Chapter 5

✓ Recovery Performance: A Critical Analysis

5.1: High overdues in Agricultural credit
5.2: Extent of Problem in Surveyed Villages
5.3: Poor recovery performances
5.4: Other factors
5.1 HIGH INCIDENCE OF OVERDUES IN AGRICULTURAL CREDIT IN CACHAR DISTRICT: AN ANALYSIS

The problem of non-repayment of bank loan in time results in overdue which is a chronic problem in the agricultural sector. Even in comparatively prosperous years like 1945-6, unauthorised overdues amounted to about one-third of individual loans of primary agricultural societies, a proportion which was as high as about 90 percent in Assam (1944-8)' (Chandavarkar 1984).

Timely recovery and strict credit discipline are of utmost importance for all credit institutions. Inordinate delay in recovery of loans builds up Non-Performing Assets (NPAs) which affects Rural Financial Institutions (RFs) adversely with respect to liquidity and impairs their ability to service the maturing liabilities. The Committee on Non Performing Assets of Public Sector Banks (1998) rightly observed that ‘NPA is a double-edged knife that tells on a bank’s profitability. On one hand, banks cannot recognize income (interest) on NPA accounts and on the other, it is a drain on bank’s profitability due to funding cost.’ (NABARD, Annual Report, 2000-01). NPAs, in short are not just a problem for banks but also for the economy and the society at large.
In any system of credit upon which the whole edifice of the banking industry rests, lending and realisation of loans with interest are the two most important ingredients. While the loans are necessary for boosting development, timely repayment with interest is necessary for rebuilding the banks' capacity to give further loans. In case of agricultural lending, there is no exception to this principle (Chaplot 1978).

The problem of overdues is further aggravated by the incidence of 'willful defaulters'. In December 1972, a Reserve Bank of India Study Team on overdues, found that defaulters were by and large willful and there was hardly any distinction between small and large willful and farmers in this respect (Dandekar 1994).

The recovery performance of the credit agencies in the District during last 8 years is shown in Table 5.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Institution</th>
<th>Demand</th>
<th>Collection</th>
<th>Balance</th>
<th>% of recovery</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-97</td>
<td>CBs</td>
<td>1752.16</td>
<td>546.68</td>
<td>1205.48</td>
<td>31.20</td>
</tr>
<tr>
<td></td>
<td>RRBs</td>
<td>384.23</td>
<td>52.77</td>
<td>331.46</td>
<td>13.73</td>
</tr>
<tr>
<td></td>
<td>Coop.</td>
<td>34.15</td>
<td>1.34</td>
<td>32.81</td>
<td>3.92</td>
</tr>
<tr>
<td>1997-98</td>
<td>CBs</td>
<td>1716.91</td>
<td>488.67</td>
<td>1228.24</td>
<td>28.46</td>
</tr>
<tr>
<td></td>
<td>RRBs</td>
<td>367.37</td>
<td>114.92</td>
<td>252.45</td>
<td>31.28</td>
</tr>
<tr>
<td></td>
<td>Coop.</td>
<td>32.81</td>
<td>1.39</td>
<td>31.42</td>
<td>4.24</td>
</tr>
<tr>
<td>1998-99</td>
<td>CBs</td>
<td>1483.57</td>
<td>402.45</td>
<td>1081.12</td>
<td>27.13</td>
</tr>
<tr>
<td></td>
<td>RRBs</td>
<td>708.08</td>
<td>229.78</td>
<td>478.3</td>
<td>32.45</td>
</tr>
<tr>
<td></td>
<td>Coop.</td>
<td>39.45</td>
<td>1.54</td>
<td>37.91</td>
<td>3.90</td>
</tr>
</tbody>
</table>

Contd.
<table>
<thead>
<tr>
<th>Year</th>
<th>CBs</th>
<th>RRBs</th>
<th>Coop.</th>
<th>CBs</th>
<th>RRBs</th>
<th>Coop.</th>
<th>CBs</th>
<th>RRBs</th>
<th>Coop.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>1783.89</td>
<td>301.41</td>
<td>135</td>
<td>1921.21</td>
<td>328.34</td>
<td>56.26</td>
<td>2193.68</td>
<td>335.94</td>
<td>43.69</td>
</tr>
<tr>
<td>2000-01</td>
<td>464.52</td>
<td>163.34</td>
<td>28.09</td>
<td>586.18</td>
<td>225.46</td>
<td>2.25</td>
<td>890.1</td>
<td>261.84</td>
<td>0.56</td>
</tr>
<tr>
<td>2001-02</td>
<td>1137.27</td>
<td>137.98</td>
<td>106.91</td>
<td>1335.03</td>
<td>102.88</td>
<td>54.01</td>
<td>1303.58</td>
<td>74.1</td>
<td>43.13</td>
</tr>
<tr>
<td>2002-03</td>
<td>36.24</td>
<td>54.19</td>
<td>20.81</td>
<td>30.51</td>
<td>68.67</td>
<td>4.00</td>
<td>42.63</td>
<td>77.94</td>
<td>1.28</td>
</tr>
<tr>
<td>2003-04</td>
<td>1257.18</td>
<td>420.3</td>
<td>836.88</td>
<td>33.43</td>
<td>66.40</td>
<td>10.40</td>
<td>836.88</td>
<td>66.40</td>
<td>10.40</td>
</tr>
</tbody>
</table>

Source: 1. Potential Link Credit Plan (2002-03 to 2006-07 and 2004-05), NABARD, Cachar District, Assam (Annex.2 and 3)

CHART 5.1

AGENCY WISE DEMAND AND COLLECTION OF AGRICULTURAL ADVANCE
It reveals from Table 5.1 that overall position of recovery in the District was not satisfactory although the recovery performance of Cachar Gramin Bank (CGB) was comparatively better in all the years except 1996-97 and 2002-03.

The major reasons for the poor recovery of loans are as follows:

- Frequent occurrence of natural calamities like flood and crop damages.
- Diversion of loan for consumption purposes.
- Implementation of ARDR scheme, 1990 had affected the recovery climate and the borrowers are hopeful for another loan write off.
- Lack of pre-sanction appraisal/scrutiny of loan applications and also lack of adequate post disbursement supervision and follow up action.

Over the years, a mistaken notion was formed that 60 per cent recovery could be considered as a benchmark for good performance. Recent studies have shown that for financial viability and sustainability of credit operations, the recovery performance would have to be considerably higher-around 90 percent. (NABARD, 2000-01). As against this, public sector banks were having a recovery of less than 40 per cent in all the years except 2002-03 (42.6 per cent), in the district of Cachar. The causes are enumerated below:

- The coercive action taken by the banks against wilful defaulters was not effective.
- Absence of co-ordination between extension officials of State Government and branch managers of banks in regard to recovery efforts.
• Absence of strong legal framework for recovery of Commercial Banks / RRBs dues. The provisions of the Assam Recovery of Loans Act, 1976 (Bakijai) do not cover all types of loans advanced by Commercial Banks / RRBs up to Rs. 10 lakhs.

• Political interference.

• Certificate procedure prevalent for loan recovery is not effective since ‘Bakijai officers’ are preoccupied with collection of State Govt. dues.

This problem of poor recovery is posing a basic threat to the viability of bank operations in rural areas.

Timely recovery and strict credit discipline are of utmost importance for all credit institutions. The poor recovery in the District seems to have virtually choked the recycling of funds. For better recovery performance, the state govt. may have to provide supporting machinery to attend to the claims made by the banks. The public sector banks may have to be directed to step in as they have a better resilience

5.2 EXTENT OF PROBLEM IN THE SURVEYED VILLAGES OF CACHAR DISTRICT

The present study reveals that 55.1 per cent out of 154 borrowers, out of a total 280 sample farm households are defaulters in the district of Cachar. In Silchar Agricultural Sub-division, 66 per cent of the borrowers are found to be bank defaulters followed by 51.7 per cent in Sonai and 44.7 per cent in Lakhipur Agricultural Sub-division.
TABLE 5.2

NUMBER OF DEFAULTERS OF BANK LOAN IN CACHAR (DURING 1991-2004)

<table>
<thead>
<tr>
<th>Agr. Sub-Div.</th>
<th>Total No of FHH</th>
<th>No. of beneficiaries</th>
<th>No. of defaulters</th>
<th>Wilful defaulter</th>
<th>Non-Wilful defaulter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silchar</td>
<td>117</td>
<td>56</td>
<td>37 (66.0%)</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>Sonai</td>
<td>92</td>
<td>60</td>
<td>31 (51.7%)</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>Lakhipur</td>
<td>71</td>
<td>38</td>
<td>17 (44.7%)</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>280</strong></td>
<td><strong>154</strong></td>
<td><strong>85 (55.0%)</strong></td>
<td><strong>40 (47.0%)</strong></td>
<td><strong>45 (53.0%)</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey

Figures in the parenthesis represents percentage to the number of beneficiaries in the three agriculture subdivision respectively.

The term ‘wilful defaulters’ as defined by the RBI as appeared in the Parliamentary Estimate Committee (2000-2001) covers cases of (i) deliberate non-payment of the dues despite adequate cash flow and good networth (ii) Siphoning off funds to the detriment of the defaulting unit (iii) Assets financed have either not been purchased or have been sold and proceeds have been misutilised (iv) Misrepresentation/ falsification of records (v) Disposal of securities without bank’s knowledge (vi) fraudulent transactions by the borrower. Most of the reasons for wilful defaulters as mentioned above are prevalent in the district of Cachar also. In the district of Cachar, out 85 defaulters 40 (i.e. 47 per cent) are found to be ‘wilful defaulters’. The problem of overdues in the district is further aggravated by ‘non-wilful defaulters’. In Cachar, the number of defaulters of both types are found more in case of earlier subsidised credit programme more particularly under IRDP.

5.2.1 DEFAULTERS AND LEVEL OF EDUCATION

In all these three subdivisions the percentage of defaulters among literate beneficiaries are found to be more than that of illiterate beneficiaries which is shown in table 5.3.1. It is seen that a lower
triangular table is formed in case of the KCC farmers which indicates that defaulters are directly proportional to education level.

The total number of defaulters in the district of Cachar are divided into both government sponsored scheme and KCC scheme. Table 5.3 shows the defaulters under earlier IRDP scheme and level of education and table no. 5.4 shows the defaulter under KCC scheme and farmers level of education.

**TABLE 5.3**

**DEFAULTERS UNDER GOVT. SUBSIDISED SCHEME AND LEVEL OF EDUCATION (CACHAR) 1991-2004**

<table>
<thead>
<tr>
<th>Agr. Sub-Div.</th>
<th>Total no. of farmers</th>
<th>No. of borrowing farmers</th>
<th>Defaulters and Level of Education</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>No. of Illiterate</td>
</tr>
<tr>
<td>Silchar</td>
<td>117</td>
<td>44</td>
<td>12</td>
</tr>
<tr>
<td>Sonai</td>
<td>92</td>
<td>27</td>
<td>5</td>
</tr>
<tr>
<td>Lakhipur</td>
<td>71</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>280</strong></td>
<td><strong>106</strong></td>
<td><strong>17</strong></td>
</tr>
</tbody>
</table>

*Source: Field Survey (2003-04)*

**TABLE 5.4**

**DEFAULTERS UNDER KCC AND LEVEL OF EDUCATION**

<table>
<thead>
<tr>
<th>Agr. Sub-Div.</th>
<th>No. of farmers</th>
<th>No. of KCC holder</th>
<th>No. of KCC defaulters</th>
<th>Defaulters and Level of Education</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>No. of Illiterate</td>
</tr>
<tr>
<td>Silchar</td>
<td>117</td>
<td>10</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Sonai</td>
<td>92</td>
<td>23</td>
<td>7</td>
<td>-</td>
</tr>
<tr>
<td>Lakhipur</td>
<td>71</td>
<td>15</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>280</strong></td>
<td><strong>48</strong></td>
<td><strong>15</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: Field Survey (2003-04)*
5.3 POOR RECOVERY PERFORMANCES

The disbursement of credit was poor mainly because of poor recovery performances of earlier advances of the banks.

According to the Report of a Seminar held on December 6 to 8, 1968 organised by RBI (p. 137), that repayment of bank loans usually takes three forms, viz.,

(i) Repayment on borrower's initiative: Here loan amount along with interest is deposited with the lender directly on the due date without any reminder or messenger from the lender.

(ii) Repayment on lender's initiative: Here follow up by lender's supervisors just after harvest till the marketing period becomes essential. The borrower deposits the amount of loan with the lenders no sooner he obtains sale proceeds.

(iii) Repayment on lender's-cum-borrower's initiative: Here the borrower's repayments have been linked with sale proceeds of their produce at the market level. The lenders and borrowers strike a compromise on the issue and take this arrangement convenient to each one of them. The repayment procedure here is possible on both lender's and borrower's compromise and only if official action is taken in this behalf and as such they have been equated with recovery as repayments are being made by the market men on behalf of the borrowers from the sale proceeds of the produce. It is a procedure of recovery linked with market.

In the district of Cachar both types of repayment i.e. (i) and (ii)
are found to be poor where as no (iii) is completely non-existent due to inherent defect in the infrastructure in the district.

Eventually this leads to an increase in the Non Performing Assets (NPAs) and low income generation capacity which erodes the capital base of the credit institutions.

5.3.1 FACTORS RESPONSIBLE FOR OVERDUES OF BANK LOANS

The NABARD (2000-2001) has conducted several major studies in the recent past on the “Factors contributing to Build up of overdues of Institutional Loans” and approached the problems of overdues both from the demand side and supply side and found that various supply side factors like under financing as well as over financing of investments, fixation of shorter maturity period of loans by the banks etc and demand side factors like crop failure, inadequate income generation etc. have contributed to the build up of overdues. This study has also revealed that high default rate of bank loanee is outcome of joint impact of various demand factors and supply factors.

5.3.2 DEMAND FACTORS

Many beneficiaries cited more than one reason for non-repayment of loan. These reasons can be grouped under the broad headings as shown in Table 5.4. As there are more than a single reason for non-repayment, the figures are not additive. These reasons are not mutually exclusive.
### TABLE 5.5
PERCEIVED CAUSES FOR NON-REPAYMENT OF BANK LOAN IN CACHAR (2003-04)

<table>
<thead>
<tr>
<th>Causes</th>
<th>Nos. of defaulter (85)</th>
<th>% of defaulters to total defaulters</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. In the hope of loan waiver</td>
<td>30</td>
<td>35.0</td>
<td>1</td>
</tr>
<tr>
<td>2. Project failure</td>
<td>20</td>
<td>23.5</td>
<td>3</td>
</tr>
<tr>
<td>3. Dissatisfaction due to harassment made by the bank officials</td>
<td>17</td>
<td>20.0</td>
<td>5</td>
</tr>
<tr>
<td>4. Attitudinal problem of the borrowers</td>
<td>14</td>
<td>16.4</td>
<td>7</td>
</tr>
<tr>
<td>5. De-motivation due to mis-information</td>
<td>16</td>
<td>18.8</td>
<td>6</td>
</tr>
<tr>
<td>6. Non-receipt of full amount of loan due to side payment made to the middle men</td>
<td>19</td>
<td>22.0</td>
<td>4</td>
</tr>
<tr>
<td>7. Diversion of production loan for consumption purposes</td>
<td>21</td>
<td>24.7</td>
<td>2</td>
</tr>
<tr>
<td>8. Sanction of loan under political influence</td>
<td>10</td>
<td>12.0</td>
<td>8</td>
</tr>
<tr>
<td>9. Inadequate income generation due to low amount of credit and high unit cost of project</td>
<td>9</td>
<td>10.5</td>
<td>9</td>
</tr>
</tbody>
</table>

*Note: Figures are not additive.*

*Source: Field Survey.*

Some of the important demand side factors are analysed below:

i) **Expectation of loan waiver**: Many defaulter farmers did not repay the loans in expectation of loan waiver. Some whimsical (populist measures of the ruling party) extraordinary orders, sometimes create some problem to the realisation of bank money borrowed by the farmers. To a considerable extent the recovery climate has been vitiated by the loan waiver scheme of 1990 (ARDR 90). 35 per cent
of farmers, are not willing to repay bank's dues in the hope of loan waiver. "If this trend was not reversed and if banks were reduced to institutions providing grants rather than recycling credit, the banking system would not be able to meet the credit needs of agriculture in future...." (The Seventh Five Year Plan, Planning Commission, 1985, Vol. II, p. 17).

ii) **Diversion of production loan/income from the project to satisfy borrowers consumption needs**: 24.7% percent borrowers diverted the loan amount, from production purposes to satisfy personal needs. The main reason for this diversion, cited by the defaulters was insufficient amount of loan for production purposes. Two borrowers are found to have utilised KCC loan for construction of houses, three farmers had spent the loan money for contesting 'panchayat election' and others had utilised these for meeting various family expenditures.

iii) **Inadequate income generation**: 10.5% of the defaulters failed to repay the loans due to inadequate income generation. The low prices for agricultural produce mainly of vegetables during 2003-04 accompanied by increasing cost of inputs like the increased price of fertilizers, pesticides, labour etc. compelled mainly the vegetable grower to remain 'non wilful' defaulter. Many farmers are of the opinion that at least one able member of the family has to search out other avenues of employment for meeting essential family expenditure other than rice.
iv) **Underfinancing of Project:** Sanction of loans for amounts less than the unit cost leading to misutilisation of the loans. Here the studies made by NABARD during 80's still holds good. About 60 evaluation studies conducted by NABARD and Commercial Banks have revealed that more than 50 per cent of the borrowers under any scheme were under financed (ACRC, 1989 Reprinted in 1993, p. 594, RBI). In Cachar 46 KCC holder out of 48 beneficiaries (i.e. 95.8 per cent) expressed their concern regarding under finance (as discussed in Chapter 6). As a result, the beneficiaries were either forced to take private loan at a much higher rate of interest or they had to settle for poor quality production.

v) **Project Failure:** In models such as Carter’s that employ Stiglitz and Weiss’s seminal framework, default risk arises from the riskiness of agricultural investment projects. Farmers default “unintentionally” when their projects perform so poorly that they are unable to repay their debts. (Blackman, 2001)

The agricultural sector is beset with considerable uncertainties - the inclement climate and erratic rainfall, the pest problem and the market and price problem. No other sector of the economy would require as much flexibility and adjustment in banking as this one (Shivamaggi, 2000). A uniform standardised approach to lending has led to rigidities as a result of which a farmer borrower becomes a defaulter for no fault of his own.
CASE STUDY

Many farmers could not repay the loan due to project failure, damage of crops etc. In the surveyed villages, it is seen that many farmers were compelled to sell their land and become tenants with large debts due to destruction of assets. These landless and marginal farmers have been bypassed by whatever economic development and social progress the area has experienced.

CASE STUDY I: Mr. A, an Adhlar, 45 years old

He used to cultivate 15-20 bighas of land as share cropper. He lives with his wife, an unmarried daughter and an invalid son at Narsingpur AEO Circle. He is a landless share cropper. During 1997-98, he took a loan of Rs. 8000 from a nationalised bank branch in order to purchase a pair of bullocks. Then he started doing *bagi* with these bullocks but did not know that he had to insure the asset. But within one year of purchase, the draught animals contracted a disease and died. And he didn’t get any monetary benefit due to his ignorance. And ultimately he had no any association as a share cropper to anybody.

The combination of joblessness, the untimely death of the bull and the inadequacy of the various supplementary sources of income that the family collectively had forced the cultivator to sell his wooden plough. He turned into a defaulter.

CASE II: Mr. B

He was a marginal farmer having 4 bighas land. Production from land was insufficient to maintain his family of five. So he took a bank loan and purchased a pair of bullocks during ’90s. But within 3 months, these bullocks died. With the help of his friends and relatives, he
somehow managed to overcome the hardship for the time being. But when he had been denied being a 'share cropper' due to loss of bullocks, he had no other way than to mortgage some parts of his land during 1999. Till now he could not free his land and couldn't repay his loan amount to the bank also.

The experience of these landless and small farmers are significant, because it is not at all unusual among farmers with similar conditions. With as little land as they own, damage of assets can force such families into debt and distress selling of land and ultimately they would turned into defaulters.

vi) Dissatisfaction with the services of the banks: It is one of the important reason for non-repayment of loan amount by the borrowers. The variables used to measure the satisfaction are generally taken as (by the beneficiaries) formalities in getting the loan amount, the time-lag between the application and disbursement of the loan, adequate amount of loan, contract of loan agreement.

From the field survey it revealed that 20 per cent of the defaulters did not repay the loan due to dissatisfaction. A large part of defaulters are discontented for too much paper works involved in getting credit, misbehaviour of the bank officials and also for 'insufficiency' of loan amount. Long waiting time for getting loan also aggravated the problem. 62.5 per cent (KCC borrowers) farmers complained against high transaction cost incurred in getting the loan amount. Many of them discouraged to get next instalment and they are not interested to undertake so much trouble for small amount of money.

From the present study 47 per cent beneficiaries are found as
‘wilful defaulters’ due to dissatisfaction regarding the overall services by the banks.

During the field survey by the researcher, some of the farmers and Agriculture Extension Officials (AEOs) reported that some bank officials were found indifferent and non-cooperative. They have to face harassment sometimes in the banks in regards to KCC.

In Lakhipur, Sonai and Silchar Agricultural Sub-Divisions, many farmers narrated their bitter experiences with the bank officials while trying for KCC. They alleged that they have sufficient land holding and the required patta of land. Still the Branch managers had demanded accounts showing Fixed Deposit, alongwith the submission of land revenue receipt, clearance certificate from SDC office. They (the farmers of Lakhipur Sub-division) also alleged that it is highly disgusting and also discouraging for small farmers to run from Joypur to Lakhipur SDC’s office and loiter in the corridor repeatedly for getting all the needed documents even sometimes by spending good amount of ‘consideration money’ through middlemen for that. This harassment eventually leads to dissatisfaction causing irregular repayment.

**CASE STUDY I:**

Mr. X is a highly progressive farmer of Rajabazar AEO Circle. He has 1 Ha of Banana Plantation and also a fishery, apart from usual paddy cultivation. Under the scheme of Technology Mission he received a cheque of Rs. 35,000/- from the Agriculture Department. He was forced to do “Fixed Deposit” in the local branch of a nationalised bank for getting KCC. This type of acts on the part of the bank officials frustrates the very purpose of KCC i.e. improving the conditions of marginal and small farmers. This harassment on the loanees compels
then to become wilful defaulters.

**CASE STUDY II:**

In some cases, the dissatisfaction of the farmers due to so-called harassment by the bank officials leads to a tendency of the farmers to become ‘wilful defaulters’.

The bitter experience of the farmers of Narsingpur Circle (Sonai Sub-division) who are the active members of a leading FMC, is a case in hand. From amongst the members of the FMC, ten members having land from 3 bighas to 16 bighas applied loan for KCC to a nationalised bank branch. Their demand was Rs. 12,000/- each. But the bank sanctioned only Rs. 10,000/- each to 3 members during 2002-2003. And 1 member having 3 bighas of land, got a sanctioned amount of only Rs. 3,500/-, who had already incurred an expenditure of substantial amount with the hope of meeting this cost after getting the bank loan. But when the bank refused to sanction more than Rs. 3,500, he had to mortgage some lands ultimately to meet the variable costs. In protest to this, the other two members did not want to cooperate with the bank and wilfully did not make any repayment to the bank.

During the visits to the FMC by the researcher in August 2003 and February 2004, the loanees were convinced by the researcher to pay back the past loan and try for the next loan. After that the loanee members contacted the Bank officials directly and were satisfied with the dealings of the new Branch Manager. Now the FMC is eligible to get bank loan of Rs. 5 lacs. However, they are now willing to take a loan of Rs. 1.5 lacs and if the repayment by the members is satisfactory then they will go for the big drive.
vii) **Non-receipt of full loan amount**: The Estimates Committee in its 5th report, p. 29 (2000-2001) on the working of ‘Public Sector Banks – Bad Debts’ observed ‘that the loan amounts never reach the poor borrowers in full. The illiterate and gullible borrowers have to grease the palm of middlemen/Block Development officers and other Government intermediaries in forwarding, sponsoring loan applications. They have even to give bribe to the to bank officials as told, for sanctioning and disbursement of loan. That is why some of the borrowers wilfully refused to pay the full loan amount as they are only paid less than half of the loan amount”. The present study (on agricultural finance by Commercial Banks) re-establishes the above observation of the estimate committee on the working of the public sector banks. In Cachar, it was observed that 22 per cent of borrowers couldn’t repay loans due to no income generation as they were deceived by the middlemen and got a very small portion of the sanctioned amount of loan.

**CASE STUDY : Mr. X**

He is an illiterate farmer of Katigorah. He has 6 bigha khas land. He is an defaulter under IRDP scheme. He along with other farmers were sanctioned an amount of Rs. 5000 each during mid ‘90s. But in practice, everyone of them got Rs. 500/- only in hand. So when bank notices came for repayment of loan amount of Rs. 5000/- they were surprised because they did not receive such amount and denied to repay it because without any assets generation with such a meagre amount they were compelled to turn into non-wilful defaulters. Thus, these illiterate and ignorant peasants were cheated by the middlemen. The middlemen appropriated the major portion of the loan amount
taking the advantage of their ignorance and illiteracy.

These middlemen, numbering two, are not traceable in the areas for sometime past. Besides these farmer mentioned above, there are some other debtors, (about 9 more, as they told) enlisted as defaulters and denied of any further bank loan.

In some cases, it is found that local leaders with political influence, insist that loan to be sanctioned to applicants who are actually not entitled to come under the identified category. As happened in a Nationalised Commercial Bank Branch of Sonai Sub-division, some local leaders insisted upon to provide entire amount of loan in one instalment instead of three instalment and accordingly this type of act led to increase in default rate.

viii) **Attitudinal problem of the borrower:** Many borrowers treat bank credit as a 'dole'. They have started to perceive credit as public service, disassociated with the capacity of profitable utilisation of the money borrowed. And they take it for granted that the loan taken need not to be refunded.

5.3.3 **SUPPLY FACTORS**

**A) DEFECTIVE LENDING POLICIES AND PROCEDURES (LOAN POLICY):**

In granting loan, the banks make it sure that crop is hypotheticated to the banker on condition that the sale proceeds of harvested crop should be paid, first towards repayment of banks dues i.e. loan amount. The residual part of the proceeds would be available to the borrowing farmers.

Although, it has been assumed that the borrowing farmer would
sell the harvested produce, it is not always found to be correct. This is a pre-supposition made here as it is generally made in analysing any economic event under the economic laws. This presumption has the following limitations.

i) Sale of the proceeds by a farmer during the harvesting season would not fetch him the highest price or best price prevailing in the market because during harvesting season, the supply of paddy is plenty in the market.

ii) In case there is a mismatching between supply of harvested crop in a given season as against potential demand, the borrowing farmers would be required to make some amount of distress sale on account of meeting their other priority needs and social obligations.

iii) Although, normally it is presumed that the borrowing farmer would sell the produces, it may not happen so, because if he is a marginal farmer or an agricultural wage earner, the produce may not be sold at all. Rather, his domestic consumption needs would be met out of the same. The farmer will then be regarded as subsistence farmer without any possibility of selling the produce.

B) PROBLEM OF IDENTIFICATION OF BORROWERS

Identification of borrowers and their land pose many problems. Verification becomes difficult due to non-availability of proper land records. It is worth mentioning here that Govt. of Assam in the year 1964 had requisitioned about 10,000 bighas of evacuee land in Cachar (in Katigorah revenue circle) for settlement of migrants from erstwhile
East Pakistan who came over to India as ‘refugees’. These lands are spread over Katirail, Khelma, Narapati, Subodhnagar, Laverputa, Kinnarkhal, Mahadevpur etc. of the Katigorah and Kalain AEO Circles. Relief and Rehabilitation department had given them settlement on the evacuee land. The settlers till now deprived of periodic patta by Land Revenue Department of Govt. of Assam.

C) LOAN DISBURSEMENT IN WRONG TIME

Loan disbursement in wrong time mostly after the cropping period is also responsible for non-repayment of loan by the farmers. It is reported by the beneficiaries under KCC scheme that generally a loan application takes 80 days to 90 days to be sanctioned and finally disbursed to them. This delay in disbursement of credit money results in diversion of loan into non-productive uses. Out of 48 KCC holders, 19 per cent farmers became defaulter due to this.

D) SCREENING PROBLEM

Due to information asymmetry, the bank officials cannot predict borrowers behaviour, especially as regards default and its is costly to determine the extent of the risk for each borrower. This is the ‘screening problem.’ On the other hand the private money lenders can successfully overcome this ‘screening problem’ in the selection of debtors which results in good repayment of loan due to their personal contact with their borrower.

E) ENFORCEMENT PROBLEM

Slow and dilatory legal procedure, for recovery: Recovery of overdues by the banks is one of the major concerns in view of the need for recycling the funds for socio-economic development and the very survival of the banking sector. The major handicap in quick recovery of
dues of the banks is ‘the time consuming legal process’ because of which the borrowers do not feel compelled to come forward for setting their dues. This is the ‘enforcement problem’. The Estimates Committee (2000-2001) had noted that major constraint in quick recovery of the dues of the banks was “the slow and dilatory legal procedure for recovery”. (The Estimates Committee, 12th Lok Sabha, 1998, on its 3rd Report on ‘Public Sector Banks - Bad Debts’.)

F) LACK OF EFFECTIVE SUPERVISION (INADEQUATE SUPERVISION OVER CREDIT):

As observed by the NEIBM study on “An Enquiry into the Institutional Credit Flow in Assam: A Project Report (1998)” that one of the major problems for the bankers on the sphere of credit flow has been the poor recovery of loans disbursed.

In regard to factors for which banks are responsible for advance turning non-performing, the important contributory factors are interalia, deficiencies in credit appraisal, non-observance of norms for sanction of loans and laxity in post disbursement supervision. (Ministry of finance, Deptt of Economic Affairs, Banking Div., 1998, Para No. 3.67 cited in p. 60, Report of Estimate Committee 2000-2001, p. 60) Due to information asymmetries, abundant evidence of the diversion of “agricultural” credit to non-farm uses suggests that many lenders cannot monitor how borrowers use their loans. (Braverman and Guasch, 1986). Monitoring costs are also high because farms are often situated in far-flung villages.

Virtually non-existent or ineffective supervision gives rise to many malpractices, culminating in overdues, which range from misutilisation of credit, diversion of sale proceeds for consumption purposes, diversion of credit obtained at lower rate of interest for non-agricultural business
purposes, for contesting in panchayat election and in some areas for paying off private debt from money lenders.

Supervision and follow-up is necessary to maintain proper relations with the borrowers and for timely repayment of loan.

Bankers should periodically visit the beneficiaries to ascertain asset generation by the credit amount and repayment capacities. Efforts should be made to infuse the spirit of enthusiasm among the loanees for the prompt repayment of loans.

**HYPOTHESIS II:**

Lack of Supervision and follow up by bank officials are responsible for high overdues.

Table 5.5 shows the number of defaulters in the district which are very much high at 55.2 per cent. It has been noticed from the table that out of 280 HH, 154 were institutional borrowers (comprising both borrowers of earlier sponsored credit programmes like IRDP etc. as well as present KCC programmes). But only in case of 35.3 per cent loanee farmers, post-sanction follow up had been taken place. This resulted in 55.2 per cent defaulters.
TABLE 5.6
DEFAULTERS AND LACK OF EFFECTIVE SUPERVISION (IRDP+KCC)

<table>
<thead>
<tr>
<th>Agr. Sub-Div.</th>
<th>No. of Households</th>
<th>No. of borrowers</th>
<th>Defaulter No.</th>
<th>P.C. to no. of borrowers</th>
<th>No. of Cases</th>
<th>P.C. of cases (in the no of borrowers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SILCHAR</td>
<td>117</td>
<td>56</td>
<td>37</td>
<td>66</td>
<td>8</td>
<td>21.6</td>
</tr>
<tr>
<td>SONAI</td>
<td>92</td>
<td>60</td>
<td>31</td>
<td>51.6</td>
<td>14</td>
<td>45.1</td>
</tr>
<tr>
<td>LAKHIPUR</td>
<td>71</td>
<td>38</td>
<td>17</td>
<td>44.7</td>
<td>8</td>
<td>47</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>280</strong></td>
<td><strong>154</strong></td>
<td><strong>85</strong></td>
<td><strong>55.1</strong></td>
<td><strong>30</strong></td>
<td><strong>35.3</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey.

To find out whether post sanction follow up and supervision in various subdivisions of Cachar are same or not, chi-square test has been done.

H₀ : Post sanctioned follow up is uniformly distributed in the three agricultural subdivision of Cachar

Post sanction follow up and supervision same or not

<table>
<thead>
<tr>
<th></th>
<th>oᵢ</th>
<th>eᵢ</th>
<th>(oᵢ - eᵢ)²/eᵢ</th>
</tr>
</thead>
<tbody>
<tr>
<td>SILCHAR</td>
<td>21.6</td>
<td>37.9</td>
<td>7.01</td>
</tr>
<tr>
<td>SONAI</td>
<td>45.1</td>
<td>37.9</td>
<td>1.367</td>
</tr>
<tr>
<td>LAKHIPUR</td>
<td>47</td>
<td>37.9</td>
<td>2.184</td>
</tr>
</tbody>
</table>

Source: Field Survey.

χ² calculated value = 10.561

χ² tabulated value for 2df at 5 per cent level of significance is 5.991.

Conclusion: So we reject the null-hypothesis and conclude that post sanction supervision and visits in Silchar is less compared to other two Subdivisions. It reveals from table 5.6 that due to low post sanction supervision the number of defaulters is comparatively higher in Silchar.
subdivision than to Sonai and Lakhipur. So it establishes the hypothesis that lack of supervision and follow up by bank officials are responsible for high overdues.

The Agricultural Credit Review Committee (ACRC), 1989, appointed by the RBI noted, "... The borrowers of these branches are located in far-flung areas and commuting facilities for reaching such borrowers are very often non-existent ... A single officer can supervise at the most up to 750 accounts. . . Many of the rural branches were inadequately staffed. As many as 1,700 accounts had to be managed by a single field officer in many branches. In view of the large number of accounts to be covered by field officers, supervisory work in many branches seen to be neglected.

Thus, when a large number of small accounts are to be handled by the limited field staff, the quality of lending and supervision of credit are generally the first casualty. This handicaps the banker in the Cachar also as reported by almost all the rural branches (12 nos.) visited during the survey period except rural branches of SBI in Cachar, in faithfully following the credit cycle starting with the assessment of needs, appraisal, disbursement and monitoring, including ensuring the end use of credit and recovery. It is costly to ensure that borrowers perform so as to ensure repayment. This is the 'incentive problem'.

Defaulters in supervision arrangements relate much to the inadequacies of staff, lack of qualifications, technical knowledge etc. Absence of arrangements for sharing of information on borrowers amongst the credit institutions is one of the reasons for incidence of increasing overdues. (Estimate Committee's 5th Report, 2000-2001, p. 112)
G) LACK OF REQUIRED SKILL AMONG THE SENIOR MANAGEMENT IN BANKS

One of the reasons cited by Deputy Governor, RBI for advances going bad is that “it may be due to wrong skill of the person who is appraising . . . in future the banks will be careful in their training system”. (5th Report of Estimates Committee, 2000-2001, p. 60).

A number of programmes, aiming at poverty alleviation, were introduced in the district along with other parts of the country, culminating in the launching of the credit linked IRDP from 1980. But the programme in the district created a large number of defaulters among farmers as well as non-agricultural rural group. Deficiencies in credit appraisal, non-observance of norms for selection of beneficiary resulted in wrong selection of beneficiaries. Moreover acute shortage of staffs in different bank branches in the district adds for the dimension to the problem. And the staff shortage is not a new problem. As the National Bank (NABARD) study of 1985 observed that the banks found it difficult to associate their staff in the identification of the beneficiaries because of the acute shortage of field staff in all the rural branches. In the district also, all the bank branches are having this problem more or less due to ban on any recruitment since 1990s which accentuates the problem of overdue to a considerable extent.

H) POLITICAL INTERFERENCE AND PROCEDURAL MALPRACTICES

Some bank managers are of the opinion that sometimes they are to grant agricultural loans under political pressure without necessary enquiry and investigation. For example during 2002-2003 in Kabuganj SBI branch, the Branch Manager had to allow drawal of entire loan amount under KCC scheme at a time instead of 3 instalments.
to a group of cultivators (Sali+Aus+Rabi) which is against the lending norms of the Bank. And in that case possibility of diversion of loan into unproductive channel is possible. And that would result in large scale non-repayment of loan. (SBI-Kabunganj). In many areas it has been reported by the farmers that influential farmers somehow manage to get the benefit of bank loans easily, while the actual needy farmers cannot avail these benefits due to their ignorance. Such poor farmers do not take the troubles of frequently visiting the banks and for the paraphernalia involved in the matter of enlisting their names in the list of probable beneficiaries. There is little scope of verifying such things in every cases, but it may be presumed that in certain cases poor farmers have to face many difficulties in getting such bank loans. Further, when political dignitaries are associated with the loan disbursals, the beneficiaries as well as the public perceive it not as bank credit but as state aid without any obligation to repay (ACRC/89).

The experience of other developing countries underscores one other important fact of financing the rural poor in India. The report on the study on “Linking Self-Help Groups and Banks in Developing Countries”. Commissioned by the Asian and Pacific Regional Agricultural Credit Association (APRACA) and Gesellschaftfur Technische Zusammenarbeit (GTZ), West Germany, 1989 (NABARD, 1990-91, p. 25) pointed out that ‘low interest rates set below the market rates and the cost of funds’ inhibited the banks from covering a large number of the poor and that the lending portfolio remained limited as local resources were not mobilised and the programme depended mainly on outside funds. It also highlighted the fact that the credit programmes
without a savings component led to poor repayment performance.

I) RELAXATION IN CREDIT DISCIPLINE FOLLOWING AGRICULTURAL AND RURAL DEBT RELIEF SCHEME (ARDR 1990)

The debt relief scheme announced in 1990-91, affected the recovery climate resulting in a lower volume of credit flow (Eighth Five Year Plan, Planning Commission, 1992, Vol. II, p. 4). The Government of India and the State governments had announced the ARDR Scheme during 1990 under which certain loans of non-wilful defaulters, overdue as on 2nd October, 1989, were to be written off subject to certain conditions. The announcement slowed down the recovery of such dues also which were not covered under. Till now the loan recovery climate has been vitiated to a large extent by this ARDR 1990. Out of 47 per cent of the farmers who can termed as 'wilful defaulter' as much 35 per cent expected a future write off and remain in default.

5.4 OTHER FACTORS

The Audit Report on the Cachar Gramin Bank covering different years, recorded the following observations:

i] Recovery position was found absolutely bad.

ii] Interest charged on the outstanding balances most of the irregular, bad and sticky accounts.

iii] RBI guidelines in this regard was not followed strictly.

iv] Advance portfolio management was found absolutely poor. Most of the advances were found overdue, bad and doubtful, incomplete and defective documentation and time barred. No follow up measures were found.
v] In cases of some branches letter for confirmation of year. And balances from borrowers were returned unserved.

vi] Post disbursement supervision and verification were almost absent. (Audit observation on the accounts of the CGB, 1998-99).

Thus, the analysis of the demand side as well as supply side, factors, responsible for high level of default / overdues reveals that certain internal and external factors are responsible for this problem. These factors are not mutually exclusive. Among the internal factors are:

i] Defective loan policies and procedures involving under-financing / over financing.

ii] Information asymmetry lead to adverse selection of borrowers i.e. improper choice of the beneficiary and activity (mainly under earlier subsidized credit programmes).

iii] Non-recognition of the need for consumption finance. The characteristics of the credit needs of the poor farmers are such that they do not fit into the requirements of formal credit institutions.

iv] Poor supervision over the end-use of credit and lack of frequent contacts with the loanee farmers.

v] Emphasis on targeting with constant pressure from government agencies.

vi] Nonviable borrowers whose income generated is
insufficient to repay the bank loans and who constitute a class by themselves.

vii] Leakages through corruption and malpractices.

Among the external factors are:

i] Politicisation of the institutional credit and environmental encouragement of default.

ii] Adverse climatic conditions, particularly to flash floods, in the district almost regularly causing, damage of crop every year.

iii] Lack of the forward / backward linkages and infrastructural facilities and services which support agriculture.

iv] Increasing costs of inputs and prices of farm produce without price support in the district.

v] Defective legal framework and lack of support from the government machinery in recoveries.

vi] In addition, there has been active interference in the system through announcement of debt reliefs, and write off of bank dues (e.g. ARDR scheme 1990) Overdues are often the result of a combination of various factors.

It is observed from the findings of the field survey that there are several deficiencies in the implementation of the loan policies and procedures, which contributed to ineffective credit flows and also increasing incidence of overdues.