The average increase in income of the poor house holds of the rural
community was estimated to be 18.74 per cent. Singh, Singh and Singh had
done a comparative study of financial performance of a rural branch of a
Commercial Bank with a Regional Rural Bank branch operating in the State of
Bihar. The selected two rural bank branches were established almost at the
same time and were situated in the same block (Kalyanpur block of
Samastipur district). The study was based on secondary data only.

The study had highlighted the following facts (i) The financial
viability of Regional Rural Bank branch was greater as compared to the
Commercial Bank branch, (ii) The Commercial Bank branch could enhance its
economic viability by increasing the volume of loan business with a better
control of expenses and (iii) The financial performance of the Regional Rural
Bank branch could still have been better if the branch had avoided the
utilisation of high salaried personnel of the sponsoring bank as manager of the
branch.

Satyanarayana and Rushyendra, in a case study on credit
programme of Sri Vesakha Grammeena Bank found no significant change in

Banks in Bihar - A case study", The Journal of the Indian Institute of Bankers, Vol. 58,

cropping pattern by availing the bank credit but there was evidence to show that more adoption of modern agricultural practices including more usage of chemical fertilizers and pesticides by the borrowers. It was also found that the cost of credit component was relatively related to the size of holding.

Bapana\textsuperscript{40} had made a detailed study of four Regional Rural Banks in Rajasthan with the objectives of studying the organisation and working of Regional Rural Banks and assessing their financial resources, credit deployment and financial viability, covering a period often years.

The study revealed that the selected four Regional Rural Banks were suffering from many structural draw backs which call for effective measures to fill the gap between the bank's objectives and their implementation.

Regarding the financial structure of the Regional Rural Banks, the study revealed significant weakness due to low capital base and the contribution of owned funds were insignificant as a financial resource to the banks.

However, the performance of the banks in terms of deposit mobilisation, credit deployment, credit deposit ratio and recovery had been quite impressive.

But, the working results of the four Regional Rural Banks for the period of 1975 to 1984 revealed that except meagre profits in some years, all the banks were running in losses.

Profitability analysis of the Regional Rural Banks indicated that these Regional Rural Banks were economically not viable during the period of

study. Though, it was a detailed study on four Regional Rural Banks, it was confined to the State of Rajasthan and that too covered a period of one decade only. The study of branches of the banks and the impact of loan on the borrowers who availed loan from these branches were not dealt by this study. The study analysed the working of four Regional Rural Banks only and did not consider the efficiency of the banks in their working for a period of ten years.

Auanda Kumar\textsuperscript{11} made a micro level study of a Regional Rural Bank and money lenders in Andhra Pradesh. The main objectives of his study were to assess the performance of the bank in terms of parameters approved by the Reserve Bank of India and to ascertain the additional income generation by the beneficiaries. The study covered 300 borrowers from the selected blanches of a Regional Rural Bank.

The findings of the study indicated that the performance of the selected Regional Rural Bank was much better than the other Regional Rural Banks in terms of branch expansions or in the purpose-wise disbursement credit, or in recovery of loans or in getting refinance (from NABARD, Reserve Bank of India and Sponsor Bank) or in credit deposit ratio and earning profit.

The major findings of the field study were: (i) The lending policies of the bank were biased in favour of other category of farmers, (ii) Even though, a majority of the borrowers could generate additional income, they were relatively high under the allied and agricultural term loan category and there were variations between the districts, (iii) There was close association between the annual income of the respondents and the scheme under which

they have availed the loan irrespective of category and community to which they may belong, (iv) Additional income generation did not lead to asset creation in all the cases of borrowers, (V) The volume of rural indebtedness had not declined much due to financing by the banks, (vi) The qualitative aspects of the loan utilisation was not being fully investigated by the bank management, and (vii) There were problems that beset the borrowers at every stage of the whole gamut of the operations involved in the availment of loan.

As this study was based on only a limited sample of bank and branches in the state of Andhra Pradesh, and covered a period of five years only, its findings need to be reviewed in the light of the wider sample of banks and branches covering the different aspects of operational efficiency.

It will be found that the literature relevant to the present study had two broad categories namely (a) Studies on repayment performance of formal institutional borrowers and factors causing overdues and (b) Studies on Regional Rural Banks. These studies were extremely valuable but with limited information on the recovery performance and the various aspects of overdues position of Regional Rural Banks over the years in India.

**Gap in Literature**

(i) Much work related to repayment performance and overdues of Cooperative credit institutions and Commercial Banks had been conducted by many Researchers and Institutions in India. However, there were very few studies, on the overall performance of Regional Rural Banks and very little attention had been given for assessing the repayment performance of RRB’s borrowers and the overdues positions of banks that too at macro level.
(ii) No study had been attempted so far to analyse the recovery performance and the overdues position of RRBs system as a whole at different regions and states.

(iii) Nor these studies dealt with the problems of overdues in RRBs after the implementation of ARDRS (Agricultural and Rural Debt Relief Scheme 1990).

(iv) The studies already conducted on RRBs have covered only short period of five years and less.

The Present Study

The present study was attempted to assess the performance of Regional Rural Banks in general and Regional Rural Banks in Specific Regions and different States in particular for the first time were taken up to analyse relevant aspects of its working with special reference to recovery and overdues management before and after the implementation of ARDR Scheme 1990. Moreover, the bank’s record of performance in terms of recovery was analysed at different levels. Further, various aspects of overdues positions of RRB's were studied in detail and that too at both macro and micro levels. Further, micro level studies were also attempted to ascertain the repayment performance of borrowers and at the gross root level and causes for overdues. In addition, an attempt was made to study the impact of overdues on the operations of the banks. Thus a comprehensive study on the recovery performance, repayment behaviour and overdues of RRBs formed the core of the present study.

Issues for Investigation

On the basis of review of available literature, specific issues for further research have emerged. A careful study of recovery and overdues
positions in Regional Rural Banks need to cover all the Regional Rural Banks operating in six regions, 23 states of India to provide a comprehensive and comparative picture on "Overdues Syndrome" identified in the Regional Rural Banking System. Therefore, the study has included Regional Rural Banks operating at all the three levels viz., National, Regional and State. As much the present study would have to takes into account and analyses of the problem of recovery and overdues in the entire Regional Rural Banking System both at macro (See Figure 1) and micro levels (See Figure 2) and the performance of borrowers in the repayment of loan is a vital indicator and component in the evaluation of credit operations. Therefore, the present study included an assessment of the repayment behaviour of the borrowers and also an indeptli analysis of causes for their overdues. Similarly, an intensive location-wise analysis of the recovery efforts of the banks, their impact on recovery, their efficiency over recovery, steps taken to minimise overdues and their impact on various functional aspects seem to be imperative in improving their overall performance keeping these issues in view, the objectives have been framed.

Limitations of the Study

However, the present study had the main objective of appraising the performance of Regional Rural Banks in India in terms of overdues and recovery management aspects at three levels, the recovery management of Regional Rural Bank had also been attempted with scanning of rural borrowers' repayment behaviour at micro level.

Due to constraints on time and resources, the study had not covered other important aspects like productivity, cost efficiency and profitability performance of rural credit institutions for comparison.
Scope of the Study

The proposed study is having a greater relevance to the present day problems of financing the key sectors of the rural economy by the Regional Rural Banks and the other rural credit institutions in general as the banking is the most useful tool of the rural society and the country in achieving accelerated growth in rural sector. Today there is a great need for the study on "OVERDUES and RECOVERY" in Rural Financial Sector. In recent years, the significance of overdues of banks that too in Regional Rural Banks had also received wide discussion at the national level as it has resulted in locked money meant for recycling, and also eroded the profits; sometimes even the share capital. Hence, this work will provide back drop and a fresh angle of approach to minimise the overdues problems and to pave the way for future structural and managerial alterations. The detailed suggestions based on the findings of this study may lead in decision-making to the management, and also would fill the gap of literature on overdues of the banks in India.

Objectives of the study

(i) To assess the performance of Regional Rural Banks in general and recovery in particular.

(ii) To examine the nature and extent of overdues in Regional Rural Banks, and to assess the impact on bank’s operations in terms of refinance availment, credit deployment and profitability.

(iii) To analyse the causes and effect of overdues on the functioning of Regional Rural Bank at micro level.

(iv) To analyse the repayment behaviour of borrowers and to examine the factors responsible for non repayment of loans.

(v) To suggest remedial measures based on the findings for improving recovery.
The following specific question also are to be addressed:

The hypotheses formulated for the purpose of this study are:

(i) The flow of funds is less if the overdues are high in the banks,

(ii) Borrowers who have "other source of income" default less than those who have only one source of income and

(iii) Defaulters among older borrowers are higher than younger borrowers.

Operational Definitions of the Concepts Used in the Study

Financial Institutions

In this study, the term financial institutions refers to institutions like Primary Agricultural Credit Societies, Commercial Banks, Regional Rural Banks and Land Development Banks.

Credit

In the present study, credit is defined as temporary transfer of funds which forms a contract for the future delivery of money by the borrower to the lender.

Development Banking

Development Banking means channelising credit to sectors of activities like agriculture and small scale industries which the Government wishes to promote by policy.
Social Banking

Social Banking implies offering loans to weaker sections living below poverty line like rural women, scheduled caste, scheduled tribes, small farmers, marginal farmers, artisans, agricultural and non-agricultural labourers in primarily in rural locations.

Priority Sector

Priority Sector is identified as the sector which covers agriculture and allied activities, small road and water transport operations, retail trade, small business, professional and self employment, loans to state sponsored organisations of Scheduled caste and Scheduled tribes, education and housing. As per the recommendations of the working group of Reserve Bank of India (1980), a minimum of 40 per cent of the total bank credit should go to priority sector.

Differential Rate of Interest Loans

DRI loans refer to advances to the weakest among the weaker sections’, at four per cent interest rate to help them in their efforts to better their economic conditions through small productive ventures, the upper limit of each loan being Rs 6500 given without security.

IRDP Loans

IRDP loans refers to loans advanced under Integrated Rural Development Programme extended to families living below the poverty line in rural areas in order to raise them above the poverty line. The programme aims at achieving the stated objectives by providing income generating assets. The loan package includes an element of subsidy and carried on an interest rate of 10 per cent (12 per cent from 1991 - 1992 onwards).
Poverty Line

A family having an annual income of Rs. 6400 or less is considered to be a family below the poverty line. Currently (1995) the income limit has been raised to Rs. 11,000 per annum.

Scheme Loans (borrowings)

The various tailor made loan schemes like IRDP, DPAP, Harijan Welfare schemes sponsored by Government of India and Government of Tamil Nadu.

Non Scheme Loans

These are the loans sanctioned by the bank to the banks' identified borrowers or loans of borrowers who come to bank on their own seeking loan assistance for economic activities. No Government sponsoring agencies are involved.

Past due or Overdues

These expressions are used synonymously with "amount in arrears". A part of outstanding becomes overdue if it is not repaid within the stipulated period of time as per the contract. In Indian context, the definition, for overdue, is given in the Kliusro Committee Report (KCR) of RBI as under.

"The Overdues of loans are instalment and interest thereon not repaid on due dates. The quantum of overdues in a Credit Institution may accordingly vary widely and even significantly depending on the reference date".

The Demand-outstanding levels of overdues in credit system could be measured either in relation to Demand for the year (in Co-operative Credit Structure) or in relation to outstandings as at the end of the year (as was the case earlier in the Commercial Banks). At present, "the accepted standard of
measurement of overdues is in relation to demand”. This is the standard base for assessing the recovery position. Overdues is the quantum of loans which have fallen due and not those which are yet to become due for repayment. This definition is being followed in this study.

Default

Default refers to the inability of the borrower to repay loan amount within the stipulated time to the lending institution. The erring loanee is called defaulter.

Wilful defaulter

The borrower is having the capacity to repay loan amount but he is not paying is known to be a wilful defaulter. The defaulter, who is not having the capacity to repay loan amount due to natural calamities can be termed as Non-wilful defaulter.

Repayment Capacity

The excess of borrowers' projected income over the sum of expenditure is considered as repaying capacity. The repayment of loan depends on three 'R's viz., (1) repayment capacity, (2) risk bearing capacity and (3) return on investment. Three 'R's vary from region to region, project to project and even farmer to farmer. Admitting this view, farmers are classified into two categories and their repayment performance is studied.

Outstanding

The amount left with the borrower for realisation on a particular date is called outstanding.

Demand

The demand in respect of agricultural loans for a year means the production loans or the instalment of term loans in respect of investment
credit provided for agriculture, allied and other purposes which become due for repayment during that particular year. Besides, arrears in respect of loans and instalment of investment credit which had fallen due for repayment in the previous years but not repaid will also form a part of the demand for that year. Along with demand for repayments in respect of a principal amount, the demand for recovery of interest will also have to be worked out. This will also comprise of arrears of demand and current demand.

Collection (Recovery)

In the present exercise, repayments received from the borrowers against demand are treated as collection or recovery.

Balance (Overdues)

The balance under principal and interest representing the difference between total demand for the year and collections made during the year exclusively against the demand (i.e. excluding the advance collection) is the "OVERDUES" amount. This is followed by all Commercial Banks in India for computation of overdues amount and the same is considered for the purpose of analysis in the present study for comparative recovery performance analysis, comparison of collections made during the year with the demand for that year i.e. percentage of recovery to demand has been applied with a view to present the correct picture of recovery performance of bank and branch in respect of advances under different sectors and all types of loans in Priority Sector Lending.

Utilisation

Utilisation of credit refers to the use of credit for the purpose for which it is originally granted. If the credit is used for other than the purpose for which it is granted, it is termed as "misutilisation or diversion". Non
utilisation of credit means the non-use of loan amount owing to conditions beyond the control of the borrower.

**Farmers**

Farmer is one who derives income through cultivation of crops in his own land or in a leased land.

**a) Small Farmer**

A cultivator with a land holding of two hectares or below is a small farmer, where a farmer has class I irrigated land, as defined in the state land ceiling legislation with one hectare or less, he will also be considered as small farmer. Where the land is irrigated but not of the class I variety, a suitable conversion ratio may be adopted by the State Government with a ceiling of two hectares.

**b) Marginal Farmer**

A person with a land holding of one hectare or below is a marginal farmer. In the case of class I irrigated land, the ceiling will be 0.5 hectare.

**Agricultural Labourer**

A person without any land other than homestead and deriving more than 50 per cent of his/her income from agricultural wages is an agricultural labourer.

**Non Agricultural Labourer**

A person without any land other than homestead and deriving more than 50 per cent of his/her wage income from non agricultural jobs is a non agricultural labourer.
Rural Artisan

A Rural artisan is a person engaged in a traditional family or community profession deriving more than 50 per cent of his income from the activity.

Methodology

This is an analytical as well as empirical study based on both secondary and primary data collected from the published documents, records and audit reports of the selected bank and sample borrowers.

Sampling Method Adopted

Selection of the Bank

The study is confined to Regional Rural Banking System in India. There were 196 Regional Rural Banks functioning in six regions, in 23 states of India as on March 1994 (See Figure 1). No sampling procedure has been attempted for the macro level study. For an intensive study at the micro level only one bank (out of 196) i.e., THE PANDYAN GRAMA BANK, operating in the state of Tamil Nadu has been purposively selected since the bank was the first and the oldest Regional Rural Bank (18 years) among the three RRBs of this state (See Figure 2).

Selection of Brandies

The selected bank for micro level study i.e., The Paulyan Grama Bank in the state of Tamil Nadu is operating with 161 branches in its five operational districts viz., (i) V.O.Chidambaram, (ii) Tirunelveli Kattabomman, (iii) Kamarajar, (iv) Ramanathapuram and (v) Pasumpon Muthuramalingam Thevar Thirumagan. Of this 161 branches, ten branches (two from each district) have been selected. In the selection of the branches,
Fig. 1 Geographical Distribution of RRBs in India

Figures in each state indicate number of RRBs, Districts Covered and Branches.
Fig. 2 Geographical Distribution of RRBs in Tamil Nadu

- PGB - Districts Covered with number of branches
- AGB - Districts Covered with number of branches
the criteria of "recovery performance" was adopted. To the norm of recovery performance, the average recovery rate (in terms of percentage of recovery to demand) was calculated taking the average of five years ending 1995 for all the 161 branches functioning in five districts. From each district, bank branches with the highest and lowest recovery performance were singled out. Thus, two branches from each district have been selected. The selection of branches is presented in Table 2.1.

Table 2.1 Selection of Branches for Field Investigation

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Recovery Performance</th>
<th>Name of the Districts and the Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>V.O.Cilica-Velvettamor</td>
</tr>
<tr>
<td>1.</td>
<td>Highest</td>
<td>Palayakoyal (95.11)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thirumazhi-Kottakottam</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adaiyakad (86.42)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kamarajor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Zamin Kottakottam (97.22)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ramnadhapuran</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Paliyal</td>
</tr>
<tr>
<td>2.</td>
<td>Lowest</td>
<td>Sankagundur (40.13)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kottniyoor (38.22)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Muli (32.01)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Parayoor (28.17)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Manur (25.19)</td>
</tr>
</tbody>
</table>

Figures in parentheses indicate percentage of recovery to demand

Selection of Borrowers

For selection of borrowers at grass-root level, a list of borrowers who have availed loan was obtained from the selected 10 branches. The list consisted of 4016 borrowers. Out of the 4016 borrowers, a sample of 400 (i.e., 10 per cent of the total) were randomly selected for the purpose of the present study in order to analyse their repayment behaviour. The names of the districts, the total number of borrowers who have availed loans and number of borrowers selected are given in the following Table.
Sources of Data

The data were collected from both secondary and primary sources. Secondary published sources included statistical statements relating to banking and Regional Rural Banks published by the Reserve Bank of India (RBI), and National Bank for Agriculture and Rural Development (NABARD). Besides, data and information from the annual reports and audit statements of Regional Rural Banks functioning in the state of Tamil Nadu were also collected.

The relevant information has also been elicited by holding discussions with 100 officials of the Pandyan Grama Bank viz., staff and officers involved, in the loan operations of the bank and executives on deputation from Indian Overseas Bank (Sponsoring Bank).

The Primary data was collected from the sample borrowers by interviewing them, using pre tested tools.

Table 2.2 Selection of the Borrowers for Field Investigation

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the District</th>
<th>No. of Selected Branches</th>
<th>Total No. of Borrowers</th>
<th>Sample size (Per cent)</th>
<th>Number of Sample Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Thirunevelli Kattabomman</td>
<td>2</td>
<td>835</td>
<td>10</td>
<td>80</td>
</tr>
<tr>
<td>2.</td>
<td>V.O.Chidambaramar</td>
<td>2</td>
<td>745</td>
<td>10</td>
<td>80</td>
</tr>
<tr>
<td>3.</td>
<td>Kamarajar</td>
<td>2</td>
<td>790</td>
<td>10</td>
<td>80</td>
</tr>
<tr>
<td>4.</td>
<td>Pusumpon Muthuramalingam Thiruvanakottai</td>
<td>2</td>
<td>600</td>
<td>10</td>
<td>80</td>
</tr>
<tr>
<td>5.</td>
<td>Ramonathapuram</td>
<td>2</td>
<td>870</td>
<td>10</td>
<td>80</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>10</td>
<td>4016</td>
<td>10</td>
<td>400</td>
</tr>
</tbody>
</table>
Tools for data collection

Based on the objectives of the study, two interview schedules have been drafted; one for the bank and another for the borrowers. The schedules were finalised after a pre test. The first schedule for the bank aimed at seeking data on the origin of the bank, branch expansion, deposit mobilisation, credit deployment, credit deposit ratio, recovery of loan, overdues, volume of business, income, expenditure, profit and loss and related matters (vide Appendix 1). The second interview schedule for the selected (sample) borrowers were broadly divided into three parts. The first part contained questions relating to borrowers personal data, viz., religion, caste, sex, age, education, occupation, marital status, land holding, income, expenditure, saving etc., The questions in the second part were confined to various aspects relating to loan particulars. The third part comprised questions on utilisation of loan, repayments, dues and borrowers' views on the bank. While the data on the first and third parts were collected from the respondents, the data on the second part were elicited directly from the branches from where the respondents had raised their loans (Vide Appendix II).

Reference Period

For studying the performance of Regional Rural Banks in general and their recovery in particular, data and information were gathered from the secondary source for a period of nine years i.e. from 1986 to 1994. Data and particulars on various aspects of the selected banks' (The Pandyan Grama Bank) performance were gathered for 18 years from 1977 to 1995(as available). The Survey of borrowers was carried out during the period between April to August 1996.
Tools for date analysis

The data collected from the secondary and primary sources had been classified and arranged in the form of tables. The plan of analysis included the application of both traditional and statistical tools. Simple averages, percentages, ratios had been used for assessing the overall performance of banks including their recovery and overdues positions. The Compound Growth Rate was computed with respect to important indicators of performance of banks including recovery, overdues etc., An intensive and Comparative analysis of Efficiency in recovery performance had also been carried out by computing and applying Recovery Efficiency Ratio (RER)\(^{42}\). The ratio was calculated as follows:

\[
\text{Recovery Efficiency Ratio} = \frac{\text{Total Recovery of the Banks (Region)}}{\text{Total Branches of the Banks (Region)}} \times \frac{\text{Total Recovery in RRBs Systems}}{\text{Total Branches in RRBs System}}
\]

If the value of the ratio was more than one, it showed the recovery efficiency of the banks operating in the region and state was more than the system and vice-versa.

To study the repayment behaviour of the sample borrowers, the technique i.e., Repayment Index\(^{43}\) developed by Prof. J.D Von Pischke, had been applied.

Gini Ratio had also been computed for finding out the inequality in overdues of RRBs borrowers. The Gini Ratio or Concentration ratio\(^{44}\) had been worked out as follows. The formula being:

\(\text{Gini Ratio} = \ldots\)

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\(^{43}\) A detailed note on "Repayment Index" and its computation is shown in Appendix III.

If the ratio (Gini Ratio) was less than one, the majority of small borrowers were the defaulters; if it was equal to one, majority of average borrowers were the defaulters. If it was more than one, the defaulters were large borrowers.

In order to bring out the relative importance of various factors causing overdues for different categories of borrowers, multiple regression analysis had been used as an analytical tool at the borrower level.