

NPA Management of Rural Cooperative Banks of West Bengal: An Overview

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Abstract

NPNAs reflect the performance of cooperative banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of cooperative banks and also erodes the value of the asset. The NPA growth involves the necessities of provisions, which reduces the overall profits and weaken cooperative structure. The issue of Non Performing Assets of cooperative banks has been discussed at length for financial system of India. The problem of NPAs is not only affecting the cooperative banks but also the whole Indian economy. In fact high level of NPAs in cooperative banks is nothing but a reflection of the state of cooperative structure. The paper deals with understanding the magnitude of NPAs in cooperative bank and major causes for an account becoming non-performing in cooperative banks and concluding remarks.

Keywords:NPAs, cooperative banks, financial system

Background

A strong cooperative banking sector is important for successful country's economy. The failure of the cooperative banking sector may have an adverse impact on economy. Non -performing assets are one of the major concerns for cooperative banks in India. Non -performing Asset (NPA) has an alarming threat to the rural cooperative banking industry in our country sending distressing signals on the sustainability and endurability of the affected cooperative banks. Despite various steps administered to solve, desired results are eluding. It is a sweeping and all persistent bug confronted nationally on rural cooperative banking. The severity of the problem is however acutely suffered by Apex State Cooperative Banks, followed by the District Central Cooperative Banks (DCCBs)/ Central Cooperative Banks (CCBs), and the Primary Agricultural Cooperative Societies.

Granting of credit for priority sector is the prime duty of rural cooperative banking. Apart from raising resources through fresh deposits, borrowings and recycling of funds received back from borrowers constitute a major part of funding credit dispensation activity. Rural lending is generally encouraged because it has the effect of funds being transferred from the system to agricultural and allied service productive purposes, which results into rural growth. However rural lending also carries a risk called credit risk, which arises from the failure of borrowers' non payment. Non-recovery of loans along with interest forms a major hurdle in the process of agricultural credit cycle. Thus, these loan losses affect the cooperative bank's profitability on a large scale. Though complete elimination of such losses is not possible, but rural cooperative banks can always aim to keep the losses at a low level.

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The Cooperative banking sector has traditionally been doing business by focusing mainly in the agricultural sector since its inception. Cooperative Banks need to be prudent enough in coming years to achieve significant increase in productivity, efficiency and profitability. The high level of NPAs of cooperative banks is adversely affecting the profitability, liquidity and solvency position of them. NPAs of cooperative banks should be brought down to the acceptable level. To create vibrant and competitive Cooperative banks their NPAs should be within acceptable level i.e. 3 percent of total asset.

The study draws its importance from the fact that most of the lending by the Cooperative sector is in the priority sector and the bank aims to create opportunity for a major part of rural population and urban population also. Thus the cooperative bank must put in place a strong NPA management system to maintain its viability along with providing credit to different sectors.

To remain competitive in banking sector The West Bengal State Cooperative Bank (WBSCB) has created a diversified loan portfolio but yet it maintains its focus on priority sector. It is proposed to study the NPAs of WBSCB for the following reasons:

- An apex cooperative bank in the state of West Bengal with a combination of two and three tier structure
- Its branches geographically spread both at rural and urban areas
- Investment in different sector
- Highest in priority sector lending amongst Cooperative Banks in West Bengal

This study is mainly dedicated to the purpose of finding out the NPA management of WBSCB and rural cooperative banks of West Bengal as a whole. WBSCB, being the apex organization in the Cooperative banking structure in the state, needs to have a sound NPA management system for effective functioning of the Cooperative banking sector of West Bengal. The study also aims at finding NPA level of DCCBs/CCBs of West Bengal because of the fact that proper functioning of these institutions is a prerogative for the apex Cooperative bank and below par performance could be a drag on the financials of the state Cooperative bank. Though these institutions are independent in operations but the performance has strong linkage with the apex institution and thus forms an important and crucial part for management of NPA at the state Cooperative bank. The final deliverables will include the detailed study report with full data, all the analysis and the insights gained from those data. The report to be provided will act as supporting input to the management for its decision making process and future reference, and will also provide scope for further study on this subject in future.

Literature Review

Several studies in the banking literature agree that banks' lending policy is a major driver of non-performing loans (McGoven, 1993, Christine 1995, Sergio, 1996, Bloem and Gorters, 2001). McGoven (1993) in the study of loan losses of US banks, argued that 'character' has historically been a paramount factor of credit and a major determinant in the decision to lend money. Macgoven refutes the idea of business cycle having a prominent influence on creation of non performing loans in banks and financial institutions. He supported the view that it is majorly banks' aggressive credit lending policy which drives the growth of non performing assets in their balance sheets. His views state that there are inadequate checks and screening before disbursement of loans which add to the woes of these banks. Bad debts as a consequence of recession alone is not empirically demonstrated [Sergio, 1996]. Ajit and Bangar (1998) present a tabulation of the performance of private sector banks viz-a-viz public sector banks over the period 1991-1997, using a number of indicators: viz. profitability ratio, interest spread, capital adequacy ratio, and the net NPA ratio. The conclusion is that Indian private sector banks outperform public sector banks. Rajaraman Indira, Bhaumik Sumon and Bhatia Namita (1999) in their paper attempted to explain inter-bank variations in NPAs for the year 1996-97. They

stressed that no sustainable improvement in the performing efficiency of domestic banks is possible without prior improvement in the enforcement environment in difficult regions of the country. They also suggested that it is not foreign ownership in and of itself so much as the banking efficiency and technology correlates of the country of origin of the foreign bank which determine NPA performance in the Indian environment. The findings of the paper reveal that only bank-specific characteristics such as ownership or adherence to prudential norms do not suffice to explain inter-bank variability in NPAs but the region of operation matters. The operating environment matters particularly in the Indian context where there are externally-imposed compulsions on banks to enter into and operate in difficult regions. The environmental limits on bank operations cannot be tackled by reforms at bank-level alone. Pati A P Dr. (1999) conducted a study on Indian commercial banks and particularly of public sector banks and identified that the growing NPA is the key factor that affecting the profitability and viability of the banks. He also recommended some measures to improve recovery mechanism, improving credit management, the Asset Reconstruction Fund (ARF) option, writing off debt, new initiatives, etc. Bhattacharya (2001) on a study pointed out to the fact that in an increasing rate regime, quality borrowers would switch over to other avenues such as capital markets, internal accruals for their requirement of funds. Under such circumstances, banks would have no option but to dilute the quality of borrowers thereby increasing the probability of generation of NPAs. Bloem and Gorter (2001) recommended that a more or less predictable level of non-performing loans. Bloem and Gorter gave views that non performing loans could shoot up in the event of unpredictable incidents like sudden change in foreign exchange rates, volatility of export products and petroleum prices or the failure of a major company with large contribution to the economy of a nation. All of these could contribute to a loss in confidence which could aggravate the situation. Under extreme situations they say that there could be chances of financial sector getting derailed as a result of huge spurt in the growth of non performing loans. Rajaraman Indura and Vasishtha Garima (2002) in their study performed a panel regression on non-performing loans of commercial banks. They suggested that recapitalization of weak banks as recommended by Varma committee with operational restructuring may therefore not be the solution, since there is clearly a residual problem even after controlling for operating efficiency. Muniappan(2002) in his address on NPA cited out that the problem of NPAs is related to several internal and external factors like diversion of funds for expansion/diversification/modernisation, taking up new projects, helping/promoting associate concerns, time/cost overruns during the project implementation stage, business (product, marketing, etc.) failure, inefficient management, strained labour relations, inappropriate technology/technical problems, product obsolescence, recession, non-payment in other countries, inputs/power shortage, price escalation, accidents and natural calamities etc. Rajaraman and Vasishtha (2002) through their empirical study concluded that there exists bivariate correlation between the operating inefficiency and volume of non performing loans in the Indian public sector banks. The term 'lazy banking' is conceptualized by Mohan (2003) while looking on banks' investment portfolio and lending policy. Mohan(2003) also observed that lending rates of banks have not come down as much as deposit rates and interest rates on Government bonds. While banks have reduced their prime lending rates (PLRs) to some extent and are also extending sub-PLR loans, effective lending rates continue to remain high. This development has adverse systemic implications, especially in a country like India where interest cost as a proportion of sales of corporate are much higher as compared to many emerging economies. In a similar manner, largely from lenders' perspective, Das and Ghosh (2003) empirically examined non-performing loans of India's public sector banks in terms of various indicators such as asset size, credit growth and macroeconomic condition, and operating efficiency. Santi Gopal Maji et.al (2003) have studied the NPAs of the Khatra People's Cooperative bank Ltd, amount-wise, agewise, Loan head-wise and sector-wise classification of NPAs. They suggested a "Loan Recovery Policy" to keep contact with the borrowers at a regular interval for reminding them about their over dues. They also concluded that preparation of list of defaulters, organize recovery camps and file civil suits against defaulting borrowers would reduce the NPAs. Mohan(2003) observed that banks

were reluctant in reducing lending rates although deposit rates had come down by much higher proportion. This was leading to higher cost of debt in India as compared to other emerging economies. He stated that due to shorter maturity period for deposit liabilities when compared to loan periods on average induces higher risks of NPA being created in the balance sheets of the banks. He also conceptualized the term lazy banking in his works on Indian banking system referring to the credit lending policy of Indian banks which invariably increases the risk of non performing loans among the banks' loan portfolio. Reddy(2004) critically examined various issues pertaining to terms of credit of Indian banks and viewed that banks' lending policy could have crucial influence on nonperforming loans .A loan default is not entirely an irrational decision rather defaulter's probabilistic assessment of various costs and benefits of his decision'. He analysed factors like terms of credit which is essential is an aggregation of interest rates on loans and other financial products, risk management model and portfolio management practices. The paper made an attempt to provide a perspective to the cause of non performing loans through these factors. Also there was an analysis of the conventional practices in Indian credit system which involves fixed price and quantum of loan value, use of collateralized lending and restrictions on where the amount disbursed could be put into use. There was a general view that banks need to take a dynamic view and not restrict themselves to these conventions considering the changing economic situation in the country which in would actually help the banks to become much more robust and strong in terms of reducing toxic asset and this in turn would help the economy in the long run which depends a lot on the health and strength of financial institutions. Arun Y Dr. (2004) noted that the successful management assumes the right type and right amount of credit is to be given to the right type of client. She stressed that it is essential to enforce the Securitization Act, with more stringent provisions to realize the securities and personal assets of the defaulters. Mohan(2004) had cited higher operating costs as an underlying reason for rising NPAs level in public sector banks of India. The statistics that NPAs on account of priority sector lending may or may not confirm. There may be only a marginal difference in the NPAs of banks' lending to priority sector and the banks lending to private corporate sector. Against this background, the study suggests that given the deficiencies in these areas, it is imperative that banks need to be guided by fairness based on economic and financial decisions rather than system of conventions, if reform has to serve the meaningful purpose. Raul R.K. (2004) tried to identify the nature and consequential affect of the NPAs on the banking sector. He concluded that an appropriate set of substantial financial sector regulation clarity including changes in tax laws is imperative for the banking system to get rid off NPAs as well as for the QIBs to look forward to the investment opportunity. Meena Sharma(2005) in her study on NPA has talked about the detrimental effects of NPA on the society as providing capital support to banks with high NPA s is actually a burden on the public exchequer and hence is a cost to the society. She also says that high NPAs reduce earning base and puts much more pressure on the banks to maintain the required capital adequacy ratio. According to her "high level of NPA also leads to squeezing of interest spread". She mentions the need to create industry cells to cope with this menace. Bodla B.S. and Verma R(2007) attempted to find out the key determinants of profitability of Public Sector Banks in India based on step-wise multivariate regression model used on temporal data from 1991-92 to 2003-04. In the study they found that the variables such as non -interest income, operating expenses, provision and contingencies and spread have significant relationship with net profits. They suggested that for strengthening position the public sector banks must strive to greatly enhance efficiency through a control over shrinking spread, increasing non -interest income, and maximizing business per employee and per branch. Rajesham Ch and Rajender K (2008) pointed out that NPAs have negative impact on the productivity, achievement of capital adequacy level, funds deployment and mobilization policy, credibility of the banking system and overall economy. It is not wise to use Public Sector Banks as a means of accomplishing political objectives by lending to unviable projects, announcing loan melas and loan waiver schemes etc. The twin objectives of profitability and social welfare are mutually contrasting.

Objective of the Study:

The main objective of the paper is to analyze the followings of WBSCB and other rural cooperative banks of West Bengal:

- The trend of NPA on YoY basis and preparing a detailed analysis of the trends
- Comparison of NPA management of WBSCB with the District Central Cooperative Banks
- Trend analysis in the priority sector lending
- Generating insights from the trend analysis and using those insights to reach to a conclusion using which management can take decision on the future course of action
- Identifying factors responsible for the growth of NPAs
- Drawing conclusion and providing suggestion for improvement in reducing NPAs on the basis of findings and its business viability.

Database:

The study has been done using data for the period of twelve years from 1996-97 to 2007-08 for the West Bengal State Cooperative Bank. These data include the details of assets held by the bank. These assets have been classified into four categories such as standard, sub standard, doubtful assets and loss assets. The classification has been done as per Reserve Bank of India guidelines. All these data have been found from the annual reports of the bank for the past twelve years where all these data have been explicitly mentioned. The corresponding data for the central Cooperative banks and district central Cooperative banks which lie at the second tier of the Cooperative structure has also been taken but for a period of ten years from 1996-97 to 2005-06. Industry wise data have been used as well. These data are found in Reserve Bank of India database and are used to find a comparative picture of WBSCB with respect to the industry.

Methodology :

For trend analysis a three year moving average of the percentage of standard, substandard, loss and doubtful assets is plotted on graph to produce a graphical representation of the performance. The three year moving average of the NPA ratio is also found and plotted. Analysis is based on these graphs derived from the three year moving average data. The three year moving average helps to reduce the fluctuating trend and gives us a fair trend which fulfills the objective of the trend analysis. Correlation analysis is done with internal data of the bank and extended to external data as well.

A year on year trend analysis of priority sector has been carried out. A total loan is the sum of priority sector lending, nonfarm lending, farm and firm allied lending. While rising priority lending to support increasing agricultural activities is natural, increasing NPA is matter of concern and reflects poor asset management. The NPA as a proportion of total loan (**NPLA**) has been taken as independent variable. The impact of priority sector lending (**PILA**) is taken as a factor which is represented priority sector lending as a proportion of total loan. The impact of non priority sector lending (**NPILA**) is taken as a factor which is represented non priority sector lending as a proportion of total loan.

To find the impact of priority sector lending over the years the following regression model has been used :

$$NPLA_i = \alpha * PILA_i + \beta * NPILA_i + e_i$$

Where α and β are the parameters to be estimated, e_i error term, the subscription "i" refer to the year.

This is in determining the effects of priority sector lending on the generation of non performing assets or loans in the balance sheet of the bank. A variance analysis is also done on the data regarding asset quality of the bank. Through this ANOVA test it has been analyzed whether the variance among the various asset differed significantly or whether the variances were interlinked. This would actually give an indication about the existence of any chance forces which could cause the different asset quality to vary from one another. Chi-Square test has also

been applied to the non performing asset ratio of the apex bank and the central and district central Cooperative bank to ascertain how much the performances of these institutions are interlinked and hence would be generating a fair idea about the degree of association between the non performing assets of the state Cooperative bank and those of the central or district central Cooperative banks. All these calculations have been done using the ratio of respective asset class with respect to total loans disbursed by the bank. The trends as well as statistical tools have been applied on these ratios for the purpose of this study. The calculations have been carried out with the help of Microsoft Excel Sheets and represented in the form of tables. This would give a clear picture of whether the bank's performance is below par or is it performing better than other leading players in the Indian banking industry. By plotting the trends in the same graph it could also be ascertained if certain fluctuations of NPA percentages are bank specific or are they industry specific. To establish driving factors of non performing assets, correlation analysis using Pearson's coefficient has been used. Credit Deposit (CD) Ratio and priority sector lending has been taken as variables which have possible impact on non performing assets. Through correlation such relationship if it exists has been proved statistically.

Analysis:

The asset quality of WBSCB during the period of study has been tabulated in Table 1

The trend analysis of standard assets is being done for the period from 1996-1997 to 2007-2008 (see Fig.1). The graphs show a consistent increase in the share of standard loans in the portfolio of loans for the West Bengal State Co-operative Bank Ltd. The 3 year moving average graph gives a clearer picture of the consistency in the trend of the share of standard loans. This can be explained through the facts that there is bound to be some amount of fluctuation in the repayment of loan due to external conditions like strong harvest season, favourable monsoon. But overall the bank's performance has definitely improved considering an increase from 82% of standard loans in 1997 to 94% of standard loans in 2008. Still there remains some limitations as the growth has been tapering off in the previous few years with the bank finding it hard to bring standard loan proportion over 95%.

Also if we see the absolute figures the amount of standard loans has increased from Rs. 4111.07 million in the financial year 1996-1997 to Rs. 20771.2 million in the financial year 2007-2008. This indicates strong future prospects for the bank and would grant some space to management for maneuvering especially tough economic times where liquidity is at premium.

There has been a consistent decrease in the share of sub standard loans in the total portfolio of loans as well during the period of study as per Fig.2. But there has been more fluctuation in the figures. This could be explained through the facts that loans keep moving in and out of sub standard category as overdue loans for short period of time are put into this category and these loans may move out with repayment of interests. Also there is considerable impact of extraneous factors as was in the case of Standard Loans. In absolute terms as well there has been a decrease from Rs 564.21 millions in 1996-1997 to Rs.366.3 millions in 2007-2008 although total loan portfolio increased by more than four times during this same period of time. This speaks volumes of the management's ability to improve its loan recovery performance.

Doubtful loan (see Fig.3) has improved a lot over the years from 1997 to 2008 but there are signs which are definitely causing for concern. There has been a consistent improvement during the period 2000 to 2005 but since then performance has deteriorated. Doubtful loans have a high tendency to turn into losses and hence is worrying trend to the bank. The absolute value of doubtful loans has almost doubled from Rs.401 millions in 2005 to Rs.780 millions in 2008. These are indicators for the management to put measures in place to control this disturbing trend which could create a hole in the balance sheet of the bank.

The trend of the loss asset(*Fig.4*) using the 3 year moving average shows considerable improvement in the performance especially since 2002. The proportion of loss assets has been brought down from near 1% to below 0.3 % during this period of time. This gives a huge boost to the balance sheet as loss assets are the most toxic asset among the non performing assets for a bank. Consistent decrease in the proportion of this asset class brings out an improving recovery management process and a robust loan portfolio.

Still there remains room for improvement considering the fact that there has been an increase of more than 20% in loss assets in the year 2007-2008 whereas the increase in total loan portfolio has only been around 11% during the same financial year.

The 3 year moving average(*Fig.5*) of the share of non performing assets in the total loan portfolio has shown a consistent decreasing trend which definitely augurs well for the bank. Though the share is still higher than what could be said as a satisfactory level yet bringing it down from around 14% to around 5 % over a period of 12 years is a commendable achievement. As the bank tries to diversify its customer base and loan portfolio having its share of toxic assets within control is essential for implementation of any aggressive policy. But there has been an increase in non performing assets from Rs.969.3 million to Rs.1293.4 million in the previous financial year which is an alarming rise.

Performance of CCB/DCCB

Asset position of Central Cooperative Bank/District Central Cooperative Bank:

The loan portfolio of the Central/District Central Cooperative Banks(**Fig.6**) had been deteriorating alarmingly during the period 1998-2002. Since then there has been some amount of improvement in the asset quality yet, these figures are way behind the performance of the apex organisation. There has not been much of an improvement in the standard asset percentage in a period of ten years which should be a matter of concern and hence the rationale behind this study strengthens due to these figures.

The trend for the substandard assets in the Central/District Central Cooperative Banks(**Fig.7**) follow almost exactly the opposite direction of the Standard assets trend. This probably explains the nature of standard assets trend as well. Here again it's apparent that there has not been much of an improvement in the loan portfolio for the ten year period with regard to substandard assets although the deterioration has been arrested and the levels has been brought back to the level it was since NPA started featuring in the books of accounts. Another noteworthy point here is that the substandard assets trend draws a fluctuating picture which makes drawing conclusions difficult though the moving average somewhat smooths out the curve. This leaves room for study to find out underlying causes for such variation of data year on year.

The trend for doubtful assets at the Central/District Central Cooperative Banks(**Fig.8**) show large amounts of fluctuation and drawing conclusions with certainty becomes difficult. Yet it can be said that the doubtful assets show tendency to grow. So it clearly speaks about some amount of deterioration in the loan quality at Central/district Central Cooperative Banks.

The graphs for the central Cooperative banks or district central Cooperative banks tend to be fluctuating(**Fig.10**) and hence its difficult to draw conclusive inference. The data has been fluctuating which might be due to macroeconomic factors. The noteworthy point here is that there has been almost negligible improvement of the NPA ratios in these organisations over this period. This shows that the performance of these organisations has not matched that of the apex organisation in regards to NPA management and loan recovery. This could become a drag on the performance of the apex state Cooperative banks as well because the apex bank financial performance depends upon organisations to a certain extent. Hence, it remains a matter of

concern for the management of WBSCB as well notwithstanding the fact that there could be forces beyond the control of management which influences the generation of NPA.

Table for observed NPA percentages of State Cooperative Bank and District Central Cooperative/Central Banks:

Comparative representation of the NPA ratio at West Bengal State Cooperative Bank and the Central/District Central Cooperative Banks:

Chi square test for testing whether NPAs(Fig.11) at West Bengal State Cooperative Bank is associated with the NPAs of the central/district central Cooperative banks or not:

The test data includes the NPA ratio for West Bengal State Cooperative Bank and the aggregate NPA ratio of all the central/district central Cooperative banks for the period of 1996-97 to 2005-06.

The test would give results based on which it can be stated that whether the NPAs at district Cooperative banks affect that of the apex Cooperative bank. Hypothesis taken for this test: The non performing assets of central/district central Cooperative banks in the state have a relationship with the non performing assets of the apex Cooperative bank i.e. WBSCB. Applying χ^2 test the test statistic or the value of χ^2 as found out is 11.6. The table value of χ^2 at 5% confidence interval is 16.9 [d.f.9]. Thus the calculated χ^2 is less than the value from the table. Hence the hypothesis is accepted and it can be stated with statistical evidence that the NPA from central/district central cooperative banks have relationship with the non performing assets of WBSCB.

Comparative representation of the standard assets percentage of the West Bengal State Cooperative Bank and the Central/District Central Cooperative Banks.

The ANOVA test has been done using the standard assets percentage of total loans(Fig.12) for the West Bengal State Cooperative Bank and the District/Central Cooperative Banks. The data for the period of ten years from 1996-97 to 2005-06. Hypothesis taken for the test is that there is no significant difference between the variance of the two sets of data i.e. the standard assets percentage of the apex bank and the second tier Cooperative institutions. The sum of squares of variation between samples as found out is 345.3 and the degrees of freedom between samples is 2-1=1 as there are two sets of samples. The sum of squares of variation within samples comes out to be 229.56 and the degree of freedom within sample is (10-1) + (10-1)=18 as the data relate to for a period of ten years. The calculated F value from this test comes out to be 27.08. The table value of F for $v_1=1$ and $v_2=18$ at 5% level of significance comes out to be 4.4139. The calculated F value comes out to be much larger than the table value. Thus, the hypothesis that the variance of the two sets of data do not differ significantly gets rejected. Hence, the standard assets for the apex organization and central Cooperative banks come from different populations. This in essential means is that there is a wide difference between the loan quality of the apex Bank WBSCB and the DCCBs/CCBs.

This test results would give a clearer picture of the underlying causes behind such a difference in performance regarding management of non performing assets between the apex organization and the central/district central Cooperative banks.

Year Wise priority sector lending by West Bengal State Cooperative Bank:

The trend shows that priority sector lending(Fig. 13) has been consistently increasing. But the share of priority sector lending in the total loan portfolio has come down from 73% to near about 60% during this period of ten years.

Trend line for NPA ratio and Priority Sector lending percentage at West Bengal State Cooperative Bank:

The trend line of NPA ratio(Fig. 13) and that of priority sector lending move very much in tandem and NPA ratio tends to follow the trend of priority sector. This strengthens the cause for identifying priority sector lending as a key driver towards non performing assets in the West

Bengal Cooperative Bank as well. To find out the correlation between the priority sector lending and NPA ratio the Pearson Coefficient for correlation has been used. The Pearson Coefficient between NPA ratio and Priority sector lending is 0.643. The calculated Pearson coefficient shows that there remains significant level of correlation between priority sector lending and NPA ratio. Hence it can be stated with statistical evidence that Priority sector lending does have significant impact on generation of non performing assets.

CD ratio has improved considerably especially after 2002 which shows increased deposit mobilization (see Table 7). The NPA Ratio though has reflected a consistent decreasing trend. To find the correlation between CD ratio and NPA ratio Pearson Coefficient of Correlation has been used (Fig 15). The Pearson Coefficient as calculated between CD Ratio and NPA ratio comes out to be -0.347. Thus statistics shows that there remains a negative correlation between CD ratio and NPA ratio though its far from being significant. Hence, CD ratio seems to have very little influence on the generation of NPA yet a possible explanation for negative correlation could be that with better deposit mobilization the loan portfolio improves as most a considerable fraction of the newer loans go to the non priority sector and also with higher lending NPA ratio improves as the denominator increases considerably.

Causes for Non Performing Assets of Rural Cooperative Banks of West Bengal

A strong cooperative banking sector is important for a stable banking sector. The failure of cooperative banking sector may have an adverse impact on other banks. The Indian cooperative banking system, which is operating under the dual control of State Government and Central Government, now faces the challenges of an open economy. Absence of sophisticated Asset Liability Management along with agricultural lending and social banking relegated profitability and competitiveness of cooperative banks. The net result was untenable NPAs and consequently a higher effective cost of cooperative banking services. One of the main causes of NPAs into rural cooperative banking sector is the directed loans system under which cooperative banks are required for a prescribed higher percentage of their credit to priority sectors.

Macro Perspective Behind NPAs :

Practical problems like debt waiver package offered by different Government for rural debt during 1989-90 and 2008 spoiled the habit of timely loan repayment. This type of incidents left a negative impression on the timely loan payer i.e. good loanee member. Government schemes like IRDP, PMRY, BSKB etc., failed on various grounds in meeting their objectives. The amount of loan granted under these schemes is sometimes unrecoverable due to political manipulation, misuse of funds and non-reliability of target audience of these sections. As the repayment of these kinds of loans was poor, the quality of banking assets deteriorated. The other reasons for an account becoming NPA is due to both internal and external. Internal causes are like loan taken for a particular reason but not used for that intention, project overruns, not timely recovery of receivables, excess capacities created on non-economic costs, business failures, willful defaults, siphoning of funds, fraud, disputes, management disputes, mis-appropriation of funds, poor credit appraisal of bank officials, lack of monitoring and follow-ups and delay in settlement of payments are the reasons for an account becoming NPA.

External causes are like long legal tangles, lack of sincere effort, scarcity of resources e.g. raw material, power etc., economic downturn, natural calamities like floods, irregular monsoon and Government policies.

Concluding Remarks

A strong apex cooperative bank is essential for the cooperative banking of the state. The poor NPA management of any cooperative banking in the state may have an adverse impact on other cooperative banks. Over the years, much has been talked about NPAs and the emphasis so far has been only on identification and quantification of NPAs rather than on ways to reduce and upgrade them.

The general perception is that due to high agricultural lending have led to higher NPAs. Managers of rural and semi-urban branches generally sanction these loans. In the changed context of new prudential norms and emphasis on quality lending and profitability, cooperative

			(%)									s (%)			rc en ta ge of to ta l lo an s (%)
96-97	4111.07	82.67		564.21	11.35		276.16	5.55		276.16	5.55		21.26		0.43
97-98	5034.89	88.48		304.96	5.36		325.68	5.72		325.68	5.72		24.77		0.44
98-99	5093.26	86.48	85.88	388.18	6.59	7.77	364.95	6.20	5.82	364.95	6.20	5.82	43.31		0.53
99-00	5619.13	87.52	87.49	316.37	4.93	5.63	429.91	6.70	6.21	429.91	6.70	6.21	54.69		0.67
00-01	6159.88	89.10	87.70	249.92	3.62	5.04	438.74	6.35	6.41	438.74	6.35	6.41	64.86		0.84
01-02	7911.55	92.48	89.70	228.79	2.67	3.74	353.72	4.13	5.73	353.72	4.13	5.73	61.04		0.83
02-03	12798.62	94.72	92.10	287.23	2.13	2.81	349.99	2.59	4.36	349.99	2.59	4.36	75.76		0.74
03-04	1265	93.1	93.4	549.9	4.05	2.95	336.2	2.47	3.07	336.2	2.47	3.07	1		0.7

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0 5 - 0 6	1605 8.20	94.4 4	94.1 2	459.3 0	2.70	2.96	401.0 0	2.36	2.47	401. 00	2.36	2.47	6 6. 5 0	0.5 0	0. 6 2
0 6 - 0 7	1866 2.10	95.0 4	94.2 2	397.1 0	2.02	2.92	517.0 9	2.63	2.49	517. 09	2.63	2.49	7 2. 9 0	0.3 4	0. 5 4
0 7 - 0 8	1882 7.30	95.1 0	94.8 6	271.1 0	1.37	2.03	647.3 0	3.27	2.75	647. 30	3.27	2.75	8 8. 4 0	0.3 7	0. 4 0
	2077 1.20	94.1 4	94.7 6	366.3 0	1.66	1.68	780.2 0	3.54	3.15	780. 20	3.54	3.15	8 8. 4 0	0.4 0	0. 3 7

Non Performing Assets Table2:

YEAR	Value of Non Performing Assets (in millions)	Non Performing Assets as a percentage of total loans (%)	3 year moving average of Non Performing Assets as a percentage of total loans (%)
1996-97	861.63	17.33	
1997-98	655.41	11.52	
1998-99	796.44	13.52	14.12
1999-00	800.97	12.48	12.51
2000-01	753.52	10.90	12.30
2001-02	643.55	7.52	10.30
2002-03	712.98	5.28	7.90
2003-04	924.70	6.81	6.54
2004-05	945.30	5.56	5.88
2005-06	974.70	4.96	5.78
2006-07	969.30	4.90	5.14

2007-08	1293.40	5.86	5.24
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Fig.1

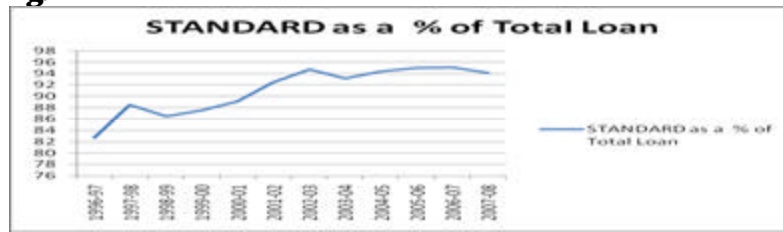


Fig.2



Fig.3

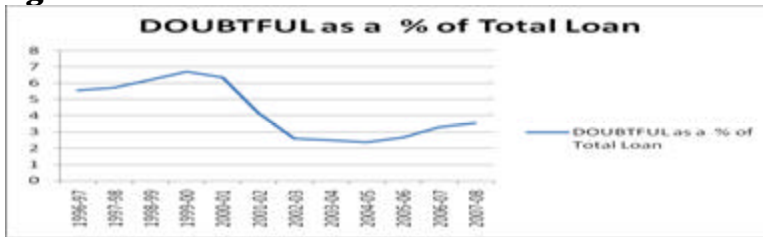


Fig.4

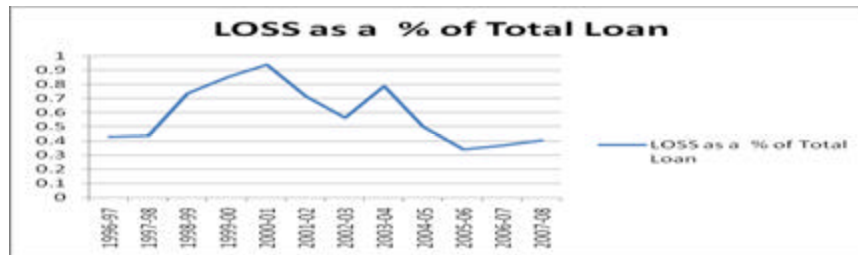


Fig.5

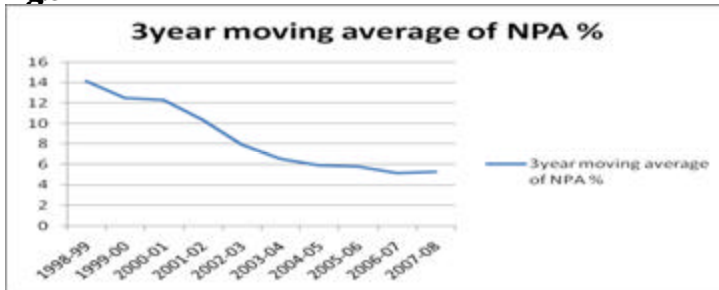


Table 3

YEA R	Value of Stand ard	Sta nda rd Ass	3 year movi ng	Value of Sub Stand ard	Sub Stand ard Asse	3 year movi ng avera	Valu e of Dou btful	Doubt ful Asset s as a	3 ya e r mov	Value of Loss Asset	Lo ss As set	3 ye ar mo
2007-08	1293.40							5.86				

	Asset (in millio ns)	et as a per cen tag e of tota l loa n (%)	aver age of Stan dard Asse t as a perc enta ge of total loan (%)	Asset (in millio ns)	t as a perc enta ge of total loan (%)	ge of Sub Stand ard Asset as a perc enta ge of total loan (%)	Asse ts (in milli ons)	perce ntage of total loans (%)	ing ave rage of Dou btful Ass ets as a perc enta ge of total loans (%)	s (in millio ns)	s as a perc enta ge of total loans (%)	vin g av era ge of Lo ss As set s as a perc enta ge of total loans (%)
96- 97	4167. 40	83. 50		401.9 0	8.05		386. 30	7.74		35.20	0.7 1	
97- 98	4942. 00	84. 89		425.1 0	7.30		404. 10	6.94		50.40	0.8 7	
98- 99	5240. 30	82. 49	83.6 3	547.0 0	8.61	7.99	502. 40	7.91	7.53	62.60	0.9 9	0.8 5
99- 00	5292. 80	81. 93	83.1 1	659.7 0	10.2 1	8.71	436. 10	6.75	7.20	71.50	1.1 1	0.9 9
00- 01	7041. 40	77. 63	80.6 9	1093. 60	12.0 6	10.29	842. 20	9.29	7.98	93.00	1.0 3	1.0 4
01- 02	9193. 00	76. 61	78.7 2	1576. 50	13.1 4	11.80	1100 .70	9.17	8.40	129.5 0	1.0 8	1.0 7
02- 03	1245 7.80	84. 98	79.7 4	1001. 40	6.83	10.68	1077 .30	7.35	8.60	123.7 0	0.8 4	0.9 8
03- 04	1146 9.00	83. 48	81.6 9	1111. 90	8.09	9.35	974. 40	7.09	7.87	182.7 0	1.3 3	1.0 8
04- 05	1373 1.60	83. 53	84.0 0	1025. 60	6.24	7.05	1527 .60	9.29	7.91	154.8 0	0.9 4	1.0 4
05- 06	1491 1.60	82. 01	83.0 1	1464. 10	8.05	7.46	1680 .10	9.24	8.54	127.2 0	0.7 0	0.9 9

Non Performing Assets Table 4:

YEAR	Value of Non Performing Assets (in millions)	Non Performing Assets as a percentage of total loans (%)	3 year moving average of Non Performing Assets as a percentage of total loans (%)
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1996-97	823.4	16.49835698	
1997-98	879.6	15.10924832	
1998-99	1112	17.50547046	16.37
1999-00	1167.3	18.06937973	16.89
2000-01	2028.8	22.36775374	19.31
2001-02	2806.7	23.38975141	21.28
2002-03	2202.4	15.02298741	20.26
2003-04	2269	16.51623235	18.31
2004-05	2708	16.47242025	16.00
2005-06	3271.4	17.99153055	16.99

Trend Analysis of the loan assets of the Central/District Central Cooperative Banks:

Fig. 6

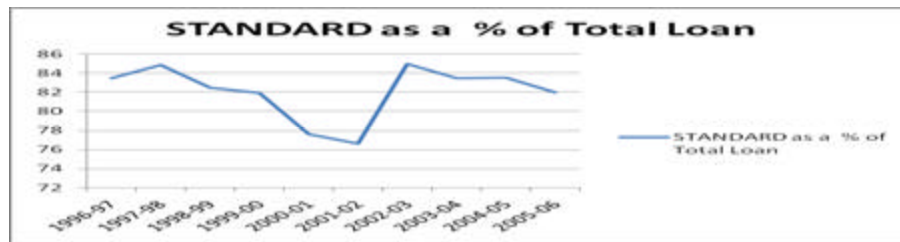


Fig.7

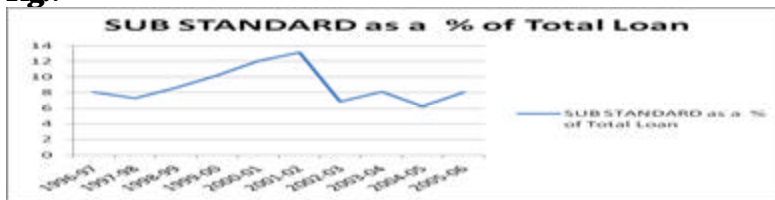


Fig.8

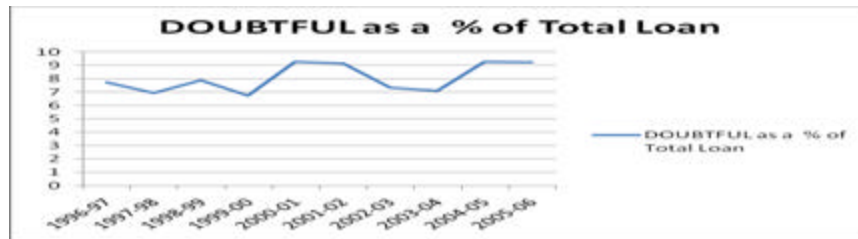


Fig.9

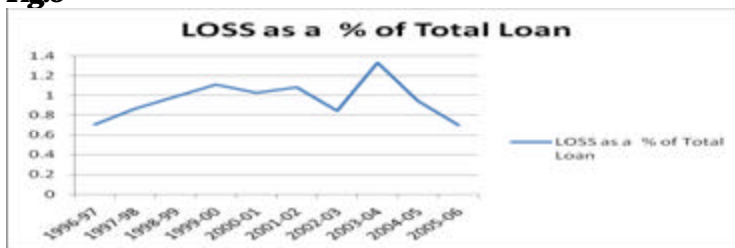


Fig.10

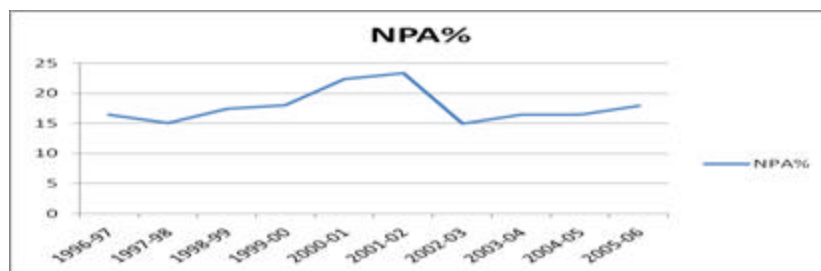


Table 5

YEAR	State Cooperative Bank (%)	Central Cooperative Bank/District Central Cooperative Banks (%)
1996-97	17.32	16.49
1997-98	11.52	15.11
1998-99	13.52	17.5
1999-00	12.48	18.07
2000-01	10.89	22.37
2001-02	7.52	23.39
2002-03	5.28	15.02
2003-04	6.8	16.52
2004-05	5.56	16.47
2005-06	4.96	17.99

Fig.11

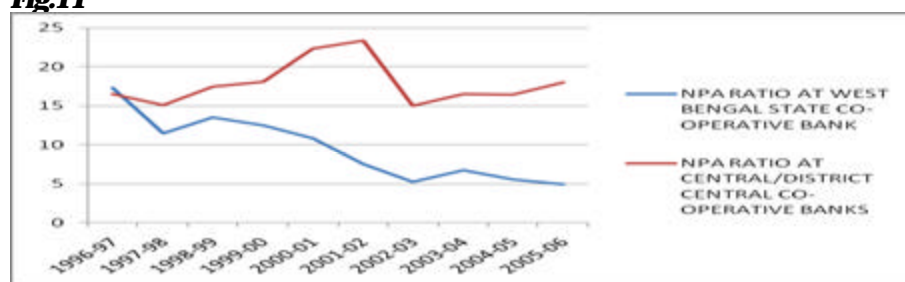


Fig.12

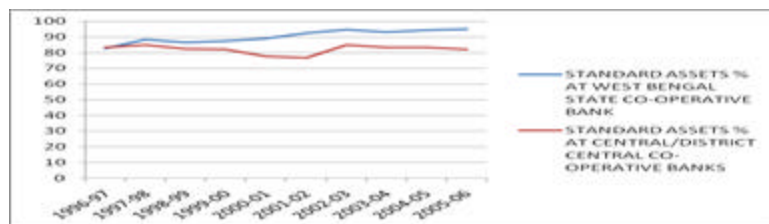
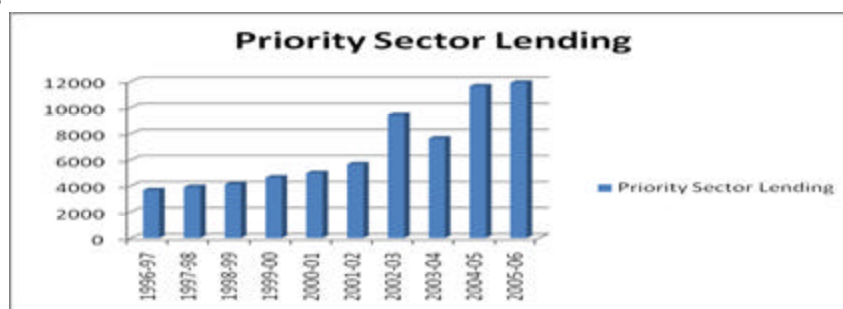
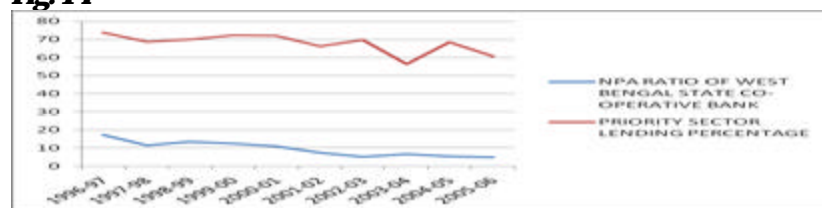


Table 6

YEAR	VALUE OF PRIORITY SECTOR LOANS(Rs. In millions)	PRIORITY SECTOR LENDING PERCENTAGE
1996-97	3672.1	73.85

1997-98	3915.5	68.81
1998-99	4130.5	70.13
1999-00	4640.1	72.27
2000-01	4980.2	72.04
2001-02	5657.2	66.13
2002-03	9442.2	69.88
2003-04	7638.5	56.23
2004-05	11643.5	68.48
2005-06	11908.8	60.65

Fig. 13**Fig. 14****Table 7**

YEAR	DEPOSITS (Rs. In millions)	CREDIT (Rs. In millions)	CD RATIO
1996-97	6976.4	4972.7	71.28
1997-98	8814.4	5690.3	64.56
1998-99	10309.7	5889.7	57.13
1999-00	13764.8	6420.1	46.64
2000-01	17336.9	6913.4	39.88
2001-02	20767.8	8555.1	41.19
2002-03	22172.9	13511.6	60.94
2003-04	24803.3	13584.2	54.77
2004-05	24701.1	17003.5	68.84
2005-06	22822.3	19636.8	86.04
2006-07	24530.6	19796.6	80.70
2007-08	25750.1	22064.6	85.69

Fig. 15

