borrower fails to repay the loan in the event of natural calamities, his is a case of non-wilful default. He has to be bracketed in the category of defaulters, not by his own fault, but by the natural forces that influence farming, which are beyond the control of human beings. But a large farmer who profitably uses the loan, and still falls in the category of defaulters means, his is a case of sheer wilful default. This character is born out of the dishonesty of the individual. When this habit becomes perpetual with large farmers, who borrow substantial funds, the very functioning of the institutional business gets crippled. Thus, the safety element of the loan is not totally dependent up on the security of the loan alone, but also on the personality (character) of the borrower. The growth and progress of the lending institutions have dependence on this major influencing factor, *i.e.*, personality. The personality of the individual and growth of the financial institutions, thus are inter-linked.

3. Principle of Productivity

This principle emphasizes that the credit, which is advanced, is not just meant for increasing production from that enterprise alone, but should be able to increase the productivity of other factors employed in the enterprise. For example, for taking up any enterprise we need resources (factors of production), but the resource productivity (marginal value productivity) of the factors employed exhibit a varying trend among the enterprises choosen. To cite a few more examples in crop enterprises, preferring HYV to improved variety among the competing crops, choosing the one, which gives relatively higher returns, and in livestock, selecting the breed which is superior among alternatives, *etc*. Here what we understand is that by our above decisions of varietal preference in crops, better competing crops and superior breeds, not only increase the returns by themselves, but also augment the productivity of other complementary factors employed in the respective production activities. The main concern here is that since we are using scarce borrowed capital resources, no stone should be left unturned in realizing as much productivity as possible from each resource employed. Thus, this principle is based on the point of making the resources as productive as possible by choosing the most appropriate enterprises.

4. Principle of Phased Disbursement

Ensuring the end-use of the funds is the most vital aspect of institutional lending. No enterprise or investment activity needs all the required funds at a time and the requirements of funds is spread over a period of time. In paddy crop enterprise, the need for capital is felt over 4 or 5 months for different operations, for sugarcane over an year and investment activities like digging a well or installation of pumpsets require an altogether different time schedule. Relevant to this situation, the principle of phased disbursement underlines that the loan amount needs to be distributed in phases or spells' to make it productive and the banker can also make himself sure about the end use of the borrowed funds. This procedure holds good in perennial crops and investment activities, where the phased disbursal of the loan helps to overcome the misuse or diversion of funds, but the demerit of this system is that it will make the cost of credit higher.

5. Principle of Proper Utilization

Proper utilization implies using the borrowed funds for the purpose for which they are advanced. It sounds pretty good because every banker by heart and soul wishes this particular aspect for the mutual benefit. This, to certain extent, depends upon the situation prevailing in the rural areas. Explaining, this is his further means whether the farmers are getting the type of resources they need at the right time and in right quantities. Are the resources like seeds, fertilizers, pesticides, free from adulteration to guarantee the farmer to take full advantage of them? Whether the technical advice is available with regard to production problems that crop up from time to time? Whether infrastructure facilities like storage, transportation, marketing, *etc.*, are available? Is price stability in existence to help the farmer plan the cropping pattern for effective use of funds? Proper utilization of funds is possible, when the suitable conditions for investment of funds exist.

6. Principle of Payment

This principle deals with the fixing of repayment schedules of the loans advanced by the institutional agencies. As far as the investment credit is concerned, say, for irrigation structures, tractors, *etc.*, the annual repayments are fixed over a given number of years depending upon the incremental returns that are supposed to be obtained after duly accounting for consumption needs of the farmers. With reference to crop loans (barring perennial crops) the loan is to be repaid in lumpsum because he gets the output only once. Two to three months are allowed after the harvest of the crop to enable the farmer to get a reasonable price for his produce; otherwise, he will resort to distress sales. Whenever the crop fails due to the unfavourable weather conditions, the repayment is not insisted upon immediately, and the repayment period is extended besides assisting the farmer with another fresh loan to enable him carry on the farm business.

7. Principle of Protection

In view of the unforeseen calamities striking farming more often than not, banks cannot abstain themselves from extending loans to the farmers. Instead, what they do is that they demand the security for the advances they make, otherwise, the overdues resulting due to non-payment of loans by the farmers owing to the natural calamities affect the recycling of bank funds adversely. To tide over the situation of this nature the institutional agencies resort to safety measures, *viz.*, (i) insurance coverage, (ii) linking credit with marketing or tie-up arrangement, (iii) provision of finance on production of warehouse receipt, (iv) covering credit under small loan guarantee scheme of Deposit Insurance and Credit Guarantee Corporation of India, and (v) taking securities.

1. *Insurance Coverage:* The loans for certain crops and investment activities like poultry, dairy, piggery, irrigation structures, *etc.*, are insured. Suppose any eventuality breaks out and brings colossal loss to the farmers, it is beyond their capacity to repay the loan, more so if the affected happens to belong to small and marginal categories. Under such situations, the insurance agencies estimate the losses and indemnity is paid to the farmer, from which banks recover their dues.
2. *Linking Credit with Marketing or Tie-up Arrangement:* By linking credit with marketing, the banker is quite safe in recovering the loan. Let us take the case of a sugarcane grower-borrower who supplies cane to the factory as per the agreement. The loan particulars of the sugarcane farmer are let known to the sugar factory. As soon as the crop is harvested, it is supplied to the factory. The fac-