CHAPTER - III

NEED, SCOPE, OBJECTIVES AND RESEARCH DESIGN

The previous chapter dealt with the existing studies available on the related topic to explore the existing research gap and to provide valuable information to frame need, scope, objectives of the study and the manner in which the present research work has been executed. The present chapter deals with the need, scope, objectives, tools and devices used for data collection, methods used for analyzing and interpreting the collected data and the manner in which decisions have been made from the analyzed/interpreted data for the present study.

3.1 Need and Significance of the Study

Indian economy is characterized by the rural poverty and backwardness. Himachal Pradesh is a hilly and rural state of the country. About 90 percent population of the state lives in rural areas. Most of the area of the state is economically backward even after 60 years of independence. The economy of the state largely depends on the assistance of the Central Government. Himachal Pradesh is enriched with different kinds of natural resources. But even today 27.62 percent families are living below the poverty line. They are socially as well as economically backward. Therefore, it is necessary to develop these classes by exploiting natural resources properly in the state.

The problem of indebtedness has become more serious with the increasing institutionalization of credit finance. As the modernization
takes place, the subsequent changes in the technology, mode of organization, and the socio-economic environment put ever-increasing demands on borrowed funds in a big way to supplement the owned fund falling short of the rising financial requirements. If borrowed funds are raised in right quantum in accordance with the debt absorption capacity and are used cautiously for the productive purposes, the resultant can be favorable, taken for the simple reason that there utilization is productive.

It is the general impression that the burden of debt especially in the rural areas is getting heavier day by day, because of functioning of multi-agencies in the field of credit finance. Further from the review of literature it is observed that the total debts are increasing regularly and every financing agency has faced the main problem of non-payment of loan instalments. It is also pointed out in these studies that overdue and defaults are the greatest impediments in regulating and expending rural credit, whether private, government, co-operatives or commercial. Therefore, it is important to study the overdue problem of the rural people with the commercial banks.

An attempt has been made through this study to evaluate the performance of financing agencies mainly commercial banks in relation to their recovery procedure which are providing loans to needy persons in rural areas and the causes of indebtedness. Keeping in view the problem of overdues, the need is felt to study the behaviour and attitude of defaulter borrowers that why they are not making the repayment of their bank loan.
What are the causes of non-repayment of loans and who is responsible for this? Whether the recovery procedure is effective or not? Are the rural borrowers deliberately doing so or diverting these loans into non-productive purposes? How the indebtedness or problem of overdues is increasing day by day? Therefore, the need of the time is to monitor the policies and programmes of credit management in commercial banks and the causes of continuous increase of overdue in almost whole rural area of Himachal Pradesh. The present research work is a primary step in this direction, which makes the present study more meaningful.

3.2 Scope of the Study

The present study is confined to investigate the factors responsible for overdues in commercial banks with special reference to rural areas of Himachal Pradesh. The universe of the present study is restricted to three districts namely Hamirpur, Bilaspur and Shimla out of twelve districts in the state. After the social control in the banking system of India, it was observed that adequate institutional credit on reasonable terms can be made available to neglected sectors and weaker sections of the community. Banks, especially commercial banks become vital agencies to resolve a host of rural economic problem but a quite interesting and a debatable feature of them is that the volume of overdues has not been decreased frequently along with the increased quantum of credit. Any financial institution could not hope to recover without providing fresh loans and
improving recovery because financing and recovery are interlinked, interdependent and inseparable.

Himachal Pradesh otherwise provides enough justifications for examining the nature and extent of overdues as well as the magnitude of rural indebtedness. The fast process of development and change in the living standard of the rural people witnessed tremendous increase over a comparatively shorter period is expected to have altered the rural debt scenario so much as to call for an effort to look into the subject afresh. Further the study aimed at to analyze the problem of overdues and to suggest the remedial measures thereof. Endeavour has been made to contact the borrowers personally to know their views about the non-payment of loan installments. Thus in this background, it is important that a comprehensive study for evaluating and investigating the factors responsible for overdues in commercial banks with special reference to rural areas of Himachal Pradesh is required, so that the commercial banks and other lending institutions may make effective planning for the development of the state Himachal Pradesh and the country as well.

3.3 Research Design

3.3.1 Objectives of the Study

The main objectives of the present study are as under:-

1. To examine the policies and programmes of credit management in commercial banks.

2. To analyze the extent of overdues with the commercial banks.
3. To investigate the causes for non-payment of loans by the rural people.

4. To identify the factors causing overdues in commercial banks.

5. To suggest remedial measures to meet the overdues problem.

### 3.3.2 Hypothesis

The term hypothesis is usually defined as a proposition that sets up possible relationship between two or more variables. In order to achieve the aforesaid objectives of the present study, the following hypothesis have been formulated:

1. The bigger the size of the family, the greater is the possibility of indebtedness due to education, medical and other household expenses of the respondent.

2. The relationship between literacy and overdue is converse.

3. In comparison to scheduled caste/scheduled tribe and other backward caste the extent of overdues is less in case of general caste.

4. The greater proportion of productive members to total family members generates more income in the family which result no overdue or less indebtedness.

5. There is a positive relationship between farm-size and overdue as higher land holdings results higher income.
6. Instability in income leads to high probability of overdues and vice-versa.

7. The loan utilized for productive purposes usually causes less or no overdue.

8. Borrowing more loan than one's capacity causes more indebtedness and resultantly increases overdue period.

9. The longer the period of loan, lesser the amount of instalment and more is the probability to repay loan instalments timely or well in time.

3.3.3 Data Collection

The present study is descriptive as well as exploratory in nature. It has been conducted to analyze the extent of overdues with the commercial banks and to identify the factors causing overdues in the rural areas of Himachal Pradesh. In the light of the objectives set forth the information is collected through schedules and interviews with officials of lending commercial banks and the sampled debtors.

However, the required data to fulfill the objectives of the study is collected from both primary as well as secondary sources.

Secondary Data

The secondary data has been used to examine the policies and programmes of credit management and the extent of overdues with the commercial banks in the rural areas. To make the study more relevant
and authentic, various sources have been consulted. Mainly the secondary data have been collected from the following sources:

1. Official records.
2. Government publications.
3. Published books.
4. Journals and articles.
5. H.P. Economic and Statistical Department.
6. Annual reports of banks and other financial institutions.
7. State Institute of Rural Development.

Primary Data

In order to study the general background of borrowers, their views regarding non-payment of loans and their socio-economic status has been collected and used in the present study. The primary data for the study has been collected with the help of personal interviews, pilot survey, personal observations, questionnaire and schedules.

Interviews

First hand information of the borrowers has been collected from bank officials of the lending commercial banks operating in rural areas of Himachal Pradesh.

Pilot Survey

Pilot survey was conducted before collecting the information through schedule. The final schedule was edited in the light of the results of the pilot survey.
Schedule

The schedule has been developed in the light of objectives of the present study and on the basis of the result of pilot survey. The background of the borrowers, living standard, purpose of assistance, utilization of loan and reasons for non-repayment of loans are the important aspects covered in the schedule. The detailed schedule has been appended in the last of the thesis as annexure-I.

Personal Observations

While obtaining the information which could not be obtained through schedule and personal interviews, the same has been obtained by means of personal observation. Moreover, this method is used to study and observe closely the hidden and unexplored aspects related to the objectives of the study.

3.3.4 Sample Design

Multistage sampling or cluster sampling has been used to obtain the required information from the borrowers. There are several stages in which the sampling process is to be carried out. In the first stage, the entire state is divided into four zones on the basis of agro-climatic conditions. Keeping in view the geographical considerations and cropping pattern, all the zones have been covered under the study except cold and dry zone. In every zone one district have been selected randomly. These districts are Shimla in high hill zone, Solan in mid hill and Bilaspur in low hill zone. At the second stage, lead bank of each district has been taken to select ten
branches of different commercial banks operating in rural areas of each sampled district. These branches have been selected for the study on the basis of their performance which has been based on their recovery or overdues position. Further, a quota of ten respondents was fixed for each branch of commercial bank because it was not possible to contact each and every borrower in the operational area of the bank branch. Finally 300 borrowers have been selected randomly, 10 borrowers from each branch consisting defaulters and non-defaulters, who have taken loan/credit before 31st March, 2005 and have not repaid upto 31st March, 2006. A special care has been taken to consider respondents of all categories of borrowers in the sample, which are likely to be more representative to the entire rural areas of the state.

3.3.5 Research Methodology

Consistent with the objectives of the study, different tools and techniques have been used to analyze the data. The collected data have been presented in tabular form and analyzed with the help of following methods.

1. Mathematical tools

2. Statistical tools

**Mathematical Tools**

In the present research work mathematical tools viz. percentage and simple average have been used to analyze the collected data.
**Statistical Tools**

Statistics being an imposing form of mathematics is the aggregate of facts affected to a marked extent by multiplicity of causes, numerically expressed, enumerated or estimated according to a reasonable standard of accuracy, collected in systematic manner for a predetermined purpose and place in relation to each other. In the present study following statistical tools have been used:-

**Weighted Arithmetic Mean**

This tool has been used to find out the average of the opinion of respondents regarding various aspects relating to the loan borrowed and its repayment. It is calculated as:

\[
X_w = \frac{\sum wX}{\sum f}
\]

Where,  
\(X_w\) = Weighted arithmetic mean  
\(X\) = Variables value  
\(W\) = Weight attached to variables value  
\(f\) = Number of variables

**Standard Deviation**

This tool is used to study the variation in the opinion of the respondents regarding different aspects relating to loan borrowed from commercial banks. The standard deviation measures the absolute variability of distribution. The greater the standard deviation, the greater
will be the magnitude of the deviations of the values from their mean or vice-versa. Standard deviation is calculated as:-

\[ \sigma = \frac{\sum x^2}{N} \]

Where, \( \sigma \) = Standard deviation
\( X = (x_i - x) \)
\( N = \) Number of observations

**Chi-square Test**

In the present research work chi-square test is applied to study the relationship between quantitative variables and for analyzing the opinion of the borrowers regarding different factors. This test has been used to study the relationship between demographic variables of respondents and overdue period of the loan borrowed. It describes the magnitude of differences between observed frequencies and expected frequencies under certain hypothesis.

\( \chi^2 \) Test of Goodness of Fit

This test enables us to ascertain how appropriately the theoretical distribution such as Binomial, Poisson, Normal, etc., fit into empirical distribution. It is used to know whether the opinion of the beneficiaries regarding different variables concerning to rural development schemes is equally distributed or not.

The statistic of \( \chi^2 \) is calculated as:

\[ \chi^2 = \sum \frac{(O - E)^2}{E} \]
Where,  

\[ O = \text{Observed frequencies} \]

\[ E = \text{Expected frequencies} \]

\[ \chi^2 = \text{Symbol of chi-square} \]

### 3.4 Limitations of the Study

To know the extent of reliability of the study, it is important to state the limitations under which it has been conducted. The main limitations of the present study are:

1. Some of the respondents during the investigation were found reluctant to disclose the desired information.

2. Sample is selected randomly; therefore, the results are subject to sampling error.

3. Only few commercial banks, branches have been studied to evaluate overdue problem of the borrowers, so the study may suffer from this limitation.

4. The secondary data has been collected from different sources, so the window dressing in the records may suffer the present study.

5. The present study is confined to only a few low hill zone rural areas of Himachal Pradesh. Therefore, variation in topography, climatic conditions, and infrastructural facilities in the state, the result of the study can not be generalized for the state as a whole.