CHAPTER - II

REVIEW OF LITERATURE

A critical review of literature in any scientific inquiry is essential to determine the nature, extent and direction of research conducted on different aspects of the problem under investigation. The integrated information, thus, acts as a search light to guide the course of prospective research activities. In view of this, a thorough study of all possible academic and non-academic works in the area of institutional credit and overdues especially in commercial banks have been reviewed for the proposed research work. Various scholars have made an attempt to analyse the impact of institutional rural credit on the socio-economic status of rural masses in India. In these studies an attempt has been made to find out the factors responsible for improper use of commercial bank credit and also analysed the causes for default in repayment of loans. In this chapter, an attempt has been made to present the findings of the researches conducted by the different scholars in the field of institutional credit and rural indebtedness. The object of such review is to know the area of different studies made so far to discover the gap and cavity in this field of research. Owing to much dissimilarity in the nature and scope of earlier studies, the following reviews have been made to formulate the problem and develop the appropriate methodology to study
the factors responsible for overdues in commercial bank functioning in rural areas of Himachal Pradesh.

Penny (1950)\(^1\) opined that in the initial phase of development, the farmer's mentality towards debt is such that the cheap credit is unlikely to be growth impetus. The success of credit depends on the ability and willingness of the farmers to set aside such additional funds to the productive uses out of the villages, in which the study was performed.

Wadia and Joshi (1950)\(^2\) examined the status of farmers and found that there is no disaster greater or more intense than the partial or total failure of crops. In case of rain failure, there is nothing but complete indebtedness in stores. He further noticed that having no additional sources of income, the farmer continues to borrow in and out of the season thinking to alleviate the heavy load of indebtedness. As a result, the increase in the rural indebtedness has been similar to the growing loss of economic equilibrium brought about pressure of population on the land and declined of subsidiary occupation.

Darling (1950)\(^3\) pinpointed that even at present money-lenders are the main support of Indian farmers which is of course not a healthy feature. He further observed that property organized system of land credit must eventually impel the money-lenders from their lost citadel.

I.L.O. (1951)\(^4\) while giving an opinion upon the rural indebtedness stated that if debt of rural population were incurred mainly for the purpose of improving agriculture productivity, the growth and
pervasiveness of rural indebtedness would give no reason for alarm. However, in many countries the heavy rural debts have increased primarily because of borrowing for consumption purposes.

**All India Rural Credit Survey Committee (1951-52)** concluded that indebtedness was higher in case of cultivators than the non-cultivators. About 69.2 per cent of cultivators were in debt. The committee has recommended that the loan should be so fixed as the form an adequate proportion of the cash outlay per acre of crops, wherever appropriate, loans may be disbursed in installments and on easy form. The committee suggested that the State Government should consider the desirability of enacting legislation so as to induce the prompt repayment of crop loans given by cooperative societies.

**U.N.O. (1954)** noted that a critical danger for the farmer is to borrow from private agencies as they may be reduced to the position of 'debt slaves' or even may lose their hand. In such usual situation, money-lenders not only enjoy an opportunity of accumulated wealth, largely through the snowballing of compound interest charges but also get numerous monetary benefits by attaining a complete grasp over the borrower's life.

**FAO (1964)** recommended that Credit should be both in cash and kind. The amount of credit extended to a person must be equal to his needs but not to his status and the repayment period must be related to the farm production plan and potentiality. In natural calamities,
concession must be granted so as not to inflict greater suffering on the farmers. However, the wilful defaulters should be dealt with sternly.

Ghosal (1966) concluded that levy of illegal gratification by the village Patwari and B.D.O. intermingled with extremely inflexible conditions set by the Government, inefficient administration and inelasticity have rendered these loans. He further added that Government loan like co-operative loans are found on investigation to gravitate to the big and large landholders in preference to small or medium farmers as strict adherence is insisted upon collateral security.

Rao (1970) advocated that in order to ensure the sufficient supply of credit to small farmers, existing agencies specialized in farm financing should be required to allot a definite quantum which should be more than proportionate to land held by small farmers in the area concerned. He further added that such credit allocation would also be instrumental in checking the unevenness in income and wealth, which is increasing day by day, amongst size of land holdings.

Mutraiah (1970) investigated the causes of overdues and poor repayment in rice growing regions and observed that the misutilisation of borrowed amount, insufficient finance and consecutive crop failure were the main factors which leads to in a less developed rice region.

Dadhich (1971) has carried out a study to find out the extent of wilful default of co-operative credit in Rajasthan, and its main causes. The analysis is based on the study of 120 defaulters selected from
Quota, Pali and Jodhpur districts. The study brings out that out of 120 defaulters, 23.5 per cent were wilful defaulters. The study reveals that relending, mismanagement, uncertainty and fear about the weak future financial position of the society are the main reasons of wilful default.

Singh and Jha (1971)\textsuperscript{12} in their study observed that however cost of credit does not play a major part, sufficient and timely availability of credit is more important.

Athavale, et al (1971)\textsuperscript{13} have observed that the purpose to which the amount was diverted were purchase of drought animals, redemption of money lender’s debt and purchase of shares. They recommended appointment of supervisors to monitor the proper utilization of loan. They also suggested that the loan should be sanctioned promptly to the applicants.

Desai and Desai (1971)\textsuperscript{14} have advocated that instead of discounting loans to farmers whose repaying capacity is inadequate to repay loans, the credit agencies should assume an unconventional role of a catalytic agent of development. Such role played by the credit agencies would not only improve the repaying capacity of farmers but would also strengthen the production process, besides generating surpluses for further development. The study has recommended disaggregate approach as the basis for formulating credit policies.

Mohanan (1972)\textsuperscript{15} has made a study on cooperative overdues and small farmers. \textsuperscript{6}Nimni Primary Co-operative Credit Society in Sangli
District of Maharashtra has been selected for the study purpose. Assessment of the extent of loan and measurement of relative position of overdues are the major objectives of the study. The study reveals that small farmers are more prompt in settling debts with the society. Big farmers are mostly responsible for mounting overdues of the societies and there should be a provision of the direct legal action against big farmers particularly willful defaulters.

**Nakkiran and Gopalan (1972)** have found that the main reasons for diversion of loans were: (a) No loans were given for domestic purposes; (b) The quantum of loan supplied was inadequate; and (c) Loans were not issued in installments as and when required. They suggested that adequate and timely supply of credit will prevent the borrower from utilizing the Co-operative loan for unproductive purposes.

The study by **Chaudhari, et al (1973)** revealed some of the important economic characteristics of the defaulters vis-à-vis non-defaulter members of the co-operative credit societies in one of the progressive regions of Maharashtra, i.e., River taluka of Jalgaon district. The data indicate that the defaulter members were relatively well off and better placed in respect of land resources, income and expenditure as compared to non-defaulters. In spite of their better financial position they had not repaid the loans of the Co-operatives in time. It is necessary to go into details of the socio-psychological, political or other
economic factors, which might be responsible for non-repayment of loans by the defaulters.

**Singh and Malhotra (1973)** have made a comparative analysis of credit indebtedness among the landless labourers and various categories of farmers in a study conducted in the Ballia district of Uttar Pradesh. It has been found that among the sample households, most of the highly indebted households belong to the landless labourers and the marginal farmers. The study further discloses that the percentage of households indebted decreased with the size of holding. While, the size of debt per households increased with it. For the landless labourers, the village money lenders were the main source of finance. The marginal and small farmers obtained about 80 per cent of their total borrowing from the institutional sources like the government and the co-operatives.

**Ghatak (1976)** found that for the year 1951-52, the family expenditure was the most substantial factor affecting outstanding loans. It alone explained the 77 percent of the variation of the total outstanding loans followed by capital expenditure. During the year 1961-62, capital expenditure became the most influential factor affecting indebtedness and explained 81 per cent variation in the total outstanding loans. Along with family expenditure, it represents 98 percent of the total variation in indebtedness. He further observed that in most of the cases, it was capital expenditure and not family expenditure which was the most significant variation affecting demand side of the credit.
Memoria (1976) noted that the indebtedness of peasantry despite of great improvements in trade, communication, irrigation and maintenance of peace and security has shown increase rather than decrease and it obviously seems contradictory to say that peasants had become prosperous prior to recent depression than before. But as history indicates that indebtedness and prosperity are not essentially inconsistent, the only explanation is that indebtedness till existed in rural India not in stead of these improvements but just because of them.

Mandal (1977) revealed that about 66 per cent families have taken loans from informal personal agency (well-off villagers), about 11 percent families from formal personal agency (businessmen) and remaining about 23 percent families from government agency (Block Development Officers). The villagers first try to clear off debts taken from private sources because of high rate of interest. The study concludes that the villagers are still under the clutches of the local money lenders and Rs. 84.74 percent of the total amount of loan is utilized for unproductive purposes.

Roy (1977) in an attempt concluded that the loans advanced by any of the credit agencies for unproductive purposes causes indebtedness. So the credit institutions must provide the loans for productive purposes so that the loans could return the amount in stipulated time.
Dadhich (1977)\textsuperscript{23} indicated that there is no relation between lending and repayment, volume and borrowing and repayment and literacy and repayment. However he established that borrower with irrigation facility, mainly depending on cultivation, growing cash crops and using chemical fertilizers and belonging to middle class, defaulted less in comparison to other categories of respondents.

Jain & Bisen (1977)\textsuperscript{24} have assessed the utilization and cost of farm credit borrowed from Langi Branch of Balaghat District Cooperative Land Development Bank. They found that the respondents have not utilized the loans for the specific purposes. The study revealed that diversion of loan is very high when the loan disbursed in cash as compared to in kind loan. The main causes of the diversions of loan were lack of supervisions, delayed disbursement and weak financial position of the farmers. The study emphasizes the timely disbursement of loan, granting of consumption loans proper supervision.

Lavania (1977)\textsuperscript{25} concluded that the farmers who acquired medium term and short term credit from commercial banks had higher level of the adoption of improved technology and high yield of major crops. He further stated that the consequences of bank finance on adoption of improved technology for getting higher yield of major crops and net income have been statistically significant. The authors further argued that improved technology tends to higher income and the adoption of new technology was feasible only through credit.
Singh and Singh (1978)\textsuperscript{26} observed that there is a concentration of institutional credit allocation in favour of large farmers when farm population is used as a measure of credit allocation. It was found that institutional credit is evenly distributed among different categories of farmers.

Pandey and Muralidharan (1978)\textsuperscript{27} conducted a study to identify socio-economic factors determining the overdues in the co-operative credit societies and noted that size of loan and consumption expenditure were the major factors affecting the overdues at the farmer's level irrespective of the categories of the farmers. Mostly loans were provided without taking into consideration the repaying capacity of the borrowers and were not properly supervised by the corporation supervisors, resulting in deviation of loan either for items of capital nature or for consumption purposes.

Baluswami (1978)\textsuperscript{28} revealed that urgency of other purposes and inadequate credit were the major factors found for diversion of loan. He also pointed out that diversion was high among the big farmers, high income group and well educated borrowers. The study suggested that lending agencies should take necessary steps to supervise the utilization of loans, appointment of well trained personal to supervise the loans, provisions of adequate and timely credit, provision of consumption loans and loans for other purpose like ceremonies and functions, etc.
Grewal and Rangi (1978)\textsuperscript{29} analysed the scared overdue position (61.8 percent) of co-operative societies in different districts in Punjab and culminate that it is due to the poor management of co-operative societies.

Kamble (1979)\textsuperscript{30} observed that 35.9 percent of the observed that 35.9 percent of the loan was utilized for consumption purposes only in 1968-69. Buddhist spent 5.15 percent of their borrowing on consumption, as against 14.9 percent of Marathas. Apparent poverty of Buddhists compelled them to borrow relatively more amount for consumption than Marathas. Because of poverty undernourishment often causes those diseases and forcing them to spend some amount on treatment which they can hardly bear. Buddhists spent 11.3 percent of their total borrowing on medicines while Marathas managed to spend on medicines and their expenditure on medicines was nil on account of borrowing.

Singh, et al (1979)\textsuperscript{31} in their study observed that the main factors responsible for misutilisation of co-operative credit well inadequate loan amount, from of loan, time lag in disbursement of loan lack of proper supervision and training, illiteracy and ignorance of borrowers. They were of the view that loan amount should be adequate, issued in kind, providing fully in one installment and strict supervision from the side of managing committee of the society to ensure the best and maximum utilization of the cooperative credit available. They also suggested that
the repayment of loans should be in more than one installment in the year.

Elavia (1979) found that by the trend of overdue, position of bank is varying during the period from 1961-62 to 1973-74, still, overdue of 61 percent and demand of 45 percent during the years 1972-73 and 1973-74 respectively are higher than the identical percentages of earlier years. Except for the drought conditions, some other factors like lack of supervision over the overdues of credit and misapplication of loan are found to be accountable for such mounting overdues.

Bangarwa, et al (1979) have conducted a study to examine the constraints in getting, utilization and repayment of loan. They selected sample of 50 farmers from the two villages of district Hisar in Haryana for ultimate analysis. The study exhibits that failure of crops, condition of drought, marriage, medical treatment of ailing family members, birth of child, excessive rains, death of animals are the major reasons for irregularity in repayment.

Singh and Sandhu (1980) estimated the extent of overdue of different categories of farmers such and culminated that 84.17 percent small farmers, 85.29 percent medium farmers and 82.25 percent large farmers are the borrowers and 66.65 percent small, 41.17 percent medium and 29.40 percent large farmers were defaulters. The overdue position per hectare was Rs. 93.00 of small, Rs. 56.88 of small and Rs. 17.27 of larger farmers and thus reveals the negative correlation with the
size of holding. The study further shows that the willful defaulters are mainly large farmers as they do not make the repayment of loan despite of their repaying capacity.

**Panday and Muralidharan (1980)** noted that number of defaulters is higher amongst small and marginal farmers as compared to medium and large farmers, their share in the total amount of overdue is very much less in comparison to medium and large farmers. The study further indicates that most of the defaulters were wilful defaulters (59.63 percent) and generally belong to upper caste and had higher operational holdings, while no wilful defaulter belongs to middle class and are mostly illiterate and had lower size of holdings.

**Sharda (1980)** has brought out that litigations take unduly long-time and even if decrees are granted in favour of banks, these could not be executed; as in many cases land cannot be auctioned and when these could be auctioned, purchasers are not available. As such, it is necessary that either bank should be granted revenue powers, subject to appeals, etc. or the government may consider recovering bank's loan as land revenue from wilful defaulters. Further, even if the borrower repays a substantial amount, he should not be granted loan unless he repays the full amount due.

**Mishra (1981)** have undertook a study on utilization and diversion of farm loans. The study is based on the data collected from 25 borrowers of land development bank. The study reveals that the total
amount diverted is Rs. 16908 accounting for 9.54 percent of the total borrowing. He observed that amount diverted by medium farmers is more than the amount diverted by the big farmers. The main reasons for diversion are clearing old debt, expenditure on ceremonial and other needs. The study suggested strict supervision to check the diversion of loans for unproductive purposes.

Chauhan (1981)\textsuperscript{38} studied the indebtedness among agricultural labourers in Gaziabad district of Uttar Pradesh and exhibited that 58 percent of the sampled households were under debt. Nearly 55 percent of the total debts were owed to professional money-lenders where as the share in the total debt of other non-institutional credit agencies was approximately 25 percent. The rest of the 20 percent was owed to cooperatives. Out of the total debt, 7 percent was taken on 20 to 60 percent rate of interest. Further it was observed that nearly 85 percent of the total debt aroused by the sampled households was for meeting out their consumption needs as well as socio religious commitments.

Rao and Malya (1981)\textsuperscript{39} advocated that there is a negative association between the size of holding d delay in the receipt of loan. The smaller is the size of holding, the longer the waiting time. Similar relationship is found between the number of visits and size of holdings in acquiring the loan from the study under observation.

Mishra (1982)\textsuperscript{40} pinpointed that marginal farmers are wholly victim of money-lenders as 85 percent of the sample household acquired
loan from money-lenders for their routine consumption, household consumption, house construction and marriage etc.

Shankaraiah and Srinivas (1982) have examined the overdues position with an emphasis on its nature and magnitude. The study reveals that continuous drought conditions, failure of crops, conversion of short-term loans into medium term loans, non-repayment of overdues by influential loanees, ineffective performance of employees, lack of proper supervision over the utilization of loans were the main factors responsible for unsatisfactory recover of loans. They pointed out that all the parties concerned should be educated in cooperative principles by organizing seminars, refresher courses, and short-term training programmes.

Kalyankarsh (1983) studied the crop loan overdue status and exhibited that overdue accounted for 55 percent of total outstanding amount. Cropping intensity area under irrigation and proportion of cash crops to total cropped areas were found negatively associated with overdue. A positive relationship between overdues and land holdings and family composition expenditure was established. About 80 percent of the total volume of the overdues were defaulted by the willful defaulters. Lower the size of operational holdings, higher is the possibility of becoming non-willful defaulter.

Parihar and Singh (1983) observed that the debt per indebted family is Rs. 1924.59 in zone I as against Rs. 2235.59 in zone II. They
pointed out that the agricultural labourers have utilized their credit more on unproductive purposes as compared to productive purposes in both the zones.

Raco (1983)\textsuperscript{44} emphasized that majority of the cultivators had very small holdings and the production of their holdings were not sufficient to meet loan obligations in time which leads towards indebtedness.

\textbf{NABARD (1984)}\textsuperscript{45} study on, Seminar on repayment of institutional credit, indicates that the level of overdue was higher for term loans (investment credit) than for short-term credit (crops loans). A significant proportion (30-50 percent) of the default in respect of term loans given by Primary Land Development Banks was over five years old, while in the case of short-term loans borrowed from Primary Agricultural Credit Societies, it was normally less than two years. It is surprising whether the greater and perpetuated default in respect of term loans are associated with the less frequent need for its borrowings. Large farmers defaulted more than small farmers. Persons who make the partial payments and those who defaulted on the whole amount constituted 25 percent and 35 percent respectively of the total borrowers.

Panda (1985)\textsuperscript{46} noted that small farmers have divested less for non-productive purposes as compared to medium and large farmers. The problem of overdues was more serious among medium and large farmers. And they also account for a high proportion of chronic overdues
in each region under study. He further stated that size of loan, utilization of loan for unproductive purposes and repaying capacity were the major factors influencing overdues at the farmer level both in irrigated and non-irrigated regions. The accumulation of overdues on small farmers was due to their lack of repaying capacity whereas the overdue on medium and large farmers were mostly influenced by non-productive use of loans.

**Panny (1985)** studied that diversion of credit was found higher in less developed region among small and large farmers. 16 to 41 percent of the diverted credit was utilized for repayment of old debts. The small and medium farmers diverted the greater proportion of credit for meeting consumption expenses. Where as the large farmers used the loan for education, business and construction.

**Suryanarayana and Chiranjeevulu (1985)** in their study on utilization of farm credit have observed that our of total credit supplied by different agencies only 40.91 percent has been utilized for productive purpose and the remaining 50.09 percent has been diverted for unproductive purpose. They have suggested to supply credit in kind to the maximum extent possible and to supervise the credit in order to reduce diversion.

**Chand and Sidhu (1985)** examined the application of discriminate function in grouping the borrowers of institutional credit into willful and non-willful defaulters. Borrowers with higher size of
operational holdings, lower levels of education, higher capital, higher consumption expenditure and higher ratio of dependents in the family were more liable to willful defaults and vice-versa for non-willful defaulters.

Andy (1985)\textsuperscript{50} in his article has made clear that in order to assure prompt recovery the bank should take into account the problem of the farmers, timely supply of input and credit, flexible lending criteria in times of unexpected events like crop failure, natural calamities, etc.

Ghose (1986)\textsuperscript{51} viewed that extra help should be given to the people living under poverty line so that their standard of living may be raised. He wants reduction of manifold programmes for achieving the goals and thinks that these programmes should be integrated under single authority at the centre and state to the maximum possible extent.

Singh (1986)\textsuperscript{52} revealed that crop failure due to natural calamities, expenditure on social functions, misutilisation of credit, inadequate supervision, lack of strict legal action, defective lending policies and procedures, lack of linking of credit with marketing and political interference were the main factors responsible for overdues. In order to check the overdues the study advocated linking of credit with marketing, instituting crop insurance scheme, stern action against the willful defaulters, reasonable cost of credit, effective supervision, and improving and loaning policies.
Mehta and Prasher (1987) have conducted a study on credit in agriculture to find out the factors responsible for overdues. In all 70 respondents has been selected from Bilaspur district of Himachal Pradesh. They found that unexpected expenditure during repayment period, inadequacy of the loan, higher rate of interest, insufficient returns, crop failures due to droughts, floods etc., wrong fixation of repayment dates, diversion of loans for unproductive purposes were the major factors responsible for overdues. They have suggested that a recovery cell should be instituted by each credit institution for monitoring the recovery process and undertaking suitable follow-up action to arrest further growth of overdues. They strongly advocated the integration of credit and marketing for reducing incidence of overdues.

Mahajan (1987) observed that about 60 percent of sampled beneficiaries are paying the instalments of loan regularly up to the time of survey and nearly 40 percent were defaulters. Some of the defaulters are of the opinion that the income generated by the assets is not enough to make the repayment of loan instalment. Similarly, some of the defaulters indicate that they did not make the repayment of loan instalment as Akalis promised to give up all the loans up to Rs. 5,000 during their election campaign. Thus nearly 44 percent of the landless household and 25 percent of the marginal farmers are found to be defaulters. The repayment position of the beneficiary household was also miserable. It is further examined that 8.33 percent of the beneficiaries
have not repaid even a single installment up to the completion of the field work. Approximately 37 percent of the beneficiaries repay only 20 percent of loan. A majority of the household of beneficiaries have repaid only between 20-50 percent of the total amount of loan. It is further examined that as compared to small and marginal farmers the landless households are more lethargic in repayment of loan.

Kumar (1987)\textsuperscript{55} has conducted a study on institutional financing in Indian agriculture, with special reference to commercial banks. He has suggested that for improving the recovery the overdues should be made recoverable as arrears of land revenue, of special recovery official’s should appointed, state government should intervene in recovering loans and stern legal action should be taken against willful defaultures.

Vashisht (1987)\textsuperscript{56} evaluate the trends and progress of commercial banks in India during the period 1971 to 1983. The ratio analysis is used to evaluate the performance of commercial banks with respect to different indicators. However, overall performance of each bank is assessed with the help of Relative Growth Indices. The analysis revealed that commercial banks did very well with respect to branch expansions, deposit mobilization, credit disbursement and priority sector advances. However, it was observed that banks are plagued with the problem of declining profitability. Indian Overseas Bank secured the top position and Dena Bank was placed at the bottom with respect to overall performance indices.
Saxena (1988)\textsuperscript{57} has inferred that the cumbersome lending policies, the apathy of the management in taking action against recalcitrant members, lack of effective control, lack of proper supervision and incomplete and unauthenticated land record with societies were the major contributory factors for the mounting overdues. He advised that proper atmosphere should be created to impress upon the farmers for timely repayment of their dues. He further suggested that the government under any circumstances should not finance defaulters.

Kamal (1988)\textsuperscript{58} in his study examined that the indebtedness have not only led to land isolation but also have given birth to the Bogaru system. The information of the consequences of the relief from debt actually availed of by the tribals shows that while 85.75 percent of the households are covered by the Agricultural Indebtedness Act 1976. No indebted household actually availed of the relief measures of recovery of debt provided in the Act. He further observed that in spite of the legislative measures, no real benefit is going to the tribal people, and practice of extending the loans to Pangiwalas by unregistered money-lenders continues.

Siddaiah (1988)\textsuperscript{59} found absence of adequate contact with the bank officials, postponement of repayment without any specific cause, failure of schemes, expectations of declaration of a moratorium on the credit raised, insufficient income, reinvestment of surplus funds, unsuitable repayment schedule, celebration of social ceremonies,
 repayment of old debts, etc. were the major factors responsible for the mounting of overdues in commercial banks.

**Samuel (1988)** observed that personal contact, assistance of local leaders, organization of recovery camps, proper follow up, customer’s meet at branch level, remission of interest may be employed to improve the recovery position of the banks. The bank should also refer the long overdue loans to the state government authorities with a request to recover such overdues as arrears of land revenue.

**Singh and Chakarvarty (1988)** examined that the extent of indebtedness among different classes of rural households assets group-wise shows that at national level, nearly 46 percent of cultivators, 46 percent of agriculture labourers, 39 percent of artisans and 32 percent of other non-cultivators are indebted. Moreover, it is important to note that about 63 percent of total outstanding debt was accounted for by 30 percent of rural households with assets of Rs.10,000 and above. They further observed that 70 percent of the rural households with the assets less than Rs.10,000 shared only 37 percent of the total debt.

**Pandey and Guglani (1988)** the trends recovery, and outstanding position of agriculture credit with respect to tribal and non-tribal farmers in Ratu block of Ranchi district and noted that outstanding of agricultural loans advanced by the financial institutions were mounting high year after year in the case of non-tribal farms.
Thakur (1988) observed that the percentage amount of debt burden borrowed from agricultural money-lenders reveals an increasing trend at decreasing rate with an increase in the size of holding i.e. 4.33 percent of the marginal, 3.11 percent of small and 3.20 percent of medium size holdings. The percentage amount of debt burden borrowed from co-operative societies and from banks decreases with an increasing rate as size of holding increases i.e. 1.81, 3.90 and 5.19 percent on marginal, small and medium size of holdings respectively. He further resolved that there is a net increase in the burden of debt borrowed by 2.52 percent in the marginal holdings. This clearly shows that the sampled households have borrowed additional loans from the agricultural money-lenders during the year at higher rate of interest for meeting out their basic needs as well as to make the repayment of loan instalments.

Nigam (1989) reported that the principal reasons for overdues were failure to tie up lending with development programmes, defective loaning policies, apathy and indifference of management of co-operative societies to take coercive measures for recovery, and lack of a sense of discipline and responsibility among the loanees in regard to prompt repayment of debts.

Negi (1989) identified various problems relating to institutional credit, which are mainly, failure on the part of member borrower to make the repayment of loan quickly, inefficient management and inadequate
supervision over the working of primary societies, misapplication of co-operative credit and its deviation from productive to non-productive uses, problems of overdue, forced lending policies implemented merely for achieving statistical targets, insignificant role of land development banks and lack of co-ordination between nationalized banks and co-operative institutions etc. The study resolved that 80 percent of the borrowers have properly utilized the loan for requisite purpose, while the remaining 20 percent had partly used the amount of loan on consumption purposes.

Joshi (1989) discussed the desirable norms and techniques to study the performance of the banks. Prior to nationalization, profit was the sole criterion for evaluating the performance of commercial banks. After nationalization, profitability and social banking became the major objectives of commercial banks and thus any evaluation of banks' performance has to be in relation to these goals.

Singh & Singh (1989) suggested that in order to hasten the pace of recovery, recovery certificates are returned without proper reasons. This should be avoided and implementation of recovery certificates may be deferred only if 25 percent of the dues are paid, recovery certificates should not be kept pending more than two years, filing of recovery certificates should be treated as filling of suit and willful defaulters should be strictly considered.
Balishter (1989) found that the overdues got accumulated year after year in all farm size groups, and out of the total defaulter about 81 percent were willful defaulters. The low crop yield, inadequate availability of loan, low non-farm income, more domestic expenditure, crop failure and delay in disbursal of loan were the main reasons for non-repayment of loan.

Dahiya (1989) assessed the magnitude and causes of agricultural indebtedness. For this purpose 104 farmers were randomly selected for the collection of required data from four selected villages. The study indicates that the level of debt per hectare was highest in the case of small farmers and the lowest in the case of large farmers. A major portion of the total debt was owed to institutional sources. In case of small farmers the diversion of credit from productive purpose was found more. For the indebtedness of people three factors were mainly responsible namely, total amount of borrowed funds, consumption expenditure and diversion of productive credit to unproductive purposes.

Prasad and Roy (1989) observed that only 50 percent of loanees have properly utilized the loan whereas 26 percent of loanees have partially properly utilized the loan and 24 percent of loanees have diverted the loan for unproductive purposes. They have suggested that production assets should be provided in order to check partial utilization and diversion of loan borrowers. They advocated that more attention
should be given on marginal farmers during post-loan phase to check diversion of loan.

Naidu (1989) critically analysed the growth as well as role of banking in rural development in India. It was observed that after nationalisation the banking system made rapid strides in branch expansion, in deposit mobilization and in credit deployment. It was concluded that regional rural banks have done well in achieving their targets in the past years, and have the potential to stand on their own, without any link to sponsor bank.

Ranga (1990) indicated that out of the 192 sample defaulters, 36 percent were willful defaulters. There is a considerable difference in the level of default between various size group of farmers and regions. This prevalence of defaulters is more among grower of food crops rather than non-food crops households. Hardly two-third of the defaulters has agriculture as main occupation. Crop failure and social consumption are the major factors affecting the wrong doing of willful defaulters. Altitudinal factors concerning to the willingness to repay are quite favourable.

Vasudevan (1990) stated that improper assessment before granting the loan, faulty documentation, lack of follow up casual approach in contacting the borrowers, inadequate rapport with agencies like RTO, Insurance Companies, etc., and weak rapport with bank's lawyers were the main causes for poor and no recovery of loans.
Kurien (1990) stated that overdue problem is multifaceted, comprising of social, political, economic, psychological and behavioural aspects. They can be regrouped as exogenous and indigenous factors. The exogenous factors are incompetence among formal lenders and efficiency in functioning. The indigenous factors are defects in agrarian structure, uneconomic farm size and low level of productivity.

Amandeep (1990) evaluated the profits and profitability of nationalized banks and analysed the factors which influence the profitability of banks and suggested that in order to improve the banks’ profitability, the banks need to focus attention on the management of spread, burden, establishment expenses, income and deposit composition. The study indicates that priority sector lending and rural banking do not have an adverse effect on the banks’ profitability to a significant extent. Hence, advances to the priority sector and opening of rural branches may be extended in the larger interest of the society.

Saimwalla (1990) have evaluated the relative performance of the institutional and informal credit institutions and noticed that informal credit agencies depend absolutely on information system while formal institutions depend largely on collateral system. Therefore, they came to the conclusion that indirectly the formal credit system is skewed in favour of large farmers.

Sahoo and Sahoo (1991) conducted a study on management of Co-operative Banks in India and observed that the overdues of the bank
have been mounting. Of the total advances made, 48 percent has been tied up in the form of overdues. Weak educational background and inadequate salary of the society personnel, delayed credit, slow disposal of legal cases, apathy of the managing committee of the societies, absence of direct power with the bank and political interference were the main reasons responsible for such a high degree of overdues. They further revealed that effective supervision, linking of credit with marketing, proper investigation of overdues, speedy disposal of legal cases and launching of special recovery campaign are some of the steps, if taken, will go a long way to improve the recovery performance of the bank.

Patnaik and Mishra (1991)\textsuperscript{78} concluded that the loan should be given after proper financial planning and recovery should be duly made. There should be proper management for timely recovery of loans from the households.

Mohideen (1991)\textsuperscript{79} revealed that crop failure, unremunerative price for agriculture produce, high cost of production, unforeseen expenditures, anticipating total write off were the main factors responsible for overdues. He further advocated that the development of irrigation facilities, remunerative prices for agriculture produce and stern action against wilful defaulters.

Kahlon (1991)\textsuperscript{80} indicated that bank recoveries were more effective in village adopted by the banks in comparison to non adopted
villages. He further suggested that bank follow area planning or adoption approach as a starting point before they get too far in reaching out to the farmers, spread over many areas. This will decrease the lending cost and will encourage easy recovery of loan. He opined that in many cases the default in non-repayment in non-wilful arising from rigid procedures, wrong observation of farmers repaying capacity. He further observed that 22.6 percent of the borrower ascribed the default to unfavorable weather conditions, 50 percent did not signify any reason while 17.1 percent indicates insufficient income generation.

Dharmpalan (1992) recommended that for the better recovery of loans three stages of recovery drive should be there. If the credit was distributed properly and good guidance is provided at the time of lending half of the amount can be collected. While 25 percent could be collected by advising the farmers at the time of selling the crops and rest of 25 percent by personal contacts and legal action.

Anand (1992) studied the economics of priority sector lending and in view of that, he looked into the question whether priority sector advances are the main cause of low profitability of banks or not. He concluded that fixation of concessional rates at very low levels is not advisable as this often leads to the diversion of loans away from agriculture and also causes inflation. However, the analysis revealed that priority sector advances have not been and are not a drag on profitability.
Katula and Gulati (1992)\textsuperscript{83} indicated that the overdue at all India level were 43 percent in 1988-89 in the case of commercial banks while the overdue remains at the same level of 43 percent of primary agricultural co-operative societies and 56 percent in case of primary land development banks. In case of crop loans the overdue was lowest followed by the farm mechanization loans. In Kerla overdue as a proportion to loans outstanding was lowest 16.22 percent followed by Punjab 18.89 percent. In Assam, West Bengal, Tripura and Tamilnadu the overdue was found higher than 30 percent.

Reddy (1993)\textsuperscript{84} noted that relending, diversion, misutilisation, redemption of old debts to other than co-operative banks were the major factors to willful default. The lacks of marketing service, extension service besides prevalence of drought were important ones to non-willful default. He also stated that lending policy procedure, ineffective funds management, ineffective follow-up measures, politically motivated credit movement were also creating problems for recovery of loans. The study suggests that willful default should be arrested by applying coercive measures without any hesitation, because this category of borrowers are doing disservice instead of strengthening the rural credit structure.

Hooda and Turan (1993)\textsuperscript{85} made an attempt to study rural indebtedness in Haryana. The main objectives of the study were to find out the causes of indebtedness among the different castes and size of holdings. It was observed that in both the cases, i.e., caste and size of

78
holdings, higher proportion of non-productive indebtedness were financed by the unorganized sources (private financers) at higher rate of interest in all occupational groups than the organized sources. Among the organized sources, only the Co-operative Banks have made the maximum financing of such indebtedness. The cases of overdues were higher in unorganized sources than those of the organized sources in all occupational groups, except business/service households.

Anand (1994)\textsuperscript{86} emphasised on the agricultural credit and also examined the burden of debt. The credit agencies have given loan to the landless agricultural labourers, small and marginal farmers. The rural area was covered by the Co-operative Societies. He resolved in his study that the burden of debt of each household is to be reduced by providing debt relief under the scheme of 1990. Further he proclaimed that the overdue is caused by default in payment when expenditure is made on non-productive purposes.

Khunt, et al (1994)\textsuperscript{87} took a study to examined the issue like growth in agricultural credit allocation, recovery repayment behaviour and impact of Agricultural and rural debt relief scheme 1990 of Bank of Baroda in Navsari taluka of Valsad district in Gujarat State. An opinion survey was carried out covering 30 respondents selected from the jurisdiction of the selected branches of Bank of Baroda. The study pertained to the year 1992-93. It is confirmed that agricultural and rural debt relief scheme 1990 may intensify the problems of overdues, willful
defaulters, bankruptcy, etc. The scheme may prove a curse rather than a cure for the banking sector.

**Meshram (1995)**\(^8\) indicated that loan taken by sampled households has been found decreasing mainly because of hard terms and conditions of loan as well as non-repayment of loan in proper time. He further observed that all sections of the society are acquainted about all credit facilities being provided by rural credit institution. It is exciting to note that weaker section have also been availing credit facilities being provided by the co-operative banks, co-operative societies, regional rural banks and commercial banks. The study inferred that both literate and illiterate people have been availing credit facilities being provided by the commercial banks, co-operative banks and regional rural banks. The study further exhibits that all sampled households have also been properly utilizing credit facilities for their consumption as well as productive purposes.

**Chabra (1995)**\(^9\) advocated that the debt liability of Himachal Pradesh Government has increased by 136 percent and became Rs.1935 in 1994 against Rs. 820 crores in 1988-89. This has been mentioned in the report of comptroller and Auditor General of India for the year ending March 31, 1994. In the report it has been mentioned that internal debt of the state has gone up due to non-payment of loan and the fresh loan borrowed for the repayment of old debt. As the debt is mostly used for unproductive purposes and due to this the burden of debt increased.
Reddy and Reddy (1995)\textsuperscript{90} observed that defects in the credit organization, misallocation of borrowed funds for ceremonial needs or unforeseen expenditure, willful default, and political interference were main causes of default. The study has suggested for stopping the practices like loans melas, waiving off loans, relief announcements by the political leaders, and stay order on legal process of recovery.

Jodhka (1995)\textsuperscript{91} made an attempt to examine the sociology of informal credit with a explicit focus on understanding the changing structure of informal credit market and the emerging pattern of debt dependencies in the light of (i) the agrarian transformation experienced with the success of the green revolution; and (ii) increasing availability and growing popularity of the institutional sources of credit.

Pathak (1995)\textsuperscript{92} pointed out that the banks have two options viz. to proceed legally or to follow non-legal measures to recover their overdues. The legal measures are time consuming, and do not serve the purpose of timely recycling of funds. Hence, the banks should strengthen their own power, proper negotiation with borrowers and take help from other agencies to effect recovery of overdues.

Reddy (1995)\textsuperscript{93} analysed the effects of socio-economic factors on overdues of co-operative. About 96 defaulters and 48 non-defaulters from 12 PACS of Cuddapah district of Andhra Pradesh have been selected for the study. This study reveals that there is no relationship between overdues and family size or occupation. The study recommends
that prompt repayers must get incentives and legal action against defaulters should be the last resort.

Bali, et al (1996) made an attempt to study the rural indebtedness in Himachal Pradesh and found that state has been divided into three zones on the basis of height consisting low zone (height less than 3,000 feet), middle zone (height between 3,000 to 5,000 feet) and high zone (height above 5,000 feet from mean sea level). They inferred through their study that in case of low zone, overdue period is longest in Mandi district, followed by Hamirpur district with an average overdue period of less than two years. In middle zone highest overdue period is in Shimla district followed by Sirmour and Kullu district, while in case of high zone which consists of Chamba, Lahaul and Spiti and Kinnaur districts average overdue period is rather more than two years. In Lahaul and Spiti district average overdue is highest and lowest in Chamba district. Further they noticed that in all the zones of the state the overdue period has a significant opposite relationship with the size of holdings, purpose of loan, period of loan and loaning agency. This indicates that higher the size of holdings lesser the possibilities of indebtedness. It is also observed that in all the zones loan raised from commercial banks, co-operative societies and land development banks have a longer overdue period while loan raised from friends and relatives have a shorter overdue period, similarly the loan raised for social
ceremonies and construction have shorter overdue period and the loanees paid their dues well in time.

Rangarajan (1996)\(^9^5\) opined that adequate and timely credit at a moderate rate of interest should be made available to large group of rural population as possible. In order to meet the requirement of the different sections the plan of action and the strategy of the credit distribution system should be different when same agencies is required to serve all the segments.

Verma (1997)\(^9^6\) inferred that while providing loans by bank it should be kept in mind that every loan should raise production, create employment opportunities, increase profit and be repaid from the profit generated by it.

Shollapur (1997)\(^9^7\) advised the means to ensure proper use of credit. These were adequate amount of credit, scaling of credit to the price changes, timeliness in disbursement of credit disbursement both in cash and kind and post sanction follow up.

Sidhu, et al (1998)\(^9^8\) resolved that current agricultural planning of increasing production has raised the financial needs of the farmers in the short run as well as in the long run. For meeting these needs, the flow of institutional credit was strengthened by government through various organisations, institutions and sponsored programme etc. As coincidence, institutional agricultural credit increased from Rs. 85.7 crores in 1970-71 to 3,549.9 crores in 1997-98.
Parmod and Sharma (1998)\(^9\) that indebtedness was well reported as a cause of suicide by 18 percent of close relatives of victims as nearly 41 percent of the victims were under debt. He further stated that geo-cultural spread of incidence of suicides in Punjab were clearly reflected in Malwa district particularly the districts of Sangrur, Bathinda, Firozpur, Mansa and Faridkot, and in the border districts of Amritsar and Gurdaspur. In fact the percentage share of six districts of Sangrur, Bathinda, Amritsar, Mansa, Gurdaspur and Firozpur amount to more than 72 percent of the total suicides in Punjab. The percentage share of farmers suicides to the total suicides in the state between 1991-97 was to the extent of 23 percent, while, share of farmers to non-farmers suicides is low in all districts except Sangrur. Though, the suicide rate (i.e. per lakh population) of the farmers are compared with non-farmers has been found very high. The author detected that the deluge of suicides is due to crop damage or crop failure. Most of the suicides victims were from small and marginal farmers and landless agriculture labourers and in the age group of 15-29 years old and are either illiterate or educated up to primary standard.

Kainth (1998)\(^0\) brought out that natural calamities, absence of backward and forward linkages, absence of support facilities in the farm economics, insufficient staff for monitoring and recovering the loans, lack of will in dealing with the wilful defaulters, growing atmosphere of
definance, non-repayment and relaxation and politics of loans were main factors responsible for overdues.

Shergill (1998) examined that total short-term loans taken by the Punjab farmers during the year 1998 amounted to Rs. 3119.33 crores out of which 61.31 percent were advanced by the primary co-operative agriculture societies and only 4.71 percent advanced by the commercial and regional rural banks. Further it is noticed that nearly 34.43 percent of the farmers who have taken short-term crop loan failed to repay the entire amount of loan after harvesting and sale of their crops. He further concluded that 70 percent of the small farmers, 47 percent of the medium farmers, 40 percent of semi-medium and 28.30 percent of a large farmers were not able to make the full repayment of crop loans. 70 percent of the small, semi-medium and large farmers were more dependent on commission for short-term loans; on the other hand (48.67 percent) medium farmers were much less dependent on commission agents for crop loans.

Mazumdar and Baruah (1999) concluded that mass poverty among the farmers, expenditure on social functions, inadequacy of credits, poor supervision and follow up, lack of timely action, lack of coordination among various government departments and financial institutions, and fixation of unrealistic repayment pattern were the major reasons responsible for the indebtedness of the farmers. They have suggested that scale of finance should be revised frequently to
avoid the under financing of the loan, the loan should be disbursed timely and direct payment of subsidies to borrowers should be discouraged.

**Krishanan (2000)** pinpointed that one of the crucial problem is noted as mounting overdue, which has adversely affected the eligibility of borrowers for fresh loans on the one hand and profitability, liquidity, solvency and landing capacity of the bank on the other hand. The recovery percentage in case of ACL and ADL was found to be as low as 24 percent and 37 percent in the year 1990. The author noticed that the main factor for emergence of huge overdue in the rural credit is reported to be the political intervention. So there is strong case for putting an end to all sort of populist measures like waiving of loans, conducting loan melas etc. and thus, isolate the banking sector from all political pressures. For the accumulation of overdue, the negative mentality of borrowers towards the repayment of loans, particularly in case of government sponsored programmes like IRDP is also partially responsible. If borrowers are properly motivated this problem can be easily undertaken. The author noticed that the 68.3 percent of the borrowers has properly utilized the crop loan.

**Kumar and Singh (2000)** identified that the accumulation of overdues with respect to landless labourers was due to low repaying capacity and higher old debts. While, cropping intensity, consumption
expenditure and income from dairying influences the overdues of cultivators.

Patel (2000)\textsuperscript{105} has highlighted the problem of bad loans and growing level of non-performing assets in the commercial banks in the post-reform period. It was observed that it is important for the banks and supervisory authorities to adopt more effective lending practices. At the same time it was also emphasized that corporate entities should be made more accountable through following more stringent disclosure and transparency practices and corporate governance principles. An efficient legal machinery, the large number of Debt Recovery Tribunals and Settlement Advisory Committees and Credit Information Bureau in banks can prove effective in quick recoveries of dues.

Lopoyetum (2000)\textsuperscript{106} has conducted a study to analyse the banking operations and causation factors of overdues. It is emerged from the study that the member borrowers give little attention for repayment of their dues mainly because of (i) Waiver policy and promises made by the state government, (ii) Natural Calamities, (iii) Wilful defaulting nature of the borrowing members. The study has suggested that the bank should institute a loan screening committee to avoid giving loans to wilful defaulters, hence avoid “Creating overdue in the pre-sanction” stage itself.

Verma and Reddy (2000)\textsuperscript{107} outlined the importance of effective recovery in making the credit operations successful. They found that
diversion of credit, failure of crops, unremunerative prices, inadequate income, natural calamities and loan policies were the major factors contributing to poor recovery. The study states that overdues can be minimized if the size of credit was related to production on a scientific basis, loans were effectively supervised and borrowers were approached at right time for repayment.

Viswanath (2001)\textsuperscript{108} made an attempt to analyse the qualitative performance of agricultural credit co-operative in general and their problem of overdues in India and noted that defective agrarian structure with preponderance of small and marginal farmers, misutilization of loans by the borrowers, natural calamities such as droughts, floods, crop epidemics etc. wilful default, inefficient management, defective lending policy, power structure dominated by economically powerful and socially dominant groups in most of credit co-operatives and absence of linking of credit with marketing were the important factors causing increase in overdues in Agricultural Credit Societies. The study suggests that qualified and well paid staff should be appointed, seasonality in disbursement and recovery of loans, coercive action against wilful defaulters and the climate for recovery should not be vitiated by political statements regarding the postponement.

Prakash (2001)\textsuperscript{109} brought out that overpopulation, lop sided economic development, prevailing poverty, ever-increasing high costs of agricultural production, inadequacy of the infrastructure, pressure from
the respective government on the financial institutions to extend credit to the farmers, non-existent supervision on credit and improper linkages of marketing of agricultural produce with credit were the main reasons for growing overdues.

Das (2001)\textsuperscript{110} found that failure of schemes, low earnings, diversion of loan, distant location of bank branches, ignorance of borrowers and wilful default were the main reasons for non-repayment or less repayment. The study suggests that loan should be sanctioned only if the scheme is found to be economically viable after a feasibility survey. He was of the view for conducting a recovery cum awareness campaign to expedite the recovery process.

Mathur (2001)\textsuperscript{111} suggested that the Stage Governments should not make any pronouncements with regards to debt relief, as farmers tend to withhold repayments in the expectation of such relief.

Narayananmoorthy (2001)\textsuperscript{112} studied the incidence as well as extent of indebtedness of agricultural labour households belonging to the scheduled castes. He found that the share of institutional debt in the total debt of scheduled castes agricultural labour households has increased from 5.76 percent in 1974-75 to 30.10 percent in 1993-94 and the share of productive purpose debt to the total debt of the same group has also increased from 8.81 percent to 21.63 percent during the same period. The study reveals that while the incidence of indebtedness of the scheduled castes labour households has declined between 1974-75 and
1993-94 in most of the states. The study further reveals that the extent of indebtedness of agricultural labour households is higher in those states that have higher percentage of landless labour households to the total agricultural labour households and share of productive purpose debt to the total debt.

**Kumar and Thattil (2001)** depicted that only 2/3 among the ‘Kisan Credit Card’ holders in the sample has utilized the credit for agricultural purpose. The 100 respondents have not utilized the credit for agriculture. Urgent need for meeting miscellaneous expenditure, utilization for pending house construction and need for paying other debts were the reasons for not utilizing the amount for agriculture. It is observed in the study that farmers have various problems, which need to be addressed urgently.

**Hosamani (2002)** advocated that the percentage of total overdue to demand of the bank tended to decline in recent years. The duration-wise overdue indicated that only in recent years, the overdue upto one year had increased and on the other hand, the other overdue has decreased. The sector wise overdue analysis disclosed that both agricultural and non-agricultural overdues declined in the recent years. He further inferred that among the variables, the education and income levels were the two important characteristics, which explained the major proportion of variation in identifying the wilful defaulters from the non-wilful defaulters.
Sangwan (2002)\textsuperscript{115} found that the indebtedness in peasants was due to crop failure because of frequent attack of pests and growing problem of salinity and water logging and in case of landless labourer was on account of using loan for meeting various social obligations such as wedding, renovation of house and serious/prolonged illness. It is also found that indebtedness was becoming an individual burden in a nuclear family and the incidence of committing suicide was more in small and marginal farmers.

AERC (2002)\textsuperscript{116} conducted a study on the role of co-operative credit in the development of different size groups of farmers in Gujarat and revealed that about 88.2 percent of total term loan taken was outstanding at the end of the year and the large farm households have greater defaulting ratio. Diversions of loan for unproductive purposes, inadequate instalments, in fructuous investment were the major reasons of defaulting in repayments of term loan. The study suggests that the co-operative societies must undertake certain measures for better recovery such as assessing the recovery potentialities of farmers, interlinking of co-operative credit with co-operative marketing, reduction in rate of interest and strengthening of monitoring system.

Sivaloganathan (2004)\textsuperscript{117} pointed out that weather conditions, and socio-political involvement in which the rural credit institutions functions were the basic causes of overdues. He has suggested that while making pre-lending appraisal, the repaying capacity of the
borrowers should be judged by the employees carefully and employees of the financial institutions should create a good climate of personal touch with the borrowers. The name of borrower should be pasted on the notice board of the institution and at a central place of the village so that the sensitive defaulters may come forward to repay their dues immediately. He suggested that a large number of field staff should be engaged for collection of dues and an incentive scheme for borrowers should be introduced to encourage those who repay their loans in time.
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