Chapter – 6

Summary of Main Findings & Conclusions
The present chapter deals with summary of findings on “Causes and Consequences of Overdues in Primary Agricultural Credit Societies in Nellore District”. It also makes an attempt to bring out some suitable suggestions in the light of field experiences.

6.1 AN OVERVIEW OF THE LITERATURE

The literature on rural credit markets is quite extensive and it is rather difficult, if not impossible, to attempt an exhaustive coverage. Hence, the researcher has deliberately made a highly selective review of the literature on the rural credit market which has a bearing on the analysis of loan default. The burgeoning literature may be classified into two sets. The first set draws its inspiration from the neo-classical school and
advocates the free play of market forces and denounces state intervention. The writings mostly from the World Bank and its affiliates advocate a market-oriented approach to credit organisation. The second school of thought derives its origin from the market failure argument and advocates Government intervention in the credit market. The structural characteristics of the rural credit market reflect the varying degrees of its imperfections and call for regulation and direction of credit to meet the needs of agricultural growth and rural development. The perceptions about the efficiency of the market mechanism and its failure find their advocates among planners, politicians and economists and therefore, the divergence of their views on the nature and character of the rural credit market.

6.2 AN ANALYSIS OF AGRICULTURAL CREDIT SYSTEM IN INDIA

Agricultural Credit System in India is characterised by dichotomy with its organised and unorganised sectors functioning with different business practices and rates of interest. The organised sector comprising Government, Co-operatives and Commercial banks including RRBs whereas unorganised sector consists of professional and agricultural moneylenders, landlords, traders, relatives and others. The links between the formal and informal sectors are weak and hence the persistence of the dichotomy between the two markets.
The demand for agricultural credit is accelerating under the impact of development planning and concerted efforts are made by the government to meet this end. The share of institutional credit has increased phenomenally from 7.3 per cent in 1951-52 to 74 per cent in 1994-95. The progress of institutional credit for agriculture is impressive. The total institutional credit for agriculture increased from Rs. 4296 crores in 1981-82 to Rs. 39869 crores in 2001-02. Co-operative credit delivery system has a long history and has passed through several phases in its growth and development. Three-tier system is prevalent in most of the larger states while two-tier systems is found in the remaining States and Union Territories. The Primary Agricultural Credit Societies (PACs) have achieved phenomenal progress both in terms of coverage of rural population as well as quantum of credit supplied to the farmers in India. The total amount of credit advanced by PACs increased from Rs 4681 crores in 1990-91 to Rs. 15972 crores in 2000-01. The membership of PACs increased from Rs. 8.60 crores in 1990-91 to Rs. 9.87 crores in 2000-01. The high incidence of overdues in the agricultural credit system has become a major constraint to the expansion and smooth delivery of credit. The amount of overdues was Rs. 6 crores in 1950-51 as compared to Rs. 9378 crores in 2000-01, which shows an increasing trend. Its percentage of loans outstanding increased from 20.69 to 39.33 in the same period with fluctuations.
The entry of commercial banks and the role played by them in agricultural credit is one of the innovative developments in the history of modern banking. The expansion of branch network into the neglected unbanked areas almost unbelievable. Scheduled commercial banks' advances to priority sector was increased from Rs 1015 crores in 1971 to Rs 205606 crores in 2002. At the end of March 2002, the share of priority sector advances in the total credit of commercial banks was 33.7 per cent. But there were serious problems relating to efficiency of commercial banks due to increasing its overdues. At the year 2002 deposits and outstanding credit of 196 reported RRBs were Rs 42494 crores and Rs 18033 crores compared to Rs 199.83 crores and Rs 243.38 crores respectively reported by 85 RRBs in the year 1980. The percentage of overdues to outstanding advances increased gradually from 24.49 in 1980 to 40.51 in 2002. It indicates poor recovery performance. Government finance by way of direct assistance to agriculturists is very old in India. Today, it is mostly confined to programmes of poverty-alleviation and disaster-management. NABARD was set up as an apex institution accredited with matters concerning polity, planning and operation in the sphere of rural credit.
6.3 IMPACT OF INSTITUTIONAL CREDIT ON AGRICULTURAL SECTOR IN NELLORE DISTRICT

The agricultural credit market in Nellore district is a species of the genus of India. The rural economy of Nellore district, like that of the nation is dominated by agriculture. The net area shown in the district claimed 26.67 per cent of the total area of land as against 38.35 per cent in the Andhra Pradesh. The average annual rainfall in the district is 1000mm. Its cropping pattern is dominated by paddy. The inequality in operational holdings is slightly lower than that of the State. The agricultural credit market in the district consists of organised and unorganised agencies like that of the country. The formal and informal agencies operate and render services to different clientele. The picture of rural credit and finance had undergone a significant change with the increased role of formal financial institutions in the district.

The Nellore District Co-operative Central Bank (NDCCB) was established in 1918. The percentage of borrowings to working capital increased from 72.68 per cent in 1994 to 74.10 per cent in 2003 indicates increasing the dependency of bank on external sources. The percentage of overdues to demand has increased from 40 per cent in 1994 to 72.16 per cent in 2003. The recovery performance of NDCCB is no better and has been deteriorating in recent years. Thus the financial performance of the
co-operative credit system presents a dismal picture. The number of PACS under its jurisdiction is 199. The membership of PACS increased from 5.6 lakhs in 1991-92 to 8.4 lakhs in 1999-2000. In the case of loans advanced by PACS, there is an increase of 247.99 per cent in 1999-2000. The percentage of overdues to demand increased from 62.87 to 67.81 over a period of eight years. Thus, the capital base and recovery performance of PACs shows a deteriorating trend in the district.

The member of commercial banks increased form 187 in 1991 to 225 in 2003. This reflects the change in official Indian policy when, as a result of the disappointing performance of the co-operatives, the commercial banks became instrumental in reshaping the rural financial structure. The percentage of overdues to demand is decreased from 47.87 in 1999-2000 to 41.12 in 2002-03 indicates there is an improvement in the efficiency of recovery performance.

In order to supplement and compliment the services of commercial banking system in the sphere of rural banking a new type of institutional device was innovated and introduced under the nomenclature of Regional Rural Banks in 1975. The establishment of the Pinakini Grameena Bank in 1982 is one of the significant landmark in the rural financial system of the district. With in a span of 10 years the progress of the bank is impressive, as measured by the conventional indicators of banking. However, the
recovery performance of the bank as measured by the proportion of overdues to demand decreased from 46.67 per cent in 1994 to 32.29 per cent in 2003, which indicates improving the recovery performance.

6.4 CAUSES OF OVER DUES IN CO-OPERATIVES

The analysis of credit market of sample borrowers reveals that there is a positive relationship between size of holding and access to institutional credit (0.5869). The progress of sample societies is quantified over a period of ten years i.e., from 1993-94 to 2002-03 with respect to membership, share capital, working capital, borrowings, loans advanced, loans outstanding and overdues. ANOVA results show that there is a significant difference in the disbursement of loans of sample societies among the three regions and categories, but there is no significant difference in the overdues of sample PACS among the three regions and categories. But the difference is not significant in the disbursement of loans of sample PACs among categories of borrowers. There is an unequal distribution of the amount outstanding and overdues among different size groups of borrowers. In the district as a whole 29 per cent of marginal, 45 per cent of small, 19 per cent of medium and 8 per cent of large farmers had a share of 36 per cent, 37 per cent, 17 per cent and 10 per cent of loans outstanding, 27 per cent, 35 per cent, 24 per cent and 14 per cent of overdues respectively. There is a negative relationship between the size of holding
and loans outstanding and overdues at district level are -0.9314 and -0.8337 respectively. All the sample societies except Lingasamudram are incurring losses during the period under study. The proportion of co-operative borrowings to current borrowings from all sources of sample households works out to 33 per cent. It is higher in the case of marginal and medium farmers as compared with large farmers.

6.5 EXTENT OF OVERDUES AT DEFAULTER LEVEL

There is an inequality in the distribution of amount defaulted among different categories of farmers (skp=0.4879 and CV = 68.05 per cent). ANOVA results show that there is no significant difference in the level of default among the three regions. But there is a significant difference between different levels of borrowing. There is a positive relationship between the size of holding and level of overdues (r=0.9982), similar relationship and wilful defaulters overdues (r=0.9633).

The reasons for default of co-operative credit are six fold in our study. It is an analytical and not a quantitative approach. Nevertheless certain insights into loan delinquency are obvious. Defects in farm production account for 16.11 per cent of defaulters and their loan defaulted is 12.63 per cent. Variability in incomes, deficiencies in the credit organisations, attitudinal conditions account for 18.89 per cent, 12.78 per cent and 14.44 per cent respectively for defaulters and their default amount
was 16.95 per cent, 10.69 per cent and 16.70 per cent respectively. Misallocations and miscellaneous reasons account for the remaining 37.78 per cent of defaulters and 43.03 per cent of the amount defaulted. Chi-square ($\chi^2$) test is applied to test the association between the size of borrowing and causes of default. The results reveal that there is a significant association between the size of borrowing and the causation of default.

6.6 NATURE AND DIMENSIONS OF WILFUL AND NON-WILFUL DEFAULT

There is a positive relationship between the size of holding and asset status, income generation and debt accumulation of sample households. ANOVA results show that there is no significant difference in the asset, income and debt accumulation of defaulted and non-defaulted members of sample borrowers. But the difference between categories of borrowers is significant. Gini-co-efficients of assets, income and debt for defaulters are lower (0.36, 0.37 and 0.43) compared with non-defaulters 0.43, 0.45 and 0.41 respectively. The proportion of wilful defaulters to total defaulters works out to 31 per cent and it is higher in Gudur and Nellore regions (35 per cent) followed by Kavali region (23 per cent); further these wilful defaulters are highly concentrated in large size and holding categories (48 per cent) and forward castes. There is a positive relationship between the
level of borrowing and wilful default ($r=0.8224$). 39 per cent of the defaulted amount of wilful defaulters is below 2 years, 38 per cent is between 2-4 years and 23 per cent above 4 years. The results of chi-square test which is presented in Table 5.10 shows that there is no significant relationship among the various socio-economic factors like caste, family size, occupation and irrigation status of holding of wilful and non-wilful defaulters except a significant relationship in land, education and amount borrowed. In the case of non-defaulters and non-wilful defaulters, there exists a significant relationship in the land and family size. The other factors namely education, caste, amount borrowed, occupation and irrigation status of holding are not significant at 5 per cent level. 36 per cent of borrowers and 64 per cent of wilful defaulters diverted credit for non-productive purposes. ANOVA results pertaining to data (Table 5.12) indicate that there is no significant difference in the number of wilful defaulters between divisions and purposes of credit utilization. 70 per cent of wilful defaulters are connected with the persons managing the societies.

Seven socio-economic factors are identified as independent variables and their relative importance in explaining the overdues is examined with the help of regression analysis (See Table 5.14 to 5.17). It is observed from the results of multiple linear regression analysis that 20.10 per cent of variation in average amount of loan overdues is explained by the various
socio-economic factors of wilful defaulters. There is a significant positive effect of operational size of holding by wilful defaulters on average amount of loan overdues. It is found that out of 20.10 per cent of the variation, the contribution made by the operational size of holding is 14.82 per cent which is significant at 1 per cent level. The contributions made by other factors are insignificant. In the case of non-wilful defaulters, there is a significant positive influence of operational size of holding on average amount of loan overdues. Out of 39.40 per cent the variation in loan overdues, 24.46 per cent is contributed by operational size of holding. The remaining factors contribution is insignificant at 5 per cent level. The results of the 'Z' test (difference between means of two groups) reveals that there is a significant difference between wilful and non-wilful defaulters with respect to all the socio-economic characteristics.

6.7 MEASURES FOR REDUCING OVERDUES

The management of sample PACS like that of their counterparts in the country, being dominated by powerful vested interests fail to initiate administrative action for recovery and hence legal action is the last resort. It is well known that it is both expansive and time-consuming and is in itself the cause of chronic overdues. However, it becomes inevitable if the already vitiated co-operative credit recovery effort is to be protected.
Legal action against the defaulters passes through two stages, namely, (i) filing of arbitration reference and (ii) the execution of awards given by the arbitrators. The intensity of serving notices and visits by higher officials as well as legal action in terms of cases filed in court, awards given, attachment and auction is more in the case of wilful defaulters compared with non-wilful defaulters.

The co-operative societies have achieved the targets assigned to them in respect of providing credit to the agriculturists in Nellore district, yet much is required to be done on qualitative front. It is also reported that many borrowers are not sanctioned adequate amount of credit for the intended purpose. The main reason for this is the improper maintenance of records about individual land holding, cropping pattern and also wrong fixation of scale of finance. The procedure involved in sanctioning and disbursement of credit should be simplified and every member should be provided with a pass book containing all the socio-economic particulars of the member. It is observed that many respondents in the present study have openly expressed that they have deliberately postponed repayment of loans with the expectation that the Government, one day or other, would write off all the co-operative loans. It is also observed in many a case that there has not been any supervision over the end use of credit. It is essential to enhance the efficacy of the supervisory machinery by suitable measures.
and effectively watch the utilization of loans by the defaulters. There is a serious need to enforce recovery against the unresponsive and intentional defaulters.

The government measures such as write off of agricultural dues, relief announced by political functionaries from public platforms, stay orders on legal process of recovery, disbursement of loans at the hands of political dignitaries in "loan melas" etc., have vitiated the recovery climate. Central as well as state governments should evolve a concrete and highly effective policy for the recovery of dues and take the firm and objective view in respect of wilful defaulters. Mass programmes for the disbursement of loans such as 'Loan Melas' should be stopped, as they have deleterious effects on the functioning of credit agencies. Hence, the need for wholehearted efforts to improve the capacity of members to borrow and readiness to repay the loans by all possible means. The promptness to payback loans by the members can be ensured to a great extent by making the societies evolve a moral code to be strictly abided by all the members.