CHAPTER I

INTRODUCTION

Early history of banking in India

From time immemorial, the banker has been an indispensable pillar of Indian society. Money economy, in its turn, could not do without the institution of banking for any considerable time. There is plenty of evidence to show, that even prior to the advent of occidental ideas, India was not a stranger to the conception of banking. "Loans and usury were well understood in those days and Rishis occasionally lament their state of indebtedness with the simplicity of primitive times."¹ Reference is often made to debts, contracted at dicing. To pay off a debt was called Rnam sam-m. Allusions were also made to debts contracted without intention of payment. This shows that the giving and taking of credit in one form or other must have existed as early as the vedic period. However, the transition from money-lending to banking must have occurred before Manu, who has devoted a special section to the subject of deposit and pledges, where he says, "A sensible man should deposit his money with a person of good family, of good conduct, well acquainted with the law, veracious, having many relatives wealthy and honourable (Arya)."²

He further gives the rules, which governed the policy of loans and rate of interest. Sir Richard testifies to the fact that banking

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business was carried on in ancient India. However, banking in those days must have meant largely money-lending, financing Kings and their wars, though certain principles of modern banking functions were not unknown to the then bankers. In the unsettled days of civil wars, when insecurity was so pronounced a feature of the times, the banker was almost the only shelter in money matters. He was the only reliable agency for the deposit of jewellary, cash and hoardings in other forms, as was the case with the Goldsmiths in England in the seventeenth century.

The public confidence, enjoyed by the Indian banker, can well be realised from the fact, that his hundies (Inland bill of exchange), date back to the days of Mahabharata. Hundis were quite in vogue during the middle ages. According to another tradition, "Vastupal Tejpal drew a hundi for rupees ten crores on the Nagar Seth (city banker) of Ahmedabad and the temples of Duwara were built with that money." Usury or high rate of interest, was widely prevalent in India. In Bengal, money was frequently lent to farmers at forty and sometimes, even at sixty per cent, per annum, while the standing crop was mortgaged for repayment of the loan.

The payment of taxes in cash, better means of communications and transportation, uniform currency, the unification of the country under one Central Government have taken away a good deal of business from the hands of the Indian money-lender. Although the role of the indigenous banker and money-lender are fast dwindling as they are unable to adjust

themselves to modern banking conditions, it must be presumed that the private banker is not yet extinct. But with the present policy of the banks to meet the needs of agriculture, retail trade sectors and opening of branches in the rural areas, the role of the money-lender and indigenous banker have decreased considerably. The co-operative banking institutions also played important role in reducing the dependence on money-lender and indigenous bankers.

For the beginning of the occidental banking in India, we must go back to the Calcutta Agency Houses, the trading firms, which undertook banking operations for the benefit of their constituents. Prominent among these were Messrs. Alexander & Co. and Messrs. Fergusson & Co. etc. Both firms combined banking with other kinds of business and both were the predecessors of the early joint stock banks in India. The Bank of Hindustan, a mere appendage of the former, was the earliest bank started under European direction in India. The Indian Government did not awaken to the great need for banks in India till 1809, the year in which the Bank of Bengal obtained its character with a capital of Rs. 50 lakhs, one-fifth of which was contributed by the Government, who shared in the privilege of voting and direction. The charter restricted the bank's interest rate to a maximum of 12 per cent. The power of note issue, however, was not given to the bank till 1823. The other two presidency Banks, namely, the Bank of Bombay and the bank of Madras were established in 1840 and 1843 respectively. As the notes issued by the presidency banks did not become popular, they were replaced by Government paper money in 1862. The year 1860 marks a new era in the history of public banks in India, because it was in this year that the principle of limited liability was first applied to the joint stock
banks. So far little or no banking legislation existed in India. Many banks had sprung up like mushrooms and failed, mostly due to speculation, mismanagement and fraud, on the part of those responsible for their flotation, organisation and management. The Bank of Bombay originally established in 1840 went into liquidation in 1868, although it was restarted in the same year with the same name. Between 1865 and 1870 only one bank, the Allahabad Bank Ltd. was established. Thanks to the Swadeshi movement, which prompted Indian to start many institutions, the number of joint stock banks increased remarkably during the boom of 1906-1913. The people's Bank of India Ltd., the Bank of India Ltd. the Central Bank of India Ltd., Indian Bank Ltd. and the Bank of Baroda Ltd. were started during this period. The boom continued till it was overtaken by the crash of 1913-1917, the most severe crisis that the Indian joint stock banks have so far experienced.

Establishment of State Bank of India and its subsidiaries:

The presidency banks referred to above, were amalgamated into the Imperial Bank of India, which was brought into existence on the 27th January, 1921, by the Imperial Bank of India Act of 1920. This Act, however, gave the bank no power to issue notes and thus left it without control over currency of the country. But it was allowed to hold Government balances and to manage the public debt and clearing houses till the establishment of the Reserve Bank of India in 1935. The Reserve Bank of India took over all these functions from the Imperial Bank of India, but the latter was given the privilege of acting as agent of the former in places in which it had no branches. With the passing of the State Bank of India Act, 1955 (No. 23 of 1955), the undertaking of the
Imperial Bank of India was taken over by the newly constituted State Bank of India. Eight medium sized State-associated banks were converted as the subsidiaries of the State Bank of India between October 1959 and May 1960 under the State Bank of India (Subsidiaries Banks) Act, 1959. One of them was later merged with another one.

Reserve Bank of India which is established in 1935 acts as the banker to the banks — Commercial, Co-operative and Regional Rural Banks. This relationship is established once the name of a bank is included in the second schedule to the Reserve Bank of India Act, 1934. Since 1966 the State Co-operative Banks have also been made eligible for inclusion in the second schedule of the Act. The Regional Rural Banks established since 1975, also enjoys the status of schedule banks. The Public sector banks (Including the State Bank group) have been classified as scheduled banks by the Central Government. The category of scheduled banks, thus includes (i) Commercial banks — Indian and foreign, (ii) State Co-operative banks and (iii) Regional Rural banks.

Social Control on Banks

The demand for nationalisation of Commercial banks had been raised quite frequently in the past. The Government, though not opposed to the move for nationalisation of bank, kept the decision in abeyance partly because of administrative difficulties and partly because of other consequential effects on the economy of the country. The term 'Social Control' on banks was adopted for the first time by the Congress party in its election manifesto in 1967 to bring the private banking institution under social control in order to serve the cause of economic growth and fulfil our social objectives more effectively. A comprehensive
scheme of social control was enforced through legislative measures on 1st February, 1969. A national credit council was set up to perform the following functions in the direction of credit planning:

(a) To assess the demand for bank credit from various sectors of the economy.

(b) To determine priority for grant of loans and advances and for investment having regard to the availability of resources and requirement of priority sectors; and

(c) To co-ordinate lending and investment policies as between commercial banks and Co-operative banks and other specialised agencies to ensure the optimum and efficient use of the overall resources.

Nationalisation of Major Commercial Banks

The crucial decision to nationalise the Major Indian banks had its genesis in the Prime Minister's note on Economic Policy which was endorsed at the Bangalore session of the All India Congress Committee held in July, 1969. Accordingly, fourteen commercial banks having deposits of Rs. 50 crores or more were nationalised on 19th July, 1969 "to serve better the needs of development of the economy in conformity with national priorities and objectives". The broad objectives of the Government decision to nationalise the major banks were summed up by the Prime Minister as follows:

"While the nation is committed to establish a socialist pattern of society, the Government felt that the public ownership and control of the commanding heights of the national economy and of its strategic sectors were essential and important aspects of the new social order.

which we are trying to build. As the financial institutions are amongst the most important levers for achievement of its social objectives, the nationalisation of major banks was felt as a significant step in the process of public ownership over the principal institutions for the mobilisation of people’s savings and channelising them towards productive purposes. The Government felt that the public ownership of the major banks will help in the most effective mobilisation and development of national resources so that our objectives can be realised with a great degree of assurance”. The social control scheme was incomparable with the step of nationalisation. It envisaged a pace of reforms which was too slow to satisfy public opinion.  

Eleven years after nationalisation of 14 commercial banks, the Government of India on April 15, 1980 took over six scheduled commercial banks, each with demand and time liabilities exceeding ₹. 200 crores through an ordinance issued by the President of India.

Banking in Assam

In Assam, the actual development of commercial banking took place during post nationalisation period. During the period there has been a rapid growth of banking network of commercial banks in the state, specially in the rural areas. Till the year 1985, the growth was very sharp but declined subsequently. The average population served by a bank in Assam is 19000 as against the all India average of 14000 per bank branch as on 31.12.96. Assam with her enormous natural resources has still remained as one of the economically backward State in India. In

Assam, the people living below the poverty line is above 40% as against all India average of 29%.\textsuperscript{7}

After nationalisation of banks, Major Commercial banks started opening branches in remote rural areas of the state and extending Credit facilities to the farmers for raising various types of crops as well as allied agricultural sectors namely, dairy, Piggery, Poultry etc.

There are 5 Regional Rural Banks (RRBs) with 404 branches functioning in the State. Majority of the branches of these RRBs are located in rural areas and these RRBs are extending credit mainly for the development of agriculture sector in the state.

Assam Co-operative Apex Bank has also played an important role in extending credit to the industries, specially tea industry in the state. At present Assam Co-operative Apex Bank has 67 branches functioning in the state with an investment of \textsterling 5895.40 lacs (As on 31.3.1996). Moreover, there are 8 tiny primary urban co-operative banks of which 4 are in Guwahati and one each at Tezpur, Dibrugarh, Silchar and Jorhat.

As on 31st March, 1993, the total volume of deposits in 1284 bank branches operating in the State was \textsterling 2850.19 crore. This was increased to \textsterling 6327.85 crore by March 31, 1998. Similarly the advances was increased from \textsterling 1374.67 crore as on March 31, 1993 to \textsterling 2157.24 crore as on March 31, 1998. The opening of bank branches in the state during the period was very slow. The number of bank branches in the state, which was 1284 as on March 31, 1993 raised to 1310 only as on

\textsuperscript{7} Sri Thaneswar Baruah "Role of banks in development of Assam" published in Assam Tribune dated 20.01.1997.
31st March, 1998. It reveals from the figure that during the five years gap (i.e. from 31.3.1993 to 31.3.1998), only 26 bank branches were opened. The Credit Deposit (C-D) ratio in the State during the same period was between 39.84 per cent to 49.66 per cent, which is far below the normal ratio of 60 per cent as fixed by Reserve Bank of India.

Table 1.1

Position of Deposits, Advances and C-D ratio for banks in Assam during March 31

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<tr>
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<tbody>
<tr>
<td>No. of bank branches</td>
<td>1284</td>
<td>1292</td>
<td>1299</td>
<td>1308</td>
<td>1308</td>
<td>1310</td>
</tr>
<tr>
<td>Deposits</td>
<td>2850.19</td>
<td>3359.29</td>
<td>4137.68</td>
<td>5356.82</td>
<td>5770.24</td>
<td>6327.85</td>
</tr>
<tr>
<td>Advances</td>
<td>1374.67</td>
<td>1447.83</td>
<td>1657.59</td>
<td>2157.94</td>
<td>2062.86</td>
<td>2157.24</td>
</tr>
<tr>
<td>CD ratio (%)</td>
<td>48.23</td>
<td>43.09</td>
<td>40.06</td>
<td>40.00</td>
<td>49.66</td>
<td>43.12</td>
</tr>
</tbody>
</table>

Source: (i) SLBC Agenda notes
(ii) Banking Statistics, Basic Statistical returns, Reserve Bank of India.

Trend of Credit flow to priority sectors

An analysis of sectoral credit flow indicates that share of priority sector advances in the state has marginally increased over the years. The flow of credit to priority sectors has been increased in absolute terms from ₹ 678.45 crore as on 31.03.92 to ₹ 1195.70 crore as on 31.03.98. The comparative analysis of priority sector advances during the period 31.03.1992 to 31.03.1998 is shown in next page.
Table 1.2

<table>
<thead>
<tr>
<th>Year</th>
<th>Total advances</th>
<th>Priority sector advances</th>
<th>Percentage of priority sector advances to total advances</th>
</tr>
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<tbody>
<tr>
<td>31.03.1992</td>
<td>1262.92</td>
<td>678.45</td>
<td>53.72</td>
</tr>
<tr>
<td>31.03.1993</td>
<td>1374.67</td>
<td>758.46</td>
<td>55.17</td>
</tr>
<tr>
<td>31.03.1994</td>
<td>1447.83</td>
<td>797.23</td>
<td>55.06</td>
</tr>
<tr>
<td>31.03.1995</td>
<td>1657.60</td>
<td>1028.38</td>
<td>62.04</td>
</tr>
<tr>
<td>31.03.1996</td>
<td>1850.18</td>
<td>1035.38</td>
<td>55.98</td>
</tr>
<tr>
<td>31.03.1997</td>
<td>2112.02</td>
<td>1198.53</td>
<td>56.75</td>
</tr>
<tr>
<td>31.03.1998</td>
<td>2157.24</td>
<td>1195.70</td>
<td>55.43</td>
</tr>
</tbody>
</table>

Source: (i) State Credit Plan, Assam 1996-97, NABARD, Guwahati.
(ii) SLBC Agenda Notes for Assam.

Banks Credit

Extension of credit has always been one of the principal sources of income for Commercial banks and usually represent one of the principal assets of a bank. The extension of credit on a sound basis is therefore, very essential to the growth and prosperity of a bank. In many of the Indian banks, a bank's credit policy evolves from an unwritten set of standards, sometimes very nebulous. In case of small banks, such policies may seldom be written form. However, as the bank grows in size and more bank personnel are involved in extending credit, it is essential that appropriate guidelines and standards be established in an objective manner. To be successful, the credit policy should not only be carefully established, but also properly communicated to the lending officials and implemented effectively by those extending the
credit. Certain banks are known as specialists in foreign exchange advances or offshore banking because of imaginative application or practices of well-concerned underlying policies.

The purpose of an established Credit Policy is to provide sound assets, protect depositors funds and give maximum return to shareholders. After nationalisation, Indian Commercial banks have been assigned the task of taking banking to the masses and thereby making substantial portion of their advances to neglected sectors such as agriculture, weaker sections of the society, SC/ST, unemployed youth etc. Targets for extending credit have been provided for each category of advances and banks are required to achieve them within a given period.

No policy achieve maximum effectiveness unless there is a periodic follow up to ascertain whether it is being properly implemented. An established loan policy provides with a programme to evaluate actual performances or practices to determine variances and to take remedial action. In the cases where variances between established policies and practices are noted, education of the concerned officers or even the reshaping of the policy itself may be appropriate. To have a control and achieve a profit on the credit extended by banks, the loan policy should be reviewed on a regular basis, at least once in a year, keeping in view the changes in the economic climate, deposit mix, market area and R.B.I./Government Policy.

Overdues: Overdues in banks are caused due to some factors which may broadly be classified into two groups namely internal and external factors. The internal factors are those for which the banks are responsible for faulty system/procedures followed in regard to identifi-
cation/selection of borrowers, deficiencies in the processing of loan applications, lending policies, disbursement procedures and supervision of end use of credit. The external factors such as willful default, natural calamity etc. are beyond the control of branch/bank.

Industrial overdues of commercial banks can be defined as that part of their total advances given to industrial units, which have become sick after availing of the advances and hence the recovery of principal as well as that of interest are difficult.

As regards the problem of agricultural overdues, the views expressed by the former Managing Director of NABARD are noteworthy. According to him, "we have to do some bit of introspection. How far bankers have contributed to the process of accumulation of overdues over the years? If we honestly analyse the position, we will find that we have a responsibility to bear in this respect. In this context, I would like to know from the fellow bankers as to how many of them have really analysed the outstanding overdues at their level? Have they tried to analyse the overdues in investment-wise, beneficiary-wise, or areawise? Such analysis, we believe would lead to many answers to the vexed questions covering overdues. As far as I know this sort of studies on analysis of the outstanding overdues have not been made with the result that we are really groping in the dark as to how to deal with this very important problem."8

In another study conducted by the Bank of Baroda it was found that low crop yield in agriculture was the major cause for poor recovery.

8. Sant Das, Managing Director, NABARD — Banking as a lever for Rural Development.
and high overdues.\textsuperscript{9} Magnitude of overdues of commercial banks has been shown in the following table.

Table 1.3

<table>
<thead>
<tr>
<th>Date</th>
<th>Overdues (\text{\textpaisa in crore})</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.06.1987</td>
<td>9731</td>
</tr>
<tr>
<td>31.03.1993</td>
<td>18,810</td>
</tr>
<tr>
<td>31.03.1998</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Source: (i) Banking Statistics, Basic Statistical Returns, Reserve Bank of India, 1993
(ii) Reserve Bank of India's Annual Report for 1997-98

It reveals from the above table that the amount of overdues are increasing every year at a faster rate. It increased from \text{\textpaisa 9731 crore} as on 30.06.1987 to \text{\textpaisa 40,000 crore} as on 31.03.1998 i.e. more than four times.

Overdues become visible when repayment schedules are fixed in an unrealistic manner and not related to the income generated by the industry. It is observed in many cases where the industrialists who start one industry do not have the patience to wait till the industry takes off. Mid-way, they start another industry without waiting for the first industry to fructify, leading to diversion of funds, diversion of interest and diversion of attention. Thus misutilisation of advances takes place. Another cause for overdues is managerial deficiencies, despite the fact that the financial analysis made by the financial institutions says that it is not a major cause though an important one.

"There has been no proper supervision of credit. The responsibility for supervision is passed on down the line when the limits are sanctioned by higher authorities. The responsibility finally falls on the advances Manager who is too overburdened with a plethora of returns. So proper supervision of the funds lent is not at all given due attention".10

Overdues also constitute the following —

- The entire outstanding of an advance (including temporary/adhoc) sanctioned for a fixed period but not repaid or renewed.

- The entire balance outstanding in respect of a term loan/deffered payment guarantee, if the instalments due were not paid.

- The amount of a bill purchased/discounted returned unpaid and the extent of obligation under letter of credit/guarantee not met by the borrower and could not be adjusted against the drawing power available in the cash credit account.

- Temporary irregularity i.e. unsecured portion of drawings above drawing power in the cash credit account.

- Temporary irregularity in the term loan due to non-payment of instalments, interest etc.

Even amongst banks, there is no uniform approach to the concept of overdues and each bank is adopting its own system to treat the advance as overdue. If a common approach is arrived at, perhaps the recovery management may become much more simplified and easier to implement. Firstly, the very concept of overdues may differ in relation to various types of advances. In the case of seasonal industries, the

advances are allowed for a temporary period of three to six months, after which they are to be recycled and/or repaid. In the case of normal manufacturing activity, the duration is generally one year or so, depending upon the operating cycle. Concept of overdues differs in relation to various types of advances namely, cash credit, overdraft, bills finance, co-acceptance, letter of guarantee etc. Due to overdues, a portion of bank's funds are locked up and are not available for the purpose of recycling. They in turn, affect the liquidity and profitability of the banks and may directly result in fall in availability of goods and services to the community at large, particularly when many large industrial units are sick and/or have closed down, and there has been substantial retrenchment of labour force, leading to unemployment and social evils.

Recovery :- Recovery is a recurring worry for banks and bank managers. Banks and financial institutions at present experience considerable difficulties in recovering loans and enforcement of securities charged with them. The existing procedure for recovery of debts due to the banks and financial institutions has blocked a significant portion of their funds in unproductive assets, the value of which deteriorates with the passage of time. The committee on the financial system headed by Shri M. Narasimham has considered the setting up of the special tribunals with special power for adjudication of such matter and speedy recovery as critical to the successful implementation of the financial sector reforms. An urgent need was, therefore, felt to work out a suitable mechanism through which the dues of the banks and financial institutions could be released without delay. "In 1981, a Committee under the
chairmanship of Shri T. Tiwari had examined the legal and other
difficulties faced by banks and financial institutions and remedial
measures including changes in law". 11

The Tiwari committee had also suggested for setting up of
special tribunals for recovery dues of the banks and financial
institutions by following a summary procedure. "Whereas on 30th
September, 1990 more than fifteen lakhs of cases filed by the public
sector banks and about 304 cases filed by the financial institutions
were pending in various courts, recovery of debts involved more than
Rs. 5622 crore in dues of public sector banks and about 391 crore of dues
of the financial institutions". 12

The locking of such huge amount of public money in litigation
prevents proper utilisation and re-cycling of the funds for the
development of the country.

Lending to agriculture has tremendously increased, but it is
also interesting to note that until recently, there is no good system of
collection of data on recovery on all types of loans advanced by the
banking system. Sometimes, it is because of the faulty system of
collection of data on recovery of farm loans that the repayment appears
to be poor. The periodicity for monitoring is also responsible for the
rise and fall in the percentage of recovery. "The present faulty system
of computing recovery as of a particular date (30th June) for all crop
loans (which forms major portion of advances to direct Agriculture) in
all states of the country has done great damage. The present method

_11 & 12. Sarkar, K.K., Laws & Practice Under Debt Recovery Act, page 2,
1996.
also appears to be defective because unwillingly it favours the states in which harvesting period is around the month of June". 13

Certain reforms are required to be made for making the banking sector viable, profitable so that it may compete with free market economy, global process and are acceptable to international norms of banking. Otherwise, the total impact of economic reform will be frustrated. The existing laws or procedures are acting as constraints for recovery of banks debts and the growing incidence in default in repayment of bank loans further aggravated the problem of sickness apart from other internal/external factors. The Chakravarty Committee on the working of the monetary system voiced its concern over the high overdues in the priority sector lending programmes which would result in poor recycling of funds and also reduce the coverage of beneficiaries thereby increasing inflationary in the economy. 14

"Presently, about 20,000 crore of bad and doubtful advance are estimated to be pending for settlement in various courts of the country. Many of these have been dragged for years, even decades and banks themselves are responsible for some of the mess". 15 Once the advance turned sticky, banks used to promptly file suit and once the suit is filed, one could simply put it aside. There was no need to make provision.

13. P.N. Joshi, Financial Express, dated 30.1.1985
Now the situation has drastically changed and every focus is on the banking sector. To cope up with the situation and to make the recovery easy and/or speedier, as recommended, the Recovery Tribunal came into being, under the Recovery of debts due to Banks and Financial Institutions Act, 1993.

According to research finding of Jawaharlal Nehru University (JNU) "74 per cent outstanding bank credit is locked up in the big units, 43 per cent of the sickness in small sector could have overcome if only it had not been ploughed with resource crunch".\textsuperscript{16} This is because, there is no repayment of loans and/or recovery and to recover the debts due to bank, bank is to make the shelter of law and it takes it own course and when the decrees are passed in favour of the bank after long delay, there is nothing worthwhile executable assets are there and here banks cannot escape their responsibility.

Some of the factors responsible for poor recovery of advance are defective appraisal of loan applications, inadequate monitoring of credit utilisation, wilful defaults, misutilisation of loans and weaknesses in recovery procedures. Since commercial banks are committed to lend 40 per cent of their advances to priority sector, mainly in rural areas, they must improve the quality as well as recovery of such loans. The problems of recovery have, inter alia, two major dimensions.

(a) Slow circulation/non-cycling of bank credit

(b) Adverse implications for profitability of credit operations and erosion of lendable resources owing to attendant write-offs and waivers.

\textsuperscript{16}, The Economic Times, 24th December, 1995
The analysis of the recent banking experience shows that the recovery is fraught with write-offs and waivers which negate the very fundamentals of bank credit. The more serious dimension of the problem of recovery is that debtors have started taking for granted certain waivers and write-offs irrespective of their capacity to repay. On several forums banks are advised to write-off uncovered dues and claim benefit of tax saving to the extent of 50 per cent thereof. Very few outside the banking circles and only those involved in the working of finding out provisions know that the profit margins of banks are becoming thinner, making it hardly feasible to resort to write-offs even if income tax benefit is enhanced.

Banks have been asked to maintain the demand, collection and balance register. This has extensively improved their understanding and thrown up specific areas of non-recovery. Reserve Bank of India has taken steps in introducing non-public business working day. In rural areas, one day in a week, the branch remains closed for the public to work for recovery improvement, improving house-keeping, establishing further contracts etc. A survey conducted in this regard revealed that this has helped recovery efforts to a great extent and brought awareness among the branch managers and staff that recovery is also a part of employees job.

Profitability :- The term 'profitability' means the excess of income over expenditure. Profitability is the deciding factor to determine the payback period of advances on a rough basis. If the profitability is such that the advances cannot be recovered in ten years, then the pay-back period is long. Higher profitability denotes shorter pay-back
period. It is advantageous to bank if the advance can be recovered in short time. Lending rates of interest are not only profitable, but also flexible in the context of social banking. The interest rates should be fair enough to the risks involved, in the advance and the capacity of the borrower. The capacity of borrowers under Differential interest rates (DIR) category, small and marginal farmers, small entrepreneur is very limited and they cannot pay exhorbitant rate of interest to bank. The margin of profit in case of small business units is not always steady or high. Interest rate is thus high or low depending upon the type of borrower, type of security, whether perishable or durable, RBI directives etc. The difference between the interest paid on deposits and interest received on advances is known as 'SPREAD'. Interest paid being the cost of deposits and interest received being the cost of lendable funds, any surplus here is not on account of banks' own funds or contribution, but the public funds employed in banks. If the spread is unduly heavy, society has moral right to seek reduction of spread to give benefit to society. Therefore, social banking demands that the spread showed be only that much to cover or give a cushion to the burden. 'BURDEN' is the difference between non-interest expenses (like salaries, rent, telephone charges, conveyance etc.) and non-interest income. The cost of servicing the loan in respect of appraisal, assessment, sanction and disbursal, recovery, follow up and supervision etc. are to be recovered as incidental charges, bank charges etc. When there is inadequate recovery of costs, it results in a burden, which naturally gets covered by 'spread'. While it should be the criteria of banks to see that the costs are recovered by way of charges, the margin
between cost of borrowing and lending is to be minimum to pass on the concession interest to the borrowers. Now-a-days banks are changing the criteria and out-look on profitability. Increase in overdues creates more non-performing assets (NPAS), thereby adversely affects the profitability of the banks.

It is felt that the existing legal machinery for recovery of bank's due is inadequate and it constitutes various adverse implications for the working of banks. Due to protracted delays involved in elaborate legal processes the interest of banks are often adversely affected. The sub-committee on recovery of dues set-up by Tiwari Committee on rehabilitation of sick industrial undertakings examined three modes to recover the dues and recommended establishment of a special tribunal for recovery of banks dues.

**Non-performing advances/assets (NPAs)**

An asset/advance is classified as a Non-performing asset (NPA) if there is a default in payment of interest on the advances for the two consecutive quarters. The incidence of NPA is affecting the profitability of the banks.

The level of NPAs in the Indian banking sector has reached an alarming proportion. In terms of absolute amount, the aggregate NPAs for the public sector banks has reached ₹ 43576 crore as on 31.03.1997 from ₹ 41,041 crore as on 31.03.1994. The list of banks with massive NPAs is led by State Bank of India group with ₹ 14,370 crore while others account for ₹ 29,206 crore. Such a high level of NPAs has a dampening effect on the achievement of reform objective of strengthening banks and improving performance of banking sector.
Table 1.4
Non-performing advances of Public Sector Banks
As on March end (Rs. in crore)

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<tbody>
<tr>
<td>Amount of NPA</td>
<td>39,253</td>
<td>41,041</td>
<td>38,385</td>
<td>41,661</td>
<td>43,576</td>
<td>45,653</td>
</tr>
</tbody>
</table>


The Non-performing assets (NPAs) of outstanding advances in agricultural sector lending by public sector banks have registered a substantial decline in the year 1997-98. NPAs in agricultural sector lending which is part of the targeted priority sector has declined to 19.44 per cent from the previous level of 25.21 per cent during 1996-97.

In absolute terms, NPAs in outstanding advances in respect of agriculture has declined from Rs. 7487 crore in March, 1997 to Rs. 6668 crore at the end of March, 1998. The NPAs in case of Small Scale Industry (SSI) has increased from Rs. 7796 crore as in March, 1997 to Rs. 8833 crore as in March, 1998. In case of other priority sector advances, NPAs went up from Rs. 5084 crore at March end, 1997 to Rs. 5683 crore at the end of March, 1998.
### Table 1.5

Aggregate position of NPAs to outstanding advances for the years ended March 1997 & March 1998

<table>
<thead>
<tr>
<th>Sector</th>
<th>Position as at March end 1997</th>
<th>Position as at March end 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Outstanding</td>
<td>NPA</td>
</tr>
<tr>
<td>Agriculture</td>
<td>29,700</td>
<td>7487</td>
</tr>
<tr>
<td>SSI</td>
<td>31,175</td>
<td>7796</td>
</tr>
<tr>
<td>Other priority sector</td>
<td>16,833</td>
<td>5084</td>
</tr>
</tbody>
</table>


The World Bank and the International Monetary Fund (IMF) have raised the issue of the large stock of NPAs in the Indian financial sector with the Reserve Bank of India (RBI). The agencies have asked RBI to tighten the sector's prudential norms, including those performing to asset classification, to bring them in line with international standards.

Besides, the bulk of NPAs had accrued during the pre-liberalisation period when social concerns took precedence over profitability, resulting in mass disbursements with little or no credit appraisals and poor recovery practices. Recovery of these advances was unlikely. Public sector banks account for the lion's share of the NPAs, with the worst off showing net NPAs of around 20 per cent.
Objectives of the study

The present study was undertaken with a view to high-light the quantum of credit extended by the banks and the problems faced in recovering the advances. However, the specific objectives of the study may be stated as under:

(1) To evaluate the workings of banks in fulfilling its cherished objectives of supplying regular credit.

(2) To examine the constraints faced by banks and compulsions under which banks have to work.

(3) To point out the difficulties in recovering banks advances and analysing the factors affecting profitability.

(4) To suggest measures to overcome the constraints and plug the loop-holes, for increasing profitability.

Methodology of study

The problems under the study has been analysed with the help of primary as well as secondary data. Primary data for the study were collected through field survey, interviewing the borrowers/bankers etc. within the Kamrup District of Assam. Selection of the borrowers/beneficiaries will be on random sample basis. While interviewing the borrowers selected from the district, attention was given to ascertain the causes of low recovery of bank dues.

To support the study relevant secondary information are collected from various organisations/institutions, such as—

(1) Reserve Bank of India

(ii) Various Zonal/Regional offices of nationalised banks
Banking statistics relating to Kamrup district, in some cases, are also incorporated in the study, from the 'Basic Statistical Returns' published by Reserve Bank of India. Information are also collected from the publication of the Government of India and Government of Assam.

Statistical tools and techniques, wherever necessary, have been used to arrived at objective conclusions. An earnest attempt has been made to incorporate latest data, if available.

Hypothesis

In order to achieve the objectives, the following hypothesis are proposed.

(1) Lack of will and desire of the borrowers to repay, is the principal factor contributing to the prevalence of overdues resulting of poor recovery.

(2) Small and uneconomic size of land holdings acts as a deterrent factor in the application of modern inputs.

(3) Lack of proper monitoring and timely follow-up measures of the banks are responsible for high overdues.

(4) Non-recovery of banks credit has affected the profitability of the banks.

(5) Production of various crops in the Kamrup district are adversely affected by the natural environmental conditions, such as floods, cyclone, droughts etc. Contributing to high overdues in agriculture.
CHAPTERISATION

The study has been presented according to the following plan:


CHAPTER - IV: Government's policy towards banking institution — Policy measures regarding Development of Institutional Finance — Introduction — Government's policy — The Lead Bank Scheme — Govt.'s policy on branch expansion — Concept on service area of bank branches — Policy
decision of the Government leading to the establishment of Regional Rural Banks (RRBs) — Financing priority sectors, Govt. Policies — Financing of Agriculture — Credit to Small Scale Sector — Special Credit Schemes — Industrial sickness; Govt.'s Rehabilitation Measures.

CHAPTER - V : Causes for increase of Banks Overdues — Introduction — Growth cycle vis-a-vis inflation — Spread of advances — Recovery of overdues — Overdues due to industrial sickness — Credit flow to Small Scale Industry Sector — Agricultural Credit — Overdues in Agricultural Credit — Factors responsible for overdues.


CHAPTER - VII : Poor recovery of bank credit — A Field Survey — Introduction — The Sample Design — Schedule and Methodology — Analysis of Data — Bank Loan to Beneficiaries — Income and Expenditure — Repayment Habits — Survey Conducted on sample loanees of various sectors.

CHAPTER - VIII: Summary of Findings and Recommendations.