

CHAPTER VIII

ANALYSIS OF BANKERS' RESPONSES

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The banking sector is the most important segment of the financial system in developing countries like India. Since, the nationalisation of banks in 1969, the banking sector has been regulated for a balanced growth of the economy. This indeed paved way for expansion of nationalised banks in rural areas and lending to weaker sections of the society, such as, farmers and small scale industries at subsidised rate of interest.

The purpose of the priority sector lending has been to increase the proportion of credit flowing to the sectors which are important to the national economy, contribute to growth, employment generation and equal income distribution and which may not receive adequate credit otherwise. These objectives are desirable and have been achieved to some extent. However, forced lending could not achieve its desired result for the lack of whole hearted support from the banking industry and undue advantage taken by some beneficiaries of the priority sector. On one side bankers feel that priority sector advances are unproductive and hard for recovery, on the other side borrowers feel that, the money borrowed was public money and even if not repaid it would not affect the banks' profitability. This sort of borrower – lender behavior has complicated the lending of banks to SSI units.

Despite mooted governmental efforts and debt recovery laws, the non-performing assets of the banks are mounting. The blame of poor financing to SSI units and the mounting non-performing assets (NPAs) cannot be solely attributed to the act of bankers. But it is due to the political pressures, which started being used in all manners of proposals. They pressurised the banks to lend, but not the borrowers to repay the loans. Such political interference in bank lending to priority sectors placed the interests of these very sectors in jeopardy. Moreover, the policies initiated from the mid-seventies towards credit of banks, as a lever for rural development is also partially responsible for the mounting overdues in banks. Achieving target under Government sponsored poverty alleviation programmes led to the change of climate in the banking industry, under which

financing was important and bankers need not bother about whether or not the finance truly benefited the borrower, through adequate income generation. The neglect of end result of financing resulted in mounting overdues. Due to the poor recovery of loans, banks are trying to safeguard their assets by securing the loan with collaterals. And so, all sorts of regulations are made by them which hinder the flow of credit to the small scale industrial units.

In the present chapter, bank finance to SSI units has been analysed. A dismal feature to be noted in this context is that, Sivaganga district ranks only 18th place out of 20 ranks assigned in granting advances to agricultural and small scale industries in a survey made in the state of Tamilnadu¹. And so, analysis of responses elicited from bankers, relating to their financing of SSI units in the study district assumes greater significance.

It was a matter of great interest for the present researcher to find out the extent of financing by banks to SSI units and the problem faced by bankers in dealing with loan accounts of the SSI units. The following matters are examined in this chapter:-

Location of sample banks in the district, number of small scale industrial and non-SSI accounts with the bankers, bank financed SSI units that turned sick, financial schemes in operation in the banks for SSI units, the mode of re-finance of banks, types of loan facility extended to SSI units, the problems of bankers in dealing with SSI loan accounts, the rate of recovery of SSI loans, the views of bankers on the low rate of recovery of SSI loans, the type of non-financial services provided by banks to SSI units, the bankers' suggestions to tackle the problems involved in financing SSI units, the extent of legal proceedings against defaulting SSI borrowers and the views of bankers on the Law of Limitation concerning the overdues of small industrial borrowers.

The analysis of bankers' responses on financing of SSI units has been made classifying the banks operating in the district into three, namely, public sector banks, private sector banks and co-operative sector banks.

¹ The India Economic Journal, October-December 1997, Vol.44, No.2, p.145.

LOCATION OF BANKS

Due to the licensing policy of the RBI on the locational requirements of banks, there has been wide spread of banks in rural and semi-urban areas. The number of rural and semi-urban branches of commercial banks at the time of nationalisation of banks in 1969 was 1,833 and 3,342 respectively, and the population per office of the commercial bank was 64,000.² The corresponding figures for the period ending March 1997 were 33,008 rural branch offices and 13,641 semi-urban branches and the population served per bank office has been drastically reduced to 15,000.³ The above banking statistics show a phenomenal growth of banking industry in just less than three decades.

As Sivaganga district is one of the backward districts in the State of Tamilnadu, the bank branches located in the district were grouped into rural and semi-urban branches. The survey noted that, of the 35 sample bank branches, 74.3 per cent were located in semi-urban areas and the remaining 25.7 per cent were functioning in rural areas. It was a remarkable disclosure that, of the nine private sector banks surveyed, a majority of 88.9 per cent branches were located in semi-urban areas. The table given below is a pointer to this phenomenon.

TABLE -LXXXIX
LOCATION OF BANK BRANCHES IN SIVAGANGA DISTRICT-SECTORWISE

LOCATION	Public sector banks	Private sector banks	Co-operative sector banks	Total
Semi-urban	12	8	6	26 (74.3)
Rural	6	1	2	9 (25.7)
Total	18	9	8	35 (100)

Figures in brackets indicate per cent to total.

Source: Primary data.

² Reserve Bank of India, Banking Statistics, December, 1975, p.1.

³ Reserve Bank of India, Banking Statistics Quarterly Handout, March 1997, p.1.

INDUSTRIAL ACCOUNTS WITH BANKS

The industrial advances by banks in Sivaganga district for the years 1989-90 to 1993-94 have been commendable compared to the state level industrial advances of banks under 'service area approach'.* The following table shows comparative position of industrial advances of banks under service area approach in the study district as against state level year-wise.

TABLE – XC
INDUSTRIAL ADVANCES BY BANKS AGAINST TARGET
UNDER SERVICE AREA APPROACH

YEAR	% OF PERFORMANCE OF INDUSTRIAL ADVANCES	
	TAMILNADU STATE	SIVAGANGA DISTRICT
1989-90	101	119
1990-91	104	153
1991-92	97	128
1992-93	105	113
1993-94	126	142

Sources : 1. Figures relating to the whole of the State of Tamilnadu were collected from various Annual Credit Plans of Indian Overseas Bank (Central office), Chennai.

2. Figures relating to Sivaganga district were taken from various Annual Credit Plans of Indian Overseas Bank (Lead Bank), Sivaganga.

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- Under service area approach, banks provide finance to small scale industries in rural areas (including industries in medium and large scale industries). For more details, please vide Chapter –IV of the present research report.

The above table clearly shows that banks' performance at the district level under service area approach in lending money to industries had been high than the State's overall performance. It is also to be noted that, the banks in the state of Tamilnadu also have been able to achieve the targets in all the years except in the year 1991-92. In this context, it is to be noted that, the present survey of small industries has revealed that the bank credit to the small scale industries is insufficient. Although, the performance of the banks at the district level under the exceeded its target in the past few years, yet, the disbursal of loan by the banks under the service area approach to small industries was just 7% and 19% of total advances and priority sector advances respectively, against the stipulated RBI's norms of 16% (of total bank advances to SSI units) and 40% (of total advances to priority sector lending to SSI units) - - please vide supra Table –XXVI in Chapter-IV of the present research report.

Industrial advances also include advances granted to medium and large scale industries. So, an attempt was made during the study to ascertain the composition of industrial loan accounts with banks by posing a question on what is the total number of industrial accounts with the banks? and, of which, what is the proportion of loan accounts of small scale industrial units?

It is a revelation that, of the 35 sample bank branches, 34.3 per cent of the banks (12 in number) had non-small scale industrial loan accounts, (i.e., loans to medium and large scale industries). But all the 35 banks had SSI loan accounts of which 14 banks (40 per cent) had more than 20 SSI loan accounts. This clearly shows that the proportion of small scale industrial loan accounts has been very high compared to non- small scale industrial loan accounts. A look at the following table will make the above point more clear.

TABLE – XCI
SAML SCALE AND OTHER INDUSTRIAL ACCOUNTS WITH BANKS

Number of accounts ↓	Public sector banks		Private sector banks		Co-operative sector banks		Total	
	SSI	Non-SSI	SSI	Non-SSI	SSI	Non-SSI	SSI	Non-SSI
1 to 10	8	7	7	3	3	1	18	11
11 to 20	2	1	1				3	1
21 to 30	2				2		4	
31 to 40	2				2		4	
41 to 50	2						2	
51 to 60					1		1	
61 to 70	1		1				2	
Above 70	1						1	
Total	18	8	9	3	8	1	35	12

Source: Primary data.

BANK FINANCED SICK SSI UNITS

It had been a worrisome matter for the Government to see an increasing number of sick SSI units. Among the total number of sick industrial units, sick units in the SSI sector constitute about 99.1% of the total. Over Rs.3,000 crores were blocked in sick SSI units. However, they accounted for only 26.9% of the total outstanding bank credit, while 0.9% of the total number of sick units accounted for 73.1% of the total outstanding bank credit.⁴ It is clear from the above analysis that, in terms of number of units becoming sick, sickness in SSI units had been tremendously high, whereas in terms of amount locked up in sick units, the share of the non-SSI units was very high. Even though the amount locked up in the SSI units is relatively low, yet many bank financed units turned sick. This hinders the banker from enthusiastically financing small industrial units.

It is an observance of the study that from the survey of 35 bankers, 22 bankers had accounts of sick SSI units. It was a remarkable disclosure that, of these 22 bankers,

⁴ Laghu Udyog Samachar, New Delhi, April 1994, p.10.

a considerable portion of 31.8 per cent stated that almost '80 to 100%' of their SSI accounts were the accounts of sick SSI units. The following table illustrates these details.

TABLE – XCII
PROPORTION OF SICK SMALL SCALE INDUSTRIAL UNITS
IN TOTAL SSI UNITS FINANCED BY BANKS

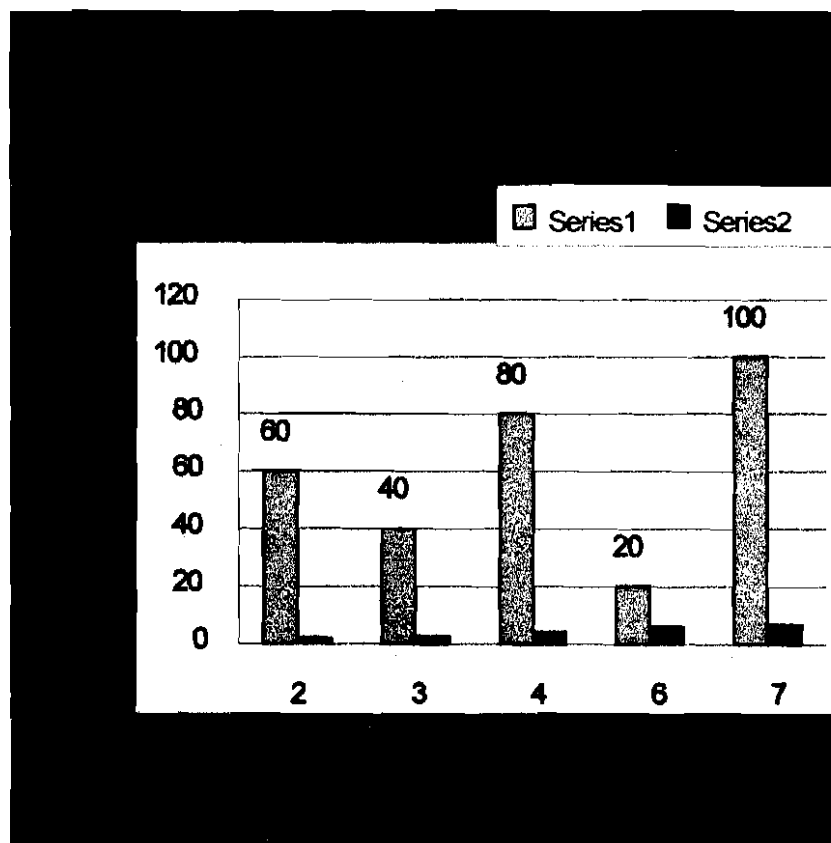
Sick SSI units as a % of total SSI units financed	Public sector banks	Private sector banks	Co-operative sector banks	Total
Below 20%	3		3	6 (27.3)
20 to 40%	3			3 (13.6)
40 to 60%	2			2 (9.1)
60 to 80%	3	1		4 (18.2)
80 to 100%	3	3	1	7 (31.8)
Total	14	4	4	22 (100)

Figures in bracket indicate per cent to total.

Source: Primary data.

The following Figure portrays vividly the number of banks that had loan accounts of sick small scale industrial units.

FIGURE – 12



Series 1 denotes percentage of sickness in the total number of SSI loan accounts

Series 2 denotes the number of banks

Note: For presentation of data in the above Figure, the SSI units falling under the higher percentage slab were taken. (That is as shown in the Table-XCII, accounts of SSI with six banks in number falling under the category 'Below 20%' sickness, was taken to mean 20% sickness).

A reading of Table-XCII shows that a vast majority of accounts of SSI units with the banks were the sick accounts. A striking disclosure is that while only around 50% of the private sector and co-operative sector bank financed SSI units were found to be sick units, the proportion of the sick SSI units financed by the public sector banks constituted to an overwhelming majority of 77.8 per cent of the total SSI units financed by banks in by public sector. That is to say, 14 out of 18 public sector banks had sick small scale

industrial accounts. It means that the magnitude of sickness in the SSI units financed by the public sector banks is much larger.

SANCTION AND DISBURSAL OF BANK LOAN

Small scale industries in Sivaganga district have not experienced major fluctuations in the sanction and disbursement of loans. From the data collected from bankers, it was observed that during the year 1995-96 (April to March), of the 35 banks, 31 banks had SSI loan accounts, the other four banks had earlier disbursed the loan and might have recovered it. Outstanding loan accounts of SSI units confirms the above fact. As 'outstanding' bank credit does not include loan turned bad, if any bank has advanced loan which has either turned bad or decreed by court for complete recovery but the bank is unable to realise the amount, will not be included in 'outstanding' bank credit. Therefore, those four banks that did not have SSI loan accounts as on March 31, 1996, might or might not have recovered loan. But as on that date, did not have viable / running SSI loan accounts. A remarkable disclosure of the study is that, there was almost complete disbursement of loan sanctioned to SSI units, as in most of the cases the sanctioned and disbursed amount of the loan were same. A notable feature is that the number of banks that have sanctioned / disbursed loan to SSI units below Rs.30 lakhs (for all SSI units) was between 22 and 26 for the three years from April 1993 to March 1996. Further, the number of banks that have sanctioned / disbursed loan 'above Rs.30 lakhs (for all SSI units) was very negligible at a maximum of five and a minimum of one for the three years period of 1993-1996. The above particulars are presented in the following table.

TABLE – XCIII

BANK LOANS SANCTIONED, DISBURSED AND OUTSTANDING RELATING TO SSI SECTOR

Amount of sanction	Year	Sanctioned	Disbursed	Outstanding
Below Rs.30 lakhs	1993-94	23	23	22
	1994-95	26	26	23
	1995-96	24	22	21
Above Rs.30 lakhs	1993-94	1	1	8
	1994-95	4	4	11
	1995-96	5	3	10

Source: Primary data.

FINANCIAL SCHEMES FOR SSI UNITS

The Government of India through its promotional bodies of SSI units, like the Small Industries Development Organisation (SIDO), the financing bodies like SIDBI has formulated various schemes. The SIDBI through its direct and refinance financial assistance schemes has floated several schemes (which were discussed supra in Chapter-III) to suit the different needs of the SSI sector. These schemes (meant for SSI) of the Government are implemented through banks and State Financial Corporations (SFCs). The dominant portion of the SSI units' finance lies with the banks. Though co-operative banks are not brought under the above schemes formulated by Government, yet they are financing the SSI units under their own financial schemes. Concerning private and public sector banks, they are the real carriers of these schemes to SSI units; but in practice, many of the schemes specially formulated to finance SSI units remain largely unknown to small industrialists. As examined in Chapter-VI of the present report, many SSI units / entrepreneurs are not aware of the financial schemes of SIDBI, the premier refinancing bank of SSI units. There are two reasons as to why banks do not encourage special schemes; first, these schemes are less profitable to banks, secondly, getting refinance for the sanction of loan under the above schemes is troublesome, namely, involving cumbersome procedures.

A commanding proportion of 74.4 per cent of bankers' responses indicated, there were no special schemes in the banks to finance the SSI units. Generally, banks, as a priority sector and under the privileged interest rate financed SSI units, but the features as incorporated in the special financial schemes meant for the SSI units will not normally extended by banks. Further, 11.7 per cent of the responses indicated, there were bill-financing schemes in operation; seven per cent responses indicated there were special schemes in operation for SSI units formulated by the banks themselves. Responses constituting 4.7 per cent showed that there was single window scheme in operation and 2.3 per cent responses pointed out, there was national equity fund scheme in operation. The above discussion makes it clear that, there is no effective implementation of special financial schemes of the Government by the banks. Table-XCIV illustrates the above details.

TABLE –XCIV
BANKS' FINANCIAL SCHEMES IN OPERATION FOR SSI UNITS

SCHEME	Public sector bank	Private sector bank	Co-operative sector bank	Total
General scheme	16	8	8	32 (74.4)
Single window scheme	2			2 (4.7)
Bills financing scheme	2	3		5 (11.6)
Equity fund scheme	1			1 (2.3)
Own special scheme of the bank	2		1	3 (7.0)
Total	23	11	9	43 (100)

Responses may not tally as more than one response has been received from some banks.

Figures in bracket indicate per cent to total.

Source: Primary data.

REFINANCE TO BANKS

The commercial banks are under resource crunch to adequately finance SSI units. In order to provide sufficient flow of money to this vital sector, the Development Financial Institutions (DFIs) like SIDBI and NABARD provide refinance facility to commercial banks, regional rural banks, co-operative banks and state level financial institutions. Industrial units satisfying the eligibility criteria under refinance scheme may include the various activities specified for the purpose by the DFI. The refinance amount provided by SIDBI varies from 75% to 100% of the SSI loan depending on the type of activity and size of the borrowing units.

The NABARD provides refinance assistance to commercial banks, regional rural banks and co-operative banks for the promotion of small scale industries in rural areas. The extent of refinance available as a percentage of bank loans to SSI ranges from 70% to 100%. And the rate of interest charged for refinance assistance varies in proportion to the quantum of loan. Refinance from NABARD / SIDBI is made available to banks either on automatic basis without recourse to pre-sanction procedure or on schematic basis with prior approval. Under automatic refinance facility, a very simplified procedure has been adopted to ensure speedy dispensation of credit by the bank.

SIDBI is operating a special refinancing scheme for rehabilitation of sick SSI units and for equipment refinance under simplified procedures. SIDBI does not specify a minimum limit with regard to amount of loan eligible for refinance in respect of artisans and village / cottage industries, tiny units and entrepreneurs belonging to backward community. However, minimum limit of Rs.2 lakhs is applicable in other cases of SSI loan.

Getting refinance from DFI is optional for a bank and it may also opt to get refinance from more than one source. The two refinancing bodies concerning SSI units are SIDBI and NABARD. The survey indicated the bankers' sources of refinance. Although, refinance is not made at the branch level, yet the quantum of finance made at the branch level also decides on the eligibility for refinance*. Therefore, all branches were required to state the mode of refinance. Responses accounting for 47.4 per cent pointed out that the bankers made use of refinance from SIDBI and another 44.7 per cent of the responses showed their use of refinance from NABARD. Only a paltry portion of 7.9 per cent responses indicated that the banks did not receive refinance at all.

Usually, co-operative banks and private sector banks are not being controlled by RBI in the fixation of prime lending rate and deposit rate. Because of this privilege, these banks are able to attract more deposits, which helps them to have sufficient funds for providing loan. So, the banks in private sector and co-operative sector sometimes, may not utilise refinance. However, land development banks in the co-operative sector always utilise refinance, as they do not get deposits from public. It is to be noted from the following table that, all the public sector banks have availed themselves of refinance, whereas that is not the case with private and co-operative sector banks.

*Refinance is claimed by Regional Office of the bank concerned after ascertaining the quantum of small industries loan made scheme-wise at the branch level..

TABLE – XCV
SAMPLE BANKS' MODE OF REFINANCE

Refinancing institution	Public sector banks	Private sector banks	Co-operative sector banks	Total
SIDBI	10	7	1	18 (47.4)
NABARD	10	2	5	17 (44.7)
Refinance not availed of		1	2	3 (7.9)
Total	20	10	8	38 (100)

Responses may not tally as refinance may have been availed of from more than one source.

Figures in brackets indicate per cent to total.

Source: Primary data.

KIND OF LOAN

Generally, SSI loan from banks remain one time sanction and the borrowing units' touch with the bank ends once the borrowed money is repaid. Most of the units do not prefer to have working capital loan accounts for the simple reason that, their quantum of working capital requirement is too small. So, the SSI units' borrowal accounts with the bank remain mostly long term loan accounts or composite loan accounts. As came to light in the present survey (please vide table-LXI), of the 116 bank financed units, 58.6 per cent were either long term loan beneficiaries or composite loan beneficiaries. The survey of bankers also revealed that almost half (49.1%) of the bank loan had been term loan.

Bankers' responses constituting 27.3 per cent indicated that the banks were having exclusively working capital loan accounts. The survey of SSI units also revealed that of the 116 SSI bank financed units, 29.3 per cent were having exclusively working capital loan accounts. About twenty four per cent responses indicated that, the banks were having both working capital and long term loan accounts. Therefore, it is evident from the above analysis that most of the SSI loan accounts with the banks were only long term loan accounts. The table given below bears a testimony to these facts.

TABLE - XCVI
TYPES OF LOAN FACILITY PROVIDED BY BANKS

Type of loan	Public sector banks	Private sector banks	Co-operative sector banks	Total
Term loan only (including composite loan accounts)	15	6	6	27
Working capital loan only	9	5	1	15
Both term loan and working capital loan (excluding composite loan accounts)	7	2	4	13
Total	31	13	11	55

Responses may not tally as more than one response has been received from some respondents.

Source: Primary data.

TERM LOAN

As discussed in the earlier paragraphs, term loan has been an important way of financing SSI units by banks. It was noted during the study that of the 35 banks, 77.1 per cent of the banks had term loan accounts; of which, 57.1 per cent of the banks had less than 10 term loan accounts of SSI. That is, only the remaining 20 per cent of the banks had more than 10 term loan accounts of SSI. Table – XCVII exhibits these details.

TABLE – XCVII
NUMBER OF TERMLOAN ACCOUNTS (INCLUDING
COMPOSITE LOAN) OF BANKS

Number of accounts	Public sector banks	Private sector banks	Co-operative sector banks	Total
1 to 10	11	6	3	20
11 to 20	1		1	2
21 to 30			1	1
31 to 40	2			2
41 to 50	1			1
51 to 60			1	1
Total	15	6	6	27

• No bank had more than 60 term loan accounts.

Source: Primary data.

WORKING CAPITAL LOAN

The performance of private sector banks in providing working capital loan to SSI units seems to be enthusiastic. Of the 35 banks studied, 42.9 per cent were engaged in financing SSI units for working capital needs; of which, 17.2 per cent banks were private sector banks. As a proportion of total private sector banks, the banks' financing for working capital accounted for 66.7 per cent. It means, of the nine private sector banks, six banks were financing SSI units for working capital requirement. But such proportion for public sector banks was 44.4 per cent and 12.5 per cent for co-operative sector banks. The table given below incorporates the above particulars.

TABLE – XCVIII
NUMBER OF WORKING CAPITAL LOAN ACCOUNTS OF BANKS

Number of accounts	Public sector banks	Private sector banks	Co-operative sector banks	Total
1 to 10	6	6	1	13
11 to 20				
21 to 30	1			1
Above 30	1			1
Total	8 (44.4)	6 (66.7)	1 (12.5)	15 (42.9)

* No bank had more than 60 working loan accounts.

Figures in brackets indicate the per cent to total number of banks in each banking sector.
Source: Primary data.

TERM LOAN AND WORKING CAPITAL LOAN TO SSI UNITS

Further investigation into the banks' types of loan extended to SSI units revealed that 42.9 per cent of the bank branches had both term loan and working capital loan accounts for the SSI units. Like the term loan accounts and working capital loan accounts, the banks that were having both term and working capital loan accounts had more number of borrowers in 'less than 10 accounts' category. In other words, banks that had more than 10 working capital and term loan accounts were just two out of fifteen banks, constituting 13.3 per cent of the sample banks. Table-IC is a pointer to the above fact.

TABLE – IC
NUMBER OF WORKING CAPITAL AND TERM LOAN ACCOUNTS OF BANKS

Number of accounts	Public sector banks	Private sector banks	Co-operative sector banks	Total
1 to 10	4	2	2	8
11 to 20				
21 to 30	1			1
31 to 40	1		2	2
Above 40	1	1		2
Total	6	3	4	13

Source: Primary data.

It is of clear manifestation from the foregoing analysis that most of the banks had SSI loan accounts less than 10 in number in all types of loan.

PROBLEMS IN PROVIDING TERM LOAN AND WORKING CAPITAL LOAN

It cannot be said that one has rendered justice unless she / he has inquired about both sides of a case. The real problems in a case and a solution for that could be made only when both sides are examined. Therefore, in the present study, although problems from the viewpoint of SSI units were identified and analysed, an attempt was also made to find out the problems of the bankers in long term and working capital loan accounts of the SSI units.

It was a revelation that of the 478 responses as much as 115 responses indicated that irregular repayment of principal amount and interest was the most serious problem the banks were facing in the long term loan extended to the small industrial borrowers. Next to irregular repayment, 107 responses (22.4 per cent) indicated that there was a diversion or misuse of funds provided. The third problem in ranking was that, 79 responses constituting 16.5 per cent pointed out that the borrowed units closed down their business without intimating the lending bank. The fourth problem of the bank in long term loan granted to SSI units was the provision of inadequate security on the loan - 15.5 per cent of responses indicated it. Thus, it came to light that irregular repayment of loan, diversion of loan, closing down of units and provision of inadequate security for the loan were the major problems of the lending banker with regard to long term loan. These problems are presented in the following table.

TABLE – C
BANKERS' PROBLEM IN PROVIDING LONG TERM LOAN TO SSI UNITS

Kind of problem	Rank-1, Score-7	Rank-2, Score-6	Rank-3, Score-5	Rank-4, Score-4	Rank-5, Score-3	Rank-6, Score-2	Rank-7, Score-1	Total Score
Inadequate security	2	4	3	3	3			74 (15.5)
Irregular repayment	10	5		3	1			115 (24.1)
Closing down of units	3	4	5	1	1	1		79 (16.5)
Diversion / misuse of funds	9	3	3	2	1			107 (22.4)
Not knowing financial management principles	1	5	2	1	2	1		59 (12.3)
Poor maintenance of accounts	1	2	2	1		1	1	36 (7.5)
Other	1						1	8 (1.7)
Total	27	23	15	11	8	3	2	478 (100)

Figures in bracket indicate per cent to total.

Note: 1. Total score has been arrived at by adding up the respective scores assigned to ranks. For example, inadequate security total score of 74 is arrived as follows – under rank-1, $2 \times 7 = 14$; rank-2, $4 \times 6 = 24$; rank-3, $3 \times 5 = 15$, rank-4, $3 \times 4 = 12$, rank-5, $3 \times 3 = 9$, and the total score is 74. The total score has been arrived at similarly for other kinds of problem.

2. One bank expressed that it had not faced any problem in extending term loan.

Source: Primary data.

Further delve into the matter revealed that, with regard to working capital loan, the bankers were facing irregular repayment of loan. In working capital loan, though there is no stipulated time within which the loan has to be used and repaid, it requires a borrower to avail him of the working capital credit limit by withdrawing and depositing money from the account. But in many cases, once working capital loan is sanctioned, the borrowers withdraw money and hardly pay back into the account. Sometimes, working capital loan is later converted into term loan due to the non-repayment of loan within 12 months; so, this has been stated as the greatest hurdle in working capital finance. It was further noted that as in term loan accounts, in working capital loans too, there was diversion of loan by borrowing units, as 19.7 per cent responses of bankers indicated it. Inability of the borrowing units to provide for adequate security for the working capital loan was another major problem encountered by the bankers. In this context, it is to be specially mentioned that, both in term loan and working capital loan facility, the bankers were facing similar problems as pointed out above, namely, irregular repayment of loan, diversion of loan and provision of inadequate security. The other problems faced by bankers in the provision of working capital loan are shown in Table-CI.

It is interesting to note that even in the composite loan scheme too, the bankers' problems with the SSI borrowers were the same as those of their problems in the granting of either term loan or working capital loan. A portrait of bankers' problems in the provision of composite loan to SSI units is laid in Table - CII.

TABLE – CI

RANKING OF BANKERS' PROBLEM IN THE PROVISION OF WORKING CAPITAL LOAN TO SSI UNITS

Kind of problem	Rank-1, Score-7	Rank-2, Score-6	Rank-3, Score-5	Rank-4, Score-4	Rank-5, Score-3	Rank-6, Score-2	Rank-7, Score-1	Total Score
Inadequate security	3	2	1		2			44
Irregular repayment	3	6		1				61
Closing down of units	2	1		1		1		26
Diversion / misuse of funds	4	1	3		1			52
Under utilisation of working capital	1		1			1		14
Not knowing financial management principles	2	1	1	1				29
Poor maintenance of accounts	1	1	2	2			1	32
Other		1						6
Total	16	13	8	5	3	2	1	264

Source: Primary data.

TABLE - CII
 RANKING OF BANKERS' PROBLEM IN THE PROVISION OF COMPOSITE LOAN TO SSI UNITS

Kind of problem	Rank-1, Score-6	Rank-2, Score-5	Rank-3, Score-4	Rank-4, Score-3	Rank-5, Score-2	Rank-6, Score-1	Total Score
Inadequate security	1	2		1	1		21
Irregular repayment	4	3	1				43
Closing down of units	3	1		1	1		28
Diversion / misuse of funds	2	2	1	1			29
Not knowing financial management principles	1	1	1	1	1		20
Poor maintenance of accounts		1	2		1	1	16
Total	11	10	5	4	4	1	157

Source: Primary data.

RECOVERY OF BANK LOAN GRANTED TO SMALL SCALE INDUSTRIES

After nationalisation, banks were called upon to function as an effective instrument and catalytic agent for socio-economic development of the country. With substantial expansion of branches over the years and due to nationalisation of banks, the quantum of credit to agriculture, small scale industries and other priority sectors registered a significant growth. The unprecedented rise in credit has to some extent contributed towards mounting level of overdues of banks. Consequently, the non-performing assets (NPAs) of the banks were surprisingly high. With the introduction of the financial reforms based on the Narashimham Committee Report – banks were issued prudential norms for profit disclosure and NPA. It was after this financial reform, many banks were found to be reeling under heavy percentage of NPAs. It is disheartening to note that, in India the NPA level of banks is very high compared to the level of the other countries. The following table is a pointer to this fact.

TABLE – CIII
COUNTRYWISE NPA OF BANKS

COUNTRY	YEAR (% of Non-performing Assets)		
	1994	1995	1996
INDIA	23.6	19.5	17.3
HONGKONG	3.4	2.8	2.7
KOREA	1.0	0.9	0.8
TAIWAN	2.0	3.1	3.8
INDONESIA	12.0	10.4	8.8
THAILAND	7.5	7.5	Not available
US	1.9	1.3	1.1
JAPAN	3.3	3.3	3.4
MEXICO	10.5	14.4	12.3
MALAYSIA	8.1	5.5	3.9

Source: Banking Events Update, New Delhi, March 1998, p.8.

From the above table, it is clear that though NPA level of Indian banks is very high, the percentage of NPA is coming down from its 1994 level. But, still India needs to learn much from other countries to tackle the problem of mounting overdues of banks.

Realising the increasing level of overdues of banks and to help the banks for the speedy recovery of the dues, the Government promulgated the Recovery of Debts due to Banks and Financial Institution Act, 1993, which among other things provided for the constituting of the Debts Recovery Tribunal. These tribunals were constituted in many states and are operational, though several stay orders challenging the validity of the tribunals were pending before High courts. Generally, debts in excess of Rs.10 lakhs owed to banks and FIs are entertained by tribunals. Moreover, the period of disposal of cases is not that much quicker than expected. Due to the cut-off limit fixed for the debt – at Rs.10 lakhs that may be sued in the tribunals, small borrowers defaulting payment cannot be sued in such tribunals.

Banks are much reluctant in granting loans to SSI units for the reason that many of the borrowers make default in repayment and the recovery of such small loan becomes very hard for the banks even through legal means. In the present study, an attempt was made to find out the percentage of recovery of SSI loans by the banks. It was a remarkable disclosure that, recovery of SSI loans 'below 50%' against 'demand' was found to be present in 51.4 per cent of the banks. It means that these banks were not able to recover atleast 50% of the total sum due to them from the SSI borrowers. An important revelation of the study is that of the 18 (sample) public sector banks, 13 banks constituting 72.2 per cent had less than 50% recovery of SSI loans against demand and only 27.8 per cent of the public sector banks had recovery of SSI loans of more 50% of demand; whereas the recovery percentage of private sector banks below 50% of demand was found to be 44.4 per cent. That is to say, 55.6 per cent had more than 50% recovery of loan against demand. Analysis of the recovery position of co-operative banks unveiled that, it was far better than the recovery position of the public sector and private sector banks. That is to say, of the eight co-operative banks, seven banks constituting 87.5 per cent had more than 50% of recovery of loan against demand. These particulars are presented in the following table.

TABLE – CIV
BANKS' RATE OF RECOVERY OF SSI LOAN AGAINST DEMAND

% of recovery of loan against demand	Public sector banks	Private sector banks	Co-operative sector banks	Total
Below 50%	13	4	1	18
Above 50%	5	5	7	17
Total	18	9	8	35

Source: Primary data.

From the foregoing analysis, it is evident that the recovery position / percentage of private sector banks is better than that of the public sector banks and the recovery position / percentage of co-operative banks is far ahead of the position of the private sector and public sector banks. There are certain points to believe – why, the co-operative sector banks had a high recovery percentage of loans. It is for the reason that, if any loan of central co-operative bank or land development banks is overdue for a long time, then after giving reasonable opportunity to the borrower, the banks take legal action for recovery of loan through the Deputy Registrar of Co-operative Societies. Normally, after a grace period of one year, from the date of initial default, such an action is preferred. Under the Revenue Recovery Act, 1864, the co-operative banks are permitted to approach the Deputy Registrar of Co-operative Societies and file an 'executive petition' for the decree of recovery. These formalities are completed just within a week, after the bank decides to go for litigation. After obtaining a decree, the co-operative banks directly attach the properties secured for the loan. Due to these stringent recovery laws, the percentage of recovery in co-operative banks is higher. But the commercial banks in the public sector and private sector have to, either file a suit in a civil court or in the tribunal specially set up for the purpose.

CAUSES FOR LOW RATE OF RECOVERY OF BANK LOAN TO SSI UNITS

The Narashimham Committee has rightly pointed out that, 'directed lending' programmes have had adverse implications for the profitability of banks, because of stipulation of concessional credit rate on priority sector and the element of subsidy on such lending. The Committee also observed that the directed lending programmes led to deterioration in the quality of the loan portfolio that was responsible for the erosion of earnings and profitability. Though the Committee's observance was right from the view point of bankers, from the national economic point of view such directed lending appears to be a right step. Moreover, for a developing country like India, with mammoth population (three times of the population of USA), concessional rate of finance, subsidy and other promotional and other concessional treatments could well be justified. Though, the directed lending programmes have its own evils like, interference of politicians in sanction of loan and fake borrowers, yet, these hurdles are avoidable if the banks are given autonomy to choose the borrowers from the targeted community / sector.

There are some hidden reasons for the rate of recovery of SSI loan of banks hovering around 50% of the demand. To unearth the reasons, the present researcher elicited responses from the bankers. The analysis brought to surface glaringly that wilful default by the borrowing SSI units was the most important factor that led to mounting overdues of small industrial borrowers with the banks. Diversion / misuse of funds by SSI units was ranked the second most important factor affecting the recovery of bank loan. Loopholes in the recovery Acts, lack of integrity of the borrower, expectation of certain concessions and under utilisation of plant capacity were the other important factors affecting the recovery of loans granted to SSI units. The responses recorded and ranks assigned to each of the factors affecting recovery of bank loan are shown in the following table.

TABLE – CV
BANKERS' VIEWS ON LOW RATE OF RECOVERY OF LOANS TO SSI UNITS

Reason	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Total points	Position by ranking	% to total
	N	P	N	P	N	P	N	P	N	P			
No assured market	5	10	8	8	13	0	9	-9			9	7.5	3.9
Sub-standard quality of SSI products	2	4	8	8	14	0	11	-11			1	11	0.4
Loopholes in recovery Acts / laws	7	14	11	11	7	0	10	-10			15	3	6.5
Misuse of funds	9	18	21	21	3	0	2	-2			37	2	16.0
Wrong identification of sick units	3	6	4	4	15	0	12	-12	1	-2	-4	12	1.7
Lack of integrity of borrowers	8	16	11	11	4	0	10	-10	2	-4	13	4.5	5.6
Under finance	1	2	5	5	9	0	14	-14	6	-12	-19	14	8.2
Lack of consortium advances	2	4			17	0	10	-10	6	-12	-18	13	7.8
Expecting certain concessions	5	10	13	13	8	0	8	-8	1	-2	13	4.5	5.6
Delay in sanction	2	4	3	3	8	0	14	-14	8	-16	-23	15	9.9
Under utilisation of plant capacity	3	6	9	9	20	0	2	2	1	-2	11	5	4.7
Low profitability of SSI units	3	6	12	12	7	0	12	-12	1	-2	4	9.5	1.7
SSI units' vulnerability to sickness	2	4	10	10	10	0	10	-10			4	9.5	1.7
Wilful default	21	42	12	12	1	0			1	-2	52	1	22.4
Other	4	8	1	1							9	7.5	3.9
TOTAL											232		100

Note: 1. 'N' represents number of banks responded, 'P' represents points assigned.

2. Strongly agree -- 2 points, Agree -- 1 point, Neutral -- 0 point,

Disagree --1 point, Strongly disagree -- 2 points.

Source: Primary data.

ASSOCIATION OF RESPONSES OF PUBLIC, PRIVATE AND CO-OPERATIVE SECTOR BANKS WITH THE FACTORS AFFECTING RECOVERY OF BANK LOAN TO SSI UNITS

The association of the responses of three categories of bankers on the recovery of bank loan provided to SSI borrowers was tested with the use of Kendall's co-efficient of correlation. The following table furnishes the details of ranks assigned to the responses of the public, private and co-operative sector banks based on the five-point scale method of calculation.

TABLE – CVI
RANKING OF OPINIONS OF PUBLIC, PRIVATE AND CO-OPERATIVE SECTOR BANKS ON LOW RATE OF RECOVERY OF BANK LOAN TO SSI UNITS

Sl. No	Reason	Public sector banks	Private sector banks	Co-operative sector banks	$R_1 + R_2 + R_3$	$D = \frac{360}{15} = 24$	D^2
1	No assured market	6	5.5	7.5	19	-5	25
2	Sub-standard quality of SSI products	11.5	8	10	29.5	5.5	30.25
3	Loopholes in recovery Acts / laws	3	10.5	10	23.5	-0.5	0.25
4	Misuse of funds	2	2	2	6	-18	324
5	Wrong identification of sick units	11.5	13	12.5	37	13	169
6	Lack of integrity of borrowers	5	3.5	10	18.5	-5.5	30.25
7	Under finance	14	15	12.5	41.5	17.5	306.25
8	Lack of consortium advances	13	13	14	40	16	256
9	Expecting certain concessions	4	8	5.5	17.5	-6.5	42.25
10	Delay in sanction	15	8	15	38	14	196
11	Under utilisation of plant capacity	7	3.5	5.5	16	-8	68
12	Low profitability of SSI units	10	13	3	26	2	4
13	SSI units' vulnerability to sickness	9	10.5	7.5	27	3	9
14	Wilful default	1	1	1	3	-21	441
15	Other	8	5.5	4	17.5	-6.5	42.25
	TOTAL				360		1939.5

Source: Adapted from Table – CV of the present research report.

$$\text{Kendall's co-efficient of rank correlation} = \frac{12 \sum D^2}{m^2 (N) (N^2-1)}$$

$$m = 3, \quad \sum D^2 = 1939.50, \quad N = 15, \quad \bar{x} = 360 / 15 = 24.$$

$$= \frac{12 \times 1939.50}{3^2 (15) (15^2-1)} = \frac{23274}{30240}$$

$$= 0.77.$$

The calculated value is 0.77, which is below the range 0.86 to 1.05. It means that the respondents falling under different categories of banks consider the reasons for poor recovery of bank loans to SSI units differently.

NON-FINANCIAL SERVICES RENDERED BY BANKS TO SMALL SCALE INDUSTRIES

Small scale industries are vulnerable to sickness, for the reasons such as, limited scale of operation, restricted holding due to one man ownership and lack of expertise in running the business and so they are unable to sustain huge loss or temporary shortfalls. Apart from financial support, the small industrial entrepreneurs require non-financial support from persons outside the business. Normally, SSI Associations provide such services. Banks on their part though not compulsory, provide for supporting services, namely, helping the SSI units in marketing their products, providing training, counseling, conducting regular meetings of borrowers to discuss the difficulties faced in repaying loan and the like.

The study noted that the banks had the practice of monitoring the units financed in order to attain the twin objectives - to ensure a regular recovery of loan and secondly, to assist the unit in the proper deployment of credit in its business. As much as 35.9 per cent responses indicated that, the banks were effectively involved in monitoring and follow up of the units financed. Another 18.9 per cent responses pointed that, there was a regular meeting with the units financed to discuss the matters relating to financial problem, production problem and the like. It was further observed that the banks were also

providing technical assistance, marketing assistance apart from imparting training to SSI borrowers. A dismal feature is that 15.1 per cent responses indicated, there was no efforts by the bank to provide non-financial services to SSI borrowers. The table furnished hereunder is a pointer to these facts.

TABLE – CVII
BANKS' NON-FINANCIAL SERVICES TO SSI BORROWERS

Type of service	Public sector banks	Private sector banks	Co-operative sector banks	Total
Marketing assistance	1		1	2 (3.8)
Training	5			5 (9.4)
Counseling	4	1		5 (9.4)
Regular meetings	9		1	10 (18.9)
Monitoring and follow up	12	2	5	19 (35.9)
Technical assistance	3			3 (5.6)
Other	1			1 (1.9)
No special assistance provided	1	6	1	8 (15.1)
Total	36	9	8	53 (100)

Responses may not tally as more than one response has been received from some respondents.

Figures in brackets indicate per cent to total.

Source: Primary data.

MEANS FOR TACKLING THE PROBLEMS OF FINANCING SSI UNITS

As banks are confronted with the problems of one kind or another in financing the SSI units, responses were obtained from them to tackle such problems. The analysis of their responses reveals that, a close monitoring of SSI units / accounts financed which may turn sick / bad will help the bankers to supervise the sickness prone / weak SSI

borrowers. Responses constituting 15.6 per cent suggested that, the banks should have power to inspect the premises of those SSI units, which are irregular in repayment of loan. Another equal proportion of responses (i.e., 15.6 per cent) suggested for the provision of marketing assistance to the borrowers (by the bank itself or any other outside agency). The other suggestions such as, conducting entrepreneurs' development programme (EDP), training, organising courses on financial management, creation of compulsory ombudsman services for SSI units at all branches of banks and the freedom to scrutinise the application for loan to banks were made by the respondents for effective financing of SSI units. The suggestions offered by the bankers are presented in the following table.

TABLE – CVIII
SUGGESTIONS TO TACKLE THE PROBLEMS IN SSI FINANCING

Suggestion	Public sector banks	Private sector banks	Co-operative sector banks	Total
Providing EDP training	5	2	3	10 (12.9)
Courses on financial management	4	1	3	8 (10.4)
Close monitoring of SSI units / accounts which may turn sick / bad	14	6	1	21 (27.3)
Power to inspect premises of SSI units which are irregular	8	2	2	12 (15.6)
Marketing assistance	8	2	2	12 (15.6)
Compulsory ombudsman services	1	2	2	5 (6.5)
Scrutiny and selection of borrowers by lending bank alone	3		1	4 (5.2)
Other	1	2	2	5 (6.5)
Total	44	17	16	77 (100)

Figures in brackets indicate per cent to total.

Source: Primary data.

LEGAL ACTION TAKEN FOR RECOVERY OF BANK LOAN GRANTED TO SSI UNITS

A bank is not a philanthropic institution to provide money for the needy. It is a business. Banks lend from the money collected as deposits. To repay the deposits, the banks have to collect the money lent; otherwise, they will face bankruptcy. So, banks after ascertaining that, the borrower will no longer repay the loan without legal action resort to filing of suit with the appropriate court / authority. Though each bank decides, when a borrowed unit has to be sued, based on the time period involved or number of defaults, yet the banks also enjoy the freedom to make a proper distinction between wilful defaulter and the borrowers defaulting in repayment due to circumstances beyond their control. In order to avoid the expensive recovery proceedings spread over a long period of time, the Committee on Non-performing Assets (NPA) of banks has suggested that, write off, compromise, or negotiated settlements may be made by a committee of senior executives of a bank.⁵ The Committee has also suggested the formalities that need to be fulfilled for such write off, compromise or settlement.

As the legal proceedings normally involve, more expenditure and long period for settlement, keeping in mind the above and the opportunity cost involved in such an amount locked up in NPAs, banks may resort to the above kind of settlement of dues with the borrower. Some banks usually feel that, with regard to small loans provided to SSI units, especially those located in rural areas, the problem of recovery of money even after obtaining a decree from the court authority seems to be difficult. The reason is, the security attached to the loan turns unrealisable or inadequate due to the peculiar nature of the property secured. For example, a land worth Rs.10,000 is mortgaged for a loan of Rs.8,000. After three years, if the loan becomes irrecoverable, the banker approaches the court and obtains a decree for recovery of loan of Rs.8,000 along with interest which may be about 30 to 40% of the principal amount. Now, the land's realisable value would be around Rs.10,000 to Rs12,000. Even if the banker obtains a decree for a sum of Rs.12,000, he would not be in a position to sell the property and recover loan. The reason is there would be no person to buy the land (under common understanding) and so again the banker turns to the borrower to recover the money just by requesting to pay the money if possible.

⁵ The Hindu – Business Line, Chennai, May 8, 1998, p.12.

Most of the small loans could not be recovered, particularly when the quantum is small and the property mortgaged is located in a rural area. So, under these circumstances, the bank manager or a committee of individuals in a bank branch may be permitted to initiate a settlement programme. This sort of recovery method may prove fruitful, especially, in public sector banks. In private sector banks as they generally lend to borrowers after testing their integrity first, the chance for a borrower turning a wilful defaulter is little and secondly, even if he defaults, the bank has enough realisable securities. The co-operative sector on the other hand, has the shield of Revenue Recovery Act, which not only speeds up the process of recovery but also use this stringent law as a weapon to threaten the borrowers for proper repayment of dues. It is interesting to note here that, co-operative banks, usually, to be on the safer side demand two to three times value of securities for any loan.

The public sector banks are the pittiest banks, which are susceptible to the demands of political pressures, personal influences of bank staff, and the like. A legal body just that of the Debt Recovery Tribunal (DRT), for speeding up the process of recovery of bank loan is a must, especially at the present state of mounting NPA level in banks. One could learn from the example of co-operative banks, that because of the speedy process of recovery laws, their NPA level or the number of units defaulting is kept in tact. (This point has been discussed in detail earlier in this chapter).

The present study brings to sharp focus that, of the 18 public sector bank branches, 61.1 per cent of them filed suit in the court of law for the recovery of loan granted to SSI units. Further, only 44.4 per cent of private sector banks and 37.5 per cent of co-operative banks filed suit against defaulting units.

It was observed that of the 11 public sector banks, which filed the suit, six banks reached the stage of settlement of the suits. Of the four private sector banks that filed suit for recovery of loan, three banks have reached the stage of settlement of the suits. It was noted that of the two suits filed by co-operative banks none of the legal suit was settled. An important point to be noted here is that, though the recovery process in co-operative sector banks is very stringent, yet, they do not attach the property immediately after filing a suit; they allow enough time to the borrower to repay atleast one instalment of the dues

and try to keep the account alive. As the motive of the banks is not to harass the borrower but to recover the money due, they try to recover the loan by soft means by just threatening to file a suit or by filing a suit and allowing the borrower to repay. Therefore, though it appears in the present study that two banks in the co-operative sector have filed suit and have not reached accord in the suit, it does not mean that recovery of loan by legal means is delayed or impossible, but grace time is extended to the small industrial borrowers to repay. Particulars of the suits filed by the sample banks and settled in respect of the SSI accounts are provided in the table given below.

TABLE –CIX
LEGAL PROCEEDINGS AGAINST DEFAULTING SSI UNITS

Particulars	Public sector banks	Private sector banks	Co-operative sector banks	Total
Suits filed	11	4	2	17
Suits settled	6	3	-	9

Source: Primary data.

PRACTICES OF BANKS RELATING TO TIME OF FILING LEGAL SUIT FOR RECOVERY OF LOAN

Each branch of a bank has its own way of recovery of loan although governed by the related banks' regulations / guidelines. It does not mean that the bank branches are not following the guidelines of regional / central office, but within the limit prescribed, the branch managers exercise their discretion to decide whether a particular borrowal account has to be recommended for filing a suit. And so, the time involved in filing the suit differ from bank to bank, and sometimes from branch to branch.

It was observed from the survey of the bank branches that, as many as 12 branches have resorted to legal action after two years but before three years of the default of repayment of loan instalments. In the above case, the period 'after two years' is calculated from the date of previous repayment of loan instalment and not from the date of sanction of loan. However, it was noted that five bank branches preferred to file a suit

between three and five years from the date of sanction of the loan. In this case, it should be noted that such a type of loan recovery might be made only if the final instalment repayment (schedule) period falls below the period of five years. It is interesting to note that seven banks have expressed, they use to resort to legal action, one year after the repayment of previous instalment. Some banks had the practice of resorting to legal action based on the number of defaults in repayment of loan. This was done by four banks; of which, three banks had the practice of filing suit after default in payment of six loan instalments, and one bank after default in three instalment dues. Further analysis into the matter revealed that, three banks had the practice of filing suit, if an account was overdue for over six months. Bank branches four in number reported that, they fixed no time frame or the number of defaults after which they would decide on filing a suit for recovery, as so far they had not met such a situation / event. This means that, these four banks had no defaulting accounts or there was no need for initiating legal action. These details are presented in Table- CX.

TABLE – CX
PERIOD / DEFAULTS AFTER WHICH LEGAL ACTION IS
TAKEN AGAINST DEFAULTING SSI UNITS

Period / default	Public sector banks	Private sector banks	Co-operative sector banks	Total
Overdue for more than 6 months	2	1		3
After 1 year before 2 years	3	1	3	7
After 2 years before 3 years	8	3	1	12
Between 3 years and 5 years from the date of sanction of loan	3		2	5
After 3 instalment defaults	1			1
After 6 instalment defaults		2	1	3
No action taken so far and have not fixed time frame for legal action	1	2	1	4
Total	18	9	8	35

Source: Primary data.

LAW OF LIMITATION AND THE BANKER – A PERSPECTIVE OF RECOVERY OF SMALL INDUSTRIAL LOAN

The Limitation Act, 1963, directs about what is the time limit within which a creditor, so far as borrowing – lending transactions relate, may file and under what circumstances a suit if would get time-barred. The court if time-barred, dismisses a suit. So, if a banker fails to follow up the defaulting accounts / borrowers within a reasonable time especially when the amount is small, there are more chances that the debt may go time-barred. With the result, the lending banker may lose the remedy of instituting a suit for recovery of the debt through a court of law. In India, except in case of mortgage, the normal assumption is that the debt goes time-barred after three years from the date of advance. However, Article 37 of the Limitation Act 1963 provides that, the period of three years begins to run "when the default is made unless where the payee or obligee waives the benefit of the provisions and then when fresh default is made in respect of which there is no such waiver".⁶

The above statement makes it clear that, in respect of repayment of loan instalments, it gives a separate course of action to the bank and period of limitation of three years runs from the date of each instalment becomes due. Bank's agreement relating to term loan, generally provides that in the event of default being committed to pay one instalment, all subsequent instalments shall immediately become due and payable. And so, the bank has the liberty, either to sue for the whole amount as soon as the default occurs or to waive the provision and bring a suit for recovery of overdue instalments. Normally, banks file a single suit for the entire amount due.

In cash credit (working capital) type of loan provided by banks (like a mutual, open and current account), where there have been reciprocal demands between the parties

⁶ Updesh Singh Sachdeva, Law of Limitation and Bankers, Suneja Publishing Corporation, New Delhi, 1986 Edn., p.56.

exist, the period of limitation begins to run from “the year in which the last time admitted or proved is entered in the account, such year to be computed as in the account”.⁷ This means that, the banker would get additional period, the year in which debit or credit entry is recorded, in addition to complete three years. But it should be noted that if there have been only withdrawals in the account of (cash credit / current account) and no payment to the account, then it will not be a mutual, open, current account and in such case, each withdrawal by the borrower is a separate advance and the period of limitation will be three years from the date of each of such advance.

As all the above types of complications are involved in the recovery of loan, a banker has to be very vigilant over the borrowal accounts and ensure that the account does not go time-barred. Therefore, it was decided to elicit the responses of bankers on the law of limitation, especially in the context of SSI loans – being small in quantum, which by oversight may be allowed to go time-barred. The analysis of survey data revealed that, of the 51 responses received, an overwhelming majority of responses constituting 96 per cent indicated the law of limitation compels a banker to file a suit or it compels the banker to renew the contract every three years, else it makes the loan to go time-barred. It shows that the limitation period for small loans appears to be a hurdle in the recovery process of the bankers. A paltry portion of four per cent responses pointed out positively that, the law of limitation helped them to have a vigil on the account which would otherwise be not considered for recovery in the short run. Particulars of the analysis of the bankers' responses in this regard are shown in the following table.

⁷ The Institute of Company Secretaries of India, New Delhi, ACS Course Study Material - IGLP-10, p.13.

TABLE – CXI
BANKERS' VIEWS ON LAW OF LIMITATION VIS A VIS BANK LENDING

Response	Public sector banks	Private sector banks	Co-operative sector banks	Total
The law compels a banker to file a suit or renew the loan before the expiry of three years	24	15	10	49
The law helps the banker to have a vigil on loans		1	1	2
Total	24	16	11	51

Note: Responses may not tally with the number of sample bankers, as more than one response was received from some bankers.

Source: Primary data.

Although a majority of responses on the law of limitation indicated a negative point, either – the law compels for renewal of loan contract or file a suit and so forth, yet, when asked about whether the period of limitation for the loan to be extended beyond three years, a commanding portion of 68.6 per cent banks reported that it should be kept at the present limit of three years period only. However, the other 31.4 per cent expressed that the period of limitation may be extended beyond three years. Of the above responses, some banks stated that, the period of limitation be co-terminus with the period of loan. That is to say, the period of three years should start with the year in which the last instalment of loan is liable to be paid notwithstanding, whether earlier any withdrawal (in case of cash credit / current accounts) or repayment is made. Bankers' responses on raising the period of law of limitation for bank loan are incorporated in Table-CXII.

TABLE – CXII
 BANKERS' SUGGESTION AS TO RAISE THE PERIOD OF
 LAW OF LIMITATION FOR BANK LOAN TO SSI UNITS

Response	Public sector banks	Private sector banks	Co-operative sector banks	Total
Yes	7	3	1	11
No	11	6	7	24
Total	18	9	8	35

Source: Primary data.