CHAPTER II

LITERATURE REVIEW
2. LITERATURE REVIEW

The basic objective of nationalization was to ensure the alignment of the commercial banking system in such a way so as to meet the needs of the economic goals of the just distribution of wealth. Hence it is the primary duty of the commercial banks to see that the flow of credit is channelized in such a way that it entails, in the most productive way, to boost growth of the economy and overall development. The concept of Priority Sector Lending was evolved mainly to ensure the welfare of the socially and economically backward strata of the society.

For lending in the Priority sector, quantitative targets were set for lending to the weaker sections of the people through various schemes designed by the State, as well as the Central Government. As a result of these efforts, the flow of credit to the different sectors has increased, which has assisted the developmental activities and also broadened the standard of living and income level of the people.
A number of studies, on this subject, have been undertaken by individuals, organizations and also by the banks. The Government of India and the Reserve Bank of India (RBI) also appointed many committees to study the end result of the efforts taken.

Raut (1984) had conducted a study on Scope and Problems of Financing Tribal Farm Development by Land Development Banks. He states that the problem of “overdue” is mainly attributed to the mis-utilisation of loans by the tribal people. He stated that the reason behind mis-utilisation, was mainly because of the consumption needs of the tribals being more than the building of any kind of asset building priorities.

Here, Prof. Raut has suggested that priorities of the tribals have to be taken into consideration. It has been indirectly suggested that the tribals find it difficult to meet their daily needs and hence could not think of even building capital assets. No wonder funds provided for building capital assets are diverted for consumption/unproductive purposes.

Ramesh Chand and Sidhu (1985) have opined in their study that highly educated borrowers or family members do not tend to be defaulters of bank loans. The borrowers who depend more on family income, capital
Expenditure and more borrowing tend to be defaulters, which was observed mainly in the case of low educated borrowers. Such borrowers tend to be willful defaulters of bank loans.

The authors have taken into consideration the educational background of the borrowers. Educated borrowers tend to use the funds for the right purpose for which the loans have been taken and reasons can be attributed to the understanding of the nature of the loan and the realization of how ultimately it will help them in broadening their financial base.

A distinction between the highly educated borrowers (or their families) and the low educated borrowers has been done. It is observed that the latter kind of borrowers tend to mis-utilize loans sanctioned to them by the banks.

Viswanathan B.S. (1985) had conducted a study on rural co-operative credit and concluded that the overdues are, to a large extent, due to willful default which he attributed either to ineffective recovery machinery or an unfavourable recovery climate.
The author, when he refers to the term ineffective recovery machinery, means the financing agency is lax in its efforts of recovering dues. The lending agency’s supervision, monitoring and control must be lacking in many aspects. With the strict NPA norms being levied by the Reserve Bank of India, now any asset, if not paying instalment or interest beyond 90 days, can be termed as Non Performing Asset, which ultimately spoils the lending agency’s profitability on the whole.

The term ‘unfavourable recovery climate’ refers to the overall economic climate in the country in respect to recovery. It includes political scenario, debt waiver schemes, attitude of the borrowers, attitude of the lending agency, attitude of the leadership and also the intermediaries e.g. NGO, DIC and Gramsevaks etc.

Thus these two main factors i.e. willful default and unfavourable recovery climate, can be chiefly attributed to bad loans.

Raj Kishor Panda (1985) observes that medium and large farmers tend to mis-utilize the bank’s loans more than the small farmers.
A distinction has been made between medium and large farmers and small farmers. The study, it can be said, throws light on the financial conditions of the borrowers, especially small borrowers.

The distinction between the small and medium size borrowers has been made upon the income generating capacity of the borrowers, land holding and other means of livelihood. As such, the small borrowers are more concerned with uplifting themselves financially and hence it indirectly means that the farmers with small land holding and small means for survival normally use the funds provided by banks for the purposes they are sanctioned.

Mr. V.T. Godse and D.P. Khankoje (1985) had conducted a study on Systems and Procedures in Priority Sector Lending. They have stated in their study that banks are indulging in unnecessary procedures and lengthy practices in lending to the priority sector which ultimately irritates the borrower and delays the loan disbursements. The banks need to simplify the procedures in respect of documentation. However, there shall be strict supervision and control over the pre and post disbursement of loan.
This can be called as one of the features of Indian banking. The Indian banking system is said to be too hefty due to too many legal formalities and too many documentations. There are no comprehensive documents which can cover everything and this adds up in the harassment of the borrowers. These procedures, delay loan disbursals which upsets the project cost of the borrowers.

Cumbrous procedures in sanctioning the loans are the major irritants. Simplification of the procedures will ease the process of loan disbursement and unnecessary delay caused can be removed.

S.R. Radkar, S.B. Dangat and M.P. Dhongada (1986) had conducted a micro level study to ascertain the utilization of funds borrowed by the borrowers under the medium and long term loan purposes. Their study reveals that most of these borrowers use these funds for unproductive and personal purposes e.g. marriages and other family functions or repayment of earlier debts. They opined that the proper appraisal, guidance and supervision is essential for the utilization of the funds for the purposes for which loans are granted.

Proper guidance, counseling and strict monitoring on the part of he banks will curb mis-utilization of the loans.
I. Satya Sundaram (1986) did a study on Scheme of Differential Rate of Interest and pointed out that fund allocation under this scheme was insufficient. Moreover the borrowers tend to use funds of the banks, for other purpose, rather more for un-productive and consumption purposes which is entirely out of the scope of the scheme. Due to this there was no change in the standard of living of the borrowers. He further says that some controls by banks are required for achieving the desired results.

The DRI scheme has some in-built subsidy in the interest rate. The rate of interest is 4.25%. The maximum loan given under this scheme is Rs. 25000/- (for educational loan purposes). As the rate of interest is low, naturally the loan quantum has to be low which prevents borrowers going in for a bigger project.

The insufficiency of loan amounts, tend to become bad because they are more prone to be used for un-productive purposes. To avoid this, a strict monitoring system is required. The author however has not mentioned the nature of monitoring of the loans by the financing agency.

Mr. R.N. Malhotra (1986) did a study on The Role of Banking in Rural Development and is of the opinion that banks should actively participate
in rural credit distribution and also should exercise effective control over the utilization of the credit. Banks should not be excluded from the responsibility of observing that the borrowers use funds for the proper and desired purpose. Banks should not just disburse loans and keep quiet.

One of the objectives of the nationalization of commercial banks was to have equal distribution of funds of the banks. 80% of the Indian population resides in villages and unless villages are financially improved, there cannot be all round development of the economy. Banks are vehicles of the economic development. They create credit and synergies growth of the economy. However this is possible only if the loans are used for the proper purpose i.e. for the purpose for which they have been sanctioned. One of the faults of Indian banking is faulty supervision, which allows misuse of funds by the borrowers.

Banks cannot overlook their responsibility of active participation in loan distribution and strict monitoring of its use for the purpose it is given.

Mr. P.D. Ojha (1987) the then Dy. Governor of RBI commented on the Banking and Economic and Development in India when inaugurating a seminar at Sukhadai University, Udaipur. He remarked that the borrowers default in loan repayment of banks is a common feature under the
sponsored schemes. This affects the bank’s liquidity position and banks are discouraged in funding the borrowers under Priority Sector Schemes. He further stated that the Banks shall make finance only to the viable proposals and should have effective supervision and control system.

Default on the part of the borrower, demotivate banks in actively financing in Priority Sector lending are there but viability of the projects is also a major factor which banks need to consider while sanctioning loans.

B. Ramchandra Rao (1987) had done a study on the Evaluation and monitoring of Priority Sector advances. He has suggested in this study that priority sector advances should be given to only the deserving borrowers. Financially sound people if accommodated under priority sector funding, indicates that the purpose of the schemes is not served. Banks should devise machinery for better monitoring and supervision for proper utilization of funds.

Priority Sector advances are mainly for those borrowers who are financially weak and hence banks should devise machinery, for better monitoring of loans to ensure that the affluent borrowers are not financed under Priority Sector financing.
The Economic Research Department of the State Bank of India, Central Office, Bombay (1987) did an observative study on the impact of bank credit on the weaker sections in Kerala. The study revealed that the financial help has assisted many poor and efficient workers to start their own business units. This study also tells that the bank loans also help in increasing the income level of the people and upgrades the standard of living of the poor.

Financial help to the poor has helped in increasing income level of the poor and upgrading their standard of living.

Mr. H.C. Malhotra and Kulshreshtha (1987) have opined that the bank loans will improve the standard of living of the borrowers only if they utilize the loans for productive purposes. They have suggested that there should be proper supervision and monitoring over loans and also proper co-ordination among the loans disbursing agencies.

If borrowers use bank loans for the proper purpose and if banks also ensure this by co-ordination among the various agencies, the standard of living of the poor can be increased.
Mr. Inderjit Khanna in his article titled “IRDP credit for Poor: What is the evidence” which appeared in April/June 1988 issue of Vikalp, New Delhi says that people have been benefited by IRDP and they are quite satisfied with the operation of the scheme as per planning commission’s report, if Govt. wants better results, Panchayat Samiti officials and beneficiaries should come together

C. Rangarajan (1988) remarked that banks shall divert their credit essentially for productive purposes so that economic development is achieved. Banks are very rigid in lending their funds, which ends in the deprivation of funds to the needy and deserving people. New measures shall be devised to see that the loans reach the deserving and needy people.

Banks need to be liberal in financing so that the loans reach the needy borrowers.

Mohammed Yunus (1988) feels that if banks are providing financial assistance to the poor people, it is not charity. The loans granted to the weaker people need to be repaid in time; and banks need to see this is done meticulously, for which strict control is required, so that mis-
utilization of funds is avoided. Otherwise for such defaults banks are responsible and not the poor people.

Banks need not treat loans to poor people as charity but shall strengthen their machinery in recovering such loans.

R.K. Panda and R.K. Meher in their article “A study of Small Scale Industrial Sickness” published in 1989 by Ashish Publishing House, New Delhi say that reasons for sicknesses are low working capital, power; material and marketing problems, delay in recoveries and competition

Jean Dreze, in his paper “Poverty in India and the IRDP Delusion” which appeared in Economic and Political Weekly, Sept. 29, 1990 (pp A95-A104) has expressed his views on one of the most ambitious poverty alleviation programmes of Government of India, targeted for the people living below the poverty line (BPL) in villages. This programme was mainly for the borrowers to come above the BPL income level. The researcher has not gone into the nitty-gritty of the implementation of the programme, but has tried to find out what the central question are about IRDP, whether this programme has reached the poor for the purpose it was formulated and to what extent it has helped in enhancing living conditions of the rural poor. The author has done indepth study of the
implementation of the scheme in Palanpur and some villages in Gujarat and West Bengal. His findings are as under:

a. Criteria of eligibility for loan was observed to be violated everywhere i.e. whether it was Gujarat or West Bengal.
b. The implementing agencies i.e. Gram Sabha and Gram Sevaks, were found to be using deterring tactics for the needy poor, in identification of borrowers, selecting the borrowers, loan disbursements as well as choosing the assets.
c. In number of cases it was found out that the lists of eligible households were prepared after loans were allocated to the needy poor, which actually should have been vice-a-versa.
d. In Palanpur and Bhiloda districts, the reluctance of bank managers to lend to the poor was a major aspect of operation of IRDP.
e. In Raipur district, political parties influenced distribution of loans.

The author has expressed that the process of judging the income level, before granting the loan and after granting the loan was full of faults and hence it was not clear whether the identification of borrowers was proper and if they were really pulled above the BPL income level

Dr. S.N. Bansal and Dr. V.K. Agarwal (1991) feel in their article “Why World Bank is Against Priority Sector Lending” that recovery of loans is
also an import factor while lending. Lending to rural masses is not going
to deliver the goods if it is not accompanied by an equally efficient fast
pace of recovery in the country. Our lending and recovery ratio is quite
adverse. They have further stated that the policy of government waiving
of loans will refrain the borrowers from repaying the loans. Ultimately
such policy is going to affect the economic progress.

Lending has to be properly reciprocated by recovery. Waiver of loans on
the part of Government will definitely affect economic progress of the
country.

Mr. N.S. Toor has commented in his article in Financial Express of 6th April
1994 (page 4) “Why Banks are reluctant to finance Poor”. He has cited certain
reasons for accounts turning Non Performing Assets, as poor identification of
borrowers, integrity of the borrowers, determination of loan requirement or
arriving at the proper need of the borrower and also reluctance on the part of the
District Industries Centre to help recovery. All these have resulted in increasing
Non Performing Assets in Government Sponsored Schemes.

The DIC feels, it is just a sponsoring agency and recovery shall be dealt with only
by the banks. They have no role to play in it.
A.R. Patel (1996) stated that the Government shall help commercial banks in implementation and monitoring of schemes for the development of rural areas. The Govt. shall also help banks in recoveries which will reduce overdue in future. Such state participation will help in credit disbursal and recovery system.

Active participation on the part of the Govt. in recovery of loans will help in decreasing over dues.

Jongsoo Lee, in his article “The crisis of Non Performing Loans: A crisis for the Japanese financial system” which appeared in The Pacific Review’s 1st issue of 1997 says that reasons for the rise in Non Performing Loans is due to inefficient control of the Ministry of Finance over the Japanese Financial Sector. However, the phenomenal rise in Non Performing Assets should not be studied in isolation from the rest of the Japanese economy.

NPA is an international economic concern and can never be studied in isolation as numerous factors are responsible for its emergence and growth.
Varghese K. John and Dr. C.V. Jayamani (1997) in their micro level study on Govt. Schemes, i.e. Prime Minister’s Rozgar Yojana, have revealed that the procedure and formalities in sanctioning the loans under Govt. scheme are too lengthy and time consuming. These tardy and sluggish procedures and time consuming procedures are the major irritants in implementation of the scheme. The procedures are duplicate in nature and unnecessarily delay the sanctioning and further disbursing of the loan.

To eliminate the work of duplication, they have suggested that the feasibility of the unit and capability and eligibility of the borrowers shall be done only by one agency, either by the Dist. Industries Centre or the Banks, as banks are also required to do this work again, once they receive applications from the District Industries Centre after their initial scrutiny and appraisal.

Duplication of work can be avoided by entrusting the work of verifying the paperwork and other formalities only by one agency.

The Reserve Bank of India Report on “Credit Management : An analysis of overdues” June 1997 considers reasons of loans turning bad in many Government Sponsored Programmes i.e.SEEUY (Self Employment for
Educated Unemployed Youths), SEPUP (Self Employment Programme for Urban Poor), JRY (Jawahar Lal Rojgar Yojana), IAY (Indira Awas Yojana). Some of the prominent reasons are given below

a. Insufficient resources for repayment

b. Inability of bankers to access loan requirement of the borrowers

c. Insufficient finance by banks

d. Other indebtedness of the borrower

e. Preference by borrower to pay other loans over bank loans

f. Indirect message sent by politicians that there is rarely any punitive measure if loans are not repaid

g. Assets purchased out of bank finance are misused.

h. Borrower absconding after the disbursal of the loan.

i. Improper feasibility study by the sponsoring agency.

j. No scope for business.

k. Interest of the Govt. Deptt. was to disburse the subsidy rather than recovery of loans.

l. Interference by the politicians

m. Diversion of funds
n. Low supervision and monitoring by the Banks

o. Wrong appraisal of the projects.

p. Inordinate delay in sanctioning loans

q. Inefficient system of control mechanism by banks

r. No experience of borrowers for the business line for which loan was taken

s. Unforeseen developments in the households of the borrowers which compel them to use funds for domestic purposes.

t. Lack of understanding of terms of repayment by the borrowers.

u. High loan instalment.

v. Faulty repayment schedule

w. Inadequate income generation

Nicholas Lardy says in the July August 1998 issue of “Foreign Affairs” published by The Council on Foreign Affairs, “China and the Asian Contagion” that Chinese Banking has avoided the financial crisis, however it has given a high number of bad loans. Non Performing Assets have increased because of Nepotism and the weak banking System.
The Chinese banking system is protected and still suffers from such evils as Nepotism, found elsewhere.

D.P. Sarda (1998) has viewed that the government help by legislative measures is essential to facilitate the faster recovery of loans under Government Sponsored Schemes. He has suggested that the problem relating to over dues and recovery of loans should be discussed in the State Level Bankers Meet and Govt. authorities shall help banks in recovering their dues.

Strict legislation on the part of the Government will facilitate faster recovery of bank loans.

Dr. N.C. Saxena, Former Secretary, Planning Commission mentioned in the website of Planning Commission’s article “Integrated Rural Development Programme” in 1988, that IRDP remained a highly bureaucratic programme. Over investment and recycle of cattle were the usual observed lacunae and if Govt. wants better results, Government should give active support in making recoveries of loan accounts.
Mr. Chandrasekhar, in his article in Financial Express of 21st October 1998 on page 4 “Advances to weaker sections under Govt. Sponsored Schemes” opines that, though credit under Govt. Sponsored Schemes has gone up to 5683 crores in March 1998 from 5084 crores in March 1997, net recovery is not even 20% from the amount demanded. There is a general perception that the loans through Govt. schemes are not to be repaid.

Dr. A.K. Chirappannath observes in his Research thesis submitted to Mahatma Gandhi University, Kottayam, Kerala on 26.6.2000, that Non Performing Assets occur due to inadequate income of the borrower from the financed business, family problems, death of the family member or the borrower and illness and tight repayment Schedule.

Dr. Chirappannath has concentrated more on the individual aspect of the borrower. He has taken into consideration only the borrower’s aspect whereas two more crucial aspects i.e. Govt. Agencies and Banks were overlooked by him.
M/S B.C. Misra, G.C. Kar and S.N. Saxena mention in their article “Agro. Industries and Economic Development” presented by them in a National Seminar held in New Delhi on 21.2.2000 that Small Scale Industries have helped in generating employment and local use of resources. However these SSIs need Government assistance and Timely Finance, otherwise they become Non Performing Assets.

Governments have been supporting these small businesses through various schemes e.g. IRDP, PMRY etc. There are soft loan schemes through which, loans on liberal terms are available.

Mr. T. D. Janardhan Rao commented as quoted by Financial Express of October 3, 2000 in Vijaywada, who was reelected as President of the National Co-operative Agriculture and Rural Development Bank’s Federation, that the Committee, constituted under the chairmanship of Reserve bank of India’s Dy. Governor Jagdish Kapoor to work out the modalities, had concurred with the NCARDBF’s view that the NPAs of the co-operative banks were the result of loans given to government sponsored schemes at government regulated interest rates. These rates were shrinking spread of the co-operative banks, resulting it in to a loss making business. Co-op banks pay high interest on deposits but income on advances is regulated by Govt. which narrows profitability
Mr. Jagdish Capoor, Dy. Governor of Reserve Bank of India, expressed as per a news item in Financial Express of 3rd October 2000 that high Non Performing Assets in Government Sponsored loan schemes are due to political interference. It is the politicians, who have polluted the minds of the borrowers against payment of the loans back to the banks. He further stressed that the sponsoring authorities require to be more careful in borrower selection. This is a generally observed charge against the sponsoring agencies of Govt. sponsored schemes that they lack professionalism.

Mr. Vijay Mahurkar, in his article “Licence to Loot” which appeared in India Today of July 30/2001 says that the main reasons for accounts becoming bad are improper scrutiny of applications of beneficiaries and paying no heed to the feasibility of the business.

It seems that every agency, involved in financing the targeted group, works without any coordination with others.

Mr. Subhas Kundu from Nalasar University of Law, Hyderabad, in their website www.legalserviceindia.com, in 2001 says in his article “NPA in
Asian Countries” that loans to weaker sections are highly politicized. In the case of China, Entrepreneurs wait for a Govt. bail out. Courts are not reliable enforcement vehicles. In the case of Korea, he says that lack of monitoring, dependence on collaterals, no attention being paid to earning capacity and cash flows are turning accounts bad. In the case of Pakistan, he observes that poor entrepreneurship and corrupt Govt. officials are the main reasons for accounts turning bad.

In the case of Japan, his opinion says that weak governance, diversion of funds and recession are the main reasons for accounts turning NPA. In short, the virus of NPA has affected all the countries and the reasons are more or less the same everywhere.

Dr. E. Karuppaian, Principal Investigator, Deptt. of Economics says in his paper “Rural Development Programmes and Eies: A study of seven villages in Tamilnadu, India” submitted to the Annamalai University, Tamilnadu (July 2002) that for a sustained growth village level programmes are a must. He had studied seven programmes for the poor viz. Swarnajayanthi Gram Swarozgar Yojana (SGSY), Jawahar Gram Samridhi Yojana (JGSY), Employment Assurance Scheme (EAS), Rural Housing Scheme, Rural Sanitation Programme, Biogas and
Chulas Yojana, Member of Parliament Local Area Development Scheme (MPLADS) and Anna Renaissance Scheme. His conclusions are

a. All programmes, though complementary to each other, were run separately, keeping in mind the targets set for achieving them as the chief factor.

b. Discouraging attitude of the bankers posed a great hurdle in implementation of the programmes to the intermediaries and borrowers.

c. Lack of skill of the borrowers to use the local resources to make the product.

d. Problem of marketing for the products produced.

e. Inadequate training

f. Questionable functioning of the NGOs.

g. The quality of the assets created was found to be questionable.

h. Improper maintenance of the assets created out of bank funds.

i. Non availability of raw material for the assets financed by the Govt. e.g. Bio-gas plants.

Mr. S. D. Naik, expressed his views in his article “NPA Ordinance – Empowering the financial sector” published in the Business Line on 7th August 2002, of
Financial Daily from the Hindu Group of Publications that the finance Minister required to be complimented for introducing the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Bill in the Lok Sabha. He said that Rs. 83000 NPAs in the banking sector is a loot. He further stated that SICA Act and BIFR have proved to be ineffective by providing shelter to the loan defaulters. Bad management and poor corporate governance are to be blamed for increasing Non performing Assets. He felt an urgent need to create an array of liquidators, receivers, seizing and securitising agencies, legal experts and industry specialists. It has been observed that for delaying repayment of bank loans defaulting borrowers are taking shelter of SICA Act and BIFR.

Prof. He Dong, in his research paper “Resolving Non-Performing Assets of the Indian Banking System” submitted to International Monetary Fund, in Sept. 2002, says that reasons for low credit quality in Indian Public Sector Banks are poor credit analysis skills, lending decisions, external shocks i.e. unexpected slowdown in economic activities, shortcomings in the legal and judicial system etc. The researcher has studied the problem on a macro level. He has suggested the establishment of Asset Management Company in Section A, whereas in section B he deals with the nature of NPA problem in public sector banks. In 1994 NPAs were about 25% which was brought down to 12.5% in 2000-01 to the net credit.
He observes the drop in NPA is because of rapid growth in credit volume rather than decrease in the level of NPAs. The number of NPA accounts are also understated due to the fact that the loan classification standard in Indian is less stringent.

**Table No. 2.1**
Classification of NPAs of Public Sector Banks as of end March

<table>
<thead>
<tr>
<th>Year</th>
<th>Sub-Std.</th>
<th>Doubtful</th>
<th>Loss</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>28.5%</td>
<td>59.8%</td>
<td>11.7%</td>
<td>100</td>
</tr>
<tr>
<td>1998</td>
<td>31.7%</td>
<td>56.5%</td>
<td>11.8%</td>
<td>100</td>
</tr>
<tr>
<td>1999</td>
<td>30.8%</td>
<td>56.6%</td>
<td>12.6%</td>
<td>100</td>
</tr>
<tr>
<td>2000</td>
<td>30.7%</td>
<td>57.1%</td>
<td>12.1%</td>
<td>100</td>
</tr>
<tr>
<td>2001</td>
<td>26.6%</td>
<td>61.3%</td>
<td>12.1%</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India, various issues

The author further states that the ratio of NPA was also found to be uneven e.g. 18.3% for Dena Bank, whereas 2% for Corp. Bank as of March 2001. The researcher further says that NPAs have direct effect on the economy as they are required to be recapitalized by the Government because of the credit losses, the NPAs represent a source of quail-fiscal liabilities.
The 84th Report on implementation of the Prime Minister’s Rojgar Yojana, in Andhra Pradesh, Kerala and Karnataka prepared by the Deptt. Related Parliamentary Standing Committee on Industry and presented to the Chairman, Rajya Sabha and Loksabha on 11th December 2002, stated the reasons of high Non Performing Assets. The report has cited the following reasons:

a. Informing targets to the banks very late
b. Uneven flow of applications throughout the year.
c. Beneficiaries faced marketing problems to their products.
d. Entrepreneurs were found to be absconding.
e. Shops of the borrowers, to whom finance was made, were found to be closed.
f. Bankers did not allow change in site of the borrower’s business.
g. Repeated activities without bothering about the viability of the project resulted in saturation in that particular belt.

Govt. of India has taken steps to do away with these problems e.g. State level marketing federations, criminal cases against willful defaulters etc.

Dr. Samual has expressed in his article “Concern over Bank’s NPAs in Jharkhand” which appeared in Financial Daily from Hindu Group of Publications on 23rd March 2003 that the Non Performing Assets required to be
reduced to at par with industry level. He further stressed that the banks were not enthusiastic to give loans due to poor recovery in Govt. Schemes because of various reasons.

In Priority Sector advances, after agriculture, loans through Govt. schemes constitute major portion of NPAs.

Dr. L. Reddeppa conducted a study in Andhra Pradesh. He expressed in Indian Economic Panorama, New Delhi, July Issue of 2003 in his article “A study of PMRY Scheme in Andhra Pradesh, in Govt. Sponsored Schemes” that the main reasons of accounts becoming Non Performing Assets were, Units not started, Funds were diversified by the borrowers, Units were closed after availing the loans and the income generated from the business was not enough to repay loans and in many cases the default had occurred because of the borrower’s unwillingness to pay the loans. This study conducted in five districts of Andhra Pradesh show Stock reasons for the default.

Piyush Pande in his paper published in Business Standard of 12th Nov. 2003 “PMRY Loans see over 50% default” says that Govt. is stressing speedy disposal of cases whereas in Gujarat state the target in 2003/04 was of 13000
cases, but cases sanctioned were only 936. He has given the following figures of two Bank

### Table No. 2.2

PMRY status in BOB & SBI 2003/04

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>BOB</td>
<td>4500</td>
<td>1658</td>
<td>17.15 cr.</td>
<td>1000</td>
<td>6.00 cr.</td>
</tr>
<tr>
<td>SBI</td>
<td>781</td>
<td>535</td>
<td>1.94 cr.</td>
<td>400</td>
<td>.70 cr.</td>
</tr>
</tbody>
</table>

He comments that the banks are required to rescrutinise all the applications received by them. They cannot rely on the scrutiny done by District Industries Centres. Recovery rate is around 50%. Even after giving grace a period to the borrowers, no recovery is forthcoming. The reasons given by him are

- a. Borrowers in-experienced in the line of business chosen by them.
- b. Untrained borrowers.
- c. Lack of doing the project on the part of the borrowers
- d. Only motive to avail Government subsidy.
- e. Projects found to be unviable.
- f. Improper scrutiny of the applications by District Industries Centres.
- g. Duplication of work – leading to unnecessary time wastage
Inst. Of Small Enterprise Development (ISED) conducted a study on Jan. 9/2004 on “Understanding Informalism: A study on the Industrial Backwardness of Kerala” in Kerala State, which was Published in Business Line, to find out why Kerala State remains hostile to entrepreneurship. The Director Dr. P.M. Mathew observed that Kerala requires an entrepreneurial movement to lift the state from its current state of industrial backwardness. It required a critical minimum effort of HRD interventions and support services geared to private sector development. The study found that there were systemic forces in Kerala which prevented any form of organized industrial activity.

Govt. of India introduced SEEUY in 1983-84. In 1993 another programme was launched by Govt. of India i.e. PMRY. SEEUY was merged into PMRY in 1994-95. The primary objective was to encourage educated unemployed youths to start businesses in Industry, Service and Business. While, in most of the country the programme was supported by the states, the response from Kerala state was to the contrary. The study of ISED brought the following points

a. Implementing agencies lacked insight into theoretical and practical logic.
b. The beneficiaries on the other hand felt that the Govt. Programme was chiefly a source of money, to meet their daily needs.

c. Banks after disbursement of loan termed the borrower as a “successful entrepreneur,” in fact, he was not.

d. These types of programmes were found to be mostly “fund driven”. The funding agencies found to be least bothered about the relevance of such programmes.

e. Dr. Mathew also reported that there was no trust and co-ordination between the borrower and government agencies.

Prof. C.V. Krishna, Asstt. Prof. & Research Associate from Dhruva College of Management, Kachiguad, Hyderabad in his article “Causes for Non Performing Assets in Public Sector Banks” dt. Feb. 4/2004 has mentioned various reasons/causes for assets becoming NPA, which he has segregated in three categories, which are as under

A….. Causes attributable to the Borrower

a. Failure to bring in required margin as project too ambitious.

b. Indulging in unwarranted expenses and overtrading.

c. Improper planning and inventory imbalance.

d. Mismanagement, funds diversion and lack of expertise
e. Longer gestation period and lack of quality control
f. Working capital mismanagement and heavy outside borrowings

B..... Causes attributable to the Banks

a. Wrong selection of the borrower and poor credit appraisal
b. Low recovery efforts and lack of supervision
c. Rigid attitude and overloaded system
d. Non inspection of the units and lack of motivation
e. Delayed sanction of loans and untrained staff
f. Improper delegation of authority and no will to perform duty

C..... Other Causes

a. Lack of infrastructure
b. Changing technology and fashion
c. Indifferent Govt. agencies and faulty govt. policies
d. Political hindrance and sluggish legal system
e. Increase in material cost and marketing problems

In Rajyasabha an Unstarred Question No. 1274 was asked by Mr. V.P. Goyal on 7.3.2004 that “If NPAs are increasing in Banks and what were
the reasons thereof”. He was informed by the Committee on Commerce that Non Performing Assets were increasing in absolute terms and reasons for this increase were deficient credit appraisal, slack credit supervision, diversion of funds and inefficient management of the unit financed. The concerned ministry has however, not mentioned any shortcoming on the part of the DIC.

Gilory Rozario in his doctoral thesis titled “An evaluation study of Prime Minister’s Rojgar Yojana in Kerala state”, prepared in March 2004 and submitted to Mahatma Gandhi University for Doctoral Research has given the following reasons for the account becoming NPA:

h. Borrowers were selected unscientifically

i. Undue delay caused in making full/partial disbursement in loans.

j. Unscientifically decided loan amount and which turned to be insufficient.

k. Improper or lack of supervision on the borrower’s business

l. Follow up on the part of the bank was poor

m. The borrowers diverted funds

n. Income generation was very low

This study has looked into the problem of NPA in Govt. Schemes in totality.
V.K. Ramchandran and Madhur Swaminathan (IIM Kolkata) say in their research paper “Financial Liberalisation and Rural Banking in India” presented at International Conference on The Agrarian Constraint & Poverty Reduction: Macroeconomic lessons for Africa, organized by IDEAs at Addis Ababa between 17 & 19th Dec. 2004 that there are four major problems of the supply of credit to the countryside. They are inadequate formal credit supply to the countryside, inadequate and imperfect market, formal credit not reaching the financially weaker sections and casts and genders and lastly, due to these factors, private money lending is rampant, at an exorbitant rate of interest.

Post nationalization saw an array of social schemes like IRDP, DRI, SEEUY, SEPUP, DWCRA. IRDP was infested with so many problems like low finance, high initial cost, improper identification of borrowers, low quality assets, faulty support services of the involved agencies etc.

Post liberalization witnessed a retreat of the earlier programmes and one approach for micro credit was adopted where the costs of appraisal and administration were passed on to the NGOs and SHGs. The rates of interests charged by NGOs were found to be quite on the higher side, in some cases to the tune of 60% p.a. The cost of finance through the
organized sector is quite on the lower side. Microfinance is for small borrowers and for the borrowers with larger appetite, still the money lender is a prime source, which was observed in Jharkhand, West Bengal, Haryana, where a phenomenal rise of private moneylenders, working full time or part time, was witnessed.

Stephen Haber, in his article “Mexican Experiment with Bank Privatisation and Liberalisation 1991-2003” which appeared in the Journal of Banking and Finance, US March 2005, says that in the first phase of reforms in 1991-1996, privatization had led to reckless lending which ended up in the collapse of the Banking System. In the second phase of reforms in 1997-2003, banks behaved prudently but did not finance weaker sections of the society for fear of NPA. Privatisation speaks of Profitability. The banks in the first phase went into uncontrolled credit for enormous profit, whereas in the second phase they were too cautious, when profitability dipped.

S.P. Shukla, Amiya Bagchi, Prabhat Patnaik, S.L. Shetty, Mujumdar, Thingalaya, Chandrasekhar and Khanna say in their paper “Independent Commission on Banking and Financial Policy” (April 2005 pp 32-41) that post nationalization, commercial banks were required to go through a
series of transitional phases. The same situation arose when reforms were introduced in 1991. The authors have taken an empirical view of whole banking system in India. They say that

a. In the Indian scenario, social banking is a need and no government can just remain aloof to it.

b. In spite of the restructuring of the banking system, improvement in NPA was not as substantial as claimed. The figures are more superficial than real.

c. In the case of social banking some NPAs are inevitable and shall be funded by the Government.

d. There is no penalizing system in Indian banking for willful defaults.

e. NPA recovery has been hindered by the political forces.

f. Legal measures e.g. DRT and Securitisation Bill, do not differentiate between a willful defaulter and an honest defaulter

g. Slow legal system and procedures were incapable of bringing any change in NPAs.

Prof. Daya Shankar, Prof. Harminder Singh and Prof. M. Wadul say in their research paper titled “A comprehensive study of Banking in China
and India, Non Performing Loans and Level Playing Field’ 2006 that some of the basic differences between these two countries need to be considered and they were cultural differences and the speed at which reforms were introduced in India.

The authors have mentioned that bailout for Non Performing Loans is a contentious issue. In the case the of S & L crisis in USA, Akerlof (1993) called it a looting. Similar views were expressed in India by Naik (2002) in the case of Indian Banks. Such bailout policies, the author feels, bring the issue of government intervention and moral hazard. Such bailouts create moral hazard and encourage banks to take excessive risks.

While discussing the bailout policy of Chinese banks, Mundaca and Qui Feng (2005) expressed that the factor which is at risk is the solvency of the entire banking system. Risk, return, capital adequacy, mean nothing for the Chinese banking industry. Fund injecting by both the Governments, in the banking industry, has been common to enhance the depositor’s confidence.
Mr. B. Satishkumar a faculty member from Jankiammal College of Engg. & Technology, in his article “NPA in Indian Banks, In the case of China, Entrepreneurs wait for Govt. a bail out” July 2007 has taken into consideration various aspects which he has divided into two groups i.e. Increment component and Overhand components. He says that courts are not reliable enforcement vehicles. There are two components. First the overhand component i.e. business cycle and political environment and in the case of the second, Increment Component bank policy, no need based finance and faulty appraisal are the reasons of NPA. Mr. Satish kumar has studied the problem of NPA from externally and internally.

Anurag in his article “Causes for Non Performing Assets in Public Bank” published on website www.123eng.com/forum/viewpoint.php in March 2007 says that Non Performing Assets are increasing in absolute terms and the reasons are deficient credit appraisal, slack credit supervision, diversion of funds, and inefficient management of the unit financed. The article takes into consideration internal and external factors.

Editorial of Business Standard on 28.4.2007 titled as “NPAs of Public Sector Banks” says that Non Performing Assets are rising due to target based credit
distributing system in Government Schemes. For achieving targets, ineligible borrowers are selected which leads to increase in NPAs

Dr. Rashmi Agarwal in her research paper “Self Employment among women – experience from PMRY”, in the evaluation of PMRY 3rd Round Research Paper Series No. 1/2007, organized by Inst. Of Applied Manpower Research, has studied the problem from gender perspective. She feels that self-employment provides one to implement his creative thinking, instincts and innovative capabilities. In her paper she has pointed low participation of women in the programme and various reasons for the failure rate of business propositions. Her study shows that only 13% beneficiaries in three years covered by her study (1998-99 to 2000-01) were women. The following table perhaps proves her point.

**Table No. 2.3**

State wise participation of women in PMRY to total applications

<table>
<thead>
<tr>
<th>State</th>
<th>Applications Recd.</th>
<th>App. Recommended</th>
<th>App. Sanctioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arunachal Pradesh</td>
<td>26.1</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Gujarat</td>
<td>12.8</td>
<td>15.5</td>
<td>13.7</td>
</tr>
<tr>
<td>Karnataka</td>
<td>14.0</td>
<td>15.3</td>
<td>14.9</td>
</tr>
<tr>
<td>Sikkim</td>
<td>26.9</td>
<td>26.2</td>
<td>25.0</td>
</tr>
<tr>
<td>Utter Pradesh</td>
<td>12.2</td>
<td>11.4</td>
<td>11.3</td>
</tr>
</tbody>
</table>
Women generally undertook activities in agriculture and allied activities, diary, grocery and general stores, computer related work, sales and retail shop, garment, tailoring, Xerox and STD booths, knitting & embroidery, beauty parlours etc. It was observed that the women generally started projects soon but the rate of subsequent mortality was very high due to

a. tough competition in market,

b. inadequate skills,

c. inadequate finance,

d. domestic problems,

e. sickness and marriages.

In the minutes of State Level Banker’s Committee, held on 28th June 2007, at Bhopal, at the instance of Lead Bank, Central Bank of India’s Zonal Office, it was stated that the Non Performing Asset level was highest in Prime Minister’s Rojgar Yojana (29%) and other State sponsored schemes i.e. SJSRY (24%), SGSY (14%). The reasons identified were as under

a. Poor identification of borrowers

b. poor recovery efforts by the concerned i.e. bank and government agencies.
c. Banks reluctance to write off cases which were eligible

d. No acquisition of physical possession of securities.

It was further stated that due to low recovery, targets of the banks were reduced.

Dr. K.C. Chakraborthy; Chairman of Punjab National Bank, on 30.5.2008, in his article titled as “Failure of Govt. Sponsored Schemes” of Business Standard says that Poor Recovery in Government Sponsored Schemes makes banks wary of giving away these loans and State Government should help banks in recovering dues in PMRY Scheme.

Bankers are held responsible for poor recovery in these Schemes, whereas DIC feels its role gets over after sponsoring the applications to the Banks.

Hua Shen, Peking University & Hubei University & Adrian Zidarman, Barcllan University, IZA says in his discussion paper No. 3588/July 2008, titled “Student Loans Repayment and Recovery: International Comparisons that student loan schemes are in operation in over 70 countries. These loans have in-built subsidy. The author has studied in his paper two main aspects i.e. repayment by the students and expected
repayment received by the lending body. All students loan schemes differ in their underlying objectives, however one factor is common i.e. they are highly subsidized. These subsidies may be direct or indirect i.e. through subsidised interest rates and repayment in longer periods etc. In the following table he has shown the maximum hidden grant given by different governments and the maximum repayment ratio available in some prominent countries.

Table No. 2.4

Maximum Hidden Grant and Maximum Repayment Ratio in countries

<table>
<thead>
<tr>
<th>Loan Programme</th>
<th>Max. Hidden Grant</th>
<th>Loan Programme</th>
<th>Max. Repayment Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe - Russia</td>
<td>88.27%</td>
<td>Czech Republic</td>
<td>108.37%</td>
</tr>
<tr>
<td>Asia - Indonesia</td>
<td>72.44%</td>
<td>Taiwan - China</td>
<td>86.60%</td>
</tr>
<tr>
<td>India</td>
<td>19.77%</td>
<td>India</td>
<td>80.23%</td>
</tr>
<tr>
<td>Australia-Newzealand</td>
<td>41.12%</td>
<td>Australia</td>
<td>74.30%</td>
</tr>
<tr>
<td>Australia - Jamaica</td>
<td>52.45%</td>
<td>Canada</td>
<td>99.04%</td>
</tr>
<tr>
<td>Africa - Nigeria</td>
<td>89.12%</td>
<td>Namibia</td>
<td>99.79%</td>
</tr>
</tbody>
</table>

He has further stated the following recovery ratio of default in different countries

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Recovery Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>Norway</td>
<td>56.23%</td>
</tr>
<tr>
<td>Asia</td>
<td>Japan</td>
<td>78.20%</td>
</tr>
</tbody>
</table>
Africa - (Mauritius) … 56.07%
USA – USDL … 78.66%

In all the above four countries, recovery was less than 50% in Government Subsidized educational loans. In none of the cases recovery was more than 60%. In most cases Government suffered heavy losses. The reasons vary from income generation to the willful default, non availability of guarantor, non availability of a job or non repayment as a socially acceptable norm.

Mr. Narsimham has mentioned in an article, appeared in Business Standard of 22nd January 2009, “Non Performing Assets of Public Sector Banks” that reasons for Non Performing Assets are Politics and Unprofessional way adopted by Government of India of holding loan melas which tend to faulty selection of borrowers and faulty credit appraisal turning credit made, in to NPA.

Banks were nationalised by keeping a political goal in mind. Therefore, there is no wonder, Govt. resorted to an unprofessional way in organizing Loan melas in late 90s. Perhaps loan melas have become one of the socially acceptable banking norm. Bankers compete with each other to showcase their efforts in alleviating poverty from India by financing through government schemes.
2.1 Summary of Literature Review

The Literature Review gives an insight in the subject matter of the research; rather it allows the researcher to have a bird’s eye view of the subject under research. The literature review, mentioned above reveals that Bad Loans (which are termed NPAs) or unrecoverable loans given under Government Sponsored Schemes are the outcome of different reasons. These reasons can be categorized into three areas:

2.1.1 Reasons attributable to the District Industries Centre/Govt. agencies

1. Improper Scrutiny of the applications
2. Ineligible borrower’s applications being sponsored
3. Late receipt of Targets, sending applications in bulk
4. Unrealistic targets
5. Applications sponsored for saturated business
6. Unscientific way of calculation of requirements of the borrowers
7. Faulty working of TFC and inadequacy of training
8. Unsympathetic approach of the DIC officials
9. Staff shortage
10. No assistance for recovery by DIC/Govt. agencies

2.1.2 Reasons attributable to the Bankers

1. Bankers taking too much time for disbursement
2. Not serious about implementation of the Govt. Schemes
3. Not conducting required inspections (post)

4. Improper/unrealistic calculation of cost of the project.

5. No help for insurance settlement & OTS scheme

6. No filing of criminal cases where misappropriation was identified

7. Bankers not serious in Govt. Schemes

8. No advantage given to eligible borrowers under waiver schemes

9. Unsympathetic approach of bankers towards Govt. Schemes

10. Insufficient Finance

11. Unrealistic and high instalment

12. No working capital or Term Loan finance

2.1.3 Reasons attributable to the borrowers

1. Borrowers insisting for a specific business

2. No skill to do the business

3. Diversion of Funds

4. Willful default

5. Borrowers waiting for Govt. Debt Waiver Scheme

6. Marriage of lady borrowers

7. Borrowers selling assets financed without Bank/DIC consent

8. No market, not paying heed to bank/DIC reminders

9. Borrowers joining some other employment

10. Borrowers not remaining in contact with Bank/DIC
11. Private purposes of borrowers

12. Late receipt of assets, finance, licenses etc.

REFERENCES:


13. Mr. Inderjit Khanna “IRDP credit for Poor: What is the evidence” April/June 1988 Vikalp, New Delhi


17. Prof. Jere Dreze “Poverty in India and the IRDP delusion” Economic & Political Weekly Sept. 29, 1990 pp A95 – A104

19. N.S. Toor “Why Banks are Reluctant to finance Poor” Financial Express 6th April 1994 pp. 4


22. Varghese K. John and Dr. C.V. Jayamani (1997) “Micro level study on Govt. Schemes, i.e. Prime Minister’s Rozgar Yojana


27. Mr. Chandrasekhar “Advances to weaker sections under Govt. Sponsored Schemes” Financial Express, 21/10/1998, pp4

28. Dr. A.K. Chirappannath “Non Performing Assets” Theses to Mahatma Gandhi University, Kottayam Kerala/2.2.2000


32. Mr. Vijay Mahurkar “Licence to Loot” Article India Today July 30/2001

33. Subhash Kundu “NPA in Asian Countries” Malasar University of Law 2001 www.legalserviceindia.com

34. Dr. E. Karuppaiyan, Principal Investigator “Rural Development Programmes and Externalities: A study of seven villages in Tamilnadu India.” Deptt. of Economics, Annamalai University, Tamilnadu, July 2002 (submitted to Planning Commission.
http://planningcommission.nic.in/reports/sereport/set/7vgtntstudy_vgtnt2.pdf


42. Prof. C.V. Krishna “Causes for Non Performing Assets in Public Sector Banks”, Dhruba College of Management, Kachiguda, Hyderabad 4 Feb/2004

43. V.P. Goyal, Rajyasabha “If NPAs are increasing in Banks and what were the reasons thereof” Unanswered Question No. 1274/dt. 7.3.2004


53. 128th SLBC Meeting minutes of SLBC M.P. dt. 28/6/2007 at Bhopal pp.14-16

