CHAPTER - I

THE DESIGN AND EXECUTION OF THE STUDY
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1.1 Introduction

Indian economy is a rural economy. The growth and development of the economy depends on the growth and development of agriculture. The role of credit in the development of agriculture assumes greater importance. Credit has become crucial factor to agricultural production. It should be made available to the farmers at the right time, required quantity and in the required institutional form. The success of credit oriented development project significantly depends upon the soundness of the credit institution and the credit system. It is not a panacea but one tool, albeit an important one in the whole process of rural development.

By the beginning of the 20th Century, the colonial government realized the Indian farmers' dependence on usurious moneylenders as a major cause of their indebtedness and poverty. Convinced that the cooperative movement could offer the best means of liberating the Indian farmers from the crushing burden of debt and the tyranny of moneylenders, the colonial government began to take active interest in promoting credit cooperatives in the country. The Cooperative Credit Societies Act was enacted on 25th March 1904 with the objective of relieving the poor farmers from the clutches of moneylenders and providing cheap and facile means of credit.
The planned development of cooperatives, in general, and cooperative banks in particular, started with the recommendations of All India Rural Credit Survey Committee 1954 (AIRCSC). The Committee observed that 'Cooperation has failed but it must succeed' and recommended State Partnership for the development of cooperatives in the country. As a result of these recommendations, the cooperative banks received substantial support from the Reserve Bank of India, Government of India and State Governments. Over the period, a number of Committees and Commissions were appointed and the recommendations of these Committees and Commissions were used to tune the functioning of the cooperative banks. Some of the important such Committees were All India Rural Credit Review Committee 1969 (AIRCRC), Study Team on Overdue 1974, Committee on Integration of Cooperative Credit Institutions 1977, Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development 1980 (CRAFICARD), Agricultural Credit Review Committee 1989 (ACRC), and Task Force on Revival of Cooperative Credit Institutions 2004. Based on the recommendations of these Committees and Commissions, the cooperative banking network for agricultural credit has been developed as an important institutional support for agriculture and rural development in India.
The Structure of Cooperative Credit in India in general consisted of two main wings viz., (i) agricultural credit and (ii) non-agricultural credit. In the case of agricultural credit, two separate structures exist—one for short-term and medium-term credit and the other for long-term credit—referred here as Cooperative Credit Structure or Cooperative Credit Delivery System (CCDS). The CCDS for short and medium-term credit is a three-tier and federal one with a State Cooperative Bank at the apex level in each State, the Central Cooperative Bank at the District level and Primary Agricultural Credit Societies (PACS)/Primary Agricultural Cooperative Banks (PACB)/Large Size Agricultural Multi-Purpose Societies (LAMPS)/Farmers Service Societies (FSS)\(^1\) at the base level. However, the system is not uniform across the country (Chart 1.1).

A separate institutional structure for providing long-term credit in the cooperative sector owes its origin to the report of the Meclagan Committee (1915). The present structure for long-term credit in some States is unitary; in others, constituting the majority, the structure comprises two-tier viz., the Primary Agriculture and Rural Development Banks (PCARDB) at primary level and State Agriculture and Rural Development Banks (SCARDB) at State level. At present the CCDS system consists of 95670 PACS, 3621 LAMPS, and 2477 FSS at primary level, 367 DCCBs and 30 SCBs in the short-term credit structure. There are 1785 PCARDBs and 20 SCARDBs functioning in the long-term
credit structure during the year 2006-07. This network covered cent percent of Indian villages and more than 90 percent of the rural households (NCUI: 2006).

Chart – 1.1

Institutional Arrangements for Flow of Credit to Agriculture in India

RBI / GOI

NABARD

Cooperative Banks

Short-term

SCBs Branches

DCCBs & Branches)

PACS /PACBs/LAMPS/ FSS

SHGs

Commercial Banks

Long-term

NAFCARDB

SCARDB & Branches

PCARDBs

Borrowers

RRBs

Metropolitan Branches

Urban Branches

Semi Urban Branches

Rural Branches

SHGs

Urban Branches

Semi-Urban Branches

Rural Branches
1.2 Statement of the Problem

Primary Agricultural Credit Societies (PACS), the credit institutions at the grassroots level, deal directly with individual borrowers and provide short, medium and long-term credit. Total membership of PACS as on 31 March 2005 aggregated 1,274 lakh, of which, borrowing members was 451 lakh constituted around 35 per cent as compared to 38 per cent in the previous year. The total as well as borrowing members of PACS declined during 2004-05. Deposits and borrowings of PACS increased by 4 and 17 per cent, respectively, as on 31 March 2005 over the previous year. The loans issued increased by 12 per cent during 2004-05 as compared to an increase of 3 per cent during 2003-04, over the previous year. The loans issued per borrowing member increased from Rs.6,845 (2003-04) to Rs.8,694 (2004-05). As on 31 March 2006, deposits of SCBs and DCCBs increased by 2 and 7 per cent, and borrowings increased by 16 and 8 per cent, respectively. Loans issued during 2005-06 by SCBs and DCCBs increased by 4 and 8 per cent, respectively, over the previous year (NABARD Annual Report: 2006-07, p-81)

The structural readjustment programme and WTO regime affected the functioning of short term cooperative credit structure, especially the PACS at several points. Today PACS in India have been at crossroads. A great deal of attention has been paid to studying the nature and
functioning of PACS, as their functioning have become so complex during this period. In the pre-economic reform period, the Government wanted to provide rural credit at concessional rate through the PACS. The NABARD was established with the sole objective of integrating the efforts of the various agencies in this context. The post-economic reform period has created adverse climate for rural credit by scaling down the institutional credit available for the priority sector (Majumdar: 1999, p.1 and Puhazhendi & Jayaraman R: 1999, p.16), which affected the functioning of PACS. Majority of the PACS has become operationally unviable during this period. On the other hand the prioritization of rural credit has created panic in the minds of the rural borrowers, dragged them to the doorsteps of the moneylenders, and ultimately increased their indebtedness.

Historically, cooperative societies have played a vital role in the provision of institutional credit to the agricultural sector. With the entry of commercial banks in rural areas, the share of cooperative credit in total agricultural credit had gone down. It fell from 70.8 per cent in 1975-76 to only 21.8 per cent in 2005-06 (Table 1.1). While the share of cooperatives in short-term credit in the form of crop loans declined from 74.9 per cent to 33.2 per cent; its share in long-term credit declined steeply from 61.2 per cent to 6.0 per cent. Concurrently, commercial banks became the dominant source of credit to the agricultural sector.
Table 1.1
Share of Cooperatives in Total Agricultural Credit in India
(in Percentage)

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</thead>
<tbody>
<tr>
<td>Crop Loan</td>
<td>74.9</td>
<td>64.7</td>
<td>69.6</td>
<td>46.4</td>
<td>43.1</td>
<td>41.2</td>
<td>36.7</td>
<td>33.2</td>
</tr>
<tr>
<td>Term Loan</td>
<td>61.2</td>
<td>40.9</td>
<td>43.6</td>
<td>22.0</td>
<td>16.6</td>
<td>13.2</td>
<td>8.0</td>
<td>6.0</td>
</tr>
<tr>
<td>All Loans</td>
<td>70.8</td>
<td>56.0</td>
<td>61.3</td>
<td>37.9</td>
<td>34.0</td>
<td>30.9</td>
<td>24.9</td>
<td>21.8</td>
</tr>
</tbody>
</table>


Although the share of cooperative credit is now much lower than that of commercial banks, the reach of cooperative credit societies is much wider. Cooperative credit societies have more than twice the number of rural outlets and four times more accounts than those of scheduled commercial banks and RRBs put together. Cooperative credit societies provide small loans to small borrowers in rural areas. In March 2003, while the public sector banks had 164 lakh accounts with an average loan size of Rs.31,585, the cooperative societies had 639 lakh account holders whose average borrowing was only Rs.6,637 (Report of the Task Force on Revival of Cooperative Credit Institutions, 2005, Chairman: A. Vaidyanathan). The failure of PACS and CCBs is due to the fact that they have been unable to raise their own resources through deposit mobilisation. Instead, they depend on external funds from the
government or higher layers of cooperatives. In 2003-04, more than half of PACS reported losses. By March 2003, the accumulated losses of PACS were estimated at Rs. 4,595 crore. This deprived them of their independence and made them inefficient. Low recovery rates and mounting overdues have clogged the process of recycling of credit by cooperatives, impaired their ability to avail of refinance facilities from NABARD, increased transaction costs and more importantly, have deprived potential borrowers of the opportunity to avail of credit facilities from the cooperatives. As a result, cooperatives have been losing their capacity to meet the growing credit needs of agriculture.

The regional distribution of cooperative credit is highly uneven. In general, the agriculturally advanced states account for a disproportionately large share of cooperative credit. During 2002-03, 78 per cent of the total short term credit of cooperatives was accounted for by the northern, western and southern regions of India and seven states (Andhra Pradesh, Gujarat, Haryana, Maharashtra, Kerala, Punjab and Tamil Nadu) received as much as 70 per cent of the loans advanced by the PACS (GOL:2007, p-37-38).

Cooperative credit institutions suffered from low resource base, high dependence on financing agencies, imbalances, poor business diversification and recoveries, huge accumulated losses, lack of professionalism and skilled staff, weak MIS, poor internal check and
<table>
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<tr>
<th>Tier</th>
<th>2000-01</th>
<th>2001-02</th>
<th>2002-03</th>
<th>2003-04</th>
<th>2004-05</th>
</tr>
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<tbody>
<tr>
<td><strong>SCBs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (No.)</td>
<td>29</td>
<td>30</td>
<td>30</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>In Profits (No.)</td>
<td>24</td>
<td>24</td>
<td>25</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td>In Losses (No.)</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>With eroded not worth (No.)</td>
<td>6</td>
<td>9</td>
<td>8</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Total Accumulated losses (Rs. Crore)</td>
<td>492</td>
<td>567</td>
<td>281</td>
<td>262</td>
<td>274</td>
</tr>
<tr>
<td><strong>DCCBs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total No.</td>
<td>367</td>
<td>368</td>
<td>367</td>
<td>365</td>
<td>367</td>
</tr>
<tr>
<td>No. in Losses</td>
<td>247</td>
<td>243</td>
<td>237</td>
<td>263</td>
<td>293</td>
</tr>
<tr>
<td>No. that have eroded net worth</td>
<td>120</td>
<td>125</td>
<td>130</td>
<td>102</td>
<td>71</td>
</tr>
<tr>
<td>Total Accumulated losses (Rs. Crore)</td>
<td>139</td>
<td>139</td>
<td>144</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td><strong>PACS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total No.</td>
<td>88798</td>
<td>88803</td>
<td>112309</td>
<td>NA</td>
<td>108338</td>
</tr>
<tr>
<td>No. of Profits</td>
<td>46807</td>
<td>45292</td>
<td>58683</td>
<td>NA</td>
<td>47015</td>
</tr>
<tr>
<td>No. in Losses</td>
<td>41991</td>
<td>43511</td>
<td>53626</td>
<td>NA</td>
<td>61323</td>
</tr>
<tr>
<td>Total Accumulated losses (Rs. Crore)</td>
<td>2112</td>
<td>NA</td>
<td>4595</td>
<td>NA</td>
<td>20</td>
</tr>
</tbody>
</table>

**Note:** Primary Agricultural Credit Societies may not present a true picture of the state of affairs because income recognition and prudential norms are not applied.

control systems, etc. As on 31 March 2006, 4 out of 31 reporting SCBs, 88 out of 366 DCCBs, 53,626 out of 1,05,735 PACS, 8 out of 19 reporting SCARDBs and 194 out of 696 reporting PCARDBs incurred losses. The total accumulated losses of the LT and ST cooperative credit structure (excluding PACS) amounted to Rs.9,139 crore as on 31 March 2006 (NABARD Annual Report:2006-07, p-87), at PACS level alone it was Rs. 20 crore as on 2004-05 (Table 1.2).

Almost in all the States in India, the major problem faced by PACS is the non-repayment of loans by the borrowers. Two aspects are connected with this problem viz., a group of farmers do not repay the loan in time or a group of farmers never repay the loans at all. Farmers belonging to the second category can be deemed as wilful defaulters. They may have the sources to repay the loans, but may not repay the loan, expecting it to be written off. What are the socio-economic factors that decide the wilful default? What is the consequence of such default at the borrowers as well as agency level? What is the extent of wilful default in the total lending? What was the actual magnitude of wilful default? What are the steps needed to arrest this trend in the study area? Each of the above questions has drawn considerable research attention during the past, but no broad generalizations could be formed regarding actual nature and impact of wilful default. In the pursuit of maintaining consistency, and continuity, there is dire need for regular surveys so that
it is possible to outline the existing gaps and the future studies are to be pursued accordingly (Goel, G.B. 1997, p. 89). Bearing this in mind, the researcher attempts to address the above said issues in the study area; hence the present study.

1.3 Review of Literature

Agricultural credit provided by the PACS has attracted considerable research attention during recent past. One of the reasons for this trend is attributed to the fact that the post-economic reform period has created adverse climate for rural credit by scaling down the institutional credit available for the priority sector. The research studies conducted by the Government of India, RBI, NABARD, State Governments and individual researchers have covered various dimensions of the nature and operations of PACS in particular and rural credit general. Some of these studies are reviewed hereunder to establish the background for the present study.

1.3.1 Loan Operations of PACS

The first comprehensive study conducted during the post-independence era was the survey done by the All India Rural Credit Survey (AIRCS) Committee (1954). The survey revealed that 92.7 percent of the cultivators depended on the private sources for borrowing. The studies conducted by Subbi Reddy T. and Ramamuni Reddy (1980, p.32), Tiwari S.N. and Sharma P.K.(1986,p.30), Basavaraj Banakar and
Suryaprakash S. (1987, p.78) and Satyasai K.J.S. et al. (1987, p.54) confirmed the prolongation of private sources of credit even during the eighties.

A study conducted by Pratap Singh (1988, p.286) found that the ignorance and conventionality, non-fulfillment of productive needs from the cooperatives, inflexible and untimely cooperative finance, high intimate knowledge on the part of moneylenders regarding local production potentialities, the innate and age old link of the borrowers with moneylenders and poor access to formal capital because of the failure on the part of the farmers to repay the cooperative dues-all these reasons have underlined the survival of the moneylenders as a source of finance. Similar findings were reported by the studies conducted by Viswa Prasad and Parthasarathy P.B. (1993, p.336), Rajput A.M. et al. (1993, p.55) Modi M.K. and Rai K.N. (1993, p.252), Ramachandra Reddy D and Bagavan Reddy (1994, p.58), and Lakshmi Narasaiah M and Venkata Naidu G. (1999, p.255).

The Agro-Economic Research Centre, Ministry of Agriculture, GOI (2002, p.533) estimated that out of the total loan amount, over 21 percent was borrowed from the private traders who charged exorbitant rates of interest as they were the ultimate sources of credit. The small and marginal farmers, particularly from socially backward caste groups, had generally been perceptual debtors to private moneylenders.
The above studies showed that informal credit were easily accessible to the rural households perpetrating the dominance of the moneylenders in rural credit. The discrimination in access to formal credit was also showed by the other studies.

Atibudi H.N. and Singh J.P (1995, p.3) inferred that farm characteristics influenced the flow of credit to different categories of farmers and it was discriminatory against small and marginal farmers. Balishter and Pankaj Kumar (1995, p.16) pointed out that the cooperative institutions were dominated and still continued to be dominated by the medium and large farmers. A study conducted by Ramachandra Reddy D. and Ramakrishna Reddy M. (1995, p.10) revealed that high asset possession and the large income generated there from, enabled the medium and large farmers to have better access to rural credit.

The institution wise analysis also found the continuance of this trend. Though institutional credit was accessible to the rural borrowers to some extent, discrimination among the category of borrowers was found by the other studies. Srivastava A.P. (1991, p.190) found out that still big cultivators were having the lion’s share in the cooperative finance. Jugale V.B. (1992, p.84) reported that irrespective of various sizes of holdings of the farmers, the proportion of borrowing from other than cooperative sources was significantly larger than the proportion from the cooperative sources. Further, as a farmer can borrow loan in accordance
with the size of his land holdings, the share of small farmers in total borrowing was relatively less.

Sinha S.K. (1992, p.210) found that the cooperatives seemed to have served more to the upper income groups of the society whereas its establishment was specifically made for promoting the development of the weaker sections of the society.

Dinesh Singh Yadav (1999, p.78) reported that despite the availability of several financial institutions in the study area, the farmers had positive opinion to become members of the cooperative credit societies as their membership in the societies was increasing over time which in turn caused an increase in the deposits and amount of loan sanctioned simultaneously. Sarthak Chowdhury and Prabuddha Ray (2001, p.163) found that women were not given equal opportunity in availing credit from the cooperative banks.

Mani K. P (2007, p.33) found that other than the traditional sectors, public and private, cooperatives are also emerging as a major source of capital formation. The unutilized resources pending with the cooperatives can be more effectively utilized, if policy prescriptions are issued particularly in the present context of decentralized planning and Panchayati Raj.
From the above analyses, it could be inferred that the poor access to credit from the PACS to the small and marginal farmers, which helped for the sustenance of the money lenders in agricultural credit.

1.3.2 Utilization of credit

When the credit is utilized for the purpose for which it is provided, it could ensure proper repayment. There are number of factors influencing the utilization pattern of cooperative credit.

The study conducted by Kalyankar (1983, p.102) found that low utilization of loan for productive purposes led to the non-repayment of cooperative loan. Reddy C.R. (1988) revealed that all the farmers in the small and medium farmer groups had diverted the loan inevitably due to inadequacy of credit availed from PACS, whereas the big farmers diverted it purposively due to availability of cheap credit. Majority of the small farmers have used the maximum loan for the redemption of old debts.

Kulwant Pathania and Yoginder Varma (1991, p.155) identified that no significant relationship existed between different family size of farmers and credit utilization for unproductive purposes. Further, misutilisation of credit was found to be significantly more among the farmers who borrowed low amount of credit from cooperatives. Social and religious ceremonies were found to be the most unproductive purposes among all categories of farmers borrowing different amount of
found that small farmers were more in the practice of diverting the loan for other unproductive purposes than the big farmers.

Goyal S.K. et al., (1993, p.296) observed that the defaulter borrowers utilized a relatively large proportion of their total earnings on consumption purposes thereby leaving less for investment in production process. This resulted in low repaying capacity of the loan on the part of the defaulter borrowers. Mukesh Singh Rathore (1994, p.16) observed that the availability of easy credit from the moneylenders, cooperative societies or the government allures them to abandon their attitude towards savings and encourages them to be somewhat extravagant with borrowed money.

Venugopala Reddy and Ratnakar (1996, p.34) found that the factors such as land holding, education, and agency contact were found to be the most influential factors on the credit utilization pattern of the farmers. Pathania K.S. (1998, p.219) reported that 38.3 percent of the respondents only fully utilized the loan. Among the unproductive purposes, social ceremonies and purchase of essential commodities were found to be the first two major purposes among all the farmers with varying family size.

A study conducted on institutional finance and rural development by Benson Kunjukunju & Mohanan S. (2002, p.168) found that the
utilization of loans was better among the borrowers of the CBs and PCARDBs than the PACS. Ravichandran K. and Revathi Bala M. (2003, p.86) found that misutilisation or diversion of loans for other purposes for which the loan was not provided was a common phenomenon among all class of farmers. Both the members and employees of the cooperatives accepted the prevalence of this trend and pointed out that: (i) loan was not available when it was required; (ii) the scale of finance fixed for all types of loans were based on arbitrary procedures and no relevance to the field level realities and (iii) advance money required to subscribe the shares for getting crop and medium term loan was not available were the causes for this problem. Further, when the loan was available, the Cauvery water was not adequate for cultivation for the farmers in delta region. Farmers, instead of investing in lands, diverted the loan amount for some other purposes. Well-to-do farmers borrowed from the PACBs for money-lending business, which was a common phenomenon.

From the above studies, it is inferred that non-economic factors, official procedures, inadequacy of credit, availability of cheap credit, redemption of old debts, social ceremonies, consumption needs, land holding, level of education, contact with change agents etc., have been the factors that influenced the utilization behaviour of the borrowers of PACS.
1.3.3 Repayment

The titles repayment, overdue and wilful defaulters have attracted considerable studies during the recent past as they directly influenced the business of the PACS. Some of the important studies conducted on these areas are reviewed hereunder.

The All India Rural Credit Survey Committee (RBI: 1954, p.62) found that defective lending policies were the causes for poor repayment and consequent overdue at institutional level. The All India Rural Credit Review Committee (RBI: 1969, p.56) which studied the progress of the cooperative credit after 1954, stated that overdue were a common problem both in developed and under developed areas and found that the bulk of overdue were caused by the big farmers. The Study Team on Overdue 1974 identified that, among the cultivators, lack of will and the discipline to repay was the principal factor responsible for the prevalence of overdue in the cooperatives.

Dadhich (1977, p.234) found that there was no association between landholdings, literacy, loan amount and repayment performance. The deciding factors in repayment were irrigation and caste of the borrowers.

The CRAFICARD (RBI:1980, p.87) while endorsing the findings of the Study Team on Overdues found that failure to tie-up lending with development programmes and want of a sense of credit discipline and responsibility among the borrowers in regard to prompt
repayment of debts were the important causes among others for the overdue. The ACRC (*RBI* 1989, p.533), which dealt with the issue of overdue in a separate chapter called 'Overdue Syndrome', stated that there was significant relationship between agro-climatic conditions, literacy rate, major crops grown and overdue. However the phenomenon of overdue was generally neutral to the category of borrowers financed and the variations in recoveries between different classes of borrowers were only marginal. The Committee deduced that the general climate in rural areas was becoming increasingly hostile to recoveries due to increasing politicization of agricultural credit.

Renga Reddy A. (*1990, p.124*) assessed that two-thirds of the defaulters have had agriculture as their main occupation. Social consumption and crop failure were the major factors affecting the delinquency of unwilful defaulters. Bhupal Singh Negi (*1990, p.227*) concluded that apart from wilful defaults, misutilisation or underutilization of the cooperative credit in Pauri-Garhwal district, Uttar Pradesh was one of the major factors responsible for the overdue. Vaikunthe L.D. (*1991, p.42*) identified that the percentage of repayment was more among the farmers of the non-irrigated area compared to the farmers of the irrigated area.

Reddy C.R. (*1993, p.110*) reported that as much as 40 percent of the borrowers had the attitude that their loan would be wiped off.
Ramachandra Reddy D. *(1995, p.67)* reported that, in case of the wilful defaulters, the variables viz., landholding, proportion of cash crops, political influence, education and proportion of dependent members to total members showed positive relationship to loan overdues.

Sharma A.K. and Kharmowphlang M. *(1995, p.123)* found that none of the farmers in the study area were having overdue against the non-institutional agencies. Poor supervision of loans by the institutional agencies was one among the many causes of institutional overdue in the study area. Reddy B.R. and Laxminarayana *(1996, p.20)* indicated that the proportion of interest in the total repayment of old debts was much higher than the repayment of fresh loans. Kalia S.K. *(1997, p.31)* identified that apart from the defective loan policies and procedures, the other factors such as infructuous investments, non-realization of anticipated level of return, wilful defaults, defective legal framework, government interferences etc., have also contributed to the mounting overdue.

Sudarshan Reddy A. and Venkatesh Rao *(1999, p.83)* reported that the depletion of ground water and drought conditions were mainly responsible for the economic deterioration and consequent inability to repay the loans among 90 percent of the defaulters.

Ravichandran K. *(2000, p.167)* observed that the reliance on cooperative credit by wilful defaulters often revealed the tendency to
resort to this source of finance as it was cheap and could easily be evaded repayment. The factors like literacy and political affiliations remained so interwoven that they caused wilful default.

Viswanatha A.R. (2001, p.58) identified that defective agrarian structure, misutilisation of loans, natural calamities and wilful defaults were the external factors that made unfavourable climate for the recovery. Moniruzzaman (2002, p.78) observed that a majority of the members had repaid the loan in time owing to the fear of additional interest and penalties, on pressure by the group members and also driven by the temptation for having loan in future, which was due for both the societies and groups.

The Agro-Economic Research Centre, Ministry of Agriculture, GOI (2002, p.56) estimated that the recovery of loans with the private traders was timely and cent percent. The study conducted on the NFS loans (Ravichandran K: 2003, p.17) found that the problem of overdue and NPA was neutral to banks. Because of this, there was probability of every new loan for agricultural purposes becoming overdue and every new borrower becomes defaulter to banks.

Ravichandran K. and Revathi Bala M. (2004, p.16) found that the dominance of the moneylenders could still be found in satisfying the credit needs of the members of the PACBs. Even though the SHGs, as an alternative institutional credit sub-system, have overcome this problem,
more than 50 percent of the SHG members approached their friends and relatives for their additional credit needs. Also, they were not totally free from debt since they got new loan immediately after repaying the old loan.

The Report of the Task Force on Revival of Cooperative Credit Institutions (RBI: 2005, p.54) pointed out that the low recovery of loans obviously affected the profitability of the institutions and poor loan recovery had resulted in a peculiar phenomenon, often referred to as imbalances. It also viewed that the institutions at ground level viz., the PACS were mainly conducting their business through borrowed funds. All these studies confirmed that certain socio-economic and political factors influenced the repayment behaviour of borrowers of cooperatives and the general climate has turned inimical to recoveries. The failure on the part of the PACS in ensuring easy access, proper utilization and recovery of loan could be derived from the above studies, which increased wilful default among the borrowers.

From the above studies it is found that there were number of problems in the loan operations of PACS. Misutilization of loan and poor repayment of credit by borrowers and the growing wilful default were common phenomenon and the general climate in rural areas was becoming increasingly hostile to recoveries due to increasing politicization of cooperative credit. The studies also highlighted on the
various factors responsible for poor repayment and consequent increase in overdue at institutional level. Adding strength to the current literature on rural credit, the present study attempts to explore the nature, extent and causes for wilful default among the borrowers of PACBs in the tail end areas of Cauvery delta region.

1.4 Objectives of the Study

The following are the objectives of the study

1) To analyze the magnitude of wilful default in the context of borrowers of PACBs,

2) To study the effects of wilful default on PACBs and other members.

3) To analyze the Socio-economic factors that induce wilful default among borrowers of PACBs and

4) To suggest suitable measures to arrest the problem of wilful default in the study area.

1.5 Hypothesis

The following are the hypothesis of this study

1. Exposure to mass media increases wilful default.

2. Higher the level of education higher the wilful default

3. Membership in organizations increases wilful default

4. Affiliation with political parties increases wilful default.
1.6 Methodology and Sampling

Survey method was followed for this study. Both primary and secondary sources of data were collected and used. The data regarding the membership, share capital, borrowings, deposits, working capital, loan operations of sample PACBs were collected from the Annual and Audit Reports for various years. The data regarding the demographic features of Nagapattinam District were downloaded from websites and collected from the NABARD’s Reports on Potential Linked Credit Plan for the District for various years. Apart from these, personal discussions were held with the officials to get more clarifications on the trend in agricultural credit in general and nature of wilful default in particular.

The sample area is Nagapattinam District, Tamil Nadu, which has 7 taluks (Map 1.1). On the basis of the statistical data collected from the District Central Cooperative Bank, one PACB having higher rate of overdue was chosen from each taluk. From each PACB 10 per cent of wilful defaulters and 10 per cent of non-wilful defaulters was selected from the list of defaulters already available with the concerned PACBs. The correctness of the figures on wilful and non-wilful default that were collected from PACBs were verified and found correct during the field study. In total 268 wilful defaulters and 276 non-wilful defaulters was the sample for the study. The dependent and independent variables chosen for the study is given in Table 1.3.
Table 1.3

Dependent and Independent Variables

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Independent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wilful Default</td>
<td>Demography: Age, Sex</td>
</tr>
<tr>
<td></td>
<td>Social: Community, Level of Education, Marital Status, Family Type, Family Size, Exposure to Mass Media, Contact with Change Agents, Membership / clientele in other institutions / organizations, and Membership in social organizations.</td>
</tr>
</tbody>
</table>

1.7 Definitions of the Concepts uses

1.7.1 Age

This is the number of years completed by the respondent on the date of interview.

1.7.2 Decentralized Sector

A sector of economy in which articles of common/local use are produced locally, utilizing, by and large, locally available natural resources and human skills.
1.7.3 Defaulter

A farmer who did not repay the loan borrowed from the PACB on due date.

1.7.4 Discriminate function analysis

Discriminate function analysis is used to identify the variables which discriminate the two group of borrowers viz, Wilful defaulter and non-wilful defaulters and also to identify the order of discrimination which each variable does on the default. Standard SPSS package was used to estimate the discriminating function D.

1.7.5 Doubtful Assets

An asset which has remained overdue for a period exceeding 3 years in respect of both agriculture and non-agriculture loans should be treated as doubtful assets.

1.7.6 Duration of Membership

It is the total number of years from the date of membership in the cooperative society to till date.

1.7.7 Education

This is quantified as the minimum number of years needed to complete the programme. For example, for an Arts Degree it is 15. For Professional Degrees it is 16.
1.7.8 Employment generation

It is the number of man-days generated by the respondents by investing the loan amounts. In this study eight hours of work is taken as one man day.

1.7.9 Family Size

It is the number of members living under one roof and cooking in the same kitchen.

1.7.10 Good/Standard Assets

A standard asset is one which does not disclose any problem and which does not carry more than the normal risk attached to any business. Thus in general, all the current loans may be treated as standard assets.

1.7.11 Income Generated

It is the total income obtained through various investments made with the help of borrowed amount on various RNFS activities.

1.7.12 Investments

It is the total amount invested by the respondent on various RNFS activities expressed in Rs.10,000 (here one unit is Rs.10,000).

1.7.13 Logit Function

Logit function an abbreviated version of the logarithm of the probability function is used in case wherein the measured dependent variable in any study is dichotomy (binary) variable taking values 1 and 0. Since we allow full variations for all the independent variables, if we use the ordinary linear multiple regression equation them the main
job of the regression coefficients will be to reduce the values of the corresponding independent variable to lie between 0 and 1 and hence they will not be able to reveal their designated purpose. In order to get rid of this problem we convert the dependent variable in to log \((\frac{Pa}{1-Pa})\) of the corresponding probabilities.

In the wilful defaults case \(P_x\) gives the probability that a selected respondent will be a wilful defaulter. Since \(P_x\) being a probability will always lie between 0 and 1

When \(P_x = 0\) then \(\log (\frac{Pa}{1-Pa}) = -8\) and

When \(P_x = 1\) then \(\log (\frac{Pa}{1-Pa}) = +8\)

This transformation helps the regression coefficients to move in their natural line and hence this type of function is used in this study.

1.7.15 Long-Term Loan

Long-term loan is generally granted for periods longer than 5 years and extending up to 15 years. Such loan is granted for making permanent improvements on purchasing of land, erection of machinery etc.,

1.7.16 Loss Assets

An asset which is considered unrealizable and/or of such little value that its continuance has a doubtful asset which is not worthwhile should be treated as loss assets.
1.7.17 Mass Media Exposure

It is the aggregate score computed on the basis of scores given for each one of the item in the mass media.

1.7.18 Medium-term Loan

Loans provided for a period from 3-5 years for the purpose of making improvements, purchase of implements, machinery, livestock etc., are called as medium-term loans. These loans are known as term loans or investment loans.

1.7.19 Nature of Occupation

The occupation may be divided into primary and secondary occupation. Primary occupation means those who are actively and fully involved in their business, wholly depends upon their business only. In the case of secondary occupation, those who are doing business alternatively, the concentration is not much on that activity. For example, agriculture is primary occupation of an agriculturist and if he does some other business alternatively during off season like manufacturing bricks, centering sheet business etc., the concentration is likely to be less.

1.7.20 Non -Performing Assets

Non-Performing assets is defined as loan assets where the interest or installments or principles remain overdue for a period of more than 90 days as on balance sheet date.
1.7.21 Non-Wilful Defaulters

One who did not have sufficient repaying capacity to repay the loans and had genuine reasons for default.

1.7.22 Refinance

Refinance is the term used by NABARD for a bank lending at confessional rate to Rural Financial Institutions against the loan portfolio of the later.

1.7.23 Rural Area

Area comprised in any village irrespective of population and also in any town, the population of which does not exceed 50,000.

1.7.24 Rural Non-Farm Sector (RNFS)

RNFS is defined as those enterprises and artisanal activities which could be classified as household, decentralized, tiny and small scale enterprises involved in production/manufacturing, processing, preserving, storing and marketing of goods and/or engaged in services and agro processing having a bearing on providing employment and incomes to persons residing in rural areas.

1.7.25 Sex

This is a binary variable with one for male and zero for female.

1.7.26 Short-term Credit

Short-term loans are granted for a period ranging from 6 to 18 months and are primarily meant to meet seasonal requirements of
agriculture purposes. This credit is also known as seasonal or production credit or crop loans. Jewel mortgage loans and pledge loans are also called as short-term loans.

1.7.27 Sub-standard Assets

An asset which has remained overdue for a period not exceeding 3 years in respect of both agriculture and non-agriculture loans should be treated as sub-standard assets.

1.7.28 Weaker Sections

Small and Marginal farmers with land holdings of 5 acres and less and landless labourers, tenant farmers and share croppers, Artisans, village and cottage industries where individual credit limits do not exceed Rs. 50000, Schedule Castes and Schedule Tribes and Self-Help Group Members come under the weaker sections category.

1.7.29 Wilful Defaulters

Wilful defaulters are borrowers who did not repay the loan installments due in that year though they had the means to repay the loans.

1.8 Limitations of the study

The present study is not far away from limitation. The data and information for this study were collected from the reports / records of the District Development Office, NABARD, Nagapattinam, sample PACBs, Tamil Nadu State Apex Cooperative Bank, NABRD Regional Office,
Chennai and other Government publications. There were wide variations in the data on the number of cooperatives in the short term cooperative credit structure and their outreach. To overcome problems data collected from NABARD was fully utilized. Further, to analyze the Socio-economic conditions the researcher fully depended on the perceptions of wilful and non-wilful defaulters. On the other hand at the end of the study period the Government of Tamil Nadu accepted the recommendation of Task Force on Revival of Cooperative Credit Structure (ST) for strengthening PACBs. Because of this the researcher has used the nomenclature both PACS and PACBs synonymously to mean the Primary Credit Societies, which are functioning at grass root level. As Government notification has not been issued as on date, the nomenclature ‘PACB’ is used widely. However, all these limitations have not affected the purpose of this study and its logical presentations.

1.9 Chapter Scheme

The study has been presented in five chapters as stated below.

➢ First Chapter deals with the Design and Execution of the Study

➢ The Second Chapter analyzes the Demand and Supply of Agricultural Credit in Nagapattinam District

➢ The Third Chapter analyzes the Functions of sample PACBs

➢ The Fourth Chapter analyzes the Socio-economic Conditions of Wilful Defaulters.

➢ The Fifth Chapter presents the Major Findings, Conclusion and Suggestions.
Map: Nagapattinam District
Location of Sample PACBs

LEGEND
- District Boundary
- Block Boundary
- Location of Sample PACBs
Note:

1. The Primary Agricultural Cooperative Credit Societies (PACS) are called as Primary Agricultural Cooperative Banks (PACBs) in Tamilnadu with effect from Government Notification – G.O.Ms.No507, COOPERATION (CCI) DEPARTEMENT Dated: 1.9.1987 and Letter No.32651 / CG.2/87-1, Dated: 13-5-1989. Though this pattern is not uniform across the country, their functions are similar except accepting deposits from members. They are referred to as PACBs here. The Primary Societies which are functioning in the hilly regions are named as LAMPS. The Primary Societies which are functioning in plains and involved in multi-activities are named as FSS (Ravichandran K: 2000, PP-24-25). Now due to the recommendations of Task Force on Revival of Cooperative Credit Structure again the nomenclature of PACBs in Tamilnadu is changes as PACS.

References


40. RBI (1969), *Report of the All India Rural Credit Review Committee*, p.56.


43. RBI (1989), *Agricultural Credit Review Committee*, p.533.


