REVIEW OF RELATED LITERATURE

A lot of research work has already been conducted pertaining to the problem of recoveries and overdues. Some studies about recovery of loans and overdues have been made by individuals and other studies have been made by Committees on the initiation of the Reserve Bank of India. A few of them, which the researcher has come across, are as follows:

Studies made by Individuals

A study was made by R. Sivalingam \(^1\) [1970] namely ‘An enquiry into the extent and causes of overdues in the agricultural credit societies in Kadanad Panchayat area’. This study revealed that overdues were due to various factors. The main factors were [i] Crop failure [ii] Borrowings from money lenders and [iii] Size of the family.

A study team was appointed under the chairmanship of C. D. Datey \(^2\) [1972] by the RBI in December, 1972 to study the position of overdues at various levels of the three
tier cooperative credit system and to ascertain the causes. It has stated that inefficiency of the management is one of the important causes for poor recovery and suggested that there should be many controllable causes, such as timely disbursement of loans, timely recoveries, minimization of lengthy procedures, etc.

T. Subba Reddy and C. Rama MuniReddy [1979], in their article ‘Recovery of loans’ found that recovery problem in Cooperative Credit institutions can be solved to a considerable extent evolving what may be described as ‘built-in-checks’-production based and produce realized. The problem of non-recovery of farm loans not only affects the interests of the defaulters but also the borrowers who are prompt in repayments, creditors and the cooperative movement itself.

A. Singh and J.B. Singh [1979], in their article ‘Agricultural Credit-A Dynamic Approach’ have examined the role of cooperative banks in providing agricultural credit in their research paper, published in 1979. In their
study, they have taken into account all types of cooperative credit institutions with the following objectives:

[i] To analyze the extent and trend of cooperative agricultural credit and

[ii] To make recommendations and suggestions.

The study covered a period of 12 years from 1966 to 1977. The data collected was based on the secondary sources which include Reserve Bank of India Bulletin, Cooperative News Digest, Reports of the Committee of Land Development Bank and the proceedings of the International seminar on Banking and Development. The technique of percentage analysis has been employed to study the trend of agricultural credit. The findings of the paper were:

[i] The credit institutions were not functioning efficiently and

[ii] The deployment of agricultural credit was far from satisfactory due to the indifferent approach of the cooperatives.
They have concluded that an unequal and untimely distribution of agricultural credit has been a striking feature in Indian cooperatives.

R.G.Bhatnagar [1982] has written an article ‘Recovery of Agricultural loans’. In his study, he classifies factors contributing to overdues into two: [i] Internal factors and [ii] External factors.

Some important internal factors identified by him were:

[i] Due to lack of manpower and other resources, it has been not possible for the commercial banks to exercise proper supervision and follow-up of end use of funds.

[ii] Low recovery was due to unrealistic assessment of credit requirements of borrowers, which resulted either in over financing or under financing. Other causes identified as contributing to overdues were:

[i] Delays in sanctioning or disbursing loans.

[ii] Target-oriented approach adopted by some branches usually under outside pressures.
[iii] Per functionary per-sanction survey and irregular post-sanction follow-up.

[iv] Lack of understanding of real problems of farmers.

[v] Stipulation of unrealistic repayment schedules.

[vi] Lack of attention paid to supportive service facilities required by borrowers for making optimum use of borrowed funds.

Some factors over which the lending agencies have no controls, i.e., the external factors are as follows:

[i] Some of the State Governments have unilaterally written off the agricultural debts not on the basis of economic norms but for the sake of expediency. Such steps result in vitiating the climate of recovery.

[ii] Natural calamities and climatic changes also end up in reducing the repaying capacity of the borrower.

Some suggestions given for improving recovery performance were as follows:

[i] Credit consciousness should be created amongst the farmers by means of adopting varying methods of publicity
like arranging meetings in villages, issuing illustrative pamphlets, brochures, organizing audio-visual shows in fairs/ melas etc.

[ii] The State Governments should also support the commercial banks by educating the rural poor about the advantages of institutional credit and the need for prompt repayment of their dues.

N.M.Uquaili ⁶ [1983], in his article, ‘Loan Recovery of PICIC-An analysis’ traces the causes and consequences and cures of problems of losses, bad debts, defaults and poor liquidity in assisted units by focusing attention on the experience of the Pakistan Industrial Credit and Investment Corporation [PICIC]. The study identifies the overdues problems from assisted industrial units, which were assignable to deliberate default and poor profitability. The study cites a blatant example of borrowers making good profits and paying themselves record dividends but wilfully skipping their obligations to PICIC.

This occurred in the textile boom of 1972-74. Regarding poor profitability, the study notes that it was
faulty recording in books. It also came to a firm conclusion that poor profit cannot be held to be generally applicable to all or even major segment of the companies listed on the stock exchange and further that fall in profitability of the corporate sector has been blown out of proportion. The study lists the steps taken by the PICIC in respect of affected units. The relief such as rescheduling facility, financial restructuring, loans for modernization and replacement, change of management and recourse to courts are some of them.

A study by Promila Goel 7 [1984] on the ‘The Managing Problem of Overdues of Credit cooperatives-An in-depth study of Rajasthan’, highlights that the defaulters are mostly wilful defaulters and the overdues were caused mainly because of weak and inefficient management of credits by the banks and natural calamities which prevented the borrower from timely discharge of their loans.
A study by P.T. George and others \(^8\) [1984] on ‘Repayment performance by farmers in Chenglepet District [Tamilnadu]’ was made in 1984.

The main findings of the study were:

[i] Family size influences repayment performance of defaulters and non-defaulters.

[ii] The low caste \([\text{Scheduled caste/Scheduled tribe}]\) farmers were comparatively better in repaying their loans than middle \([\text{Backward caste/Most Backward Caste}]\) and high caste \([\text{Forward caste}]\) farmers.

[iii] Old age farmers were more prompt in repayment than young farmers.

Balister \(^9\) [1984] in his study ‘Primary Agricultural Cooperative credit in Uttar Pradesh, their progress, performance and problems’ made in 1984, found overdues to be alarming with the increase in overdue from Rs.43.17 lakhs in 1950-51 to Rs.10,150.24 lakhs in 1978-79 due to lack of efforts in collection of loans.
C.R.Reddy [1985], in his article, ‘Overdues Appraisal and Management in Banking’ has attempted to analyze the contributing factors to overdues with the following objectives:

[i] To find out the factors influencing overdues in Cooperative Banking and

[ii] To suggest measures for lessening overdues.

To examine these objectives, the researcher has selected the Anantapur District Central Cooperative Bank. It is one of the drought prone districts of Rayalaseema region. The required data for the study have been collected from the headquarters of the bank for a period of 10 years from 1971-72 to 1980-81. To study the factors influencing overdues, the factors other than managerial skills, supervision and linking of credit with marketing have been considered. The magnitude of fluctuations in lending and recovery was examined by using the coefficient of variation technique. For knowing the relationship between lending and collecting, the coefficient of determination and
for testing whether or not significant, the t-test was employed. The main findings were:

[i] The association between the lending and the recovery was not satisfactory due to poor management.

[ii] The poor effort on the part of the management in recovering loans has resulted in less lending. As a consequence, the credit structure of cooperative banking stands diluted and

[iii] The action taken against the defaulters was not timely and regressive.

'A Study of Primary Agricultural Credit Societies in Sivaganga Block' of Pasumpon Muthuramalingam District was made by N. Thanulingam and P. Jawaharlal [1986]. The main objective of the study was to enquire into the reasons and extent of overdues in PACS in the year 1986.

This block had twelve PACS, one branch of the Ramanathapuram Cooperative Central Bank, one Land Development Bank and one branch of State Land Development Bank. Borrowers of five PACSs [Idayamelur,
Paiyurpillaivayal, Keelakandani, Muthupatty and Pannaiyur] were selected for the study.

Of the five sample societies, Paiyurpillaivayal and Keelakandani were managed by elected board and the other three, Idayamelur, Muthupatty and Pannaiyur were under the direct control of the Department. Only three of the five societies had trained secretaries.

The study revealed that the loan overdues in sample societies were 69.06 per cent in 1981-82, 67.75 per cent in 1982-83 and 71.99 per cent in 1983-84. The slight decrease in the percentage of overdues during 1982-83 was due to the waiving of loan overdues and interest thereon by the Government of Tamilnadu. The extent of overdues to outstanding in Sivaganga Block was abnormal and it strangled the cooperative credit channel in this block. In 1981-82, the percentage of overdues was 75.13 per cent. In 1982-83, it was 78.19 per cent and in 1983-84, it reached the all time high level of 81.63 per cent.
A study on Repayment and overdues of agricultural loans in Ahamed Nagar of Maharashtra investigated by S.B.Dangat, A.R.Radkar and M.P. Dhengade [1986] has brought to light that there is negative relationship between the net income and the overdues and it has failed to analyze the relationship between the incremental income and the overdues.

Arya Kumar [1986] has written an article, 'Agricultural overdues: Issues and Remedies'. In his article, he states that due to massive expansion of credit to the agricultural sector, the banking industry is facing the problem of poor recovery that poses a basic threat to the viability of banks' operations in rural areas.

The following were the findings of his study:

[i] The inter-regional analysis of recovery of agricultural advances [direct finances] reveals that it was the highest at 69 per cent in the case of Northern region followed by Southern region [55 per cent], Central region [48.2 per cent], Western region [44.5 per cent], Eastern region [35.5
per cent] and North-eastern region [31.2 per cent] as at the end of June 1980.

[ii] Almost all the States in the Eastern region and North-eastern region had a very poor recovery performance which ranged from 35 per cent to 41 per cent.

Strategies suggested by him for improving recovery were as follows:

[i] The concept of ‘project lending’, if systematically undertaken by means of appropriate selection of activities, appropriate matching between the activities and beneficiaries and ensuring technical feasibility and economic viability of the project, the situation of poor recovery will not arise.

[ii] The concept of professional lending is to be given greater attention in order to overcome some of the problems like untimely and inadequate credit disbursement and unimaginative repayment schedule without giving due weightage to the factors like soil conditions, cropping patterns, yield, family needs, etc. which result in poor recoveries.

Their study was done based on the following objectives. They were:

[i] To isolate the reasons for irregular and/or non-repayment of loans and

[ii] To visualize the attitudes of the sample borrowers towards repayment, besides obtaining suggestions of the farmers for effecting better recovery of loans.

It was found that 100 per cent cultivated lands were in minor irrigation and high yielding varieties. From out of 75 villages, four villages and 80 borrowers were selected at random representing 20 each from marginal [0-1 hectare], small [1-2 hectares], medium [2-4 hectares] and large [above 4 hectares] farmers.

A pre tested questionnaire prepared for this purpose was used to collect the data, which pertains to 1983-84
agricultural year. It was observed that repayment period is seasonal in nature. For Kariff and Rabi loans, 31\textsuperscript{st} March and 31\textsuperscript{st} May were disbursement and due date of loans. It is fixed by cooperative department. It can also be observed that 75 per cent of marginal and medium farmers and 50 per cent and 40 per cent of the farmers were defaulters in the Khariff and Rabi loans. The suggestions for improving recovery of loans indicated that most of the marginal and medium farmers needed proper supervision and persuasion by the bank officials.

A study jointly conducted by the University of Reading, United Kingdom and Tamilnadu Agricultural University through Agricultural College and Research Centre, Madurai [Tamilnadu] on ‘Rural Banking in Southern Tamilnadu, Performance and Management’ throws light on the expansion of rural bank branches and increase in the flow of rural credit to agriculture. It was found that 55 per cent of total lending was for agriculture and the repayment was only 60 per cent. This study on bank’s finance was purely related to finance to agriculture and
allied activities. This study was conducted by Steve Wiggins and S. Rajendran\textsuperscript{15} [1987].

G.S. Kamat\textsuperscript{16} [1987] in his article, 'Recovery of agricultural credit, a way out' stated that recovery of agricultural credit was the main headache of the Land Development Banks and other commercial banks. He suggested measures to improve the flow of repayments to the financing banks.

The following were the suggestions made in the study:

[i] Adequacy and timeliness of credit have been emphasized in the context of their contribution to recoveries. This factor helps to ensure proper utilization of loans because such loans would take care of costs, scales of finance and estimates of incremental income on a more realistic basis.

[ii] The mode of disbursement could be essentially in kind. Thus, payments would be made to the suppliers against borrowers' acknowledgement of receipt of materials.
[ii] The repayment programme should be carefully drawn so as to make it convenient for the borrowers to repay the installments during the period when the funds are available with them.

[iv] Supervision and follow-up arrangement to ensure proper end use of credit is very much essential. The lending organization can thereby know unforeseen problems, if any, obstructing the development process.

[v] It is desirable to follow the principle of ‘One borrower, one financing institution’ because it checks the incurring of debts beyond capacities.

S.C. Gupta [1987], in his study about Repayment Performance behavior of the borrowing households feels that repayment ratio is not very encouraging and it ranges from 30 per cent to 50 per cent. The following were the objectives of his study:

[i] To study the pattern of overdues by source, caste, income, land-holdings and purpose of borrowings.
[ii] To analyze the factors responsible for the performance of the borrowing households.

The following were the findings of the study:

[i] It is observed that the borrowers having a higher social status, better education, income, assets and good contacts with the ‘high-ups’ in the Government, commit wilful default towards the institutional agencies. The borrowers from the weaker sections of society, who suffer not only from poverty but also from lack of social status, education, assets and contacts with lending agencies, demonstrate better repayment behavior.

[ii] It is revealed that there exists a causal relationship between the rates of interest and overdues. Too low a rate of interest is not a burden [the borrower can afford not to repay] and a too high rate of interest is unbearable [the borrower is unable to repay]. A moderate rate of interest attracts better repayment behavior.
P.K.Jain [18] [1988] in his work ‘Industrial Finance Corporation of India: A study in Financial Management’ attempted to evaluate the performance of IFCI on the basis of financial/banking and development function criteria. While the financial/banking function has been used to assess its operational efficiency, its allocational efficiency has been examined on the basis of developmental functions. The banking criteria, which were included in the study, were profitability, capitalisation, solvency and liquidity, problem of overdues, speed in sanction and disbursal of assistance and IFCI’s allocational efficiency. The study refers to the problems/bottlenecks on project finance operations, stimulation of capital market and corporate shareholding and the related dimension of the control and directive of private industry. The findings reveal that the Corporations’ operate on a very low return on account of concessional rates of assistance on the one hand, the impact of inflation on its operating policies, in the assessment of high risk projects which reflected low recovery, more overdues and bad debts on the other.
T. Siddaiah [1988] made a diagnostic study of overdues in Commercial banks. The main purpose of his study was to investigate into the various factors that were mainly responsible for overdues of bank loans. A survey was conducted in one of the districts of Andhra Pradesh and data required for the study were collected from the sample borrowers of commercial banks located in the district. 256 borrowers were selected for the study.

The following were the findings of the study:

[i] On the basis of the purpose for which loans were borrowed, 57.42 per cent of the total respondents were defaulters.

[ii] Among the various asset groups, the defaulters were low only in the case of high asset group.

[iii] Lack of prompt and effective action by the bank officials was mainly responsible for most of the overdues.

[iv] Unsuitable repayment schedule resulted in the inability of the borrowers to keep up to their promises to the banks
in the matter of repayments and naturally they became defaulters.

Improper identification of borrowers, wrong formulation of schemes, lack of proper supervision over the end use of credit, lack of adequate rapport with the borrowers and lack of prompt and necessary action by the bank staff, can be cited as some of the important factors responsible for the mounting overdues in commercial banks.

G.Ravindran [1988] in his article stated that recovery and follow up of advances continued to be one of the major problems of Primary Agricultural Cooperative Banks’ functional operations and it also affected the prospects of further lending to the needy sectors. Recovery of loans in time is a primary factor, which helped the Primary Agricultural Cooperative Banks [PACBS] to gear up successfully. The cooperative credit vis-à-vis that from other agencies rests on the ground of its criteria when it fulfils the following objectives:

[i] Economic betterment of borrower and

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[ii] Promoting and aiding economic development of nation.

In 1989, S.R. Bhohale and S.B. Dangat conducted a study about the Repayment and overdues of medium term loans of cooperative societies in Kolhapur District of Maharashtra. Their objectives were to study the extent of medium-term loan borrowings of farmers from the cooperative societies and to study the repayment position of the loan borrowed, and to ascertain the factors responsible for overdues. It was found that the borrowers were grouped into small, medium and big farmers. The borrowers having one hectare, one to two hectares and above two were categorized as small, medium and big farmers respectively. It revealed that the amount of overdues were Rs.742, Rs.2,314 and Rs.3,327 for small, medium and large farmers respectively. The percentage of overdues to total outstanding amount was 59.18 per cent. They were 56, 55 and 64 per cent for small, medium and large farmers. It further revealed that per hectare, the amount of overdues was Rs.1,043. The average overdue per hectare of overdues were Rs.964, Rs.1,464 and Rs.880 in
small, medium and large farmers. The proportion of overdues decreased to 61 per cent in 1982-83 and to 39 per cent in 1983-84.

Balister 22 [1989], in his article, ‘Agricultural loans: menace of overdues’ presents a critical analysis of the problem of the non-repayment of agricultural loans taken from banks with special reference to the Agra Division of Uttar Pradesh. In spite of the contribution made by the commercial banks to agricultural advances, the problem of non-repayment of their loans by the farmers has become a cause of serious concern in these banks. The recovery of agricultural advances by commercial banks declined from 53.2 per cent in June 1983 to 51.6 per cent in June 1984. Apart from the recovery problem, the old overdues [exceeding 3 years] of commercial banks went up from Rs.130 crores [29.1 per cent of total overdues] at the end of June 1979 to Rs.233 crores [32.3 per cent of total overdues] at the end of June 1985.

The study was confined to Agra division of Uttar Pradesh, which comprises five districts viz. Agra, Etah,
Mainpuri, Aligarh and Mathura. A district-wise list of demand, recovery and overdues of loans of commercial banks was prepared. The one district having minimum percentage of overdues was selected for this study. Thus Aligarh, which had minimum percentage of overdues and Etah, which had maximum percentage of bank overdues, were selected purposively. Thus, Mursan Block from Aligarh district and Jalesar Block from Etah district were selected for the study.

The following were the findings of the study:

[i] The overall percentage of overdues to demand was about 40 per cent in Mursan Block and 73 per cent in Jalesar Block.

[ii] The repayment capacity was higher in all farm size groups in Mursan Block than in Jalesar Block.

[iii] The bulk of defaulters in all the farm size groups in Mursan Block were wilful defaulters while bulk of the defaulters in Jalesar Block defaulted because they did not have enough income to repay the loan. [Non-wilful].

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The comparison between the sample farms of Mursan Block and Jalesar Block shows that the overall farm situation in Mursan Block was better than the Jalesar Block, which influenced the repaying capacity of the borrowing farmers and ultimately the repayment of their loans.

L.P. Singh [1990] in his article, ‘Public Sector Banks and our rural masses’ made a critical analysis of various rural development measures undertaken by commercial banks [in the post nationalization period]. He insisted for the various rural development measures to be extended to such areas which were completely or partially devoid of credit facilities. He felt that financial institutions working in the rural areas were very much handicapped because of their deteriorating recovery position. His study revealed that the following were the factors responsible for default:

However, above all these factors, sheer unwillingness of the farmers was the main factor responsible for default.

R. Alamelumangai [24] [1990] made a study titled ‘Rural Banking in Tamilnadu’. The following were the objectives of her study:

[i] To review the effectiveness of existing rural development programmes in Tamilnadu.

[ii] To identify the problems of rural bank customers in Tamilnadu.

[iii] To ascertain the problems of rural bankers in Tamilnadu.

[iv] To suggest measures to offset the problems of both rural bank customers and rural bankers.

The following are the findings of her study:

[i] Among the four bank groups, the share of rural deposits was much higher in case of Regional Rural Banks in Tamilnadu as well as in India.
[ii] 82 per cent of the rural branches of commercial banks in Tamilnadu were accounted for by public sector banks against the corresponding national figure of 97 per cent.

[iii] The quantum of overdues of Tamilnadu based Primary Agricultural Cooperative Societies [PACSs] increased by 6.75 times against 3.02 fold increase at the national level.

[iv] The recovery performance of PACSs in Tamilnadu was not encouraging as compared to that of PACSs in India.

D. Venugopal 25 [1990] in his article ‘Is like breathing in and breathing out’ states that the enormity and complexity of mass banking has made recovery of loans much more cumbersome and unyielding. In spite of that, out of sheer necessity, the banks have to make success of it. This is because, on recovery, depends not only their commerciability but also their very survival.

T.R.Kallaprian 26 [1990] in his article ‘Slogan for the Decade: 100 per cent Recovery’ states that in case of priority sector lending too, 100 per cent recovery is a must. This is because priority is for giving the loans and not for exempting them from recovery. He is also of the opinion
that even after provision of the loan, if the position of the borrower does not improve, the blame is on those who conceived and implemented the scheme. At the time of conception and implementation of the scheme, all inputs including non-credit inputs should be made available in time, marketing arrangements should be made and risk coverage by means of insurance should be made compulsorily. He also opines that the Branch Manager should be given the authority to extract work freely without fear, consider, sanction loans, and take steps for recovery.

A.K. Nirmalanandan 27 [1990], in his article, ‘Recoveries in Banks’ states that poor performance in the recovery of loans from borrowers resulting in mounting overdues had eroded profitability of banks. Delay in recovery curbs the ability of the banks to recycle and withholding repayment of dues by one borrower results in another bonafide borrower being denied of his credit needs. Poor recovery only dries up the loanable source of the banking system. The following causes could be listed for

'A study of the Salem District Central Cooperative Banks with special reference to overdues and recoveries' was made by N. Chandrasekaran [1990]. The main findings of the study were:

[i] The percentage of overdues to loan outstanding stood at 8.59 per cent in 1988-89 when compared to 33.38 per cent in 1979-80. This position clearly indicates a very good recovery performance of the bank and credit management.

[ii] The recovery performance of the bank was very much appreciable as the percentage of overdues to loans outstanding declined from 29 per cent in 1979-80 to 1.23 per cent in 1988-89.

[iii] Out of the hundred sample defaulters, the maximum number of defaulters was in the age group of 51 and above. The number of defaulters was the least in the age group of up to 30 years.
Kasturi Nageswara Rao 29 [1991], in his article ‘Credit Supervision-Management and Recovery’, states that in a bank, any person can grant advances but only a wise man can recover overdue advances. Recovery is important because of the following reasons:

[i] If overdue advances are not recovered, profitability is eroded.

[ii] Loan funds cannot be recycled and to that extent, the more deserving clientele will be deprived of bank credit.

[iii] Overdue advances result in a lot of correspondence and paper work. A good recovery percentage will avoid this wastage of time.

[iv] A good recovery percentage qualifies the branch for a better inspection rating.

V. Sankaranarayan 30 [1991], in his article, ‘Recovery of Agricultural Advances—Some Issues’ opines that the recovery of agricultural advances is of crucial importance because its share in total advances has been on the increase in recent years and therefore its impact on the overall recovery position is bound to be significant.
The following suggestions have been made by him:

[i] Recovery of dues should be made only after the marketing of output and not immediately after the harvest.

[ii] Recovery position can be improved by means of conducting periodical recovery camps.

[iii] In genuine cases, practices such as rescheduling of loans can be adopted to improve recovery.

[iv] Fixing the repayment period for various categories of loans has to be done carefully.

R. Manohar’s 31 [1992] study on ‘Overdues-An obnoxious phenomenon in Developmental Financial Institutions’ pointed out that the overdues have been rising at an alarming rate along with their sharp growth of assistance. The overdues from the assisted units of IFCI have grown at the rate of 54 per cent every year while growth of advances in Industrial Finance Corporation of India [IFCI] recorded 50 per cent every year during the same period. The study concluded that DFIs have emerged as growth catalysts by providing substantial amount of term finance to industries. They have also taken measures
to give positive push and directions to the growing socio-economic needs of the country.

‘A Study of Recovery of IRDP loans: Summary of findings and recommendations’ was made by S.A. Shetty [1992]. This study was undertaken by the Bank of India in ten of the lead districts on the initiation of Reserve Bank of India. As per the guidelines issued by the RBI, a sample survey of 200 beneficiaries engaged in farm and non-farm activities covering ten branches in each of the identified lead districts was undertaken to obtain the relevant data and information for the study. From each branch, twenty beneficiaries-ten financed during 1985-86 and another ten financed during 1986-87 were randomly chosen and interviewed with the help of a questionnaire specially designed for the purpose. The repayment performance of these beneficiaries has been analyzed with reference to the year ended June 1989.

The following were the objectives of the study:

[i] To review the recovery position of IRDP loans.

[ii] To identify the causes of poor recovery of loans.
[iii] To ascertain the extent of variation, if any, in the recovery of farm and non-farm loans and the underlying reasons.

[iv] To suggest measures to improve recovery of loans.

The major reasons for poor recovery of loans under IRDP were as follows:

[i] Selection of beneficiaries by the sponsoring agency without the required aptitude/skill for self-employment.

[ii] Pressuring branches to finance dairy schemes even when good quality animals were not available in the market.

[iii] Irregular post-sanction follow up.

[iv] Lack of cooperation from Government agencies in recovery of loans.

[v] Misguidance provided by local leaders advising beneficiaries not to repay bank loans.

[vi] Expectations that the Government will sooner or later waive repayment of bank loans.

The main purpose of the study on ‘Bank finance and Rural development’ by S.Krishnamraju ³³ [1992] is to assess the impact of bank finance on both the quantitative and qualitative improvements, on the weaker sections of the society in Andhra Pradesh. Important findings of the study include:

[i] There is a positive relationship between the amount of loan disbursed and the household income, employment and asset position of activities financed between pre-loan and post-loan periods.

[ii] Among the three sectors viz. agriculture, animal husbandry and tertiary sectors, the impact is less in tertiary sector.

[iii] Returns to labor and returns on investment are positive in all the three sectors.

[iv] The repayment performance is better in agricultural sector than in other sectors.

K.S.V.Krishnamachari ³⁴ [1992], in his article, ‘Regional Rural Banks-Problems and Prospective’ vividly explains the plus and minus points of RRBs. According to the author, RRBs were successful in opening branches at un
banked and under banked centers and in providing institutional credit to weaker sections for their productive endeavor. However, in the areas of viability, mobilization of deposits and recovery, their performance is not rated satisfactory.

N.K. Thingalaya \(^{35}\) [1993], in his article, ‘The Rural credit structure-Some Imponderables’, indicated that the volume of business handled by a rural branch is only around 25 per cent to 30 per cent of the average volume of business handled by a bank branch in India. The low volume of business of the rural branches depicts upon their profitability to a large extent. The rural operations were increasingly becoming costly due to a number of factors. The mandatory lending at interest rates lower than the commercial rates is one of the factors. The establishment cost also is on the increase with the unionised labour demanding periodic wage revision. While the banks do cross-subsidise their rural operations, they are shy to publish the operational results of the rural lending programmes. Another major factor, which depresses the profitability of rural operations, is the growing overdues.
Rural banking is emerging as a high cost operation with the number of loss incurring branches on the increase. Closure of the loss incurring branches is not the solution.

R. Manohar [1993] has written an article ‘Recovery mess in State Finance Corporations [SFCs]: A need for strategic alternatives’. He opines that recovery of loan and interest dues is vital for the business operations of SFCs. Apart from profitability, the recovered money regenerate funds for further assistance and also meets the debt obligations in time. He examined the recovery performance of all SFCs in depth and made some suitable suggestions for effective recovery.

The following factors contribute to loan repayment crisis:

[i] Defective project appraisal relating to managerial competence, technical feasibility, commercial and financial viability was not viewed seriously by the SFCs management.

[ii] SFCs were unable to detect the incipient sickness in the Small Scale Units.
Lack of adequate post-disbursement care and monitoring the end-use of credit, mis-utilisation of funds on the part of borrowers and wilful defaults have contributed to poor recovery in the small sector.

The following suggestions were made to solve the recovery mess in SFCs.

[i] Historically, SFCs concentrated their time and resources in establishing new units. They never bothered about the earlier borrowers in distress. This traditional approach need to be changed and priority should be given to distressed borrowers and a greater proportion of their resources should be used in resolving the problems of their distressed borrowers.

[ii] SFCs need to set up a separate department to handle the problems of distressed borrowers on a full time basis. The department should set up separate portfolio management systems dealing with distressed accounts, collection policies, debt rescheduling policies and portfolio monitoring systems.

Jagannath Panda and M. Altarf Khan [1993] conducted a study on recovery performance of State Bank
of India concerning small businesses, including retail traders’ advances in the State of Orissa. Their study revealed that the mechanism of recovery was to the tune of 60 per cent in 1985, which reduced to 43 per cent in 1989. The factors that caused poor recovery were a complex of socio-economic factors like absolute poverty, industrial backwardness and poor transport and communication facilities. However, no specific attempt has been made on Small Scale Industries’ loan disbursal and recovery.

A study was made on the implications of overdues on the resources of Cooperative Credit Institutions [CCIs] and the member borrowers by K. Ravichandran 38 [1994]. The following were his objectives:

[i] To study the performance of Agricultural Credit Cooperatives relating to the provision of agricultural credit and repayment under Crop Loan System in Tamil Nadu.

[ii] To study the level, extent and causes for overdues among the sample institutions.

[iii] To study the impact of overdues on the financial position of the Credit Cooperative Banks and Primary
Agricultural Cooperative Banks in the agriculturally developed and under developed areas.

The following were the findings of his study:

[i] The ‘incentive based repayment culture’ aggravated the position of overdues. A significant proportion of defaulters were of the opinion that the Government waiving was the major cause for delinquency.

[ii] The Crop loan outstandings were the highest followed by Jewel loan outstandings.

RM. Chidambaram and K. Alamulu [1994] stated that the financial performance of a commercial bank is judged more in terms of profitability, productivity, efficiency, extent of customer satisfaction etc. than in terms of number of branches and quantum of deposits and advances. A few branches were sick in the sense that their equities have also been eroded. The deterioration in the financial health of the system has reached a point where unless remedial measures are taken now, it will have adverse effect on the depositors’ confidence. In the year 1991-92, the public sector banks showed a net spread of 0.297. For the year 1992-93, they sustained a total loss of Rs.3,369 crores and
the interest margin showed a negative trend. Certain reasons were identified as causes for declining profitability in Indian public sector banks:

[i] Directed investment and directed credit [ii] poor rate of recovery and [iii] intense competition.

The following suggestions may be helpful to banks in enhancing their profitability:

[i] Improving the rate of recovery [ii] better customer services [iii] aggressive marketing culture [iv] reconsidering the concepts of directed investments and directed credit and [v] profit planning.

A study was made by M. Natarajan 40 [1995] namely, ‘Collection of loans by Primary Agricultural Cooperative Banks and Repayment performance of member borrowers in Salem District’. The main findings of the study were:

[i] Literacy among members promote collection.

[ii] Area covered under commercial crop promotes collection.

[iii] Distance between PACBs and member borrowers affects collection.
Rais Ahmad [1996], in his article, ‘Retrospect and Prospects of Regional Rural Banks [RRBs]’, states that the RRBs were established to spread banking facilities in rural areas so as to provide institutional credit to the weaker sections of rural society. The RRBs provided banking facility in rural areas to a satisfactory extent. But the viability of the RRBs was not satisfactory due to various reasons. Most of the RRBs were incurring losses. Out of the 196 RRBs in 1993, 173 were incurring losses and the remaining banks have earned profit only through investment in other organizations.

The following were the problems identified with the RRBs in the country:

[i] Recovery of loans was the most important problem, which hindered the viability of RRBs. It was observed that the recovery of loans in 1983 was only 42 per cent, which improved slightly to the tune of 51 per cent in 1990. This shows that about 50 per cent of the amount of loan has not been repaid by the borrowers.
[ii] The lack of supervisory staff of RRBs to monitor the end use of the credit was one of the main causes for poor recovery of loans.

[iii] Other reasons for poor recovery were: [a] Wrong selection of families [b] Use of credit for inefficient productive purposes [c] Inadequate marketing facilities and [d] Waiving of loans policy of the Government.

The following were the suggestions made:

[i] RRBs must have sufficient well-trained supervisory staff to monitor the end use of loans credit, which may ensure the efficient use of credit for productive purposes, and whenever needed, they can provide guidance to the borrowers for utilizing the credit to the optimum level.

[ii] Adequate staff should be appointed or provided from the existing staff for monitoring and supervising the end use of credit.

[iii] Timely and adequate credit should be made available for the poor masses for which they can even pay 20 per cent interest or more.
[iv] An Expert Working Group should be appointed which should visit Bangladesh to suggest ways and means to make the working of RRBs of India as efficient and viable as that of the Gramin Bank of Bangladesh, which is today the bank of the poorest.

C.K.Mehrotra 42 [1997], in his article, ‘Linkage Banking-State Bank’s experience’ highlighted the significance of Self Help Groups [SHGs]. According to him, the banks were attracted to the concept of SHGs mainly because of low transaction cost, high percentage of recovery and mobilization of rural savings through informal system. He concluded that SHGs might eventually be the only viable route for rural lending. It calls for proper orientation and sensitization of the branch functionaries so that they adopt a positive and constructive approach in financing NGOs and SHGs.

T.Uthirapathy 43 [1998] made a study on overdues in Primary Land Development Banks with special reference to Thanjavur District’. The study has been undertaken with a view of fulfilling the following precise objectives:
[i] To study the general features of Primary Land Development Banks in Thanjavur District.

[ii] To identify the different factors that might have caused overdues in Primary Land Development Banks and to verify to what extent the overdues depend on such factors.

[iii] To analyze the effect of overdues upon the operational results of the Primary Land Development Banks, viz., Advances, borrowings and profits.

[iv] To offer suggestions for minimizing the overdues and to offset the impact of overdues upon operational results.

His findings were as follows:

[i] The average outstanding per individual account has grown by 120.56 per cent over the ten years period.

[ii] Overdues, the focal point of this study is a nightmare of cooperatives. The average per capital overdue was Rs.1842.65, recorded in 1994-95 and the maximum per capital overdue as recorded in 1988-89 was Rs.34.06.

[iii] The recovery percentage was the highest during the year 1986-87 at 25.8 per cent and was the lowest during the
year 1989-90 at 4.86 per cent in the whole of the study period.

[iv] Out of the total default in any particular year, the percentage of default falling within the period of one year is at the highest at 48 and the overdues falling longer than 5 years was the minimum at 6 percent.

R. Maria Inigo 44 [1998], in his study on ‘Banks’ financing of Small Scale Industries in Tamilnadu with special reference to Sivaganga District’ revealed the following:

[i] More formalities adopted by banks had been the greatest hurdle in getting financial assistance, followed by the delay in sanction.

[ii] Among the 180 sample units, 101 units confronted with the problem at the time of raising long term loan and 68 units at the time of repaying the loan.

[iii] Repayment of long term loans became difficult due to high instalments due which was the main contributory factor for SSI units in repaying their loan. Other problems were non-realization of accounts, poor market conditions,
high cost of financing [interest], under-financing and low moratorium period.

A study was conducted by K.B.Sumathi [1999] on the operational efficiency of Tiruchirappalli District Central Cooperative Bank Limited. She made the study with the below mentioned objectives:

[i] To analyze the lending operations and the overdues of the bank.

[ii] To study the liquidity, solvency and profitability of the bank.

The following were the findings of her study:

[i] The overdues from short-term loans were much higher than that of medium and long-term loans. The percentage of overdues from short term to total ranged between 85 and 95.

[ii] Under short-term loans, the maximum percentage of defaulters was agriculturists. More than 90 per cent remain as overdues during the entire period of study.
N.K. Thingalaya [1999], in his article, ‘Delinquency of Agricultural Advances’ made a critical appraisal of the process of emergence of overdues by means of diagnosis of the delinquencies in the agricultural sector. He made a review of the measures adopted by the banks and the Government to expedite the recovery measures and also quoted the experiences of some banks, which have been successful in their efforts.

The following were some of the factors responsible for poor recovery of agricultural advances:

[i] Lack of supervision arising from the absence of technical staff. This was because the bankers provided the finance to the borrowers for farm mechanization without providing any technical support. Due to this, there was no commitment on the part of the borrower to repay the debts.

[ii] Non-availability of credit on time upsets the investment and repayment schedules.

[iii] Political assurances made to write off the agricultural overdues resulted in the farmers’ developing a tendency of withholding the repayments.
Recovery management of agricultural advances was distinctly different from the usual recovery management in banks. The success of various Regional Rural Banks [RRBs] like Malaprabha Grameena Bank, Bijapur Grameena Bank in Karnataka and Sree Ananta Grameena Bank in Andhra Pradesh brings into picture the secret of successful recoveries of overdues. While realistic pre-sanction appraisal, viability of the scheme and credibility of the borrower were the essentials of successful credit management, there can be no substitute for personal rapport for ensuring good recovery.

The continuous dismal performance of the development banks in India, especially the State Finance Corporations [SFCs] have necessitated a study on ‘The future of the SFCs-introspection’ by Uday Sankar Majumdar47 [2000]. The financial performance of the SFCs has remained abysmal during the late eighties. The capital of most of the SFCs have been either eroded or on the verge of complete erosion. Major position of their portfolio has become contaminated.
The following factors have contributed to their poor performance:

[i] All the loans were extended to the priority sector where there is an inherent risk of credit which makes the lending more unsafe.

[ii] Liberal terms of credit make the lending more unsafe. Social banking acts as the background for major policy decisions.

[iii] Lack of effective legal machinery to recover the dues.

[iv] High cost of borrowing and

[v] Stiff competition from the banks and the refinance institutions.

The following strategies have been suggested for improving the overall performance of SFCs:

[i] SFCs should change their lending pattern, which earlier constituted long-term loans. They should also adopt allied services like project consultancy, money market operations, merchant banking and factoring which were hitherto untapped.
[ii] As the major portion of assets financed by the SFCs has become non-performing due to increased focus on assistance to the very high-risk areas, there was an immediate need for re-capitalization.

[iii] The SFCs at the time of appraisal should either ensure arrangement of working capital or sanction working capital term loan [under the single window scheme] along with the term loan for capital assets.

G. Nagarajan 48 [2000] made a study on Non-farm sector [NFS] loans by District Central Cooperative Banks [DCCBs] in Tamilnadu. The following were the objectives of his study:

[i] To study the sectoral distribution of Non-farm finance provided by the selected DCCBs in Tamilnadu.

[ii] To analyze the recovery performance of NFS finance provided by the selected DCCBs in Tamilnadu.

The following were the findings of his study:

[i] The overdues of NFS loans occupy a relatively insignificant place in the total demand. This is because it increased from Rs.2.06 crores in 1987-88 to Rs.5.26 crores
in 1996-97 when compared to overdues of farm loans which showed an increase from Rs.22.8 crores in 1987-88 to Rs.86.75 crores in 1996-97.

[ii] Overdues over three years formed only 19.51 per cent, 0.48 per cent, 10.08 per cent and 52.68 per cent respectively for Coimbatore DCCB, Kumbakonam DCCB, Salem DCCB and Tirunelveli DCCB. Except Tirunelveli DCCB, the other banks were able to recover the overdues over three years.

D.Namasivayam and G.Ramachandraiah [2000] had written an article ‘End-Use of Credit and Repayment Performance of the Institutional Borrowers: An Integrated Analysis’. The main purpose of this study was to examine the existing procedure for ascertaining whether loans already granted by the financial institutions like Cooperative Banks, Land Development Banks and Commercial Banks have been utilized for production-oriented purposes under various schemes by the borrowers. The major objective of the production-oriented lending system of the financial institutions is that a long term loan given to a cultivator for minor irrigation such as sinking of
well or installation of pump set on an existing well, would go a long way in enabling a farmer to adopt better cropping pattern or increasing the intensity of cropping, so as to ensure generation of adequate income and thereby improve the repaying capacity. In this study, the end-use of credit has been measured as a proportion of production loan to total loan amount borrowed so as to understand how much of the borrowed money has been utilized for production-oriented purposes.

The following were the objectives of the study:

[i] To analyze the end-use of credit from institutional and non-institutional sources of credit according to different land size holdings among the groups, viz., defaulters, non-defaulters and control groups as well as the schemes’ borrowers and

[ii] To suggest steps to motivate the borrowers to bring about a desirable change in their repayment behavior.

The following suggestions were made by the authors:

[i] Close contact and supervision would help in solving the problem of credit, use and recovery. For this, adequate staff should be provided.
[ii] There should be periodic verification of the working of the scheme.

[iii] Credit institutions should have itinerant recovery officer, who would meet the borrowers regularly and collect repayments in small amount as and when they become available.

[iv] Much concentration is to be laid on proper education of the borrowers on their obligation to repay.

Y.V. Reddy, in his article, ‘Future of Rural lending’ in the book ‘Economic Development in India’ wrote about the Ancient India Banking. He stated that there was evidence of existence of money-lending operations during Vedic times i.e. 2000 to 1400 BC. During the Buddhist period, there was evidence of existence of Sresthis or bankers. Manu specified the punishments to be given in case of disputes arising about loan repayment and listed 18 types of disputes. He said in his laws that the duty of the king was to ensure that the creditor got back his money, when he sues the debtor for recovery of money. He permitted the king to employ all means, fair or foul, to recover the dues. He held that the defaulter could not
absolve himself of his debt burden even by death. Chanakya said that the sons of a deceased person or co-debtors or sureties should be held responsible for repayment of the debts.

Md. Monizuzzaman 51 [2002], in his study ‘Loan Utilization pattern of Bangladesh Rural Development Board [BRDB] Women Cooperatives and Grameen Bank [GB] Groups: A Comparative Analysis’ attempts to reflect the performance of BRDB in relation to GB groups in terms of loan utilization and factors affecting the loan amount received by the members. The BRDB experimented with a number of projects to increase income and employment opportunities for the rural poor by setting up a separate system of primary cooperatives for poor men and women who owned less than half an acre of land and depended on manual labor as their main source of income. These cooperatives were called Bittaheen Samabaya Samity [BBS] for men and Mohila Bittaheen Samabaya Samity [MBSS] for women.

The specific objectives of the study were:
[i] To investigate the loan utilization and repayment aspects of MBSS and GB members and

[ii] To examine the factors affecting the loan amount received by the members of MBSS and GB.

The following were the findings of the study:

[i] It is found that loan recovery rate was very encouraging for both the societies and the rate was more or less the same.

[ii] Out of 50 members taken for the study, 92 per cent and 94 per cent of the members of MBSS and GB reported that they repaid their loan due to heavy pressure by the official staff.

[iii] 75 per cent of the members repaid loan in time owing to fear of additional interest and penalties, pressure by the group members and also temptation for having loan in future.

Even though, the aim of GB and MBSS was to raise the standard of living of the rural poor people by providing micro credit in different productive enterprises, in reality, the objective has not been accomplished completely. The
people who were comparatively economically solvent got priority to become a member and receive loan and this were more prevalent in MBSS than GB societies. Due to this, the target group, were deprived of receiving loan.

C. Regina Mary [2002] made ‘A Study of rural women entrepreneurs with special reference to Self-Help Groups [SHGs] in Tiruchirappalli District’. The main objective of the study was to assess the performance of the new generation women entrepreneurs functioning under the protective care of women Self Help Groups. In her study, the performance of the women entrepreneurs has been analyzed by taking into account four parameters, namely the amount of savings made by the respondents, the credit availed by them, income earned and the repayment of loans on their part.

The following were the findings of her study:

[i] A majority of the savings of the rural SHGs has been deposited with the banks and cooperative societies.

[ii] Next to the banks, moneylenders and cooperatives were the main sources from which rural women entrepreneurs borrowed money to run their enterprises.
[iii] These women were prompt in repaying the money they have borrowed from banks and the lending agencies were also pleased at the prompt repayment of loans by the respondents.

[iv] Respondents engaged in all the activities have also been found to repay their dues regularly.

[v] The respondents belonging to the age group of above 25 years have done satisfactorily in terms of not only the repayment made but also the amount saved and the income earned.

Shabbir H. Kazmi [2002], in his article, ‘Commercial Banks in Pakistan’ describes about the comprehensive but complex and painful process of restructuring since 1997. Such restructuring is aimed at making the banks financially sound. Commercial banks in Pakistan have been exposed to several types of pressures since 1997. Some of these were:

[i] Multi-pronged reforms introduced by the Central Bank
[ii] freezing of foreign currency accounts [iii] continued stagnation in economic activities and low growth and [iv] drive for accountability and loan recovery. All these have
brought a behavioral change both among the borrowers as well as the lenders.

One of the indicators of financial health of financial institutions is Asset Quality. Asset Quality is generally measured in relation to the level and severity of non-performing assets, recoveries, adequacy of provisions and distribution of assets. Although, the banking system is infected with large volume of Non-performing loans [NPLs], its severity has stabilized to some extent. In case of Nationalized Commercial Banks [NCBs] this improvement is much more pronounced, given their share in total NPLs. In the case of privatized and private banks, this ratio went up considerably and became a cause of concern. However, the levels of infection in foreign banks were not only the lowest but also close to constant. The ratio of net NPLs to net advances, another indicator of asset quality, for all banks has declined. Market improvement was viable in recovery efforts of banks. This has been remarkable in the case of NCBs, in terms of reduction in the ratio of loan defaults to gross advances. Although, privatised banks did not show significant
improvement, their ratio was much lower than that of NCBs. The only exception was the group of private banks for which the ratio had gone up due to bad performance of some of the banks in the group. However, it was still lower, except when compared with that of foreign banks.

Dharmalingam Venugopal [2002], in his article, ‘Bad Debts: Public Sector Banks in the recovery mode’, stated that lot of criticisms were levelled against the public sector banks on the grounds that even after the enactment of the SARFAESI Act in 2002, they were unable to make effective use of the law. He supported the banks and said that these charges did not reveal the true picture of their recovery performance. He said that the Government, the Central Bank and the public sector banks were equally keen on bringing the level of Non Performing Assets [NPAs] within manageable and internationally acceptable limits. Unlike in the pre-reform period, when recovery got little or no attention, today the banks accord the highest priority to recovery of NPAs and recovery targets were monitored very closely. The SARFAESI Act empowered the banks to sidestep the courts and dispose off
the defaulters’ properties given as securities to recover the dues after giving due notice. Though the Act sent the defaulters scurrying in panic, its progress has been plagued by one hurdle or the other. Initially, there was a lot of confusion over matters like definition of defaulters, the modus operandi of issuing notice, taking possession and disposing of such securities. The Act could not be enforced due to stays obtained by big and small defaulters in the court of law. In some States such as Maharashtra, Gujarat, Rajasthan and Madhya Pradesh, borrowers took advantage of certain State legislations which prevented banks from enforcing the Act. In some cases, the DRT itself was said to be standing in the way of SARFAESI, being reluctant to let go off the cases.

Shishir Prasad and Avinash Celestine 55 [2004] have written an article ‘Can Bad Debt be a good Buy’. In this article, they insist the requirement of financial restructuring and tinkering which can be effectively done only by smart management. SARFEASI Act, which came into legal existence in 2002, allows the banks to take over
the defaulting borrowers’ assets and sell them to recover their money.

The following problems were identified by the authors while dealing with distressed debts:

[i] The bankers were in a dilemma as to which assets they should recover for themselves and which they should sell to investors.

[ii] The investors were looking for deals that were at least $50 million in size and very few such deals were available.

[iii] There was no clarity regarding what was up for sale. Clarity was lacking as regards whether the whole business was being sold or only assets like machinery or land.

[iv] The investors were also doubtful regarding the quality of assets that Asset Reconstruction Company India Ltd. [ACRIL] was trying to hawk in the market.

[v] The banks were not given cash for the assets they transfer to ACRIL. They were simply given receipts. As such the banks were not ready to part with their best deals without cash and the investors were not ready to part with
money unless the best deals were transferred to Asset Reconstruction Companies [ARC].

Suggestions were made by the authors for restructuring the distressed debts:

[i] Mere working capital restructuring was needed for almost 40 per cent of the assets.

[ii] Management teams who had the capacity to re motivate the employees were essential. Such teams were not very successful in the Indian market. In United Kingdom, Price Water House Coopers [PWC] had a panel of 12-14 people who had track record for restructuring distressed organizations. One of the members joins the organization, helps the employees solve their problems and later on rejoins PWC.

R. Dayanandhan 56 [2004] in his article ‘Repayment Performance of Beneficiaries under NABARD assisted programmes-An Analytical Study’ made an attempt to study the repayment performance of the borrowers of NABARD refinanced programmes such as minor irrigation, land development, farm mechanisation, banana as well as sugarcane cultivation and non-farm activities like mini
dairy, poultry, tyre cart as well as petty shops. He made a comparative study of commercial banks [CBs], Primary Agricultural Cooperative Banks [PACBs] and Primary Cooperative Agriculture and Rural Development Banks [PCARDBs].

The following were the findings of the study:

[i] Out of the sample borrowers [430], 76.04 per cent have repaid their loan amounts regularly. This shows good repayment performance of the sample borrowers.

[ii] Among the sample borrowers, 11.63 per cent were irregular and 12.33 per cent were defaulters.

[iii] Both closed and regular accounts constituted 69.49 per cent in the case of CBs as against 76 per cent in the case of PACBs and 84.79 per cent in case of PCARDBs. Thus, the member borrowers of PCARDBs have shown better performance in repayment compared to PACBs and CBs.

[iV] The percentage of overdues to the outstanding in terms of accounts and amount is found to be high in case of PACBs followed by PCARDBs and CBs.
Ranjana Kumar \textsuperscript{57} [2004], in her article, ‘An appetite for rural lending’, states that commercial banks were not able to monitor farm loans because they were small and the transaction cost was too high.

The following were the suggestions made by her:

[i] The banks should closely monitor the loans and should be willing to modify the facility as the situation demands in order to make money. In her opinion, commercial banks can do much more towards agricultural lending than they are doing.

[ii] The NABARD should be more aggressive and the farmers must get the right price for their produce, which can be ensured by the State Governments.

[iii] The District Level Technical Committees [DLTCs] should be revamped to decide on the ‘scale of finance’ for agricultural loans.

[iv] The Commercial banks have set formulae on how much bank loan a farmer can get for agricultural activities, which were very rigid. A flexible approach should be adopted in order to free the farmers from the clutches of the moneylenders.
[v] The bankers should also cater to the personal needs of the farmers like daughter’s dowry, son’s education and wife’s medical expenses. By means of taking care of the personal requirements of the farmers, they will be safeguarded from the moneylenders.

P.N.Joshi 58 [2004], in his article ‘Recovery Performance under Rural Portfolio’ gave the following suggestions for improving the recovery performance of rural credit:

[i] Primary agricultural credit societies at the village level were suitable to provide finance to the rural sector. Such societies had a local feel, rural touch and local management. Younger talent in rural areas needed was to be encouraged to manage them.

[ii] Poor farmers need to be induced to adopt family planning methods.

[iii] Farm subsidies to the poor farmers should be transparently given on the basis of income criteria. Fiscal authorities should bear the burden. Subsidising the farm sector is being practiced even in the developed world.
[iv] Complete flexibility in working of banks [including Regional Rural Banks and Cooperatives], which will help them to compete with the village ‘sahukars’ is necessary. Banks should be encouraged to provide not only production loans but also consumption loans just as the village sahukar provides timely and adequate credit, which plays wonders.

[v] Creation of conditions in which farm credit will fructify is basic to the reforms. Recovery of loans will follow once the credit becomes truly productive.

Sudhirendhar Sharma ⁵⁹ [2005], in his article, ‘Micro-credit: Debt trap for the poor’, stated that micro-credit was a double-edged sword. Even though, it can raise living standards, it may also put the rural population into debt traps. While it supposedly takes the rural poor into a new domain of economic freedom, it keeps the corporate sector, hopeful of exploiting this freedom. It helps the formal banking system shun its prime task of extending credit to the rural poor, and provides the necessary refuge to politicians from uncomfortable questions about generating jobs for the unemployed. Hence, it is a sword conveniently
wielded by both the donors and the Governments to create an illusion of freedom, growth and development.

K. Nagendra Babu \(^{60}\) [2005], in his article, ‘Evaluation of Recovery Performance in Regional Rural Banks: A case study’ analyses the liquidity, profitability and financial position of the Malaaprabha Grameena Bank [MGB] in North Karnataka. A special attempt has been made to the problem of overdues and the recovery performance of the MGB.

The following were the findings of his study:

[i] The percentage of total recoveries to total loans and advances was very low during the year 1999-00 and 2000-01.

[ii] The bank was able to collect only 25.86 percent in the year 1995-96. But, during the subsequent years it was able to perform fairly. It was the highest during the year 2002-03 i.e., 75.64 per cent.

[iii] The bank was not able to recover a major portion of the arrears which was due to it. Only 9.4 per cent, 7.22 per cent, 11.64 per cent and 11.85 per cent were recovered
during the last four years. This speaks about the inefficiency of the recovery department in MGB.

The following were the suggestions made by him:

[i] MGB has to lend term loans only to the needy units at a rate higher than the rate of borrowing funds.

[ii] The working capital management must be based on sound financial management cannons like optimisation of investment risk, optimisation of financial risk, etc.

[iii] The unnecessary administrative and establishment cost of MGB should be curtailed.

[iv] The bank should provide new financial services and schemes like factoring, leasing, equipment leasing, deferred payment guarantee and the like, if found viable.

Anil Khandewal 61 [2005], in his article, ‘Bank of Baroda: International Strategic Focus’ discussed about his plans to reduce the bank’s Non-Performing Assets [NPA]. He stated that an aggressive recovery drive was implemented by the bank with the help of legal recourses, legislations and compromise settlement mechanisms for substantially improving its recovery performance and
reducing NPAs. He also said that through implementation of integrated risk management systems and appraisal systems, the bank is endeavoring to improve its quality.

Rajendra Singh\textsuperscript{62} [2005] has written an article ‘Improving Recovery climate of Banks’ Dues through SARFAESI Act, 2002’. The author is of the opinion that SARFAESI has enabled banks to quicken the recovery process by directly attaching assets of defaulters. The Act empowers creditors to issue notices to the defaulting borrowers/guarantors calling upon them to discharge their liability in full. On failure to discharge the dues, the secured creditors can take over the assets of the defaulters. Public sector banks now prefer to pursue recoveries of Non Performing Assets [NPAs] through Securitization Act rather than transferring it to Asset Reconstruction Companies [ARCs]. One of the major factors in the way of NPA transfers to ARCs is the high level of discounting to face value. To make the Act effective, the bankers have to empanel agents for outsourcing of services who may assist the authorized officials in seizure of assets, its preservation and attracting bidders.
Chowdari Prasad \textsuperscript{63} [2006], in his article ‘Bankers’ dilemma to lend or not to lend’, felt that it was very difficult for the lenders to identify good and bad debtors. The lender has no wherewithal to perfectly foresee profit making and repaying firms, despite the best appraisals and techniques to identify bad loans. In addition, it was difficult to identify a legal mechanism, which would assist to arrest the tendency to default. He stated that, in the last three decades, credit discipline was at the lowest in India for various reasons. From the bankers’ side, factors such as lack of systematic and regular follow up were contributing to poor discipline. Failure from the borrowers’ side could be because of internal or external and genuine or wilful reasons. The real dilemma for a banker was that, having accepted sizable deposits should they be deployed in investment portfolio beyond the SLR stipulations or lends profitably and follows up recovery.

A study was conducted by Malimba Musafiri Papias and Dr.P.Ganesan \textsuperscript{64} [2006] titled ‘Comparative Study between Direct Credits and Group-linked credits in rural lending’. This study highlighted the importance of group
linked lending in helping the banks to achieve the banking social goals while observing financial prudence and sustainability. A comparative analysis was made between direct and group linked credits offered by the Rural Financial Institutions.

The following were the benefits that accrue due to group linked credits when compared to direct credits:

[i] Lending groups have the potential to reach small farmers with affordable credit because processing one large loan rather than numerous small loans cuts administrative costs.

[ii] Group lending was expected to reduce the default rate [or increase the repayment rate] through the use of joint liability.

[iii] In group lending programmes, the functions of screening, monitoring and enforcement of repayment were to a large extent transferred from the bank agent to group members.

[iv] If a group member defaults on the loan and has not experienced any severe income or consumption shocks that may make repayment impossible, the group members
actually enforce repayment by liquidating assets of the defaulting member.

[v] The average repayment rate for borrowers receiving credit through direct lending was only 34.65 per cent while the involvement of NGOs and SHGs led to a dramatic improvement in repayment performance ranging from 81.32 per cent to 97.16 per cent.

Despite the benefits observed in group lending, it also has potential weaknesses. The following were the weaknesses identified:

[i] Under the system of joint liability, all members were held liable for the costs of default by any member. This may lead to the risk of moral hazard and consequently it will erode the incentive of the group members to repay their loan dues promptly.

[ii] If the members of a rural credit group were engaged in similar agricultural activities, their loan portfolio is likely to suffer from inadequate diversification.

[iii] Lenders either must be aware of the risk that a group may collude to default strategically, at the beginning of the project or just before the group collapsed.
Ratan Borman 65 [2006] had written an article titled 'A Study on the working of Tribal Cooperative with special reference to Karbi-Anlong District’. This study was made on the tribal cooperatives popularly known as LAMPS. The Government, during the fifth five-year plan, laid emphasis on organization of LAMPS to fulfill the felt needs of the tribal people.

The following were the objectives of the study:

[i] To examine the organizational and management pattern of tribal cooperatives.

[ii] To examine the overall performance of tribal cooperatives with special reference to sample LAMPS.

Several factors were responsible for low rate of growth of co-operative sector. They were:

[i] Lack of proper infra-structure facilities.

[ii] Mounting overdue position and outstanding loan.


[iv] Unfair and corrupt practices.

[v] Lack of autonomy for societies.
A study on the performance of retail credit products with special reference to Indian Bank in Coimbatore was made by D.Geetha and V.Naveena [2006]. This study revealed the performance of the bank relating to recovery position. The following were the findings of the study:

[i] The yield in case of jewel loan, salaried class loan and vehicle loan was good.

[ii] The recovery position was excellent in case of jewel loans, was fair in case of vehicle loan and pensioners loan scheme and was poor in case of trade finance.

Rajendra Singh [2006], in his article, ‘Curbing Educational Loan Defaults’ suggested various measures for curbing educational loan defaults. He was of the opinion that the number of educational loans have increased in recent times due to the rising cost of higher education and relaxation in margin and security norms. Educational loans have become popular since 2001. During 2004-05, the 27 Public Sector Banks together had sanctioned 1,69,768 fresh loans for an aggregate amount of Rs.3,52,591 crores as against 1,07,929 fresh loans amounting to Rs.2,032.94 crores in the previous year. But of late, the banks have not
been able to recover the educational loans and the number of defaulters has reached an alarming level.

The following suggestions have been made for recovering the educational loans and curbing educational loan defaults:

[i] Care should be taken to extend financial assistance to deserving students having secured admission in prominent/reputed educational institutions.

[ii] Loans should be granted at the place where the parents are permanently settled.

[iii] Care should be taken to assess the repaying capacity of the parents/students while appraising educational loans.

[iv] The documents should be got executed by both the student and the parent/guardian.

[v] Bank branches should contact college/University authorities to get the progress report at regular intervals in respect of students who have availed themselves of education loans.
Arun Iyer [2006], in his article, ‘Pulling back: Real estate boom aids banks notch up recoveries’, was of the opinion that the bankers were benefited by the huge treasury gains which helped them to make aggressive provision for Non-performing assets. Apart from this, they were also benefited by the rising real estate prices, which have boosted their recovery efforts. The recoveries effected by the Syndicate bank to the tune of Rs.432 crores in the financial year 2005-2006 when compared to the previous year figures which stood at Rs.363 crores was attributed to the real estate boom. The main factors that contributed to the robust recoveries were the location of the property pledged and the value of the other factors, which had an influence on the realisation. The boom in the real estate market coupled with the Securitization Act [which enables easy recovery] has provided them with the ultimate ‘weapon’ to take on these errant customers. Many of the recalcitrant borrowers who assiduously avoided the bankers were willing to talk and settle the NPAs as they did not desire seeing their properties auctioned off.
R. Narsaiah \textsuperscript{69} [2006], in his article, ‘Factors affecting the size of overdues in cooperative banks’ stated that the problem of overdues affected adversely the profitability of cooperative banks as they could not book profits on non-performing assets and they were compelled to make provisions for bad debts. His study analysed the problem of overdues and its implications.

The following were the objectives of the study:

[i] To examine the relationship between size of overdues in cooperatives and the factors influencing it.

[ii] To analyse the relationship between sources of income of farmer and the size of overdues.

[iii] To study the overdues pattern with reference to different sizes of farmers.

The data were collected from 60 farmers holding different sizes of land from Chilukur Maandal of Nalgonda District, Andhra Pradesh.

The following were the findings of the study:

[i] 48.3 per cent of the farmers’ loan default size were estimated to be ranging between Rs. 10,000-Rs. 20,000.
[ii] 58.6 per cent of the farmers who defaulted were literate and their default size was between Rs.10,000-Rs.20,000.

N. Srinivas [2006], in his article, ‘An Analysis of the Defaults in Credit Card Payments’ made an analysis by selecting 50 credit card defaulters randomly from Nizambad district, Andra Pradesh. The phrase ‘buy today and pay later’ has motivated the credit card holders to spend more than the amount that they can afford to pay. The author has made an attempt to analyse the factors that contributed to the defaults in credit card payments.

The following were the objectives of the study:

[i] To analyse the socio-economic profits of the defaulters of credit cards.

[ii] To identify the set of factors that contributed to such defaults.

[iii] To suggest the relevant measures to minimise the default cases.

The following were the findings of the study:

[i] The number of defaulters were more in the range of Rs.20,001-Rs.30,000.
[ii] 96 per cent of the defaulters indicated that economic hardship was the major reason for their default and 90 per cent of them attributed it to the rigid payment structure.

The banks concerned should redesign the payment structure of credit card defaulters to suit their requirements.

Ryan Rodrigues 71 [2006], in his article, ‘The Stiff Sister’, discussed about the high rate of delinquency in case of credit cards. Citi Bank, the first among the foreign banks, offered the credit cards in 1990 and the annual credit card rate then was 33.36 per cent. At present, the credit card rate across the industry still hovers around 2.95 per cent monthly or an annual 35.4 per cent. But the interest rates in case of housing, auto or personal loans fluctuates to a very great extent. The main reasons for the credit card rate to be more or less static were as follows:

[i] The correlation between the cost of fund and interest rate was the least for credit cards when compared to other consumer finance products. In a cash crunch situation, a person first pays back a home loan, then a car loan, a personal loan and finally a credit card bill. This was the
most unsecured of all unsecured products and therefore, carried the highest risk for a lender.

[ii] NPAs in this industry range between 8 to 10 per cent. This is high when compared to other loans. Home loans have NPAs of about 1 per cent while in case of auto loans, it is 0.5 to 1 per cent.

Bharat Jhunjunwala \(^{72}\) [2006], wrote an article, ‘The case for outsourcing banking services’. He stated that the Reserve Bank of India has given powers to the banks to outsource various services such as identification of borrowers, collection and processing of loan applications, verification of primary information about borrowers, creating awareness about savings products, post-sanction monitoring, follow-up on loan recovery, disbursement of small loans and recovery of principal and interest. He advocates this proposal because it will result in reduction in the administration expenses. He also said that even though the RBI has insisted that 40 per cent of the public sector banks’ gross credit should be extended to the priority sector, in reality, the share of priority sectors in bank credit is not increasing because the bank managers
were not interested in extending loans to priority sectors due to the heavy administrative cost involved. This was due to maintenance of large number of accounts with small amounts. As the workload of the employees in the banking sector increases because of the priority sector advances, it became all the more difficult for the higher ups to extract work from them.

For solving the problem of recovery of loans from the borrowers, the author suggests the following measures to improve recovery of loans:

[i] The Government should declare wilful default of bank loans as a criminal offence and initiate stringent steps to recover such loans.

[ii] The banks should be empowered to seize private assets of defaulters who have siphoned off loans for personal gains and not used it for the purpose for which the loan was granted.

[iii] Parallel action should be taken against officers who have extended bad loans.
Buddhadeb Chandra [2006], in his article, ‘Performance of Burdwan Central Cooperative Bank [BCCB] in the development of the District [1988-99]’ assessed the economic development of the Burdwan District during the period from 1989-90 to 1998-99. For this, he made a study about the performance of BCCB in the area of agriculture, trade, commerce, industry and many productive activities in rural and urban areas.

The following were the objectives of his study:

[i] To make an intensive study about the BCCB.

[ii] To study about the different types of deposit mobilisation schemes of the bank.

[iii] To analyse the growth of loans and advances in actual and real figures during the period of study and to find out the extent of utilisation of loans.

[iv] To find out the recovery position of different types of loans and advances extended by the bank.

Jery Josephine Thanarathnam [2006], in her article, ‘Working of Primary Agriculture Cooperative Bank [PACB]: A Case Study’, evaluated the PACB for their
functional efficiency. The bank showed a good performance in giving loans to the farmers, particularly crop loans on the basis of specified scale of finance and jewel loans with some formalities to meet any need of the farmers.

The objectives of the study were:

[ii] To identify the factors influencing the demand for credit.

[ii] To assess the level of supply of credit for different purposes and factors influencing it.

[iii] To determine the extent of utilisation of the credit provided by the bank.

[iv] To analyse the cases of defaults in repayment of loans with the view to identify the causes and remedies for them.

The following were the findings of the study:

[i] 59.90 per cent of the total borrowings of the beneficiaries were from the cooperatives followed by commercial banks. 62.30 per cent of the total borrowings of the non-beneficiaries were from the commercial banks.
[ii] Out of the total loan amount provided, 61.48 per cent was for crop loan followed by jewel loan which accounted for 38.52 per cent of the total loans.

[iii] 64 per cent of the respondents utilised the credit completely for the purpose for which it was taken and only 36 per cent utilised the credit partially and diverted it.

[iv] 72 per cent of the borrowers identified crop failure as the major reason for overdues.

In his article, ‘Defaulters Beware? You can be cibilled’, N.S.Vageesh [2006] stated that the bank managers were of the opinion that about 15-20 per cent of loan applicants hide something of their background. The information concealed could be about a loan taken earlier for a house, a car or for buying consumer durable. Due to this mis-information, the lender is at risk, since the borrower may not have the repayment capacity. To put a full stop to the problems faced by the bankers in recovering the loans, the Credit Information Bureau of India [CIBIL] has developed a database of all loan borrowers. At present, the banks can first check whether a
loan applicant has been a defaulter earlier by querying the database.

The main problems faced by the banks in this process were as follows:

[i] It was difficult to check and find out whether a loan applicant has been a defaulter or not. This was because of the Indian peculiarity-the way people call themselves varies across the country. In some States, the surname is used in the first place, while it comes in the second place in many others.

[ii] Even though, the bank officials were happy with the availability of a facility to run a check, they are of the opinion that the level of updation still needs to improve. Many banks do not share the latest data because at present the database is available only until December 2005.

R. Ramappa and M. Sivasankaraiah 76 [2007], in their article ‘Performance of Rayalaseema Grammena Bank-A Study’, have studied about one of the oldest Grameena Banks of India, namely Rayalaseema Grameena Bank in Andhra Pradesh. The following were the objectives of their study:
[i] To study about the origin of Rayalaseema Grameena Bank.

[ii] To study about the branch expansion of the bank.

[iii] To evaluate the recovery performance of the bank.

The following were the findings of their study:

[i] Out of 149 branches of Rayalaseema Grameena Bank, 73 per cent were opened in rural areas, 20 per cent in semi-urban areas and 7.38 per cent in urban areas.

[ii] The recovery performance of Rayalaseema Grameena Bank was quite impressive in the case of Self Help Groups. The members of SHGs repaid 95 per cent of total amount demanded in both 2003 and 2004.


[iv] The repayment performance of non-priority sector is relatively better compared to that of priority sector.

A study was made by K.L.Jadhav, D.B.Yadav and H.R.Shinde 77 [2007], on mounting overdues in DCCBs of Maharashtra. In their study, it was found that one of the serious issues affecting the performance of DCC Banks was
the mounting overdues. Even after the facilities of conversion and rephasing of the loans extended to borrowers in times of natural calamities, there has been pronounced increase of overdues largely because of organised resistance to recovery of overdues. The following were the objectives of their study:

[i] To study the region wise and period wise performance of DCCBs in respect of overdues in Maharashtra.

[ii] To study the average loans overdue per DCCB and its composition and

[iii] To study the percentage of loan overdues to demand and percentage of loan overdues to loan outstanding.

The following were the findings of the study:

[i] The overdues of DCCBs in the State of Maharashtra registered a compound growth rate of 17.84 per cent per annum during the entire period of study.

[ii] The magnitudes of growth rates in the total overdues showed that the overdues of DCCBs in all the regions and State as a whole had significantly increased over the years.
[iii] It is observed that the proportion of overdues to the total demand in the DCCBs of the State decreased from 36.15 per cent in the base year to 30.68 per cent in the terminal year, recording a declining growth of 14.58 per cent over the base year.

A study on ‘Recovery performance of Kumbakonam Central Cooperative Bank with reference to Agricultural credit’ was made by M.K. Kaliamurthi [2007]. The following were the objectives of his study:

[i] To appraise the agricultural lending operations of Kumbakonam Central Cooperative Bank [KCCB].

[ii] To assess the recovery performance of the KCCB in agricultural credit.

[iii] To analyze the management of the NPAs in agricultural credit.

[iv] To offer suggestions for further improvement.

The following were the findings of his study:

[i] It was observed from the study that there was unusual delay in the sanction of loan as several formalities were to be completed before sanctioning the loan which lead to
delay in sanction and disbursement of such amount. On the basis of the information collected from the respondents, it is learnt that the average time taken ranges from 30 days to 45 days.

[ii] The study made it clear that the overdue position was much under control during the last two years.

[iii] Three fourth of the aggregate overdues constituted agricultural overdues.

C. Vasudevulu, M. Rukmani and K. Sailaja [2008], in their article ‘Problems of Recovery in PACS-A Study’ were of the opinion that the high level of overdues restrict the capacity of the lending institutions to recycle funds, besides threatening the prospects of continued flow of external credit for agricultural development. The following were the objectives of their study:

[i] To study the recovery performance of sample borrowers.

[ii] To find out the problems of borrowers and PACS.

The following were the findings of their study:
[i] The recovery performance of the PACS has increased during the study period due to frequent droughts in Chittor district.

[ii] It is observed that the number of defaulters and overdue amount were higher in minor irrigation and horticulture loans than the crop loans in the sample PACS.

[iii] The number of defaulters was more in the case of small farmers followed by medium and large farmers.

[iv] The average overdue amount per defaulter was lower in small farmers compared to medium and large farmers.

Ramakrishna and K.V.Aiyanna 80 [2008], in their study on ‘Institutional financing of agriculture under Service Area Approach’ felt that even after adopting the ‘Service Area Approach’, there exists the problem of double finance due to lack of coordination among different institutional agencies functioning in the area. The following were the objectives of their study:

[i] To examine the nature and extent of loan available to borrower farmers from different financial institutions.
[ii] To study the utilisation pattern of loans availed from different financial institutions.

[iii] To study the repayment performance of loans availed from different institutions.

The following were the findings of their study:

[i] Majority of the beneficiaries were marginal and small farmers.

[ii] The percentage of farmers borrowing from cooperative society in addition to commercial banks increases with the increase in farm size.

[iii] The dependence on non-institutional agencies was more in case of small and marginal farmers than in case of large farmers.

[iv] The repayment performance is higher in case of investment loan as compared to short-term loan in all categories of farmers.

J.Rama Rao and E.N.Bhushan Rao * [2009], in their article, ‘Impact of IRDP on Rural Artisan Activities: A Case Study’, has made a study on the impact of the IRDP programme of income and consumption pattern and on the
employment generation of the beneficiaries. The following were the objectives of their study:

[i] To examine the impact of Integrated Rural Development Programme on the income and consumption pattern and on the employment generation of the beneficiaries.

[ii] To analyse the repayment position of the sample beneficiaries.

The following were their findings:

[i] The average annual family income of all the beneficiaries has increased from Rs. 7,782 to Rs. 12,020. This increment in income is about 54.46 per cent per annum.

[ii] It is observed that the highest number of days [268] per annum of employment is generated from weaving activity followed by carpentry [190], brick making [144] and pottery [134] after taking up the activity.

[iii] The expenditure on food items declined by 1.04 per cent and expenditure on non-food items increased by 1.04 per cent.

[iv] The beneficiaries were prompt in repaying their loans.
Ramakrishna and K.V. Aiyanna \(^{82}\) [2009], in their article ‘Agricultural finance and Repayment performance- A micro study’ has made an attempt to study about the repayment performance of Agricultural Financial Institutions in Mysore district. The study has been undertaken with the following objectives:

[i] To study the lending performance of different financing institutions in the study area.

[ii] To analyse the repayment performance and the factors affecting repayment of the borrowers.

[iii] To suggest measures to increase the repayment capacity of the borrowers.

The following were their findings:

[i] The medium and large farmers availed more loans for irrigation and tractors.

[ii] The requirement of loan for tractor purposes by medium and large farmers was met to the extent of 100 per cent by the financial institutions.

[iii] In general, the borrowers were not willing to repay the loan amount in time, which resulted in overdues.
[iv] The overdues were more when compared to amount repaid.

David Streitfeld 83 [2010], in his article, ‘Biggest defaulters on mortgages are the rich’ found that the rich in New York have stopped paying the mortgage at a rate that greatly exceeds the rest of the population. The following were the findings of his study:

[i] More than one in seven homeowners with loans in excess of a million dollars was seriously delinquent.

[ii] Many of the well to do borrowers was purposely dumping their financially draining properties.

[iii] Homeowners with less lavish housing were much more likely to keep writing cheques to their lender. About one out of 12 mortgages below the million-dollar mark was delinquent.

M.R.Deepakraj, K.V.Aiyanna and Chikkarangaswamy 84 [2010], in their article, ‘Performance of PCARBs in Bangalore Rural District’, evaluated the performance of Primary Cooperative Agriculture and Rural Development Banks in Bangalore Rural District. The following were the objectives of their study:
[i] To find out the priorities of PCARB in the study area.

[ii] To find out the financial stability of the banks.

[iii] To understand the rate of overdues and causes for such overdues.

The following were the findings of their study:

[i] The PCARD Banks in the district were incurring losses due to the deteriorating recovery position, low level of business, high transaction cost, etc.

[ii] Due to waiver of interest by the State Government, the recovery position of the PCARD Banks were improved during 2005-06 and the accumulated losses were reduced from Rs.1,082.89 lakhs to Rs.305.35.

Studies made by Committees

The Central Banking Enquiry Committee \(^{85}\) [1931] found that the intention prevailing among the borrowers not to repay cooperative credit while having the capacity to repay was the cause for overdues.

The All India Rural Credit Survey Committee \(^{86}\) [1954] found that defective lending policies were the causes for overdues.
The All India Rural Credit Review Committee [1969], which studied the progress of cooperative credit after 1954, stated that overdues were a common problem both in developed and under-developed areas and found that the bulk of overdues were caused by big farmers.

The All India Rural Credit Review Committee [1969] has rightly highlighted the impact of overdues. It felt that ‘if the members default to the Agricultural Credit Society, the latter cannot honour its obligations to the Central Bank beyond the limited extent to which it has free resources for the purpose. Once the society’s overdues to the Central Bank exceed a stipulated proportion of the demand [which varies from State to State] the society cannot obtain and hence, make fresh loans. In the circumstances, even the members who can repay do not, as they doubt if they will get fresh finance. This aggravates the overdue position. Not only is the flow of finance to the ultimate borrowers but the arrears bring down the classification of the Central Bank in audit, which in turn, results in a reduction in its prima facie credit eligibility. Further, as the RBI fixes the size of credit limit to a bank
taking into account its capacity to absorb overdues, the limit is likely, on this account, to be less than what it could otherwise be. Banks cannot use even this limit fully as withdrawals have to be backed by non-overdue cover. This, in turn, means further reduction in lending, which, in a sequence of cumulative effects leads to more overdues, dormancy of societies and stagnation, if not recession of cooperative credit.”

The first official and comprehensive study on overdues was conducted by Reserve Bank of India’s study team on overdues 89 [1974]. The findings were similar to any significant study made relating to overdues. According to this study there were overdues of Rs.377 crores at the primary level out of which non-wilful default amounted only to Rs.100 crores. The study team found that faulty lending policies, failure to link credit with marketing, lack of will on the part of management to take strong action against recalcitrant and wilful defaulters, lack of financial discipline and apathetic attitude of some of the State Governments towards creating an environment conducive
and congenial to repayment of dues were the causes for overdues.

The Craficard 90 [1980] while endorsing the findings of the study team on overdues found that failure to tie-up lending with development programmes and want of a sense of discipline and responsibility among the loan borrowers regarding prompt repayment of debts were the important causes among others for overdues.

The Agricultural Credit Review Committee 91 [1989] which dealt with the issue of overdues stated that there was significant relationship between agro-climatic conditions, literacy rate, major crops grown and overdues. However, the phenomenon of overdues was generally neutral to the category of borrowers financed and the variations in the recoveries between different classes of borrowers were only marginal. The Committee deduced that the general climate in rural areas was becoming increasingly hostile to recoveries due to increasing politicisation of agricultural credit. The Committee reviewed that the delay in sanction and disbursement of loans, unrealistic scale of finance and sanction of loans in excess of the need/repaying capacity or
at the other extreme, inadequate loan amounts, compelling the borrowers to resort to borrowings from money lenders and other informal sources of credit and fixation of due dates unrelated to the harvesting and marketing were the main causes for overdues pertaining to crop loan.

The Committee on Agricultural loans through Commercial banks [CALCOB] \(^{92}\) [2000] was set up by the Agricultural Refinance and Development Corporation [ARDC] in April 1979 to review the recovery performances in respect of the agricultural loans of the commercial banks and to recommend appropriate measures for the same. Since the general recovery position of agricultural loans in almost all the regions was unsatisfactory, CALCOB set up a Steering Committee for studying this problem. The Committee consisted of the representatives of Government of India, Reserve Bank of India, Commercial Banks and Agricultural Refinance and Development Corporation. The study covered 70 selected branches of 19 commercial banks in 17 states.

The following were the findings of the study:

[i] The level of overdues of terms loans was higher.
[ii] Overdues indicated rising trend.

[iii] Period-wise study of overdues revealed that on June 1979, 42 per cent of the defaulted amount was overdue for more than 3 years.

[iv] Recovery performance for production loans was generally satisfactory.

Even though, lot of factors was identified for poor recovery, striking factors responsible for defaults were:

[i] While assessing the agricultural proposals, especially of small and marginal farmers, estimation of the incremental income and thereby the repayment schedule were drawn on the basis of experience and the prevailing conditions without foreseeing the possible changes in the production and prices, as a result of both weather aberrations and public policies.

[ii] The economic conditions of small and marginal farmers were no way better than those of agricultural labourers except the fact that they have a piece of land to cultivate. So, they were unable to absorb the shock imparted due to bad climatic conditions.
[iii] Periodical inspections were not conducted by the banks, which was also one of the reasons for poor recovery.

Thomas Alwa Edison says "when I want to discover something, I begin by reading everything that has been done along the line in the past, I see what has been accomplished by great labour and expense in the past. I gather the data of many thousands of experiments and then make thousands more." In the path of Edison, the researcher has made a detailed review of earlier studies made relating to recovery performance.

So far, a review has been made relating to previous studies made regarding recovery performance of Cooperative Banks, Regional Rural Banks and State Finance Corporations, that too relating to agricultural credit. To the researcher’s knowledge, not many studies were available relating to recovery performance of commercial banks. Very few studies have been made relating to performance of private sector banks. No study has been made comparing the performance of private sector banks with that of the public sector banks. Hence, an
attempt has been made by the researcher to make a comparative study between the recovery performance of public and private sector banks.

The present study concentrates on recovery performance of commercial banks regarding priority sector loans in Tiruchirappalli district. In this modern era, the major problem faced by commercial banks is regarding the recovery of priority sector loans. In order to fulfil its social obligation, the commercial banks have to provide loans to priority sectors whose development becomes essential in the national interest. Priority sectors constitute those sectors that have been so far deprived of financial assistance by commercial banks for want of security. The very purpose of nationalisation of commercial banks is to provide loans to the neglected sectors of the economy, i.e., the priority sectors. A comparative study has been made between the public and private sector banks regarding the recovery performance of commercial banks relating to priority sector loans, which include agricultural loans, industrial loans and loans to service sectors. An in depth study has been made regarding recovery of agricultural
loans, industrial loans and loans to service sectors. Apart from analysing the recovery performance of commercial banks, the repayment performances of the borrowers of public and private sector banks have also been studied. The prime reason behind this study is recovery and repayment, which are the two sides of the same coin. If the repayment of loans is made by the borrowers properly, recovery will be naturally good.

The next chapter gives an idea about the priority sector loans provided by commercial banks in India and the measures adopted by them for recovering the loans.