

PART IV
BANK LENDING TO PRIORITY SECTOR

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PART IV: BANK LENDING TO PRIORITY SECTOR

Section IV.1 Concept, Targets, and Growth

During the post nationalisation period there has been a shift from commercial banking to development banking and from class banking to mass banking and increasing stress has been given to the social objectives of lending. The banks are called upon to assume a greater role in the development process by involving themselves more actively in discharging the diverse role of achieving socio-economic objectives and the banks are now expected to increasingly channelise their loanable funds to the hitherto neglected sectors of the economy.

In order to curb the cornering of credit by vested interest and groups and, more particularly, the pronounced tendency of the flight of resources from the rural and less developed areas of the country to the urban industrialised centres, the National Credit Council as part of the social control package enumerated that the sectors/sections of the economy which did not have adequate access to bank finance but which on account of their economic importance deserved due recognition from the banking system, should be treated as priority sector and that there should be a conscious and deliberate attempt to ensure that those priority sectors of the economy obtained adequate credit from the banking system. The priority sectors has originally conceived consisted of (i) Agricultural (ii) SSI (iii) Exports. This description of 'priority sector' was subsequently formalised in 1972 and at present Agriculture and Allied activities, SSI and other priority sectors

constitute the total priority sectors as described below:

Agriculture

Direct Agricultural Finance

Financial assistance given to farmers for the following purposes is treated as direct agricultural finance :

- a) Crop loans.
- b) Purchase of agricultural implements and machinery such as tractors, trailers etc.
- c) Purchase of plough animals.
- d) Construction of tube-wells, tanks, development of irrigation Potential through lift irrigation, Sprinkler irrigation, boring of wells, electrification of pumpsets etc.
- e) Reclamation and land development schemes .
- f) Construction of storage facilities such as ware houses, godowns, cold storages etc.
- g) Constuction of farm building and structures.
- h) Production and processing of hybrid seeds of crops
- i) Short-term loans for non-traditional plantation, horticulture, dairying, fishery, piggery, poultry, bee-keeping etc.
- j) Medium term and long term loans to plantations, forestry, horticulture and allied activities, such as dairying, animal husbandry, deep sea fishing, fresh water fishing, maintaining stud farms, sericulture, bio-gas plant etc.

Indirect Agricultural Finance

This includes :

- a) Financing the distribution of fertilizers, pesticides, seeds etc.
- b) Loans to Electricity Boards for reimbursing expenses incurred for providing low tension connections.
- c) Loan to agencies providing custom-services to farmers, loans to farmers, through PACS, FSS, LAMPS etc.
- d) Financing hire purchase schemes for distribution of agricultural machinery and implements, advances to State sponsored Corporations for onward landing to weaker sectors etc.

with Bank?
Bank has formulated a number of schemes, such as Scheme No. 1 to Scheme No. 10 to cater to the requirements of farmers

are enumerated below :-

i) Agricultural Finance Schemes

Scheme No.	Purpose
1	Financing agricultural implements
2	Financing tractors and other heavy agricultural machinery.
3	Granting loans for cultivation of crops excluding plantation and horticulture crops.
4	Financing development of irrigation potential.
5	Financing for distribution of agricultural inputs such as seeds, fertilizers, insecticides etc.
6	Financing agencies providing custom-services to farmers.
7	Financing construction of farm building and structures.
8	Financing developments of horticulture and plantation crops including nurseries.
9	Financing land development.
10	Financing for dairy, poultry, piggery, fishery, sericulture and apiculture.

ii) Special Schemes - Agriculture

1	Providing employment to unemployed technical graduates/diploma holders for setting up of Agro Service Centres.
2	Self-employed to unemployed technical graduates/diploma holders in agriculture, veterinary and allied sciences.
3	Financing installation of gobar gas plants/biogas plants.
4	Financing assistance to landless labourers and hitherto-bounded labourers.
5	Granting consumption loans to small/marginal farmers, agricultural labourers and rural artisans.
6	Financial land allottees belonging to scheduled caste/scheduled tribes for agricultural puposes.
7	Financing construction of rural godowns.
8	Schemes for financing of apiculture or

agricultural labours affected by natural calamities.

Small Scale Industry

Definition

Small Scale industrial Units are those engaged in the manufacture, processing or preservation on goods and whose investment in plant and machine (starts at original cost) does not exceed Rs. 35.00 lakhs. Units engaged in mining or quarrying, servicing and repair of machinery are also considered as SSI Units provided the investment criteria are fulfilled.

Service-oriented enterprises with investment in plant and machinery not exceeding Rs.2.00 lakhs and located in rural areas or towns with a population of 5 lakhs or less are also treated as Small Scale Industries.

Small Scale Ancillary Industry

Small Scale Ancillary Units are those whose investment in plant and machinery (at original cost) does not exceed Rs.45/- lakhs and which are engaged in manufacture of parts, components, sub-assemblies, intermediates or rendering or proposing to render 50 percent of the production or total services to small scale industrial unit provided that such ancillary units are not controlled/owned by any other undertaking.

Artisans, village & cottage industry

Artisans (irrespective of location) or small industrial activities (viz., manufacturing, processing, preservation and servicing) in village and small towns with a population

not exceeding 50,000 involving utilisation of available natural resources and/or human skills (where individual credit requirement does not exceed Rs. 2,50,000/-) fall under this category.

Industrial Estates

Loans granted for setting up industrial estates fall in the category of loans to SSI.

Other Priority Sectors Direct Lending To Small Borrowers

Small Roads and Water Transport Operators

For classification on the priority sector lending only those advances granted to small roads and water transport operator owning not more than six vehicles will be included.

Retail Traders

Advances granted to i) private retail traders dealing in essential commodities (fair price shops) and consumer cooperative stores and ii) other privated retail traders with credit limits not exceeding Rs.25,000 will fall under this category.

Small Business

This includes individuals and firms mananging a business enterprise established mainly for the purpose of providing any serivce other than professional services, the original cost price of the equipment used for the purpose of the business not exceeding Rs. 2.00 lakhs. These enterprises will fall under priority sector provided the working capital advance to them does not exceed Rs.1.00 lakh and they are eligible for DICGC cover. Advances for acquisition,

construction, renovation of house-boats and other tourist accomodation will be included here.

Professional and Self employed

Professional and Self employed persons include medical practitioners (in all branches of medicine) Chartered Accountants, Cost Accountants, Lawyers, Solicitors, Engineers, Architects, Surveyors, Management Consultants, Construction Contrators, persons trained in any other art or crafts holding either a degree or diploma from an institution established/aided/recognised by Government or a person who is considered by the Bank as technically qualified or skilled in the field in which he is employed. Only such professional and self employed persons whose borrowings do not exceed Rs.2.00 lakhs (of which more than Rs.1.00 lakh as working capital) and who are eligible of DICGC cover are included priority sector advances.

Educational Loans to Students

These will include loans and advances granted to individuals for educational purposes but will not include advances granted to institutions. Educational loans granted under special schemes formulated by our bank also form part of the priority sector advances.

The following credit limits are applicable to educational loans at present :

1. Upto Rs.5,000 in case of general studies in India.
2. Upto Rs.25,000 in case of professional courses in India.
3. Upto Rs.35,000 or 70 per cent of the passage money and living and educational expenses as specified by the foreign university (whichever is lower) for studies

abroad for technical or professional courses such as Engineering, Medicine, Industrial Management etc.

Consumption Loans for Weaker Sections

Consumption loans granted for the following purposes within the ceiling ^{mentioned} there against are treated under priority sector lending :

Purpose	Ceiling
i) General Consumption	Rs. 75/- ✓
ii) Medical Expenses	Rs.250/- ✓
iii) Educational needs	Rs.100/- ✓
iv) Marriage Ceremonies	Rs.250/- ✓
v) Funerals, births etc.	Rs. 75/- ✓
vi) Certain religious ceremonie	Rs. 75/- ✓

The aggregate finance for two or more purposes, should not exceed Rs.500 per family. However, purposewise ceiling will not apply in case of such loans against the security of gold and silver ornaments. In such cases, the ceiling will be Rs.1000.

Loans to SC/ST and Weaker Sections for Housing Purposes

Financial assistance for construction/acquiring of houses upto Rs.5000 to SC/ST and economically weaker sections (i.e. with monthly income upto Rs.700) will be included under priority sectors. Such financing will be considered as direct finance. Assistance to any Governmental agency for the purpose of constructing house for the benefit of SC/ST and economically weaker sections (upto the extent of Rs.5000 per unit) as also assistance to any Governmental agency for slum clearance and rehabilitation of slum dwellers (subject to a limit of Rs.5000 per unit) will be considered as indirect finance and will also be treated as priority

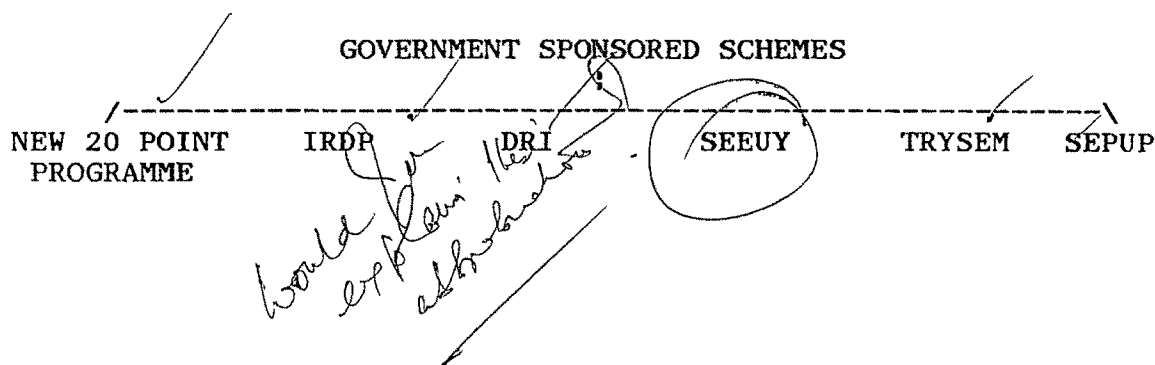
sector advances. The rate of interest will be as under :-

SC/ST beneficiaries 4.00% p.a. ✓
(upto & inclusive of Rs.5000)
(not to be reported under DRI)

All other advances under Housing Finance will be treated as non priority sector advances.

Lending to SC/ST Organisations and Other State Sponsored Corporations

Advances to such organisations for the specific purpose of purchase and supply of inputs or for the marketing of outputs are treated as priority sector lending. It should be noted that the benefits of such lending should reach the individual members of the organisations.



Government Sponsored Programmes New 20 Point Programme

The points which are of relevant to the Banking Industry under 20 point programme are given below:

1. Attack on Rural Poverty

Ensure that poverty alleviation programmes reach all rural poor; dovetail wage employment programmes with area development and create national/community assets like

schools, roads, tanks etc. expand rural employment, promote hand-loom, handicrafts, cottage industries etc.

2. Strategy for Rain-fed Agriculture

Improve technology for conserving moisture, better management of land and water resources, develop and distribute better seeds, reduce vulnerability of flood and drought.

3. Better use of Irrigation Water

Develop catchment areas, improve irrigation management, prevent water logging and wastage, coordinate use of ground and surface water.

4. Bigger Harvests

Revolutionize rice production, achieve selfsufficiency in edible oils, improve pulse production, fruit and vegetable cultivation, augment storage and marketing facilities for agricultural produce, develop livestock, dairy farming, fish farming etc.

5. Enforcement of Land Reforms

Complete land records, implement agricultural land ceilings, distribute surplus land to landless etc.

6. Special Programmes for Landless Labour

Enforce minimum wages for unorganised labour, full implementation of laws abolishing bonded labour, rehabilitate bonded labour.

7. Justice to Schedule Castes and Scheduled Tribes

Ensure compliance with constitutional provision and laws for

SC/ST, implement land allotment made to SC/ST, improve their educational standards, eradicate scavenging, give a thrust to special component programmes, integrate SC/ST with the rest of the society, rehabilitate displaced tribals etc.

8. Equality for Women

Raise status of women, awaken mass consciousness about women's rights, arouse public opinion against dowry and implement anti-dowry legislation.

9. New Opportunities for Youth

Enlarge opportunities for youth in sports, athletics and cultural activities, promote physical fitness, involve youth in nation-building activities etc. involve youth in national integration, strengthen national service scheme & NCC etc.

10. Housing for the People

Provide housing sites for rural poor, expand housing construction programmes, develop low-cost building materials etc.

11. Improvement of Slums

Restrain growth of slums, provide basic facilities in existing slums, encourage planned slum clearance and house building etc.

12. New Strategy for Forestry

Grow more trees and forestry, protect existing forest, reclaim waste lands and encourage vegetation and tree planting.

13. Protection of Environment

Arrest environmental degradation, preserve ecological

systems, ensure appropriate site-selection for factories etc.

14. Concern for the Consumer

Bring essential consumer goods within easy reach of the poor, encourage consumer protection activities restructure distribution system etc.

15. Energy for the Villages

Expand electric supply for productive purposes, develop alternative sources of energy particularly bio-gas.

16. A Responsive Administration

Simplify procedures, delegate authority, enforce accountability, evolve monitoring system, attend promptly and sympathetically to public grievances.

Integrated Rural Development Programme (IRDP)

It is a comprehensive programme of bank lending designed to cover all sections of the rural poor by optimum utilisation of local resources. The programme covers all the 5011 blocks of the country.

Objective

To generate employment opportunities in rural areas and to raise the income level of the target group.

Target group

Poorest among the rural poor living below the poverty line, such as small and marginal farmers, rural artisans, agriculture and non-agricultural labourers etc. Borrowers covered under DRI scheme for financing @ 4% p a. will not be eligible under IRDP. Beneficiaries under IRDP should not be

considered for granting loans under DRI Scheme. At least 30% of the assisted families under IRDP should be "women Beneficiaries".

Poverty line

Commonly understood to be an annual income of less than Rs. 6400 for a family of five members. However, to ensure that the poorest among the poor get assistance first under Programme, families with annual income upto Rs.3500/- will be assisted first.

Amount of loan

Depends on the project financed

Subsidy

Government subsidy ranging from 25 per cent to 50 per cent of the loan depending on the category of beneficiary as under:

Category of Beneficiary	Subsidy Rate % of Loan Amount
1. Small farmers 25% Marginal farmers, 33 1/3 Agriculture labourer, non agricult., labourers, rural artisans Of which Tribal families	Subject to a ceiling of Rs. 3000 per family in non DPAP (Drought prone area programme) areas and Rs. 4000 in DPAP areas. 50% subject to a ceiling of Rs. 5000 per family in all rural areas
2. Community Minor Irrigation	More than 50% land holders in the ayacut (Command area should be IRDP small and marginal farmers and they should own not less than 25% of the land. Cost apportionment for each group member will be in proportion to their land as a percentage of total land in ayacut of this cost, each IRDP family will get 50% subsidy with out the absolute ceiling limit referred to at Sr.No.1

above. Assistance under IRDP will however, be restricted to project upto Rs.2 lakhs per block.

3. Cooperative society of beneficiaries

50% of the capital cost subject to individual ceiling as at 1 above. The above pattern of subsidy applies to groups of women from families below poverty line formed under Development of Women and Children in Rural Areas (DWCRA) Programme also 10% p.a.

Rate of interest

Security

Only the asset created out of the Bank assistance. No guarantees or collaterals, for loans upto Rs.10,000.

Second Dose (Supplementary assistance)

During the seventh Five Year Plan period, assistance is to be provided not only to new beneficiaries but also to old beneficiaries, who have not come above the poverty line, provided they are not defaulters, except due to external factors such as floods, drought etc. Families with annual income upto Rs.4800 are to be assisted first for "second dose".

Implementing Agencies

State Government on the one hand and the Banks on the other hand. District Rural Development Agency (DRDA) of the various districts should prepare developmental plans and identify the IRDP beneficiaries in consultation with the Banks operating in the concerned area.

Loan Pass Books

All IRDP beneficiaries should be given a loan pass book by the financing bank as per proforma prescribed by RBI.
overage of SC/ST Beneficiaries

At least 30% of the assisted families should be drawn from SC/ST. This minimum percentage is be operated on micro terms at the district and state level. The targets for the blocks should be determined as under:

- a) The percentage of assisted SC/ST families to the total IRDP beneficiaries should be equal to the percentage of SC/ST population to the total population of a block, in case the latter percentage is 50 or above.
- b) Wherever percentage of the SC/ST population to the total population is less than 50, a mark up to 10% should be given to this percentage and the percentage of SC/ST assisted should be equal to the percentage so arrived at.

Cattle Insurance

In consultation with General Insurance Corporation of India has fixed following premium rate.

- a) Cattle : 2.25% per annum.

In insurance is taken for more than one year the effective premium rate will be as under :

	1st year	2nd year	3rd year	4th year	5th year
Discount	-	1.12	1.68	2.24	3.80
Effective	2.25	3.38	5.07	6.76	8.45

rate

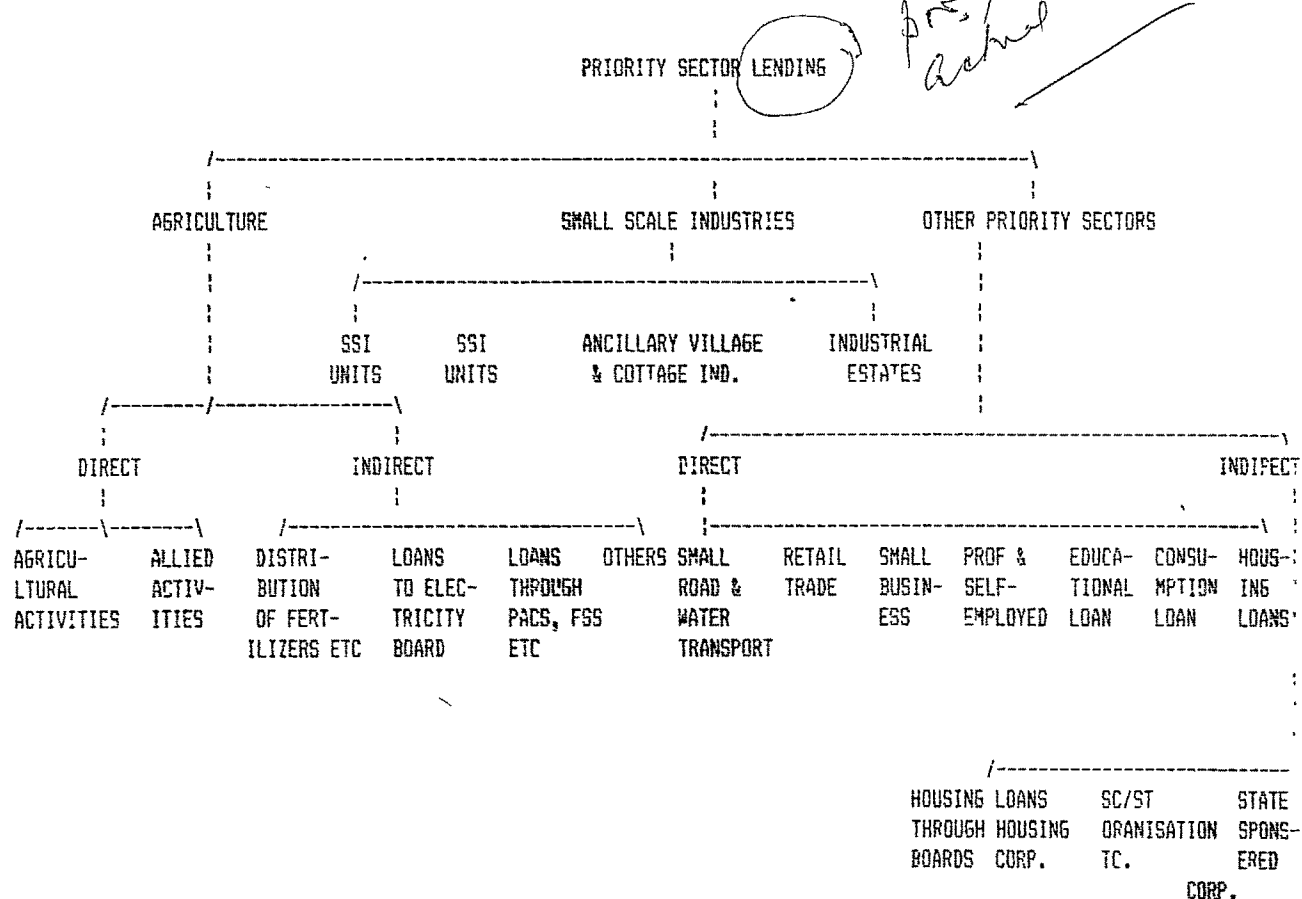
b) Sheep, Goat, Pig, Camel, Horses, Donkeys and Mules: 2.5%

c) Poultry : 80 paise per bird per annum

N.B. Branches have been authorised to contribute to wards premium of livestock insurance under IRDP @ 0.50% of purchase price.

Refinance from NABARD

Refinance to the extent of 90% of bank's loans available from NABARD. Branch should send monthly purpose wise/blockwise details of disbursement as per the prescribed format of the statement to Regional authority for drawal of refinance from NABARD.



CORP. = CORPORATION

Refer to the citation!

These concepts have been defined for quantitative analysis by Parmar T.B. (), as given below :

$$TPS = Ag + SSI + OPS, \quad (1)$$

where,

TPS = Total Priority Sector Advances,

Ag = Advances to Agriculture and Allied Activities,

SSI = Advances to Small Scale Industries, and

OPS = Advances to other Priority Sector.

The three components of TPS have been defined as,

$$Ag = \sum_{i=1}^2 P_i \quad (2)$$

where,

PI = Direct finance for Agricultural purposes, computed

by,

$$P_i = \sum_{j=1}^8 S_j \quad (3)$$

Explain the purpose behind each formulation for their needs

where,

- S = purpose of advances
- d = 1 means advances for purchases of agricultural implements and machinery,
- d = 2 means advances for development of irrigation,
- d = 3 means advances for land reclamation and other land development scheme,
- d = 4 means advances for construction of farm buildings and other structures on the farm,
- d = 5 means advances for construction and running of storage facilities such as warehouses, godowns, silos and cold storage,
- d = 6 means advances for production and processing of hybrid seeds,
- d = 7 means advances for payment of irrigation charges, etc., and,
- d = 8 means other types of direct finance to farmers.
- P2 = Indirect finance for agricultural purposes,

computed by,

$$P2 = \sum_{i=1}^4 S_i \quad (4)$$

where,

- S = Purposes of advances
 i = 1 means credit for financing the distribution of fertilizers, pesticides, seeds, etc.,
 i = 2 means loans to electricity boards,
 i = 3 means loans to farmers through co-operative societies,
 i = 4 means other types of indirect advances for various specified purposes.

$$SSI = \sum_{s=1}^2 L_s \quad (5)$$

Are these modes designed?

where,

- L1 = Loans and Advances given directly to the small scale industrial firms, and
 L2 = Indirect finance to the small scale sector, computed by,

$$L2 = \sum_{i=1}^2 L_i \quad (6)$$

where,

- S = 1 means loans and advances given to agencies involved in assisting the decentralized sector,
 S = 2 means loans and advances to government sponsored corporations and organizations providing funds to weaker sections,
 S = 3 means loans for setting-up industrial estates.

$$OPS = \sum_{ps=1}^8 Aps, \quad (7)$$

where,

- Aps = Purpose of Advances for the Activity,
- Ps = 1 means advances to small road and water transport operators,
- Ps = 2 means advances granted to retail traders,
- Ps = 3 means advances to small business firms,
- Ps = 4 means advances to professional and other self-employed persons,
- Ps = 5 means advances to state sponsored organizations for SC/ST,
- Ps = 6 means advances to individual for educational purposes,
- Ps = 7 means advances for housing-both direct and indirect,
- Ps = 8 means pure consumption loans granted under consumption credit schemes.

Targets Specified For Priority Sector Lending

The outstanding credit to Priority Sector at the corporate level should be not less than 40 per cent of the net credit by March 1990.

The outstanding credit under DRI Scheme should be minimum 1 per cent of credit in India, as of the previous year, not less than 40 per cent of DRI credit should go to Scheduled Caste/Scheduled Tribe borrowers and not less than 2/3rd of the DRI credit should be routed through rural/semi-urban branches.

The outstanding credit to weaker sections should be not less than 10 per cent of net Bank credit or 25 per cent of Priority Sector credit.

A minimum of 30 per cent of the beneficiaries covered under IRDP should belong to SC/ST. Atleast 30per cent of

the resources invested in terms of subsidies given and credit disbursed under IRDP should go to SC/ST.

Growth In Advances

As a result at the policy based regulatory and facilitating measures, there has been a phenomenal growth in the priority sector advances during the post nationalisation period. The following table depicts this growth.

Table IV.1

Growth In Priority Sector Advances of Public Sector Banks

(Rs. Crores)

Sector	June 1969	June 1979	December 1980	December 1987	June 1988
Total bank credit	3016	16220	21959	61325	63950
(i) Agriculture	162	2221	3435	11713	12111
(ii) Small scale industries	252	2061	2975	10166	10874
(iii) Others	27	951	1478	5931	6245
Total priority sector advances 8% to total Bank credit	14.62	34.11	35.92	45.34	45.70

Sources : Reserve Bank of India Report on Trend and Progress of Banking in India, 1988-89 (July-June).

It may be observed on the basis of the above analysis that,

- (i) the outstanding advances of public sector banks to priority sector registered a 66 fold growth demonstrating a structural change in the credit portfolio of banks with an upward shift in the share of total sector advances in the total priority sector advances in the total advances from 14.62 per cent to 45.70 per cent;

- (ii) A componential analysis of priority sector advances reveals that in the total advances of banks, the share of agricultural advances increased from 5.37 percent to 17.00 percent, ^{of which} SSI advances increased from 8.52 percent to 17.00 percent, and other priority sector advances increased from 0.07 percent to 9.77 percent, and
- (iii) Within the priority sector advances also, structural changes are visible as the share of small-scale industries declined from 58.28 percent to 37.20 percent, while the share of agricultural advances increased from 36.73 percent to 41.43 per cent and that of Other Priority Sector Advances increased from 4.99 per cent to 21.73 per cent.

Section IV.2 Recovery of Priority Sector advances

With increased emphasis on ~~the~~ deployment of credit to priority sector, the need, urgency and importance of recycling of funds hardly calls for any emphasis. However, the poor recovery of loans adversely affects the recycling of loanable funds.

It is imperative that the saving of the public a large (deposits) are also refinance availed from NABARD/RBI ~~are~~ to be returned/repaid on due dates, irrespective of whether banks recover the funds lent to various sector/sections of the economy. It is in this context, timely/adequate recovery of dues under Priority Sectors assumes paramount importance, since this alone can vouch for sound credit management of

banks on the one hand, and facilitate faster recycling of funds for the benefits of large number of prospective borrowers under Priority Sectors, on the other. This in turn underscores the importance of clearly understanding or critically examining the dimension of the problems of recovery under Priority Sectors in relation to existing constraints and reasons for low recovery.

Dimension of the Problem of Recovery

As of end-March 1987, the Priority Sector Credit portfolio of top 50 scheduled commercial banks (accounting for 95 per cent of gross bank credit of the banking system) stood at Rs. 25059 crores, constituting 42.3 per cent of their net bank credit (as per the Annual Report of RBI for 1986-87). Further it is reported that overdues constitutes as much as 21 per cent of Priority Sector advances, which helps us in gauging the dimensions of the problems of recovery under this portfolio. As per the indications available from RBI, the annual (July-June) recovery performance of scheduled commercial banks hovers around 55 per cent in respect of agriculture credit, while it is much worse in respect of other Priority Sectors.

The growing incidence of sickness in Small Scale is yet another measure of mounting problems of recovery under Priority Sector portfolio. As of end-December 1986, the total number of Small Scale industrial units identified by banks as 'sick' stood at 1,45,776 with an outstanding bank credit of Rs. 1306 crores.

In other words, nearly 15 per cent of total SSI credit of scheduled commercial banks is locked up in sick units.

According to RBI study, only 16,946 units (or 11.6 per cent) out of the total 1,45,776 sick ~~units~~ were considered potentially viable for rehabilitation as of end-December 1986. It is really disturbing to note that nearly 90 per cent of the bank-assisted sick Small Scale units are beyond revival.

Recovery of Agricultural Advances

The ~~positions~~ of overdues in respect of direct agricultural advances is generally related to demand raised, i.e. the amount which has fallen due for repayment. For this purpose, banks are required to maintain a Demand, Collection & Balance (DCB) register, from which the figures of total demand, collections (recoveries) and balance (overdues) over a period, generally a co-operative year, are compiled. When crops are affected by drought, famine or other natural calamities, short-term ~~loans~~ are converted in to medium term loans or their due dates are postponed or term loans are rephased or rescheduled. As such, such loans are not considered as overdue.

The recovery position of direct agricultural advances of commercial banks during the two years ended June 1986 and 1987 may be seen from the following table:

Table IV.2
Recovery of Agricultural Advances
(Rs. in Crores)

Particulars	Year ended June	
	1986	1987
Total demand	4017	4591
Recoveries	2273	2622
Overdues	1744	1969
% Overdues to demand	43.4	42.9

As per the latest data available the recovery in direct Agricultural advances was 57.1 per cent in June 1987 as compared to 56.5 per cent, 54.2 per cent, 51.6 per cent and 53.2 per cent in June 1986, 1985, 1984 and 1983, respectively

It would be seen from the above that the recovery performance is not satisfactory. The poor recovery performance of commercial banks is not much different as compared to that of co-operatives. The factors attributed for the poor recovery performance include:

- (i) At the appraisal stage itself, defective assessment of input cost, and value of output and fixation of unrealistic repayment schedules while sanctioning of loan proposals.
- (ii) Mis-utilisation of loans and diversion of income generated out of investments without repayment of loan.
- (iii) Lack of integrated approach to lending.
- (iv) Poor backward and forward linkages.
- (v) Lack of suitable/adequate staff of efficient

supervision and recovery of agricultural loans at the branch level.

(vi) Failure on the part of banks to initiate timely recovery effort, i.e., after harvesting and marketing of staple crops.

(vii) ~~Effects of natural calamities such as floods, draughts etc. affecting the repaying capacity of the borrowers.~~

In particular, the machinery obtaining in the commercial banks to attend to problems of agricultural loans including supervision, close follow-up and recovery of loan is weak. It is also observed that number of agricultural field officers at the rural branches is inadequate. Banks have, therefore, to strengthen and gear up their organisational structure both at the controlling officers and at the field level, adopt schemetic approach to lending to facilitate supervision, tone up pre-sanction appraisal system and post-disbursement follow-up, arrange recovery drives to coincide with harvests, organise block-wise recovery campaigns in association with the concerned State Government officials etc. With the new strategy for rural development following the adoption of service area approach, the banks will have to tone up their organisational machinery to handle the problems in the system of rural credit delivery, including speedy recovery of overdues. NABARD has introduced the discipline whereby the amount eligible for refinance from it is based on annual recovery percentage to demand in respect of medium and long term agricultural advances as on 30th June of the preceeding

year of the concerned bank branch.

The organisational arrangements suggested for recovery of agricultural advances are also different. The Expert Group on State Enactments having a hearing on commercial Banks' Leading to Agricultural (Talwar Committee) recommended in December 1970 that the State Governments should empower an official with authority to issue an order, having the force of a decree of a civil court, for payment of any sum due to a bank by sale of the property charged/mortgaged in favour of of the banks to facilitate prompt recovery of dues without having to resort to protracted and time-consuming litigation in civil courts. For implementing the the above recommendations, the Expert Group recommended enactment of legislation by various State Governments and Union Territories on the lines of a model bill evolved by it. The model bill, inter alia, contains the provisions for recovery of agricultural dues from the defaulting borrowers. So far seven States have not enacted legislation on the loans of the model bill. Some states have not framed the requisite rules under legislation. Even where the special legislation has been passed, there are procedural delays in disposing of the cases. Thus, even with the passing of the legislation recommended by Talwar Committee the Government machinery for dealing with the recovery cases filed by banks is reportedly inadequate and there is a large pendency of such cases. A suggestion has been made that State Governments should appoint separate recovery officers for recovery of banks' dues. In this context some States have raised the issue of

sharing of such staff by banks. Mention may be made in this connection of the scheme recently ~~introduced~~ by the Government of Madhya Pradesh regarding the setting up of recovery units exclusively for effecting recoveries of bank dues under the Madhya Pradesh Public Moneys (Recovery of Dues) Act, 1981. The scheme provides, inter alia, for charging the borrowers recovery cost at 5 per cent of the dues recoverable and sharing the recurring cost of recovery machinery equally between the State Government and the lead bank of the district concerned.

It is reported that certain States have taken some legislative or other measures to help banks to recover quickly their agricultural advances. In some of the States, the field functionaries in the Government Departments sponsoring the applications of the borrowers to banks have been specifically advised to associate themselves in the recovery of banks' dues- for instance, Block Development Officers in Uttar Pradesh have been made responsible for recovery of priority sector advances. Kerala State has enacted a law in such a way that advances to priority sectors can be recovered even if time-barred. The Karnataka State enactment empowers invoking provisions of Section 405 of Indian Penal Code (criminal breach of trust) in the case of misutilisation of funds. In Jammu & Kashmir, legislation has been enacted for extending the period of recovery upto 60 years in the case of priority sector advances. In Rajasthan priority sector advances could be recovered as arrears of land revenue.

Table IV.3

Recovery of SSI advances

Year	Rs. (crore)	No. of SSI units
1983	626.52	64388
1984	788.30	81647
1985	954.65	97890
1986	1184.22	128687

These are the figures I did myself

It can be seen from the above data that funds blocked in the units have considerably increased from Rs. 626 crores to 1184 crores in the year 1983 and 1986 respectively. Similarly sick units also showed a hike from 64.4 thousand units, to 128.7 thousand units during the above period. However, sick units show a faster growth compared to advances and this to a slight of advance per sick unit.

Reasons for Poor Recovery of SSI Sector Advances

The growing sickness in the small-scale industrial sector is primarily responsible for poor recovery of dues in respect of credit extended by banks to this sector. It would, therefore, be necessary to identify/assess the causes for this increasing incidence of sickness in the small-scale sector, which can throw light on the factors responsible for poor recovery under this head. Federation of Indian Chamber of Commerce & Industry (FICCI) recently conducted a survey covering 100 Small Scale Industry Associations for assessing the causes of growing sickness in the small-scale sector and its findings are as under:

1. Shortage/untimely receipt of working capital by SSI units and their heavy dependence on

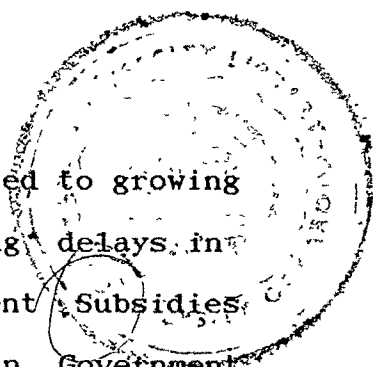
other sources of finance is considered to be the most important cause of growing sickness in this sector. It is felt that banks do not give due credence to the working capital requirements of entrepreneurs as estimated by SFCs. Actual amounts sanctioned are much lower. Even lower amounts are made available after long delays.

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2. Absence of a well-defined/regular market is a crucial factor. Small units are unable to establish large distribution or marketing network and are also not in a position to promote the sale of their products through publicity/advertising due to prohibitive cost of such activities. Added to that is the problem of ancillary units which do not receive their dues in time from large units/Government organisation.

Inadequate and untimely availability of required raw material and other inputs is yet another causes for increasing sickness in SSI sector.

3. Lack of professional management, technological backwardness, competition from bigger units and difficulty in retaining skilled labour also contribute to the growing sickness in this sector.

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4. Other factors which contributed to growing sickness in this sector are long delays in obtaining Central/State Government Subsidies and incentives, frequent changes in Government policies, harassment by officials, cumbersome labour load, irresponsible trade unionism, denial of excise duty concessions, variations in sales tax among different States, frequent power-cuts, high electricity charges, etc.

Needless to say that lack of adequate post-disbursement care and monitoring the end-use of credit and devising methods for detecting incipient sickness in small scale units instead of waiting for them to turn sick on the part of banks, and misutilisation of funds/wilful default on the part of borrowers also contributed to poor recovery this sector.

Reasons for Low Recovery of Other Priority Sector Advances

The recovery data in 'other priority sector' from secondary sources are not available. Some of the factors which have contributed to low recovery in respect of Other Priority Sectors are as under :

1. In respect of Road Transport Operators, increase in cost of fuel/operating and maintenance costs had an adverse impact on their disposable income, which turn affected the recovery performance under this sector. Non-insistence of 'No Objection/No Dues Certificate' from banks by Road Transport

Authorities for renewing the tax token of Road Transport Operators has also resulted in wilful default by these borrowers in some States.

2. In respect of Retail Trade & Small Business, most of overdue accounts represent wilful defaulters against whom legal action has been initiated by banks to recover funds. Also, financing to many persons for the same activity in a particular place, without assessing economic viability, resulted in excess supply over demand situation for that particular activity, which in turn adversely affected the income of these borrowers and their repaying capacity.

3. Diversion of funds for personal and non-productive purpose, generation of low incremental income as compared to the estimated incremental income due to lack of professional competence/technical knowledge are some of the factors responsible for low recovery performance in respect of credit extended to Professionals & Self-Employed.

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4. It is reported that in respect of Educational Loans, loans sanctioned by banks were inadequate to meet the tuition and other fees resulting in the beneficiaries resorting to additional funds from outside agencies. Ultimately, while repaying the loans,

beneficiaries repaid the dues of others first and banks' dues remained outstanding for a long time despite vigorous follow-up at the field level.

5. As Housing Loans to Weaker Sections (including SC/ST) represent Consumption Loans and not production loans, it is becoming increasingly difficult for banks to recover these loans due to poor/negligible income of these categories of borrowers.

Section IV.3 Concept and Status of Overdues

Overdues in a borrowal account are one of the important factors indicative of the state of the unit. Persisting overdues are definitely a warning signal which conveys that something is wrong with the unit. If it is gathered that the unit is otherwise alright, the overdues position at least indicates that the unit would perhaps require increased limits commensurate with its operations. In any case, it is essential to monitor the overdues (occasional or frequent) for evolving a timely remedial action as preventive measure in reducing the number of problem loans. Thus the concept of "overdues" needs to be defined with clarity to serve as a tool in deciding the follow-up measures to be adopted by the banker.

Definition

"Overdues" constitute the following:

- a) The entire outstanding of an advance (including temporary/ad hoc) sanctioned for a fixed period

but not repaid or renewed.

- b) The entire balance outstanding in respect of a TL/DPG (by virtue of the agreement) if the instalments due were not repaid.
- c) The amount of a bill purchased/discounted returned unpaid and the extent of obligation under an LC/guarantee not met by the borrower and could not be adjusted against the DP available in the CC account.
- d) Temporary or persisting irregularity i.e. unsecured portion of drawings above DP in the CC account, and
- e) Temporary or persisting irregularity in the TL due to non-payment of instalments, interest etc.

The nationalisation of 14 major commercial banks brought about a sea change in the lending scenario, in as much as it engulfed the entire gamut of banking operations and for the first time addressed itself to the task of financing hitherto neglected sectors like small-scale industries, agriculture, weaker sections of the society, transport operators and small business. There was fifty-fold increase in the advances which from Rs. 505 crores in June 1969 shot up to Rs. 25059 crores in March 1987. This in its way brought about problems of recovery management. The overdues started mounting up for a variety of reasons and it became quite difficult for a bank to recycle its funds. Banks are generally short term lenders and unless the funds are properly recycled, day to day management assumes wider dimensions and reactions.

This brings to the fore question of overdues, the concept and definition thereof. An advance is generally considered overdue if it is not repaid as per the terms of sanction. Even amongst banks there is no uniform approach to the concept of overdues and each bank is adopting its own system to treat the advance as overdue. If a common approach is arrived at, perhaps the recovery management may become much more simplified and easier to implement. Firstly the very concept of overdues may differ in relation to various types of advances. In the case of seasonal industries the advances are allowed for a temporary period of three-to-six months, after which they are to be recycled and/or repaid. In the case of normal manufacturing activity, the duration is generally one year or so, depending upon the operating cycle. When the advances are not repaid and get stuck up or extended they are generally classified as overdues. Concept of overdues will differ in relation to various types of advances viz. cash credit, over draft, bills finance, co-acceptance, letters of guarantee etc.

Overdues and Different Segments of Borrowers

After nationalisation, as a matter of practice, banks have divided various clients under different groups, viz.

- 1) Small borrowers and agriculturists;
- 2) Small scale industries;
- 3) Village and cottage industries,
- 4) Medium and large industries; and
- 5) Weaker sections of society;

There is also an attempt to classify borrowal accounts under two major groups, viz., Priority Sectors and Non-priority

Sectors. Now while arriving at overdues borrowers under weaker section of economy i.e. small agriculturists as also small scale industries are given certain benefits during natural calamities like drought, flood havoc, etc. particularly, when problems of marketing of produce are of seasonal nature. In other words, repayment obligations known as demand are postponed/rephased under certain situations. In such cases demand is normally reworked and non-payment does not necessarily constitute overdues. It is also common knowledge that overdues are also meted out different treatment in case of certain industries, e.g., shipping companies, textile industries, cement industries, etc. The main causes of the overdues can be traced to a variety of reasons, and it may encompass the areas like location of project, supply of raw materials, marketing, management, natural calamities, Government policies, etc. When borrowers' ability to repay gets maimed, the problem of overdues starts and consequential results will be that large funds will not be available for recycling. Some borrowers, no doubt, have the ability to repay, but have no willingness to repay, even when their cash flow permits. This will also bring about overdues in their accounts.

Thus, overdues represent that portion of banks' funds which are locked up and are not available for the purpose of recycling. They, in turn, affect the circulation of funds and, at same time, liquidity and profitability of the banks and may directly result in fall in availability of goods and services to community at large, particularly when many large industrial units are sick and/or have closed down, and there

has been substantial retrenchment of labour force, leading to unemployment and social evils.

Evolving Uniform Concept *policy?*

Since different segments of advances are treated on different footing for the purpose of arriving at an exact position of the overdues and having regard to the huge funds that are locked up, there is an imperative need to evolve a uniform concept of overdues. In the case of sick units which are viable and can be nursed back to health, the setting up of the Board for Industrial and Financial Reconstruction (BIFR) with the wide powers has come as a blessing in disguise, in as much as, with the quicker implementation of rehabilitation packages in case of viable units, the dimensions and problems of overdues will get resolved to a large extent, which otherwise would have remained locked up and in certain cases, would have brought about compulsion on the part of the banks and financial institutions to write off major portion of them. In a sense, when nurshing of such units under the directions of BIFR is underaken, the problem of overdues can at best be treated only after all the attempts at their quick rehabilitation are negated or result in non-revival of the units. Not withstanding the above, as a rule the advance will be treated as overdue, if it is not repaid as per the schedule and as per the specified repayment terms.

As regards agriculture sector is concerned, crop loans which are of seasonal nature are expected to be squared off at the time of harvesting. Similarly land development loan is given with predetermined repayment schedule, and the same is

required to be paid off in stages. In India, the repayment of crop loans is governed by the vagaries of monsoon on which the agriculture scenario depends. In the case of bad monsoon or failure of crops due to any reason, the agriculturists will look to the bank for reschedulement etc. Reserved Bank of India (RBI) has given guidelines to commercial banks to consider such circumstances and accordingly rephase the crop .p169 loan/development loan. These guidelines have been issued with a view to have a uniform approach for all banks. In the recent past with the codification of borrowal accounts under various Health Codes, some measure of uniformity in classification of overdues has been adopted. Advances falling under Health Codes 4 to 8 are considered overdue. The position of overdues of public sector banks as reckoned in accordance with ther above guidelines of RBI indicates steady deteriorating trend as may be seen from the following.

Table IV.5
Status of Overdues
(Rs. in crores)

As on	Outstanding advances	Overdues	Overdues as % of Outstanding advances
I. Medium and Large Industries			
31.12.1985	14575	1916	13.1
31.12.1986	17161	2404	14
30.06.1987	17292	2613	15.1
II. S.S.I			
31.12.1985	7450	1384	18.6
31.12.1986	8723	1707	19.6
30.06.1987	9372	1937	20.7
III. Agriculture			
31.12.1985	8660	1813	20.9
31.12.1986	10166	2121	20.9
30.06.1987	10510	2240	21.3

As on	Outstanding advances	Overdues	Overdues as % of outstanding advances
IV. Other Priority Sectors			
31.12.1985	4497	1196	26.6
31.12.1986	5188	1437	27.7
30.06.1987	5565	1625	29.2
V. All Others			
31.12.1985	14174	906	6.4
31.12.1986	14982	1155	7.7
30.06.1987	15206	1316	8.7
VI. Total			
31.12.1985	49356	7215	14.6
31.12.1986	56220	8824	15.7
30.06.1987	57945	9731	16.8

It will be seen that as at end of the June 1987, the overdues of Rs. 5802 crores in priority sector constituted 22.8% of the priority sector advances while overdues at Rs. 2613 crores under advances to medium and large industries and Rs. 1316 crores to others constituted 15.1% and 8.7% respectively of the total advances to these sectors.

Section IV.4 Personal Survey On Recovery And Overdues

To have an insight and find out the factors responsible for poor recovery, a survey was carried out in a selected talukas of Surat and Bhruv districts. Accordingly, sector-wise beneficiaries were identified through purposively stratified random sampling technique for personal interview and for the collection of necessary data and information through structured questionnaire which covered all the segments of the priority sector. After surveying various research studies on the subject, twelve critical factors of default were identified and were included in the questionnaires administered to the borrowers for the purpose of determining the most powerful reasons for default.

After an in-depth discussion with the identified borrowers and after a cross checking of data and information from banks and other sources, we have been able to ascertain some factors as 'Critical Default Factors' (CDF).

Critical Default Factor Analysis

Under Critical Default Factor (CDF) analysis reasons for default on repayment of advances to agriculture, Small Scale Industries (SSI) units, and Other Priority Sectors have been presented as it may vary from sector to sector. The analysis is presented in the above predetermined order.

Table IV.6

Reasons for Default in Repayment of Advances to Cultivators

Factor Sr.No.	Reasons of Default	No. of responses	Percent to total responses	Cumulative %
1	Poor follow up	53	33.12	33.12
2	Insufficient income	33	20.63	53.75
3	Unrealistic repayment schedule	27	16.88	70.63
4	Production loss than expected	17	10.63	81.26
5	Problems of implement- ing the schemes	14	8.75	90.01
6	Hopefully waiting for declaration of relief by Government	9	5.62	95.62
7	No guarantee of second loan	7	4.37	100.00
Total		160	100.00	

Note : The reasons cited were more than one in some cases.

It may be observed that poor follow-up was the predominant factor for default in repayment of loans, followed by insufficient income and unrealistic repayment scheduling by the banks. These three factors taken together accounted for as high as 70 per cent responses.

Table IV.7

Reasons for Default in Repayment of Advances to Small Scale Industrial Units

Factor Sr.No.	Reasons of Default	No. of responses	Percent to total responses	Cumulative %
1	Problems of managing the business	32	26.67	26.67
2	Lack of professional experience	21	17.50	44.17
3	Lower generation of funds	17	14.17	58.34
4	Poor monitoring by banks	14	11.67	70.01
5	Lower generation of funds	12	10.00	80.01
6	Low quality of product/ services	11	9.17	89.18
7	Inadequate sanction of loan	6	5.00	94.18
8	Stiff competition prevailing in market	4	4.00	98.18
9	Poor debt/equity ratio	3	1.82	100.00
Total		120	100.00	

Note : The reasons cited were more than one in some cases.

It may be observed from the above analysis that insufficient management, lack of professional experience, and lower

generation of funds were the predominant factors responsible for the poor recovery. The first four reasons given in the table accounted for 70 per cent of the total responses.

Table IV.8
Reasons for Default in Repayment of Advances to Other
Priority Sectors (OPS)

Factor Sr.No.	Reasons of Default	No. of Responses	Percent to total responses	Cumulative %
1	Inadequate income	42	26.25	26.25
2	Diversion of funds	31	19.38	45.63
3	Poor follow up	28	17.50	63.13
4	Willful default	19	11.88	75.01
5	Hopefully waiting for declaration of relief by Government	16	10.00	85.01
6	Clearing of earlier debt	17	8.75	93.76
7	Experience	10	6.24	100.00
Total		160	100.00	

Note : The reasons cited were more than one in some cases.

It is evident from the above table that inadequate income followed by diversion of funds and poor follow up were the main factors responsible for poor recovery. The first three reasons accounted for 63 percent of responses.

Conclusions

The above analysis has clearly revealed that, inadequate generation of income, poor follow-up by banks, and diversion

of funds, were the main factors that can be attributed to poor recovery irrespective of activity. It has clearly emerged from the multi-dimensional inter-actions with the borrowers that bank officials failed in maintaining rapport with the borrowers and had never tried to solve or gave guidance to borrowers to overcome their operational difficulties while operating the schemes. SSI borrowers were of the opinion that the needed technical guidance was also not provided to them. All these responses clearly reflect that bank officials did not pay the required attention at the post-sanction stage ~~which resulted in~~ poor recovery. Also, the government had ~~viciated~~ the recovery climate by announcing debt relief instead of making positive efforts to improve the recovery climate for timely repayment of loans.
