CHAPTER - 2

RELATED LITERATURE: A REVIEW

The purpose of the review is to provide a background to and a justification for the research undertaken. It is an account of what has been published on the topic by accredited scholars and researchers and it discusses published information in a particular subject area and sometimes, within a certain time period. Bruce emphasized that so important is this chapter that its omission represents a void or absence of a major element in research. This chapter is segmented into three parts. The first part deals with the extent of NPAs in different banks, factors responsible for NPAs as indicated by various studies are outlined in the second part and the third part focuses on the management of NPAs.

The present research work is multi-factoral. It purports to analyze the extent of non performing advances in the selected district central cooperative banks of Punjab and perceptions of borrowers and bank officials about non performing advances in cooperative banks. To achieve the objectives of the study, the available literature has been scanned as no research is complete without a scientific analysis of the literature and scholarly works and thereby, cannot contribute significantly towards the promotion of knowledge. Scanning of available literature was done taking the help of abstracts, journals, reviews, books, reports and websites etc. A number of studies have been conducted on this topic in India. In this chapter, an attempt has been made to review the studies conducted on non performing advances to decipher main gaps in literature. After identifying these, specific questions have been raised. It is worth mentioning here that prior to the implementation of NPA norms, the concept of overdues i.e. amount of loans not paid upto the due date, was prevalent.
2.1 EXTENT OF NON PERFORMING ADVANCES

Non performing advances freeze a financial institution’s liquidity, cripple the operations and reduce the flow of credit and as a result the needy resort to usury. The risk involved in financing made Nelson and Murray observe that, “Consideration of repayment aspect of credit deserves more attention than it actually receives”. Various studies have been conducted to analyse the extent and magnitude of NPAs in commercial and cooperative banks. The Banking Commission (1972) estimated that overdues of primary cooperative credit societies at the end of 1969-70 were 37.7 per cent of the outstanding loans. For the country as a whole, 141 central cooperative banks showed overdues ranging between 25 to 50 per cent of the outstanding loans in 1969-70 as against 95 such banks in 1964-65. Regarding overdues in commercial banks, the Commission remarked, “It is too early as yet to say to what extent commercial banks are likely to face this problem”. Mohanum (1972) in his study conducted in Sangli district of Maharashtra revealed that the proportion of overdues increased at a faster rate than the amount of loans supplied by the cooperative institutions to their members during the past five years. Percentage of overdues to total loans outstanding shot up from 31 per cent in 1967 to 52.3 per cent in 1971. Overdues of small farmers decreased by 5 per cent and those of large farmers increased by 26 per cent during the said period, which reveals that tendency of default in repayment of loans was greater in case of large farmers. Datey Study Team (1974), appointed by the Reserve Bank of India to study the problem of overdues of cooperative credit institutions, estimated overdues of Rs.377 crores in 1970-71 in case of primary cooperative societies (PACSs). Out of this, Rs.277 crores were identified as wilful defaults. Winfred (1974) observed that the extent of overdues had been continuously increasing. In primary cooperative credit societies, overdues had risen from 21.8 per cent in 1960-61 to 41 per cent in June 1971. Overdues of central cooperative banks were 29 per cent of the loans outstanding at the end of June 1970. Joshi (1979) observed that the extent of default in
repayment of loans by selected farmers was about 52 per cent in dry areas and 56 per cent in wet areas.

The Agricultural Credit Review Committee (1986)\textsuperscript{7} identified the pressure of mounting overdues on cooperatives, regional rural banks and commercial banks in direct financing of agriculture and allied activities. Between 1975-76 and 1985-86, overdues of cooperative banks increased from Rs.507 crores to Rs.1807 crores and those of land development banks (LDBs) from Rs.92 crores to Rs.291 crores. During the same period, overdues of RRBs swelled from Rs.54 crores to Rs.413 crores and those of commercial banks from Rs.201 crores to Rs.1744 crores. Overdues of all rural credit institutions in financing agriculture and allied activities constituted about 42 per cent of demand at the end of June 1986. This exhibits an alarming position of overdues in financing rural development, which has been steadily eroding the financial soundness of the rural credit institutions.

Balishter \textit{et al.}(1994)\textsuperscript{8} conducted a study to analyse the repayment performance of 175 defaulters from 3 development blocks of Agra District. He found that large and medium farmers accounted for 37 per cent of total defaulters and over 57 per cent of total overdues, while marginal and small farmers accounted for 63 per cent of total defaulters and 43 per cent of total overdues i.e. better class of farmers were responsible for large proportion of overdues. The amount of overdues and its percentage to demand also exhibited a rising trend during the period of study. The study further highlighted that out of 175 defaulters, 38 per cent were wilful and remaining 62 per cent were non wilful. Soni (1995)\textsuperscript{9} concluded that the most important drawback in cooperative credit was the existence of high level of overdues. He pointed that overdues for both primary agriculture cooperative societies and the central banks constituted about 40 per cent of the loans advanced by them, which hindered the process of re-cycling of credit.

Murthy and Saraswathi (1996)\textsuperscript{10} undertook a study to evaluate the quantitative progress made in respect of supply of institutional credit. Using secondary data made available by RBI in statistical statements relating to
cooperative movement in India for a period of 6 years from 1978 to 1983 and assessing the loaning policies of Girijan Cooperative Corporation, Visakhapatnam, he concluded that the progress in respect of supply of credit was phenomenal over the period of study but the most unnerving aspect of institutional credit was the alarmingly high percentage of overdues i.e. about 43 per cent of demand in the second half of the 80's in case of cooperatives. Veerashekharappa (1996) examined the influence of political intervention on the expansion and delivery of institutional credit during the period from 1984-85 to 1988-89 and found that the percentage recovery of all credit agencies varied from 52.10 per cent to 59.04 per cent in Sultanpur and Raebareli during the period of study. The recovery position in Raebareli was a little better because of declining VIP status of this district as it ceased to be the Prime Minister's constituency after October, 1984. Deolalkar (1998) indicated that NPAs in public sector banks were about Rs.457 billions in 1998. About 70 per cent of gross NPAs were locked up in 'hard core' doubtful and loss assets accumulated over years, pending either in courts or with Board for Industrial and Financial Reconstruction (BIFR). Kumar and Singh (2000) conducted a study on overdues related to IRDP loans in Milch Animal Scheme. He found that out of 100 borrowing families, 77 per cent were defaulters and the number of defaulters was the highest in case of landless labourers. Taori (2000) observed that out of the total loan assets of public sector banks (PSBs) aggregating Rs.2,25,328 crores, as much as 15.9 per cent were impaired. Viswanath (2001), on the basis of the analysis of performance of credit cooperatives and their overdues, found that between the period from 1950-51 to 1995-96, total loans advanced by them increased from Rs.24 crores to Rs. 14,201 crores i.e. 587 times, but unfortunately this increase was followed by a corresponding increase in overdues. Das Debabrata (2001) made an attempt in his study to examine the repayment behaviour of loanees of Arunachal Pradesh State Cooperative Bank Limited. The study was based on primary data collected through field survey, using a structured questionnaire covering the period from 1994-95 to 1998-99. He concluded that the highest
percentage of defaulters was found among the borrowers who were issued loan for livestock and poultry (72.41%) followed by borrowers of agricultural loans (66.07%), horticulture (47.05%), small business and retail trade (43.58%) and transport and other services sector with 41.46 per cent of defaulters. Majority of defaulters (67%) were Integrated Rural Development Programme beneficiaries, while borrowers belonging to the group drawing Rs.50,000 and above had fewer tendencies (11.11%) of default. Singh (2003) observed that banks were continuously monitoring the (bad) accounts as per the guidelines of RBI regarding new assets classification. He further added that NPAs were in control and most of the PSBs had net NPAs of 4 to 4.5 per cent of their net advances. Yeole (2004) found that NPAs in public sector banks were relatively higher than the international standards. By January 2003, the NPAs of cooperative banks were Rs.11,471 crores i.e. 22 per cent of total advances. Nair (2004) noticed that by the year 2004, formal institutionalized cooperative sector completed a century of its service to the nation. Strength of the cooperatives was their omni-presence, coverage and percolation. But despite excelling on all fronts, the cooperatives were handicapped due to rising NPAs. Their overdue loans increased to Rs.95,899.60 millions in 2000-01, thereby subjecting them to a sustained and systematic process of reviews, reorganisation and restructuring. NABARD (2005) conducted a study to evaluate the financial performance of 1872 urban cooperative banks and 1,06,919 rural cooperative credit institutions. The findings of the study revealed that in all financial institutions in the rural sector, percentage of NPAs in sub-standard category declined, while in the doubtful category, NPAs increased during 2003-04, suggesting deterioration in asset quality. However, all the institutions were able to meet the necessary provisioning requirements for NPAs. At the end of March 2004, the NPAs in state cooperative banks stood at 18.5 per cent of demand while in central cooperative banks, the same stood at 23.2 per cent of demand. It further highlighted that the ratio of NPAs in CCBs varied significantly across the states from 5 per cent to 68 per cent as on
March 31, 2004. In only 4 states (Haryana, Himachal Pradesh, Punjab and Uttranchal) the NPA ratio was less than 10 per cent.

Singh (2006)\(^1\) studied the NPA status in the district central cooperative banks of Punjab and found that on March 31, 2003, DCCB Jalandhar managed to bring the ratio of overdues to total loans to 0.80 per cent whereas DCCB Ferozepur and DCCB Gurdaspur stood at a distressingly high ratio of 21 per cent and 20 per cent respectively. As far as arresting overdues was concerned, the position of an average DCCB in Punjab was far better than the position of an average CCB at the national level, witnessing a better recovery performance than its peers at all India level. Castelino (2006)\(^2\) observed that the accretion to NPAs was a major problem in the 1990s. Since then the banks have learned to grapple with the problem of NPAs and consequently gross NPAs have been on the decline. Net NPAs of public sector banks declined from 2.42 per cent in 2001-02 to 0.95 per cent in 2004-05. Gross NPAs of public sector banks reduced to 3.80 per cent in 2005-06. John and Philip (2006)\(^3\) stressed that NPAs was the most generally used yardstick to judge the financial health of the banking system. Since the introduction of the prudential norms in 1992-93, the NPAs of Indian banks had drastically fallen from 16.58 per cent on March 31, 1996 to 5.34 per cent on March 31, 2005. Shiralashetu and Akash (2006)\(^4\) observed that NPAs were higher in public sector banks i.e. 76.61 per cent than in private sector and foreign banks. Making sector-wise comparison, they concluded that NPAs were more in the non-priority sector (i.e. 55.83% of total) than in public and priority sectors as on March 31, 2003. Within the priority sector, the SSI sector had the largest share of NPAs i.e. 41.72 per cent of total NPAs.

Srivats (2008)\(^5\) highlighted that the net non performing assets (NPAs) of public sector banks had declined in absolute terms to Rs.16,433 crores as on December-end 2007 from a level of Rs.16,663 crores as on September-end, 2007. The net NPAs of Rs.16,433 crores as on December-end, 2007 including that of State Bank of India (SBI) group was however higher than the net NPA
level of Rs.15,144 crores as on March-end, 2007 and Rs.14,564 crores as on March-end, 2006.

2.2 CAUSATIVE FACTORS OF NON PERFORMING ADVANCES

Taking into stock the extent of default and its consequences, identification of factors causing NPAs is emphasized. A review of a number of studies on NPAs provides an insight into the factors responsible for increasing defaults. NPAs are an inevitable part of the credit portfolio of the banks, yet what causes increasing concern to banks is rate of their accretion year after year, the ageing factor and the increasing cost of carrying them in the books. On the basis of the studies conducted on NPAs, the following factors leading to excessive defaults in cooperative credit institutions have been identified.

2.2.1 INEFFECTIVE MANAGEMENT AND SUPERVISION

Success of cooperatives entirely hinges on their leaders elected on democratic lines. To ensure successful management, nothing is more important than constant and vigilant supervision. Bad supervision makes it possible for loans to be diverted to non-productive purposes, which in turn increases overdues. The All India Rural Credit Review Committee (1969)26 took a note of the overdues problem when it stated that there was an utter lack of administrative supervision, staff of the right type and requisite scale and therefore, a full check on the utilization of loans was rather difficult.

Thakur (1973)27 viewed that even lower level of credit was a heavy drag on small farmers, when compared to their repaying capacity, if they were not helped to utilize it properly by giving them a complete package of farm inputs and sound guidance. Datey Study Team (1974)28 of the Reserve Bank of India observed that the major causes of overdues were lack of proper management and supervision of cooperative institutions, apathy of management in recovery and taking action against defaulting members and the absence of paid management in case of primary cooperative credit societies. Winfred (1974)29 and Hanumantharayappa (1977)30 observed that the extent of overdues had been increasing incessantly and the major cause of overdues reported by them
was lack of supervision of utilization and repayment of loans. Pandey and Muralidharan (1977b)\textsuperscript{31} found that increase in number of societies under the charge of one secretary led to excessive increase in overdues. Desai and Narayan (1978)\textsuperscript{32} observed that default rate was relatively higher for short-term loans than for long-term loans mainly because of weak post-disbursal credit administration by cooperative banks. Pandey and Muralidharan (1979)\textsuperscript{33} revealed that the consequences of non-repayment of cooperative loans were trivial to individual borrowers. It was simply inefficient management and lack of fear of consequences of default on the part of borrowers that accounted for rising overdues. Reddy and Reddy (1979)\textsuperscript{34} attempted to probe into the existing recovery procedure of the Proddatur Cooperative Agricultural Development Bank with a sample of 100 borrower households belonging to the categories of large, medium and small cultivators. The study revealed that on the whole the recovery performance of the bank was highly satisfactory considering the norms fixed by Reserve Bank of India. It was concluded that good project formulation and keen supervision on utilization of loan amount by the farmers for concerned purpose led to generation of extra income. It gave a new economic status to the agriculturists and enabled them to repay their loans out of extra earnings. Singh and Singh (1979)\textsuperscript{35} identified various internal factors that were responsible for swelling overdues like unsound lending policies, inadequate supervision, unsatisfactory management and fictitious loaning.

Narayanaswamy and Sundaram (1980)\textsuperscript{36} found that lack of supervision over the end use of credit was one of the main factors responsible for excessive overdues. Kalyankar (1982)\textsuperscript{37} attempted to identify factors responsible for wilful and non-wilful defaults. He found that chances of becoming wilful defaulters increased due to lack of fear of consequences of non-repayment and ineffective post-disbursement monitoring of the utilization of loans. Pandey (1984)\textsuperscript{38} examined the repayment performance of borrowers with respect to agricultural loans and found that fictitious loans and inadequate supervision were the main factors contributing to defaults in
repayment. Patil and Karkal (1985)\(^3\), based on their study in Beed district of Maharashtra, reported that various factors relating to structure, procedures, legislative provisions, accounting systems, administrative delays and general psychological atmosphere etc. had contributed to defaults in repayment of loans. Reddy (1985)\(^4\) and Singh (1987)\(^5\) observed that slackness on the part of bank staff in the matter of follow up was the major reason for high level of overdues in cooperative credit institutions.

Reddy (1993)\(^6\) observed that there had been an augmentation in the magnitude of NPAs of cooperative banks in Andhra along with a phenomenal growth in the flow of the rural credit. Among the reasons identified by him for the alarming position of NPAs were ineffective credit appraisal and lack of adequate arrangements for supply of farm inputs. Balishter et al. (1994)\(^7\) emphasized that excessive NPAs were due to lack of proper supervision over end use of credit and personal reminders to borrowers on the need to repay the loans as effective devices for checking undue overdues. Reddy et al. (1995)\(^8\) conducted an empirical study, selecting 144 defaulters and 72 non-defaulters to analyse the causes of default and concluded that the causes which were internal to the credit institutions were inadequate supervision over credit, unsound lending policies and unsatisfactory management of the credit institutions. Kanda (1996)\(^9\) pointed out that inadequate control over flow mechanism and poor end use monitoring were responsible for rising NPAs in cooperative banks. Pathania and Singh (1998)\(^10\) observed that the performance of Himachal Pradesh State Cooperative Bank in terms of membership drive, share capital, deposit mobilization, working capital and advances had improved over period of five years i.e. from 1991-92 to 1995-96. However recovery performance was unsatisfactory and NPAs had increased sharply due to inadequate professional manpower, training and a sense of competition.

Verma and Bhagavan (2000)\(^11\) analyzed various factors contributing to NPAs and concluded that higher gross NPAs could be attributed largely to slow and inefficient management system and policy distortions in the liberalized

\(^{39}\) Patil and Karkal (1985)
\(^{40}\) Reddy (1985)
\(^{41}\) Singh (1987)
\(^{42}\) Reddy (1993)
\(^{43}\) Balishter et al. (1994)
\(^{44}\) Reddy et al. (1995)
\(^{45}\) Kanda (1996)
\(^{46}\) Pathania and Singh (1998)
\(^{47}\) Verma and Bhagavan (2000)
regime. Yeole (2004) concluded that internal factors like managerial deficiencies, poor credit appraisal and improper SWOT Analysis were responsible for excessive NPAs creating a pathetic state of Indian banking system. Iyer (2005) observed that lack of professional management and involvement of family in the running of banks often led to related lending. Friends and relatives of directors were beneficiaries of loans sanctioned without proper scrutiny of the worth of their projects, resulting in NPAs. Bhatt (2007) observed that inability to gauge the importance of transparency, accountability and prudential norms in the operations of the banking system resulted in an increased burden of non performing assets (NPAs). Low operational efficiency, unhealthy balance sheets and unsatisfactory customer service further threatened the very stability of the financial system. Bhattacharyya (2008), on the basis of primary field survey of two agro-ecological regions of West Bengal, concluded that most of the cooperatives were dying with a huge burden of non performing assets that had come from a long past due to direct plunder of the assets by erstwhile directors of these cooperatives.

2.2.2 INADEQUATE RETURNS

Repayment capacity of the borrowers depends on the incremental income from the project and length of the useful life of the asset created with the financial aid of the cooperative bank. The better the economic position, the better the amount meant for repayment. Hanumantharayappa (1977) reported that repayment was related directly to income generated from the project financed and defaults occurred mainly due to inadequate returns from the project. The Working Group on Agricultural Credit Schemes of Commercial Banks (1978) examined the reasons for poor recovery of agricultural term loans and remarked, “the causes for poor recovery are over-optimistic assumptions made in the formulation of schemes for term loans about (a) the incremental income and (b) the gestation period required to generate this income. The assumptions are not borne out and hence,
consistently poor recovery performance of term loans". Desai and Narayan (1978)\textsuperscript{54} observed that default rate was relatively higher for short-term loans than for long-term loans. Causes for the higher rate of default included lower returns from credit use. Joshi (1979)\textsuperscript{55} concluded that one of the major factors contributing to non-repayment of loans was low yield returns. The ACRC (1986)\textsuperscript{56} highlighted the external factors contributing to overdues. One of the dominant factors was inadequate income generation from the project financed.

Verma and Bhagavan (2000)\textsuperscript{57} observed that unremunerative prices and inadequate income were the main factors contributing to poor recoveries. Das Debabrata (2001)\textsuperscript{58} made an attempt in his study to examine the repayment behaviour of loanees and the main reasons for non-repayment or less repayment of loans, identified by him were business going sick and low earnings from the projects financed.

2.2.3 NATURAL CALAMITIES

Crop failure due to drought, famine, floods and pests which result in widespread and sometimes complete loss of crops and less income to borrowers due to unfair price policy, are the major factors which prevent the borrowers from becoming good pay masters. This default is non-wilful or genuine. Patel (1967)\textsuperscript{59} found successive crop failures as the major factor contributing to overdues of crop loans in Maharashtra.

Muthiah (1970)\textsuperscript{60} reached the conclusion that crop failure was the major reason of defaults in repayment of loans. Winfred (1974)\textsuperscript{61}, Hanumantharayappa (1977)\textsuperscript{62} and Singh and Singh (1979)\textsuperscript{63} identified natural calamities and diseases as the external factors responsible for overdues.

Rao (1985)\textsuperscript{64} noted wide fluctuations in the level of recovery of loans of the central cooperative banks in Andhra over a period of five years. He termed this trend as natural as the changing agro-climatic conditions in the area largely influenced the recovery performance of lending institutions. Agro-
climatic conditions influenced the level of income of the borrowers which in turn determined their capacity to repay the loan.

Reddy (1993)\(^{65}\) and Thinaiaya (1994)\(^{66}\) observed that the shocking position of overdues was because of failure of crops due to natural calamities and adverse agro climatic conditions. Reddy et al.\((1995)^{67}\) attributed the defaults mainly to adverse weather conditions, particularly to droughts or floods.

Verma and Bhagavan \((2000)^{68}\) stressed that failure of crops and natural calamities were the major factors contributing to high incidence of defaults. Das Debabrata \((2001)^{69}\) and Yeole \((2004)^{70}\) identified crop failures and other natural calamities as the main reasons for non-repayment or less repayment of loans. Noronha \((2006)^{71}\) outlined causes and impact of NPAs. According to his findings, adverse agro climatic conditions and floods were the main factors contributing to excessive defaults.

2.2.4 POLITICAL INTERFERENCE

Political intrigue is also not less in the recovery of loans. Nowadays, political intervention in the dispensation of credit and its management has become a common phenomenon. Datey Study Team\((1974)^{72}\), Desai and Narayan \((1978)^{73}\), Joshi \((1979)^{74}\) and Singh and Singh \((1979)^{75}\) examined the pattern of repayment of short-term and medium-term loans and reasons for default/delay in repayment of loans and concluded that the support of local political leaders was one of the factors accounting for excessive overdues in cooperative banks.

Pandey \((1984)^{76}\) examined repayment performance of borrowers with respect to agricultural loans and found that too much political pressure and interference in the functioning of credit institutions were the main factors contributing to overdues. Patil and Karkal \((1985)^{77}\) based on their study in Beed district of Maharashtra reported that general psychological atmosphere induced by socio-political environment was one of the factors contributing to defaults in repayment. ACRC \((1986)^{78}\) pointed out that progressive
officialisation and politicization have caused damage to the cooperative system. Such actions generate a general psychology of non-repayment, vitiating the recovery climate and jeopardizing the financial interest of credit agencies. Some of the unhealthy results of politicisation are interference in recovery of cooperative dues or promise to write off the dues if elected to power and determination of interest rates on considerations other than the financial returns i.e. with an eye on populist appeal.

Reddy (1992)\(^7\) observed that directly or indirectly for the increase of overdues, political interference was a major responsible factor. In other words, with a view to be elected or re-elected, political leaders sabotage the cooperative machinery for their political or personal advancement, making the cooperative banks lend liberally and postpone recovery as well. Favoritism and red tapism in sanctioning and recovery of loans had resulted in deferring legal proceedings against defaulters, resulting in excessive overdues. Reddy (1993)\(^8\) and Thinalaya (1994)\(^9\) observed that mounting overdues was one of the major problems faced by banks and a growing tendency among certain sections of rural borrowers was to delay repayment hoping that the overdues would be written off. Reddy et al. (1996)\(^{10}\) emphasized that political interference had a positive relationship with NPAs. Sivaprakasam (1996)\(^{11}\) pointed out that concessions like loan write offs to members by the government were responsible for increase in the number of defaulters because many farmers became members with an ulterior motive of getting concessions from the government. Veerashekharappa (1996)\(^{12}\) attempted to examine the influence of political intervention on the expansion and delivery of institutional credit during the period from 1984-85 to 1988-89. He found that position of recovery of overdues in all rural financial institutions was quite dismal due to excessive political interference. Pathania and Singh (1998)\(^{13}\) observed that the recovery performance of the Himachal Pradesh State Cooperative Bank was unsatisfactory and overdues had increased sharply due to the after effects of loan waiver schemes of the government.
Verma and Bhagavan (2000)\textsuperscript{86} pointed out that external factors like ineffective recovery tribunals, wilful defaults and change of government policies were the main factors responsible for NPAs. Singh (2006)\textsuperscript{87} observed that one of the major problems faced by the cooperative credit institutions was of excessive NPAs. This was to some extent due to political interference. Cooperative banks had been used by political leaders as agencies for distributing favours and doles to their supporters. Main causes of NPAs, according to Noronha (2006)\textsuperscript{88} were large-scale government involvement in the banking sector and loose control on connected lending. Sanyal (2008)\textsuperscript{89} concluded that recovery drive as well as disbursal of fresh loans received a setback in rural areas following the Union Finance Minister's budget announcement on waiver of loans to farmers as a result of which borrowers in rural areas had stopped paying their dues and some of them who made repayments a few days before the budget announcement were now insisting on return of their money. The worst hit were the cooperative credit institutions covering state cooperative banks, district central cooperative banks (DCCBs) and primary credit societies, whose exposure in rural credit was the maximum. Subramaniam, Managing Director of National Federation of State Cooperative Banks Limited (NAFSCOB), the apex body of cooperative credit institutions in the country, in a statement observed that the proposed debt waiver scheme would further vitiate the loan recovery environment in rural areas. Nilakantha (2008)\textsuperscript{90} opined that recent loan waivers amounting to Rs.60,000 crores to small farmers were announced by the finance minister keeping an eye on the impending elections, without any consideration for the possible consequences of such waivers on rural credit institutions, especially cooperative banks. The cultivators who had already repaid their loans felt cheated and were reluctant to repay fresh loans and those, who had benefited realized that such write-offs would occur in future also and thus were unenthusiastic about repayments, resulting in an upswing in defaults.
2.2.5 SOCIO-ECONOMIC CONDITIONS

In so far as the factors affecting repayment of cooperative dues are concerned, socio-economic factors such as land, education, irrigation, cropping pattern, occupation, quantum of loans borrowed, family consumption and net income have direct relationship with overdues. Dadhich (1971a) studied the influence of various socio-economic factors on the repayment of cooperative loans. The study revealed that the amount borrowed, level of literacy of borrowers and land owned did not affect the repayment of loans. The deciding factors in repayment were irrigation and the caste of the borrowers. It was found that farmers belonging to middle castes and having irrigated land were fewer defaulters as compared to other farmers in the repayment of cooperative dues. Chaudhary (1973) observed that defaulter members were relatively well off and better placed in respect of land resources, income and expenditure as compared to non-defaulters and that large farmers had more outstanding debts both by number as well as by amount. Dinesh (1973) concluded that the average size of the total holdings of defaulters was found to be relatively greater as compared to that of non-defaulters and the defaulters had devoted larger proportion of their land to cash crops as compared to non-defaulters. Inspite of high profits, the defaulters did not repay their loans in time. Sharma and Sidhu (1973) reported that personal character of farmers viz. managerial ability, honesty and reputation along with re-paying capacity were the main factors responsible for excessive overdues. Pandey and Muralidharan (1977a) attempted to differentiate between defaulters and non-defaulters on the basis of socio-economic factors. They concluded that percentage of income from other sources rather than crops, amount of loan put under production, per capita expenditure and percentage of cash expenditure to total expenditure were the major factors based on which the borrowers could be classified into defaulters and non-defaulters. Defaulters were found to have income from agriculture only and had lower investment in production but higher per capita family expenditure. Pandey and Muralidharan (1977b) and Hanumantharayappa
(1977) found that irrigation, intensity of cropping and working capital were the main factors which explained the overdues of the central cooperative banks. Joshi (1979) observed that increase in domestic expenditure, new investment in land or gold and failure to get non-farm income were some of the factors contributing to defaults. The Technical and Research Cell of National Cooperative Land Development Banks Federation (1979) conducted a study on impact of discipline governing regulations of advances in the state of Maharashtra. It examined the link between loans of minor irrigation and mounting overdues and observed that overdues varied along with farm size.

Narayanaswamy and Sundaram (1980) observed that high literacy level of credit users was the motivation for prompt repayment of loans. Non-regular credit users felt that assurance of providing fresh loans by credit institutions was lacking even if the payment was made in time, which resulted in overdues. Pradhan and Sharma (1981) used discriminating function to distinguish between defaulters and non-defaulters as well as wilful defaulters and non-wilful defaulters. Out of the total 15 socio-economic and behavioural characteristics, only 4 characteristics i.e. operational size of holdings, percentage of loan utilized for crop production, percentage of cash expenditure to total expenditure and efficiency of loaning were significant discriminators between non-defaulters and defaulters. It was also observed that only three variables viz. education, percentage of expenditure to total income and percentage of earning adults to total adults were significant discriminators between non-wilful and wilful defaulters. Kalyankar (1982) conducted a study on wilful and non-wilful defaulters and concluded that with increased proportion of educated members in the family, increased level of income from sources other than agriculture and with an increase in the level of family consumption expenditure, the probability of becoming wilful defaulters increased. The probability to become non-wilful defaulters was high (0.617) in borrowers of low castes. It was also noted that with the increase in income from agriculture, the proportion of non-wilful defaulters decreased to some
extent, but chances to become wilful defaulters increased which was due to lack of fear of consequences of non-repayment of loan. Balishter (1983)\textsuperscript{103} observed that the tendency of default was more among large farmers than small and medium farmers. Pandey (1984)\textsuperscript{104} spotted large size of the family to be one of the factors accounting for overdues. Reddy (1985)\textsuperscript{105} observed that socio-economic characteristics of borrowers had an important bearing on the repayment of dues. Singh Pratap (1987)\textsuperscript{106} marked that wilful default was directly related to the size of holdings of the defaulters, rank of their caste, amount of borrowings from the cooperative society and their educational status. The practice of re-lending by the borrowers to earn out of the interest margin between what they charged and what they paid and low penal rate of interest charged from the defaulters were found to be the main reasons for default in repayment of loans by the borrowers.

Reddy \textit{et al.}(1996)\textsuperscript{107} conducted a study, using multi stage sampling technique and various statistical techniques like t-test, coefficient of variation, f-test and ANOVA to examine the reasons of default in case of 72 defaulters and 36 non-defaulters. He found that in case of non-wilful defaulters, variables like proportion of cash crops to total cropped area, family consumption expenditure and gross income from agriculture, showed positive signs for regression co-efficient i.e. had direct influence on overdues. In case of wilful defaulters, four variables i.e. land holding, political interference, education and proportion of dependant members to total members exhibited positive relationship with overdues. Sivaprakasam (1996)\textsuperscript{108} undertook a study based on the analysis of a sample consisting of 160 defaulters to analyze socio-economic characteristics and attitude of defaulters towards repayment of dues. Regarding socio-economic and political characteristics like age, sex, religion, community, education and size of landholding, he concluded that these had a direct bearing on repayment of dues.

Kumar and Singh (2000)\textsuperscript{109} and Sachdeva and Singh (2001)\textsuperscript{110} indicated that low repayment capacity, cropping intensity, consumption expenditure and
income from dairy farming significantly influenced repayment performance, resulting in NPAs.

2.2.6 MISUTILIZATION OF LOANS

Man is not merely a factor of production. He is both a user and enjoyer of all production. In a custom ridden society like ours borrowers if not all, at least to some extent spend certain sums on such ceremonies and festivities, which contribute nothing to production. Diversion of credit means use of credit for other purposes—productive or non-productive. The 24th Standing Advisory Committee of the Reserve Bank of India (1964) attributed the rising trend of overdues to misuse of loans by the borrowers.

Muthiah (1970), Sharma and Sidhu (1973), Hanumantharayappa (1977) and Chaplot (1978) viewed that considerable amount of misutilization of loans by agriculturists caused overdues. Singh and Singh (1979) categorized the factors responsible for overdues into two groups viz. external and internal factors and external factors, according to him, mainly included misuse of loans.

Pandey et al. (1984) and Patil and Karkal (1985) examined the repayment performance of borrowers with respect to agricultural loans and found that careless use of loans was one of the main factors contributing to defaults in repayment. Singh Pratap (1987) found that with regard to credit utilisation pattern of wilful defaulters, more than three-fourths of the defaulters had spent the borrowed amount on unproductive purposes.

Reddy (1993) found relending, diversion and misutilization as the major factors responsible for wilful defaults. Verma and Bhagavan (2000), Das Debabrata (2001) and Castelino (2006) identified diversion of credit as one of the major causative factor for NPAs in the cooperative banks.

2.2.7 INDUSTRIAL SICKNESS

Thinalaya (1994) observed that industrial sickness was a major problem which was causing great concern to bankers as advances made to sick industries were stuck up, resulting in NPAs. Das Debabrata (2001) in his
attempt to examine the repayment behaviour of loans found that defaults mainly resulted from business concerns going sick.

2.2.8 IMPROPER RECOVERY CLIMATE

Datey Study Team (1974)^{126} discovered that absence of proper recovery climate due to the attitude of some of the state governments resulted in wilful defaults. The ACRC (1986)^{127} attributed the rising trend of overdues to unfavourable recovery climate and inadequate income generation from the projects financed. Reddy (1993)^{128} declared that there had been a growth in the magnitude of overdues of cooperative banks due to a number of factors, one of which was absence of proper climate for recovery.

2.2.9 INADEQUATE AND UNTIMELY LOANS (DEFECTIVE LENDING POLICY)

Reducing indebtedness and improving the economic status of the borrowers are the main thrust areas of credit institutions. It has been rightly emphasized that the “whole purpose of the scheme is lost if loans are not given in time”. Delay in sanctioning the credit is due to the compliance of various formalities insisted on by the cooperative banks. If the borrower is not harassed by rigid rules and regulations at the time of granting finance, he would not harass the bank at the time of recovery. Muthiah (1970)^{129} and Datey Study Team (1974)^{130} identified inadequate loans to make worthwhile capital investment as one of the factors responsible for excessive defaults by borrowers. Winfred (1974)^{131} observed that the extent of overdues had been continuously increasing. Major causes of overdues were reported to include inadequacy of loans advanced and non-timely supply of loans. Desai and Narayan (1978)^{132} revealed that one of the causes for higher rate of default was lack of matching of terms of loan with the needs of rural households.

Kurulkar (1983)^{133} reported glaring defects in the set up of cooperative credit system. He pointed out that of the ten sample owners who obtained long-term credit from the cooperative banks, 30 per cent could not secure short-term credit. Lack of short term or production credit to the farmers who availed long-term credit resulted in lower output per acre, thereby resulting in
overdues. Patil and Karkal (1985)\textsuperscript{134} reported that in many cases, defaults occurred because of inadequate amount of loans to generate surplus income and delay in disbursement of loans.

According to Noronha (2006)\textsuperscript{135}, one of the factors accounting for high default rate was inadequate and untimely loans advanced by the banks.

### 2.2.10 ABSENCE OF ADEQUATE BACKWARD AND FORWARD LINKAGES

A close association between income and marketing service is not uncommon. It is a fact that money and marketing are the basic tenets to improve the economic quality of life. If these two ‘Ms’, credit institution and marketing closely cooperate, the risk of NPAs will be considerably reduced. So, linking of credit with necessary inputs and marketing of produce is an integrated service which not only widens the scope for credit but also enlarges scope for better recoveries. Thakur (1973)\textsuperscript{136} viewed that even lower level of credit was a heavy drag on small farmers when compared to their repaying capacity if they were not helped to utilize it properly by being given a complete package of farm inputs. Datey Study Team (1974)\textsuperscript{137} identified failure of linking of credit with marketing as one of the predominant causes for defaults in repayment. Winfred (1974)\textsuperscript{138} and Reddy (1978)\textsuperscript{139} observed that absence of linking of credit with marketing led to lesser income resulting in high incidence of overdues. They suggested linking credit with marketing of crops as an essential ingredient in supervision and follow up action.

Enumerating the causes for overdues, the ACRC (1986)\textsuperscript{140} pointed out that lack of adequate backward and forward linkages were responsible for excessive defaults in the cooperative institutions. Reddy \textit{et al.}(1995)\textsuperscript{141} and Kanda (1996)\textsuperscript{142} critically evaluated the agricultural credit system and came to the conclusion that absence of adequate backward and forward linkages were the major factors vitiating the recovery atmosphere and leading to enlarging overdues.

Kumar and Singh (2000)\textsuperscript{143} suggested that NPAs resulted due to lack of appropriate backward and forward linkages as a result of which borrowers
could not augment their income. According to Verma and Bhagavan (2000), major non-wilful causes of NPAs were low market prices for the produce due to inadequate linkages and resultant insufficient income of the borrowers.

2.2.11 REDEMPTION OF PAST DEBTS

Joshi (1979) examined the pattern of repayment of short-term and medium-term loans and one of the major factors influencing the non-repayment of loans as reported by him, was settlement of old debts. Reddy (1993) observed that there was a growth in wilful defaults of cooperative banks mainly due to the use of credit for redemption of old debts.

2.2.12 ABILITY AND WILLINGNESS TO REPAY

The word cooperation means 'helping each other' for well being. Willingness of the management and staff of cooperative banks in performing their duties and readiness and willingness of the borrowers to become paymasters are crucial for the credit institution to become effective. However, changing behaviour and spirit of human beings in favour of 'not repaying' the loan is an added and significant factor rendering the functioning of the cooperative banks ineffective. Dadhich (1971a) observed that some members defaulted willfully upto the extent of their share capital and deposits. Dadhich (1971 b) categorized wilful defaulters into (i) having large size of holdings (ii) having better level of education (iii) with large amount of credit borrowing from cooperatives and (iv) members or ex-members of management committees of cooperatives or their close associates. Chaudhry (1973) observed that defaulters had devoted larger proportion of their land to cash crops as compared to non-defaulters. Inspite of higher profits per acre, they did not repay their loans in time. Datey’s Study Team (1974) on overdues remarked that three-fourth of overdues arose due to wilful defaults by the borrowers besides internal reasons on the part of lending institutions. The Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (CRAFICARD) appointed by the Reserve
Bank of India in 1979 found that in many cases default was wilful and that too, by big farmers.

Patil and Karkal (1985)\textsuperscript{152} concluded that default among borrowers with small land holdings was considered as non-wilful, while default among borrowers with large land holdings was considered as wilful since large land holders had the ability to repay loans but they did not want to repay.

Reddy (1993)\textsuperscript{153} observed that re-lending, diversion, misutilization and redemption of old debts were major factors responsible for wilful defaults. Thinalaya (1994)\textsuperscript{154} concluded that delinquency ratio was on the increase which was more often due to unwillingness of the borrowers to pay rather than their inability to pay. Balishter et al. (1994)\textsuperscript{155} pointed out that non wilful defaulters could not repay their loans due to lack of repayment capacity and wilful default was mainly confined to medium and large farmers who could but did not want to repay their loan amount. Reddy et al. (1996)\textsuperscript{156} emphasized that in case of wilful defaulters, four variables i.e. land holding, political interference, education and proportion of dependant members to total members showed positive relationship with defaults.

Verma and Bhagavan (2000)\textsuperscript{157} concluded that a majority of borrowers became defaulters due to wilful causes, which included misutilization of credit and political factors. Major non-wilful causes were failure of crops, low market prices for the produce, inadequate income and natural calamities. Das Debabrata (2001)\textsuperscript{158} identified unwillingness of the borrowers to repay as one of the main reasons of non-repayment or less repayment of loans. Yeole (2004)\textsuperscript{159} observed that wilful defaults were responsible for the pathetic state of Indian banking system.

2.3 MANAGEMENT OF NON PERFORMING ADVANCES

It is always better to attempt to prevent a crisis than to have to deal with its aftermath. A complete avoidance of bad debts and bank failure even in the best run banking system would be impossible in practice. So there will
always be a need for a strategy to deal with bad debts as long as banks are involved in the risky business of lending money.

Various measures were suggested by different studies to control excessive NPAs in banks. The Maclegan Committee (1914) recommended that loans should be granted by the cooperative societies mainly for productive purposes. There should be a careful scrutiny of applications before advancing loans and proper vigilance after the loans are disbursed to ensure timely repayment.

Kalyani (1970) emphasized on a longer period for repayment of term loans in India. He added that the total burden of interest would be relatively higher in the longer period than in the shorter period but this burden would be spread over quite a long period, making it easier for the borrower to repay his loan in easy instalments, thereby resulting in lesser overdues. Sharma and Sidhu (1973) reported that total farm income and repaying capacity could be increased by shifting from low to high income crops. To improve recoveries in rural lending, bank should judge the personal character of farmers viz. managerial ability, honesty and reputation along with the capacity to repay the loans. Datey Study Team (1974) suggested that in order to overcome the problem of overdues various short-term measures like (i) spreading of recovery period of loans in times of successive crop failures (ii) writing off a portion of overdues in case of small and marginal farmers (iii) initiating steps to rehabilitate non-wilful defaulters and (iv) structural and administrative changes at the institutional level etc. would help ensure regular recovery of loans. Major long term measures to tackle with the problem of overdues suggested by the Datey Committee included (i) recovery of cooperative dues as arrears of land revenues (ii) automatic cancellation of membership of the defaulting borrowers who were members of the managing committee of the cooperative banks and (iii) enactment of legislation for the statutory recovery of cooperative dues from the sale of produce subject to procurement by the state government agencies or the Food Corporation of India. It suggested that stern action on recalcitrants should be taken and that lending institutions
should streamline their lending procedures, take timely recovery measures and link credit with marketing as far as possible. Desai and Narayan (1978)\textsuperscript{164} suggested the operations of credit institutions should be reoriented not only for the integrated needs of financial services but also for broad multifunctional role by way of assisting in adoption of new technology and in provision of marketing, storage and processing facilities. Reddy (1978)\textsuperscript{165} conducted a survey on the working of primary cooperative agricultural development banks. He suggested linking of credit with marketing of crops as an essential ingredient in supervision and follow up action. This, according to him would safeguard against mounting overdues. Singh and Singh (1979)\textsuperscript{166} suggested that to make cooperative credit more useful for improving the condition of farmers, timely disbursement of loans in kind, proper supervision and timely recovery of loans should be emphasized by the credit institutions.

Narayanaswamy and Sundaram (1980)\textsuperscript{167} observed that loans should be given after a strict and serious evaluation of the borrower’s repayment capacity in terms of his estimated yield returns and not merely on the basis of his land holding. It was emphasized in the ACRC Report (1986)\textsuperscript{168} that paradoxically state partnership, which was conceived as an effective measure for strengthening cooperative credit institutions has paved the way for ever-increasing state control over cooperatives, culminating in virtually depriving the cooperatives of their democratic and autonomous character. The committee expressed the need for freeing the cooperatives from state control to reduce the startling proportion of overdues. Sharma (1989)\textsuperscript{169} stated that for improving the recovery climate and reduction of overdues, a greater stress should be laid on supervision and proper utilization of loans. The State Governments should play an important role and extend active support to the banks in their efforts directed at recoveries.

Reddy (1993)\textsuperscript{170} suggested re-organization of long term rural credit structure and improvement of credit delivery system. He also highlighted the need to check misutilization and diversion of credit by the borrowers and interference in the operations of credit institutions by political leaders.
Balishter et al. (1994) emphasized the need for proper supervision over end use of credit and personal reminders to borrowers on the need to repay loans as effective devices for checking excessive overdues. Kanda (1996) suggested that it was necessary that efforts should be made to tighten the agro credit delivery system and to circumscribe its dispensation to subsume the imperatives like adequacy, timeliness, management, linkages and clustering of credit to improve the recovery performance for reducing alarmingly high NPAs. Reddy et al. (1996) emphasized that a cooperative friendly approach like market friendly approach of the present day will go a long way in rescuing credit cooperatives from the clutches of the state. More and more democratisation of management of cooperatives will ensure better recoveries. Voluntarism and mutual self-help are the foundation stones of cooperative democracy in action and they should be fostered by people's participation at all levels in cooperative organizations. Sivaprakasam (1996) emphasized that the government should stop concessions like writing off loans to members as it would increase the number of defaulters since farmers would become members with an ulterior motive of getting concessions from the government. Further, corrective measures should be taken on case-by-case basis to rehabilitate non wilful defaulters. Murthy and Saraswathi (1996) conducted a study to find out whether it was possible to reduce overdues by (i) making cooperatives the exclusive institutions of economically weaker sections-by restructuring them and (ii) by effective changes in the loaning policies-by revamping them. Using regression co-efficient and t-test, it was found that larger loans are recovered relatively easily by the cooperatives. It further suggested that making cooperatives the exclusive institutions of weaker sections i.e. making them homogeneous would not result in decline in overdues, as mere homogeneity is not a sufficient condition. Further, regarding the revamping of loaning policies, the results were quite impressive as it resulted in significant improvement in the recovery performance. It was finally concluded that change of loaning policies like induction of liason workers, efforts of elders committee and motivated management would help
in improving recovery of loans. Pathania and Singh (1998)\textsuperscript{176} suggested that in the context of globalization and liberalization of economy, cooperative banks should conduct their business on healthy lines by having professional manpower, training and infusing a sense of competition. Vishwanathan (1998)\textsuperscript{177} highlighted the need for a well crafted strategy comprising of a strong financial resource base through mobilization of deposits and rural savings, promotion of managerial experience, trained human resources, computerization and mechanization of loaning operations, adoption of capital adequacy norms, operationalisation of cooperative banks and evolving practices and policies suited to the interests of both the depositors and the borrowers for curbing escalating NPAs.

Taori (2000)\textsuperscript{178} emphasized that the surest way of containing NPAs was to prevent their occurrence. He emphasized on proper risk management system in banks, strong and effective credit monitoring, an open and cooperative working relationship between banks and borrowers and allowing for early corrective action, as the main tenets of the policy to control NPAs. Verma and Bhagavan (2000)\textsuperscript{179} stressed that defaults could be minimized if the size of credit was related to production on a scientific basis, loans were effectively supervised in relation to their utilization and the cultivator was approached at the right time for repayment. Kaveri (2001)\textsuperscript{180} concluded that prevention of NPAs required an immediate attention because fresh accrual of NPAs had outpaced recovery efforts. Credit monitoring in banks should be strengthened by creating a database. Potential NPAs should be identified well in advance through a system of monitoring of advances on a regular basis and concerned parties should be contacted immediately. Ramesha (2001)\textsuperscript{181} emphasized that in deregulated and competitive environment, agricultural cooperative banks need to re-position themselves in order to survive and function as commercially viable institutions. Credit discipline should form the centerpiece of the strategies for survival and growth of cooperative banks. Das Debabrata (2001)\textsuperscript{182} concluded that banks should take post sanction follow-up measures to ensure proper utilization of loans and recovery cum awareness
campaigns should be conducted to expedite the recovery process. Shekhar (2003)\textsuperscript{183} pointed that in a bid to help banks and financial institutions recover funds, the Government enacted the SARFAESI Act, 2002 with a hope that the problem would be resolved amicably for the benefit of both the banks and the industry, paving the way for easy availability of cheaper credit. Gujral (2003-04)\textsuperscript{184} indicated that considering the gravity of the situation, Reserve Bank of India had taken a number of constructive steps for arresting the incidence of NPAs like setting up of Lok Adalats, Debt Recovery Tribunals (DRTs), One Time Settlement Scheme, Corporate Debt Restructuring (CDR) Scheme and enactment of the SARFAESI Act, 2002. He highlighted the importance of Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act (SARFAESI ACT, 2002). He pointed out that the Act will not only help in improving financial health of the country but also our moral fibre as a society by enforcing the sanctity of contracts. Bhaumic (2005)\textsuperscript{185} conducted a study on the risk aversion behaviour of banks in emergency credit markets with special reference to India. He suggested that credit disbursal by banks can be facilitated by regulatory and institutional changes that help banks mitigate the problems associated with enforcement of debt covenants and treatment of NPAs on balance sheets. Bhat and Ahmed (2005)\textsuperscript{186} emphasized on increasing the recovery period to prevent sale of agricultural produce at lower prices and added that in case of default of loans due to natural calamities, the bank should permit conversion of crop loans into term loans to prevent resultant NPAs. Kakker (2005)\textsuperscript{187} discussed the role of Asset Reconstruction Companies (ARCs) and pointed out that NPAs lose value over time and the banking system therefore, would stand to gain if NPAs were put on a recovery path in the early stages either through ARCs or otherwise. NABARD (2005)\textsuperscript{188} suggested the implementation of one time settlement system (OTS) and reference of small value advances to Lok Adalats and high value advances to Debt Recovery Tribunals (DTRS). Further, State Governments were requested to help cooperative banks in reducing NPAs by using special recovery devices.
Singh (2006) recommended setting up of special cells for banks to monitor NPAs with special recovery agents for recovering non agricultural loans. He further suggested that loan appraisal procedure should be made objective and specific expertise of appraising loan cases should be developed. Ghosh and Newar (2006) observed that sufficient human judgment is necessary to ensure that all relevant and material information is taken into consideration while approving a loan amount as “some debts are fun when you are acquiring them, but none are fun when you set about retiring them”. John and Philip (2006) stressed that the normal process of debt recovery through courts was lengthy and time consuming and it was not suited for recovery of bank dues. Consequently, ‘Recovery of Debt due to Bank and Financial Institution Ordinance, 1993’ was promulgated on June 24,1993 and a separate ‘fast track judicial system’ for cases related to recovery of banks and financial institutions was set up in the form of Debt Recovery Tribunals (DRTs) and Debt Recovery Appellate Tribunals (DRATs) in India. The DRTs followed summary procedure and were guided by the principles of natural justice. Pevekar and Ashvine (2006) emphasized the role of public relations personnel in reducing NPAs. They concluded that public relations people should be sensitized to realize that they were the key persons in improving relations between banks and customers. It would make the banks more customer focused and further help in reducing NPAs. Venugopal (2006) highlighted the incredible saga of NPA management in Indian banks in recent years. He emphasized that banks should aim at gradual improvement in asset quality through a proper evaluation and monitoring of credit, verification of assets, ensuring adequate security or collateral backing and effective follow up of the end use of credit as asset quality holds the key to sustainable NPA Management.

Ramesh (2007) emphasized the need for a strong monitoring mechanism and an efficient supervisory mechanism for the success of reforms process. Government of India constituted a Task force under the chairmanship of A. Vaidyanathan to examine various aspects related to the deteriorated functioning of the cooperative credit structure in the country. The committee
was asked to make recommendations for the revival of cooperatives, suggest appropriate legal framework and financial assistance required for their efficiency and viability. The committee suggested that state governments should be willing to forgo their control over the cooperatives and help to revive them as they have a unique place in the rural credit scenario. Campbell (2007) observed that establishment of internal control systems in accordance with Basel was essential to ensure minimisation of the problem of non-performing loans (NPLs), but this could be achieved only after an effective system of prudential regulation and supervision was put in place. This goes beyond simply having in place a regulatory framework. The supervisor must be provided with adequate enforcement powers and be sufficiently well resourced to undertake the task effectively. A framework for dealing expeditiously and effectively with insolvent banks needs to be established and this should provide for restructuring where it could be possible and an effective liquidation process where it was not.

Chandramouliswaran (2008) recommended that the Finance Ministry should leave the matters relating to NPAs to RBI without going into the merits of the case. Secondly, by interfering in these matters, the Finance Ministry is certainly not helping the central bank to exercise effective supervision over the banking system. Kilam (2008) suggested that borrowers who are generally regular in their repayments and just default occasionally and that too due to circumstances beyond their control, surely need and deserve the support of law-enforcing agencies to ensure that they are not harassed by the bankers and their recovery agents. But there is surely a case for tightening the recovery process for wilful defaulters who misuse bank loans for other uses and often fail in their entrepreneurial ventures because of greed or business blunders. There are innumerable court cases (including criminal cases) where bank managers and senior executives face unnecessary harassment for years because of prolonged investigations and legal processes. If there is criminality involved, culprits must be brought to book early and in case there is no such criminality involved, the law of the land must protect such executives. Sanyal
(2008)\textsuperscript{198} suggested that announcement of loan waivers should be made by the Government in consultation with the banks or cooperative credit institutions and proper provision should be made in the budget to meet the burden of loan waivers which vitiate the recovery climate in the banks resulting in excessive NPAs. Nilakantha (2008)\textsuperscript{199} strongly proposed the implementation of the recommendations of the Vaidyanathan Committee set up by the Planning Commission. The committee had concluded that the only way to revive the cooperatives suffering from a huge burden of NPAs was to free them from government share capital and all types of state financial help and loans as well as from government staff who run them and make them completely member-driven institutions. There was also an obligatory recommendation to amend the cooperative laws in the states along the lines of Brahma Prakash Committee of the Planning Commission.


Pathania and Singh (1998), Verma and Bhagavan (2000), Yeole (2004), Iyer (2005), Bhatt (2007) and Bhattacharyya (2008) advocated that one of the major causes of NPAs was lack of professional management and supervision in cooperative institutions, apathy of management in recovery and taking action against defaulting members and the absence of paid management in case of primary cooperative credit societies.

The studies of Hanumantharayappa (1977), The Working Group on Agricultural Credit Schemes of Commercial Banks (1978), Desai and Narayan (1978), Joshi (1979), Verma and Bhagavan (2000) and Das Debabrata (2001) identified inadequate returns from the project financed by the banks, as one of the main reasons for non-repayment or less repayment of loans.


Pratap (1987), Reddy et al. (1996), Sivaprakasam (1996), Kumar and Singh (2000) and Sachdeva and Singh (2001) observed that wilful and non wilful defaults were directly related to the size of holdings of the defaulters, the rank of their caste, the amount of borrowings from cooperative banks and their educational status i.e. socio economic conditions were also responsible for non performing advances in the banks.


Thinalaya (1994) and Das Debabrata (2001) in their attempt to examine the repayment behaviour of loans found that defaults mainly resulted from business concerns going sick.

A group of studies conducted by the ACRC, Datey Study Team and Reddy pinpointed that there had been growth in the magnitude of overdues of cooperative banks due to a number of factors, one of which was absence of proper climate for recovery.


Datey Study Team (1974), ACRC, Thakur (1973), Winfred (1974), Reddy (1978), Reddy Ramachandra and Reddy Ramakrishna (1995), Kanda (1996), Kumar and Singh (2000) and Verma and Bhagavan (2000) critically evaluated the agricultural credit system and came to the conclusion that absence of adequate backward and forward linkages was one of the causes of inadequate income of the borrowers, thereby resulting in excessive defaults.
Joshi (1979) and Reddy (1993) observed that there was a growth in wilful defaults of cooperative banks mainly due to the loan amount being used for redemption of past debts.

Studies conducted by Dadhich (1971a), Dadhich (1971b), Chaudhry (1973), Datey’s Study Team (1974), The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), Patil and Karkal (1985), Reddy (1993), Thinalaya (1994), Balishter et al. (1994), Reddy et al. (1996), Verma and Bhagavan (2000), Das Debabrata (2001) and Yeole (2004) advocated that delinquency ratio was on the increase which was more often due to unwillingness of the borrowers to repay rather than their inability to pay.

Despite certain attempts made to study different aspects of NPAs, there remain certain pertinent gaps. In this proposed study, some of these gaps revolve around questions such as:

i) What is the magnitude of non performing advances in the district central cooperative banks of Punjab?

ii) What is the opinion of the bank officials regarding the NPA concept i.e. whether these norms have increased the paper work and calculations or whether the desired results have been achieved?

iii) Have these norms improved the recovery performance of cooperative banks including the DCCBs of Punjab?

iv) Has the behaviour of the bank officials changed towards the borrowers after the adoption of the NPA norms?

v) What is the effect of NPA norms on the financial viability of the DCCBs in Punjab?

Keeping in view the above considerations, an attempt has been made in the proceeding chapters to study the composition of advances, extent of non performing advances, perceptions of borrowers and bank officials regarding NPA management in the cooperative banks and the impact of NPAs and NPA norms on the financial viability of the district central cooperative banks in Punjab.
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