

RECOVERY PERFORMANCE OF NATIONALIZED BANKS IN MADURAI DISTRICT TOWARDS LOANS GRANTED UNDER PRIME MINISTER'S ROZGAR YOJANA (PMRY)

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Abstract

The objective of the PMRY scheme is to bringing the assisted families above the poverty line by ensuring appreciable and sustained level of increase over a period of time. In this chapter an attempt has been made to identify the problems connected with the implementation of the PMRY and to analyze the prospects for development in future. For better exposition, the analysis has been carried out under the following heads viz., Recovery performance and Bankers' view and view of beneficiaries in Madurai District.

Keywords: *PMRY, Recovery performance, Unemployment, small-scale sector, self-employment, Demand Collection Balance Method*

Introduction

Unemployment is considered as a bane of India's development particularly the educated unemployed youth who become unproductive and frustrated are to be paid special attention. The small-scale sector includes village and cottage sectors are found out to be the best means to solve the growing unemployment problem. Self-employment is the only solution to the unemployment. Policy makers and economists studied and drew conclusion that setting up a small scale unit with a moderate investment has got the potential to provide employment to about 4 to 5 people directly and indirectly. The scheme was launched on the auspicious day of 2nd October, 1993, the birth Anniversary of Mahatma Gandhi all over the country. The main objective of the PMRY scheme was to provide easy subsidized financial assistance to educated unemployed youth for starting their own enterprises in manufacturing, business & service and trade sectors. Initially the scheme was aimed at providing self-employment to one million educated unemployed youth in the country by setting up 7 lakh micro enterprises through inducting service and business ventures over a period of 2 ½ years.

In the present study though evaluation studies have been taken by various agencies like District Industries centres, Lead bank of various Districts, Office of the Director of Employment and Training Madras and Planning and Credit Department of Reserve Bank of India there was no comprehensive study taken up for this exclusive programme "Prime

Minister Rozgar Yojana". Hence at this juncture it becomes necessary to study the overall performance of the scheme of PMRY in Madurai District.

Hypothesis

- Significant growth in annual family income results in better repayment.

Recovery Performance

Recovery of loan assumes greater significance as it involved utilization of public money for sanctioning of loans. The project cost is met by 75 per cent bank loan and 25 per cent subsidy. Recovery performance is an indicator of the successful functioning of the scheme and it enables the financial institutions to recycle the money to cover more number of eligible beneficiaries. The PMRY scheme is one among the poverty alleviation schemes and the performance of the scheme in terms of coverage and recovery helps in improving and comparing its performance with other scheme that are in vogue. Moreover, recovery performance needed to be analyzed since the loan sanctioning authority is given to banks, whereas identification of beneficiaries for the PMRY programme is done by government.

Growing incidence of default in repayment of loans under PMRY scheme has attracted the attention of bankers and authorities concerned prompting them to analyse the causes for such poor performance and to find means for improving recovery performance. To study the recovery performance, information was collected regarding the amount of loan sanctioned, the data of sanctioning, moratorium period given, number of instalments paid and the like from the records of the banks. In the study area, there are 23 commercial banks with 94 branches which disburse loans under PMRY scheme.

For the purpose of analyzing recovery performance, State Bank of India, (SBI), Indian Bank (IB), Indian Overseas Bank (IOB) and Canara Bank (CB) have been selected. These banks top the list regarding the number of loan sanctioned and amount of loan disbursed in Madurai District during the period under study. The researcher visited branches where the beneficiaries received loan under PMRY scheme in Madurai District and also got permission to go through PMRY ledger. The information regarding loan amount, demand and collection and number of accounts closed were collected from the selected banks and Collectorate for a period of 5 years from 2007-08 to 2011-12. Data on recovery have been calculated by Demand Collection Balance Method. Data from the ledgers were collected as follows:

- Demand (D) as on 31.03.2012
- Collection (C) as on 31.03.2012
- Overdue (O) as on 31.03.2012

Demand was collected for each one of the beneficiaries by multiplying the quantum of monthly installments by the number of months elapsed from the data of disbursement of the loan up to 31.03.2012 deducting the number of months given as repayment holiday for

each beneficiary. The interest due up to 31.03.2012 is also added to arrive at demand. For collection, the amount paid up to 31.03.2012 by the beneficiaries added to the subsidy, interest occurred, and is taken as amount collected. Overdue is calculated by deducting the amount collected from the demand.

The percentage recovery is calculated by using the following formula:

$$R = \frac{C}{D} \times 100 \dots\dots\dots (1)$$

where, R = Recovery percentage; C = Collected amount; D = Demand

The number of loans sanctioned and disbursed by the selected banks in Madurai district during 2007-08 to 2011-12 and the amount of loan, demand made by the banks, amount collected, overdue amount and outstanding are given in Table 8 to 11.

Table 1 Recovery Performance of State Bank of India (SBI)

Years	Number of Beneficiaries	Loan Amount (Rs. in lakhs)	Demand (Rs.in lakhs)	Recovery Percentage	Collection (Rs. in lakhs)	Overdue (Rs. in lakhs)	Outstanding (Rs. in lakhs)
2007-08	9	9.526	9.699	94.08	9.125	0.49	0.38
2008-09	12	11.245	11.631	89.15	10.369	0.876	0.98
2009-10	3	1.009	1.243	57.44	0.714	0.295	0.317
2010-11	17	12.341	12.999	89.68	11.658	0.683	0.851
2011-12	34	31.941	32.661	92.98	30.369	0.1572	0.969
Total	75	6062	68.233	91.21	62.235	3.827	3.497

Table 2 Recovery Performance of Indian Bank (IB)

Years	Number of Beneficiaries	Loan Amount (Rs.in lakhs)	Demand (Rs.in lakhs)	Recovery Percentage	Collection (Rs. in lakhs)	Over due (Rs. in lakhs)	Outstanding (Rs. in lakhs)
2007-08	9	8.691	8.996	84.05	7.561	1.130	0.697
2008-09	7	3.411	3643	88.09	3.209	0.202	0.166
2009-10	5	2.961	2.999	78.99	2.369	0.592	0.276
2010-11	3	1.866	1.961	74.25	1.456	0.410	0.098
2011-12	8	7.621	7.919	89.95	7.123	0.498	0.316
Total	32	24.550	25.518	85.11	21.718	2.832	1.553

Table 3 Recovery Performance of Indian Overseas Bank (IOB)

Years	Number of Beneficiaries	Loan Amount (Rs.in lakhs)	Demand (Rs.in lakhs)	Recovery Percentage	Collection (Rs. in lakhs)	Over due (Rs. in lakhs)	Outstanding (Rs. in lakhs)
2007-08	12	21.911	22.969	83.85	19.259	2.652	1.011
2008-09	25	31.819	32.069	82.21	2365	5.454	1.952
2009-10	5	8.245	8.961	71.60	416	1.829	0.674
2010-11	13	13.241	13.961	63.47	8.861	4.380	1.618
2011-12	60	5364	5693	85.18	48.293	8.076	1.694
Total	115	131.585	134.653	81.09	109.194	22.39	948

Table 4 Recovery Performance of Canara Bank

Years	Number of Beneficiaries	Loan Amount (Rs.in lakhs)	Demand (Rs.in lakhs)	Recovery Percentage	Collection (Rs. in lakhs)	Over due (Rs. in lakhs)	Outstanding (Rs. in lakhs)
2007-08	16	1481	1981	89.92	15.269	1.212	0.128
2008-09	23	25.611	28.413	79.73	22.654	2.957	0.098
2009-10	12	13.633	13.999	88.98	12.456	1.177	0.103
2010-11	16	23.633	24.861	89.98	22.369	1.264	0.078
2011-12	9	11.245	11.461	90.46	10.368	0.877	0.067
Total	76	90.603	95.715	889	83.116	7.484	0.474

According to Table 1 that the overall performance of State Bank of India in Madurai District the total number of PMRY loans disbursed for the five years was 75. The maximum number of loans disbursed in 2011- 12 was (34) of the total number. With regard to the rate of recovery 92.98 per cent was made in the year 2011- 12. The overall recovery rate works out to 91.21 per cent. Table 2 shows that the recovery performance of Indian Bank in Madurai district for the five year period. The total number of loan disbursed was 32. The majority of number of loan (9) was disbursed in the year 2007-08. The number of loans disbursed was the lowest by Indian Bank in the study are during the period 2010-11.

Recovery performance is observed in Indian Bank. The recovery in 2011 - 12 and 2008-09 was 89.95 per cent and 88.09 per cent respectively. In 2007-08 and 2009-10 it was 84.05 per cent and 78.99 per cent respectively. The overall recovery percentage for the five years was 85.11 per cent. Table 3 observed that the total number of loans disbursed by the Indian overseas Bank in Madurai District was 115. In the year 2011-12 the bank had sectioned loans numbering 60. The rate of recovery was 81.09 per cent during the five year period, in an overall manner. Recovery performance of Canara Bank in Madurai District is given in Table 4. The total number of loan disbursed was 76 and the maximum number of loans was disbursed was 76 and the maximum number of loan was disbursed in 2008-09. The recovery percentage was high (90.46 per cent), during 2011-12 followed by cash 89.98 per cent in 2009-10 and 2010-11. The overall recovery rate was 889 per cent.

The overall recovery performance is more than 70 per cent in all four banks under PMRY scheme in Madurai District where the highest percentage of recovery is associated with practices followed by the bank. General and specific performance of recovery and commercial banks in Madurai District as per the object of PMRY.

Overdues and Reasons for Overdues

Reasons for the overdue are analyzed from the bankers and the beneficiaries' points of view as given by them during the survey. From Table 8 to 11, it is observed that Overdue were to the tune of Rs.3,827 lakhs in SBI, Rs.2,832 lakhs in Indian Bank, Rs.22,391 lakhs in Indian Overseas Bank and Rs.7,484 lakhs in Canara Bank of Madurai District.

In nearly 50 per cent of the cases, the beneficiaries were not given the actual loan amount asked by them. In order to start the units, necessarily, apart from the PMRY loan, they have to borrow from outside sources, of course at a higher rate of interest. This extraordinary interest payment is also affecting the repayment performance of the beneficiaries. Moreover, poor repayment was attributed to severe competition in business and lack of demand for the products, and seasonal demand for the products of beneficiary entrepreneurs. Tremendous hike in the price of essential commodities necessitates a large amount of income to be spent on consumption of the essential items. In some cases, unforeseen domestic expenditure has led to a disposal of the units by beneficiaries without the knowledge of the bankers who started a new line of business. In the units run by third parties, the income received was less than the expected income and they were unable to repay the loan. Heavy losses reported due to fire, theft and accident have prevented some from paying the overdue.

Banker's View and View of Beneficiaries

Bankers View

The successful functioning of the scheme depends on the effective functioning of the staff at the branch level. Since the implementation of the scheme is vested with the bankers it would be appropriate to elicit opinion from the bank officials who are participating in the scheme. The Bank Manager and field officials, through their participation in meetings, conducted by DRDA and interview of candidates, though they have no decision making power, are actively engaged in assessing the beneficiaries skills of eligible candidates, and deal with all practical matters connected with the starting of a project. Taking these factors into account the Branch Manager and Field Officers of the Commercial Bank branches in Madurai District were interviewed orally and opinion gathered given under the following heads.

1. Identification of beneficiaries
2. Time taken for disposal
3. Reasons for rejection
4. Experience in other schemes
5. Reasons for overdue
6. SC/ST target
7. Problems Experienced

i) Identification of Beneficiaries

Majority of the Bank Managers were of the opinion that the present system of selection of candidates by the Task at the DRDA was unsatisfactory. Loans were sanctioned mainly to achieve their fiscal targets unmindful of the fiscal viability of the selected projects. Moreover, on account of the large number of candidates to be interviewed on a

particular day, time was not available for a detailed assessment of the beneficiaries' skill and project viability. Some Managers were of the opinion that the banks should be entrusted with the selection of the candidates. Another area where the bankers wanted immediate improvement was in the selection of candidates by the task force headed by the Project Officer of the DRDA in which bankers also had representation. They said at present the task force committee was able to spend hardly a few minutes in interviewing each candidate, because of the large number of persons to be screened in a day. This did not help them in knowing their background, aptitude and integrity. One suggestion was that the task force committee could fix the target for individual banks but leave the actual selection of candidates to the banks concerned.

ii) Time taken for Disposal

The Managers were of the opinion that there was no time delay in sanctioning and disbursal of funds as both take place simultaneously. Delay was in the selection of candidates approaching the bank and in the submission of required documents like quotation for purchase of assets, license, etc. Often Field Officers were unable to make spot verification immediately.

iii) Reasons for Rejection

It was reported by the majority of branch managers that nearly 40 per cent of the applications were rejected because of the main reasons given were as follows:

- a) Project not viable
- b) Already employed
- c) Income exceeds the limit prescribed
- d) Party has not turned up after communication sent and
- e) Incorrect address

iv) Experience in Other Scheme

Regarding the Managers' experience in dealing with normal loans as compared to PMRY loans, the unanimous opinion was that recovery was comparatively easier in small loans than in PMRY loans. In the normal loans reliability of the beneficiary was already known since they were account holders in their branches. They unanimously declared that PMRY scheme was the most difficult scheme to implement in terms of recovery.

v) Reasons for Overdue

The reasons given for the overdue are a) Money spent on consumption, (b) Willful default (c) Insufficient income (d) Indifference towards repayment of government loans (e) Non-utilization of the loan for the approved scheme (f) Insufficiency of loan sanctioned (g) Burden of repayment of loan raised from other sources to cover the deficit (h) Unforeseen

problems like unfavorable market situation escalation of cost of production, power cuts, non-availability of raw materials. Most of the Bank Managers are of the opinion that, Willful default and indifference to repayment of government loans are the most important reasons for the mounting overdue.

vi) SC/ST Target

The branch Managers were of the opinion that they were unable to achieve the SC/ST target set in the scheme due to (a) lack of genuine demand from their section (b) lack of entrepreneurship (c) attachment to traditional occupation, (d) preference to avail of credit under other scheme where subsidy is as much as 50 per cent (THADCO) and (e) preference for wage employment rather than self employment.

vii) Problems Experienced

The major problem confronting the Managers was the lack of personnel to supervise this and other schemes. This scheme requires frequent field visits and hence field officers are unable to contact the beneficiaries as often as is necessary. The Managers were unanimously agreed that there was need for personal collateral security at the time of disbursement of loans and necessity for bringing in legal safeguards.

Views of Beneficiaries

Views expressed by the beneficiaries on the PMRY scheme are given below. Almost all the beneficiaries welcome the scheme as it provides them with the necessary finance to start a venture on their own and at the same time have expressed the need for suitable modifications in the scheme to make it effective. The general opinion of the beneficiaries was that interest on loan could be postponed till the lapse of the moratorium period fixed by the Bank. As per the scheme the beneficiaries have to pay interest from the date of disbursement of the loan. The time lag involved in the generation of income from the commissioned project has made the repayment of the loan with interest a difficult task for the borrowers. Concessional rate of interest may also be in the backward area as one of the subsidies of PMRY. Beneficiaries at large were ignorant of the role of DRDA and its single window concept for assisting small entrepreneurs. The sample beneficiaries were not aware of the assistance they had received from DRDA and they only knew DRDA as a place for interview and selection. Therefore, it was suggested that a special cell be started in banks essentially to scrutinize the applications under the PMRY scheme and render necessary technical assistance.

The prevailing rate of interest at 10 per cent for backward areas and 12 per cent for other places is considered to be high by the sample beneficiaries. It was also suggested that instead of subsidy interest free loan may be given. Some of the sample beneficiaries were of the opinion that the moratorium period given is too small and there was a feeling

that the repayment starts immediately after the receipt of loan. Some of the sample beneficiaries have accused the bank personnel for unnecessarily reducing the loan amount recommended by DRDA.

Summary

In the case of recovery, the performance was found to be the best in Canara Bank among the banks in Madurai district. The overall recovery percentage was satisfactory with more than 60 per cent in all the banks under study. Regarding the overdue, the main reasons for non-payment of loan listed by the beneficiaries were severe competition, lack of demand for their products, hike in price of essential commodities and unforeseen domestic expenditure. It could also be observed that the reasons for low recovery of loan were mis-utilization and diversion of funds, family scheme formulation and inadequate staff to follow up in the recovery of loans in the banks.

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