CHAPTER - VIII

FINDINGS AND SUGGESTIONS

Findings

I. THE AGRICULTURAL CO-OPERATIVE CREDIT MOVEMENT IN KARNATAKA CHARACTERISED BY ALARMING OVERDUES.

The co-operative movement as a whole has not stabilised and finds itself faced with many challenges, which may impair and distort the character of the movement. A large number of non-viable and dormant societies are running under heavy losses. Uneven growth, ineffective management, misappropriation cases, mounting overdues, etc., are some of the vulnerable problems of agricultural co-operative credit movement in India as well as in Karnataka. Among all the problems, the problem of constantly increasing overdues has become a great curse and threat to the movement. The scenario of formal agricultural credit in India and Karnataka, since the mid-seventies, is characterised by an expansion of credit in the wake of the entry of commercial banks just to supplement and support the common cause of agricultural development envisaged by the PACSs at gross root level.

The magnitude of delinquency has recently assumed such a serious proportion as to choke the credit pipeline.
is a serious ticklish problem because overdues are not only undermining the soundness of the cooperative credit structure but also lead to virtual stagnation of cooperative credit. The increasing overdues have not only affected the ability of cooperatives to extend further credit, but have also put in doubt the credit worthiness of cooperatives. It has not only exceeded the total amount of owned funds but also the entire internal resources. It thus acts as a serious restraint on the smooth flow of credit, consequently affecting the investment as well as durable capital in the modernisation of agriculture. The problem of overdues is not a special phenomenon with agricultural credit cooperatives only. But it is also found in other lending agencies under multi-agency system.

The mounting overdues in the cooperatives, dispensing short-term and medium-term agricultural credit in the country, have been causing serious concern to the government of India, the Reserve Bank of India, the NABARD, the State Governments and the cooperative institutions.

But, of late, escalating overdues coupled with poor internal resources have affected the viability of credit cooperatives in many states. This has clogged the channel of credit flow and led to stagnation in the use of cheap cooperative credit as a crucial input in the modern scientific method of raising
crops. Defaulted credit, in turn, will affect even the prompt repayers in getting fresh finance.

The most disquieting feature is that our Karnataka State has been facing vagaries of nature for the last few years, which has added fuel to the fire of flagrant situation of mounting overdues.

The causes for overdues may be grouped into two main categories. Viz., external and internal factors. The external factors can be said to include those which are beyond the control of lending institutions Viz., climatic conditions, irrigation facilities, cropping pattern, etc. Internal factors relate to organisational and supervisory arrangements obtaining within the institution, which should normally help in reducing the level of overdues.

The major contributing causes may be attributed to lack of proper will and discipline among the borrower-cultivators to repay the loans promptly when it becomes due. Defective lending policies, apathy of management to take quick action against defaulters, certain attitudes and policies of State Governments are the causes for large chunk of overdues. Besides, natural calamities like floods, pests, famine and drought conditions considerably affect the crops and repaying capacity of the borrowing members.
The incidence of ever increasing overdues in Karnataka in recent years especially in PACSs, and DCC Banks has caused considerable distress and produced critical impact on the expansion of agricultural co-operative credit movement. The total amount of overdues in PACSs in the Karnataka State increased from Rs. 547 lakhs in 1960-61 to almost double during 1965-66 and the level of overdues galloped to six times by 1973-74. Again in the subsequent years, the level of overdues was astonishingly increased and the same amounted to 12 times during the years covered in the study.

Though the quantum of credit pumped-in by agricultural credit co-operative for the agricultural development has increased during the last several years, recovery of loans advanced is not at all improving and with the result, overdues are mounting up. In view of these facts, there is a lurking fear of collapse of cooperative movement leading to large number of moribund and dormant societies. Hence, a paramount need was felt for an analysis of multiple causes responsible for mounting overdues.

In order to study the overdues in the agricultural credit cooperative structure at the gross root level, only the PACSs have been selected because they have direct bearing on DCC Banks and in turn on Apex Bank and ultimately on Reserve Bank/NABARD - the
lender of the last resort. Moreover, these PACSs will directly benefit the farmers who are the ultimate borrowers. The study points out that a small number of members are continuously borrowing for the last several years and majority of them are sinking under heavy overdues, thus making themselves ineligible to receive fresh finance.

II. LEVELS AND TRENDS OF OVERDUES IN SHORT-TERM AGRICULTURAL CREDIT STRUCTURE IN KARNATAKA.

The entire owned funds of the PACS/DCC Banks have been engulfed by the overdues, which further restrict the ability of the distinct central co-operative banks to raise outside resources. The cooperative movement cannot sustain too long in such a predicament and, therefore, deserves to be probed in detail for ascertaining the prime reasons, so that stringent punitive measures can be taken at an appropriate time.

1. The percentage of overdues to demand in respect of Karnataka State Co-operative Apex Bank was 3 in 1917-72, but it increased to 15 in 1981-82. However it came down to 5 in 1987-88. But the percentage of chronic overdues which was nil in 1971-72 reached to 29 in 1981-82 and again declined to 12 in 1987-88.
2. The percentage of overdues to demand in DCC Banks was 40 in 1971-72, 47 in 1981-82 and 54 in 1986-87. But it came down to 28 in 1987-88. Similarly, the percentage of chronic overdues to total overdues was 23 in 1971-72, which jumped to 28 in 1981-82 and to 31 in 1987-88.

3. The percentage of overdues to demand in respect of PACSs was 43 in 1971-72, 50 in 1981-82 and 54 in 1986-87. However, it came down to 21 in 1987-88. The percentage of chronic overdues which was only 18 in 1971-72, reached to 28 in 1981-82 and to 31 in 1987-88. Further in the case of these societies, the total amount of overdues was so high that it was actually more than the total amount of internal resources in many districts.

4. The percentage of overdues to demand in respect of Farmers Service Societies (including Sericulturists-cum-farmers Services Societies) was 50 in 1976-77 and 56 in 1986-87. But it came down to 34 in 1987-88. The percentage of chronic overdues was only 16 in 1976-77 but this increased to 35 in 1986-87. However, it came down to 31 in 1987-88. But the total amount of overdues was 2 times more than the total amount of owned funds and about 1½ times more than the total amount of internal resources. The percentage of overdues to demand was 32 in 1971-72 and this reached to 70
under irrigation. In the district of Mandya, which is having over 38 percent of total net area sown under irrigation, the percentage of overdues to demand was 28 in PACSs, 43 in PACSs financed by commercial and R.R. Banks and 37 in FSS in 1987-88. This indicates the wilful defaultness.

III. ANALYSIS OF SOCIO-ECONOMIC CAUSES FOR MOUNTING OVERDUES IN PACSs.

The varied causes responsible for the mounting overdues have been broadly classified in this study into: (i) economic factors, (ii) administrative factors, (iii) social, political, and educational factors, (iv) natural factors, and (v) circumstantial factors.

(1) Analysis of Economic Factors:

1. An analysis of the defaulter's on the basis of the size of land holdings throws a light on the problem of overdues and default. It is revealed from the study that the percentage of defaulter's was 55 in respect of marginal farmers, 59 in respect of small farmers, 53 among medium farmers and 61 among big farmers. It is, therefore, not correct to say that larger the land holdings, lesser will be the defaulter's.

This conclusion negatives the commonly propounded hypothesis that, "It is the big farmers who account for a large slice of growing overdues"?
2. The assumption is that the borrowers with much land under irrigation would be regular repayers as compared to borrowers with dry land cultivation. At the State level, the percentage of defaulters among the borrowers under dry land cultivation was 61 whereas it was 55 under the tank irrigated areas, 58 under well-irrigated areas and 51 in the areas irrigated by canal. Thus the hypothesis, "larger the area under irrigation, lesser will be the percentage of defaulter" holds true.

3. The growing of cash crops or commercial crops can also influence the level of overdues in PACSs, because cash crops ensure stable income to the farmers, thereby enhancing the repaying capacity of the farmers.

   In the State, the percentage of defaulters among the borrowers growing cash crop was 51, whereas among non-cash crop growers, it was 67. Thus, "there is a strong association between the types of crops grown and the percentage of defaulters".

4. It is believed that the farmers growing double or triple crops will be in a better position in liquidating their debts than the farmers who grow a single crop. The
percentage of defaulters was 51 among cash crop growers, whereas it was 67 among non-cash crop growers. Hence, the above hypothesis holds true.

5. If the area is more intensively cultivated, the more will be the cash turnover in the hands of farmers, with the help of which, they can pay-off their dues and hence less will be the overdues.

The study reveals that there is an association between the percentage of defaulters and the number of crops grown. Among single crop growers, the percentage of defaulters was 67 whereas it was 54 among double crop growers. Thus, the hypothesis holds true.

6. It is believed that "borrowers whose main occupation is cultivation of land default less than whose main occupation is other than cultivation".

It is also believed that "the borrowers, who along with cultivation as principal occupation, rely on subsidiary pursuits like dairy, sheep rearing, piggery, poultry, horticulture as subsidiary occupations, default less than those who depend only on cultivation of land". It is evident from the study that percentage of defaulters was 77 among
the dependents only on agriculture and 66 among agricultural labourers. These agricultural labour families are mainly small and marginal farmers. Defaulter among these families are more because they give less importance for intensive cultivation on account of less fertile and small-sized holdings. The next highest percentage of defaulters was 50 each in respect of the borrowers depending on agricultural labour and agriculture, and agriculture and employment. Among the borrowers depending on agriculture and allied services, the percentage of defaulters was 36, being the lowest one.

Thus, "there is a strong association between the percentage of defaulters and the type of occupation followed by them".

7. There is a vital relationship between the mode of cultivation and the extent of default. Our study in this behalf clearly indicates that defaulters are less among the self-cultivators than among those who get their lands cultivated either by annually appointed labourers or by paying cultivation charges to others or by giving their lands on lease to others.

8. The study clearly indicates that the percentage of defaulters is less among the borrowers not depending on
hired labour than that among the borrowers depending either partly or fully on hired labour.

9. It is revealed in the study that the farmers who hoard their produce in expectation of higher price, default more than the farmers who dispose off their produce immediately.

10. The study reveals that there is a direct and positive relationship between the size of the crop loan borrowed and the extent of default. Hence, the hypothesis "More the quantum of loan borrowed, higher will be the incidence of default", holds true.

11. Comparative study of the size of income and default exhibits that the percentage of defaulters is less among the borrowers of higher income group.

(ii) Administrative Factors Contributing To Overdues

1. The elected representatives on the board of Management have a special role and responsibility for efficient management of the institutions, for they are better placed to assess credit needs, proper deployment of funds, mobilise local savings and above all, recover loans promptly. The role of directors of co-operative credit institutions,
among other things, should be to create a better atmosphere for voluntary repayment by the borrowers, persuade the borrowers in the initial stage and coerce the wilful defaulters in extreme cases. They should be familiar with the agricultural business of members. They can closely supervise the end-use of the credit and watch the yield and disposal of their produce at better prices, so as to ensure timely recovery of loans.

In nutshell, the principles of mutual knowledge, cohesion and trust besides supervision, when effectively practised especially by those in charge of management of the institutions, should, to a large extent, solve the problem of recovery. However, in practice, the managing committee members of PACSs and the board of directors of DCC Banks have shown general apathy in the matters of recovery. Lack of earnestness on the part of office bearers was manifest. They were not imbued with moral fibre to impress upon the borrowers for prompt and punctual repayment of their loans, when they themselves were defaulters. Secretaries are not paid properly and even annual general body meetings are not held regularly.

2. The agricultural credit co-operatives have not reoriented and rationalised their loan policies according
to the crop loan system. Loans are still given on the security of landed property and not on anticipated crops.

There are no proper timings either for disbursement of loan or for recovery of loan.

The entire loan is let out in lumpsum once in a year instead of being paid in instalments. The scale of finance on the basis of which loans are to be advanced cropwise for different areas are to be determined at a "Technical workers' Meeting" attended by a compact group of knowledgeable persons. It is widely admitted fact that the scale of finance for different crops and areas are in no way related to the cost of production, scales may be too low and with the result; they may be forced to approach usurious money lenders who charge exhorbitant rate of interest. So it is better to fix the scale of finance for different crops by selecting a compact area on soil profile, rainfall and agro-climatic conditions - preferably a taluka or group of hoblies as the case may be. In this connection, a flexible scale for irrigated, non-irrigated areas, high yielding and local varieties be fixed on the basis of cost of production coupled with estimation of production or yield and income aspect of the borrowers, which depend on the proper use of loan.
Each PACS is required to prepare a normal credit statement every year setting out a quantum of finance needed by each of its members on the basis of crops grown by them and the area held by each of them. They are not prepared on realistic basis in the manner they need to be prepared. They are prepared haphazardly without assessing the actual needs of agriculturists. Before appraising the same, a thorough scrutiny should be made as it forms the basis of crop loan system. This will also help to solve the problem of recovery.

The adoption of unrealistic scale of finance and incorrect Normal Credit Statement gives scope for over-finance or under-finance. Over-finance in the case of medium and small farmers and under-finance in the case of big farmers have further accentuated the problem of overdues. The officers of PACSs are arbitrarily increasing the quantum of loan to be advanced to their favourite members by putting more acreage under cash crops, for which a higher scale of finance is fixed. This has led to accumulation of overdues. Any way procedure of advancing crop loan is very deplorable. Because of inadequate finance, they have to borrow from money lenders at an exhorbitant rate of interest. So entire spectrum of farm finance has got to be streamlined to step up production-oriented farm economy in the light or recent break through in agriculture.
3. Just to comouflage the recovery position, a recourse to window dressing is adopted by book adjustments. A fictitious type of recovery is shown by passing necessary entries in the books of accounts as to amount, as if paid and received. This type of adjustment has indeed stifled the repaying tendency of borrowers. This has in due course led to a large chunk of overdues. In this connection, co-operative department and co-operative central financing agencies should exercise utmost vigilance to see that the book adjustments to show non-genuine recoveries do not occur on a large scale and take all possible measures for avoiding them by adoption of the principle of seasonality and insistence on a reasonable gap between the dates of recovery and fresh finance.

4. During the field study, it was noticed that the benami loans are still recurring in the name of deceased and fictitious members - who have no longer any connection with the affairs and transaction of one society. These loans, in due course, will form into bad debts, if no timely action is taken to book the culprits - through proper enquiry and inspection as per section 64 and 65 of Karnataka co-operative Societies Act, 1959. The Department of co-operation should leave no stone unturned in pursuing recovery of such loans.
5. The working of the PACSs has also been adversely affected by the domination of vested interests in these societies. Political parties are increasingly using the societies to perpetuate their hold on the rural masses. The leadership of many societies has gone in the hands of money lenders, jagirdars and politicians. In many cases the domination of co-operative institutions by a group results in the denial of membership and credit to the members of the rival groups who persuade people not to repay the dues, so as to embrace the group to which ruling management belongs.

6. Sound and satisfactory supervision over the primaries would go a long way in arresting the upward trends in overdues. Credit being a scarce commodity needs to be managed wisely. This in fact stresses the need for strict supervision over the proper utilisation of loans, because uncontrolled credit in ignorant hands may spell ruin, threatening not only the PACSs, but also the great credit structure that supports them. So greater the risk, greater must be the supervision of loan. Co-operative Credit, being cheaper, it is more likely to be misused, if not properly supervised. Bad supervision makes it possible for loans to be diverted to non-productive purposes and this in turn increases the overdues.
So proper supervision has a crucial role to play in curbing the rate of default and to contemplate the agricultural and economic development of the country. Supervision, therefore, should be invariably treated as the legitimate function of the State and Central Co-operative Banks. Financial supervision should be the responsibility of the DCC Banks and hence the control over the supervisory staff should vest in the banks.

Supervision is classified into three categories such as (i) administrative supervision (ii) financial supervision, and (iii) legal supervision. Proper supervision should be made covering all the aspects touching the development of PACSs.

If the loan is not recovered within the due date, he must get the notices issued under section 99 of KCS Act against defaulters and obtain orders under section 100 for recovery. If subsistence farmers are to be assisted, it is essential that loans to them must be carefully given, their utilisation properly supervised and recovery ensured.

The efficient supervision must help (i) to supply adequate credit, (ii) to check over diversion of credit, (iii) for linking Credit with marketing, and (iv) for timely recovery of loans.
It is noticed in the field study that the supervisors are reluctant to mix with the illiterate farmers and do not halt in the villages to tackle wilful defaulters effectively. They are aspiring after favour of politicians who are directly or indirectly related to present or past directors.

Supervisors should not think themselves as the bosses of secretaries but should behave as their friend, philosopher and guide.

Frequent transfers of supervisors prevent them from establishing proper contact with the borrowers, affect their smooth working and hinder their sense of responsibility.

As per the field study, average number of societies, both organised and non-organised comes to 13 societies per supervisor. Though, due to reorganisation of PACS, the number of PACSs per supervisors is reduced in Karnataka, the number of members to be supervised is not reduced and on the other hand, enrolment of members under erstwhile SFDA/MFAL programmes particularly weaker sections, has been increased perceptably. This has further increased the work load of supervisors. The work load also depends on the volume of business transactions of the societies, distance of the villages from the head quarters of the taluka, where
supervisor is residing, availability of transport facilities, etc.

This, therefore, clearly indicates that the workload per supervisor has considerably increased. It is, therefore, indispensable that an average number of societies per supervisor, taking into consideration the number of clients to be served. It should not be more than 10 societies in case of small non-reorganised societies and 5-6 in case of reorganised big societies. As per the pilot project for strengthening Credit Delivery System launched by the NABARD in Hassan district of Karnataka State, a target has been fixed to cover 500 clients per supervisor. By this arrangement even though an effective supervision is ensured, it becomes a costlier affair on the part of DCC Banks to implement it with its owned funds without any external aid.

Any way it is regretting to note during the field study that 82% of borrowers did not know the name of the supervisor of DCC banks. On the basis of land holdings, 91% of marginal farmers, 88% of small farmers, 78% of medium farmers and 68% of big farmers did not know the name of the supervisor and cooperative extension officer. This clearly indicates that there is a wide gap of relationship between the borrowers and supervisory machinery. It is also noticed that 79% of them
said that neither the supervisors, nor the cooperative extension officers met them for any purpose. Similarly, 87% of MF, 77% of SF, 72% of MDMF, 63% of BF gave the same answer. So supervisors should invariably make it a point to mix and mingle with the borrowers and discuss their problems through group contracts preferably during night halts. Job chart of supervisor/inspector should be revised by giving them suitable incentives. Two wheelers should be provided to improve their mobility, if possible.

7. Harvest is an important event to the farmers and societies as well. Notices in the regional languages, reminding the borrowers about the loan taken from the PACS and his obligation to repay at least a month before a harvest have been found to yield good results. Out of 320 borrowers, 112 borrowers or 35% expressed that they did not receive the notice and some of them did not know whether the demand notice came to their houses. Even among total number of 180 defaulters, 70 or 39% of them expressed that they did not receive the notices. Thus failure to send notices in right time to the borrowers insisting on repayment of their loans has been one of the causes for escalation of overdues. It is, thus, found that the percentage of defaulters was comparatively less among those who received notice for repayment of dues before harvest. It is, therefore,
essential to issue notices for repayment of loans before harvest, so that they will at least be mentally prepared for repayment of their loans.

8. Another important defect of crop loan system is that the entire loan is distributed in one lump sum at a single point of time. But agriculture is an unique economic activity in which the cash inflows, by and large, are on year's proposition specially at the time of harvest. On the other hand, cash outflows are spread throughout the year. To ensure correct flow of credit, it should synchronise with the seasonal pattern and spread over throughout the seasonal cycle.

Agricultural finance as such should be made available to the farmers in a phased manner to meet the expenditure at different stages of cultivation, instead of advancing it in one lumpsum in order to avoid misuse of it. If all the loan is granted at a point of time, there is likelihood of diversion of loan for unproductive purposes. The credit procedures need thorough modifications and simplification. He should have the facility to draw as and when he needs it just to avoid the temptation to misuse it. Now-a-days a part of loan is provided in kind and the rest is disbursed in cash to avoid widespread misuse of it.
Cash credit could therefore, be advanced in 2-3 instalments at different stages of cultivation, taking into account the seasonality of various agricultural operations.

9. Though the loan demanded by the member of the society is sanctioned for which he is eligible, the entire loan amount sanctioned does not reach his hand, since deductions towards share capital, share fee, deposits, etc., are made from the loan amount sanctioned.

The small and marginal farmers have to contribute 5% of their loan amount and others have to pay 10% towards share capital. Thus they have to incur the burden of loan without actually receiving it by paying interest on it. Usually realisable share amount and dividend is not tantamount to the amount invested thereto in the PACSs. On account of this short fall in the loan received, the farmers may again approach money lenders to get extra loan at a higher rate of interest.

However, small and marginal farmers are not able to pay the entire value of the shares at the time of taking the first loan. In such cases, insistence on the payment of share capital in full, may not only cause hardship but acts as a stumbling block in the way of their membership. The compulsion on
members to contribute towards share capital and deposits has adversely affected the further development of cooperative movement.

It is true that such deductions towards share capital promote the habit of thrift among the farmers and in fact is an indirect form of increasing the level of his savings and borrowing capacity as well. This not only raises his investment and productive capacity but also goes a long way in building up of a strong and sturdy structure of cooperative movement, which is accepted in our country. The farmers' economic horizon is not wide enough to measure the benefits accruing thereto. He gives greater weight to short-term considerations of economic growth. A complete relaxation is not possible for one reason or the other, the percentage of deduction should be reduced to a minimum extent.

10. One of the important reasons for the accumulation of overdues is the lack of pursuing follow-up action to recover the dues. Merely by issuing notices either before or after harvest, the loan will not be recovered. The borrowers should be persuaded besides sending notices. They should be personally appraised frequently.

The officers of the PACS and the recovery staff of the DCC Banks should establish close contact with the borrowers.
as their personal friend, philosopher and guide. But in many societies, there is an utter dearth of coordinated and correlated extensive method of approach.

It is evident from the study that 32% of borrowers and 47% of defaulters stated that the officers met them for repayment of dues of the society. Again it is revealed that percentage of defaulters among those to whom the officers met was 46 and it was 68 among those to whom the officers did not meet to recover the loan. Thus the personal visits and constant touch with the borrowers by the officials and non-officials of lending and other institutions will definitely help in reducing overdues.

The maximum recovery will not be effected just by meeting the borrowers once or twice and casually asking them for their repayment of dues, but officers concerned must pursue them frequently and keep a constant watch over the movement of his marketable surplus. The farmers often release their marketable surplus as and when the prices increase. Hence, the officials of PACS should place their demand as and when they release their produce for marketing. Thus, constant persuasion will definitely boost up the recovery position. Percentage of defaulters was 75 in respect of borrowers to whom the recovery officers or society employees
met less than 4 times, 58 in respect of whom the officers met 5 to 6 times, 40 in respect of 7 to 8 times of contact, 29 in respect of 9 to 10 times of contact and 44 in respect of contacts over 10 times. Thus the percentage of default generally goes on reducing when officers go on persuading the borrowers for effecting recoveries.

11. A low rate of interest would be dangerous, since it tempts to re-lending at a higher rate of interest, at the cost of contemplated productivity. As most of the farmers are also indebted to money lenders, they would consider it more profitable to repay them on priority because of much higher rate of interest charged by them as compared to lower rate of interest charged by cooperatives. Consequent upon low rate of interest charged by cooperatives, the more affluent members find it to their advantage not to repay such loans quickly as their liquid funds bring in better results elsewhere. It also results in the encouragement of vested interests who would exploit the movement. It tempts big rich farmers to borrow in the garb of poor small farmers. It encourages benami loans. It has enlarged the scope of lavish and unwise spendings.

The current thinking on the subject is that the average Indian peasant is not so much worried about the higher cost
of credit, but is eager to have it in right quantity, at right
time without undue delay. Nevertheless, it can be said
that unless current rates of interest are in consonance with
the money market, the movement as a whole is likely to suffer
without yielding benefits to the cultivators.

12. The problem of overdues will not be stemmed out completely
merely by repeated contacts by the secretary of PACSs and
supervisors of DCC Banks. In this connection, team spirit
is essential. A recovery drive has to be launched by a
team-consisting of secretaries, board of directors of PACSs
and DCC Banks and also officers of DCC Banks and cooperative
department, so as to promote voluntary repayment. They
should also exert pressure, wherever it is not forthcoming
voluntarily.

The drive for recovery should be organised efficiently
during the period when the farmers have money. When a
question was asked to the borrowers as to who usually meets
them for the recovery of loans, 62% of members said that
PACS Secretaries or Peons meet them often. 50% members
said that officers usually meet them for recovery of loans
Some 25% of members responded that team of directors
assisted by officers meet them to effect recovery. However, a
systematic consistent drive through a team of officials and
non-officials, it is quite possible to recover the dues even from wilful defaulters.

When another question was asked as to what prompted them to repay the loan, 47% of them said that they paid voluntarily, 13% of them said that peons visit to their houses for recovery was deemed as an insult, 11% of them said that officers had threatened them to attach property, 11% of them said that repayment was made just to pay respect to leaders who personally visited their houses, 9% of them said that to avail benefit of interest subsidy scheme, they repaid the loan. However, it was ascertained in the field that Directors due to obligations, constant touch and friendly relations with the borrowers did not insist on repayment.

It was also ascertained during the field study that despite of awareness of consequences of non-repayment such as non-availability of fresh loan, payment of penal interest on overdue loan, ineligibility to vote and become director, arbitration cases, attachment and sale of property, etc., they did not pay their dues.

Similarly, it was found during the field study that some of the wilful defaulters got the protection because
of some influential politicians. These politicians would see that no arbitration cases are filed against the defaulters related or known to them.

13. The problem of wilful default has enlarged the scope of coercive measures. In fact the Karnataka Cooperative societies Act, 1959 and rules ((1960) have practically made exhaustive provisions. Sections 20, 35, 70, 71A, 71B, 99, 100, 101, 102, 103, 104, 109 (15) etc, to deal with wilful defaulters, but these provisions have not been effectively implemented. Prompt action should be taken to refer all the cases of wilful defaulters to arbitration and there should be no delay in pursuing execution of awards passed by the arbitrators.

The provision of separate recovery staff under the charge of a Judicial will improve the position. Even wilful defaulters can be discouraged by providing penalty like civil imprisonment and by refusing them fresh finance in future. All such recalcitrant defaulters should be blacklisted.

14. Most of the PACSs are managed by inexperienced, unqualified, untrained and low paid, locally appointed part time secretaries with unsecured job conditions. As per section 111A of the
1. It is amply clear from the study that the dominant and influencing castes like vokkaligas and lingayats, default more than the other castes. Hence, the hypothesis 'lower the castes, higher will be the percentage of default' will not be found valid.

2. It is believed that the younger the borrowers, the higher will be the percentage of defaulters. Close analysis of the data reveals the fact that among the borrowers especially in the age group of 50 to 60 years irrespective of their size of holdings, incidence of default is found to be comparatively high. The hypothesis, "The younger the borrowers, the higher will be percentage of defaulters" will not hold true.

3. The study reveals that there exists a close association between the family structure and the percentage of defaulters, as the percentage of defaulters is high (63%) among single (i.e. non-joint) families.

4. Further it is also ascertained that the percentage of defaulters depends on the size of the family. The percentage of defaulters was more than 60 in respect of families having less than 6 members and it was less than 50 in the families
having more than 7 members. If the family consists of a large number of persons, they can share in work on the field or help to supplement the income of the family by working outside or some of them may undertake subsidiary occupations, which not only improve the financial position of the agricultural families but also render help in reducing the overdues. Thus, it clearly indicates that larger the size of the family, the lesser will be percentage of defaulters.

5. All elders in the family usually persuade the managing borrower of the family to be punctual in repayment of the loans borrowed. So it goes without saying that whenever a borrower keeps other family members informed about the credit dealings, they may automatically develop a sense of collective responsibility in liquidating the overdues. The study reveals that the percentage of defaulters to PACSs is comparatively less among those who inform their loan transactions with their family members than those who do not inform.

6. It is generally believed that women are thrifty and judicious than men. Usually they do not like to be debtors. The study sufficiently indicates that wherever female members act as the managers of the family directly or indirectly, the incidence of overdues is less.
7. One of the reasons for the incidence of large chunk of overdues is attributed to farmers' agitation. This agitation prevents even the regular and prompt repayers from clearing their dues in time. The Association did not allow even the officers of cooperative, revenue and police departments to take up coercive measures for recovery of overdues by attachment and sale of immoveable and moveable properties by auction sales. It is further revealed that the agitators of farmers' association consisting of wilful defaulters are averse to repay their dues.

The percentage of defaulters among borrowers involved in the agitation is 75 among marginal farmers followed by 67 among big farmers, 60 among medium farmers and 50 among small farmers.

8. It is found out that the percentage of defaulters is the highest among illiterates followed by the borrowers with collegiate education, primary education, high school education, and University education. Thus the hypothesis "the higher the education, the lesser the percentage of defaulter" does not seem to be valid.

Mostly illiterate defaulters are misguided by the shrewed politicians - who have their axis to grind in safeguarding their political positions.
9. Education is often perceived as a promotive factor in stimulating recovery of the past dues. The higher number of educated members in the family will certainly prevail upon the borrower-member in punctual repayment of the dues. Thus, when the percentage of educated members in the family increases, the percentage of default decreases. Hence, the hypothesis 'Higher the percentage of educated members in the family, lower will be the percentage of default', holds true.

10. The wholesale write-off announced by any State Government can shake and choke the very discipline that the money borrowed has to be repaid. The borrowers, who did not repay, are happy that their defaults are rewarded and who had faithfully repaid feel that they had committed a mistake of repayment and thus lost the benefit. Though the "blanket waiver" at present is meant for small farmers, even big farmers also bring about pressure to extend the benefit of write-off to them also. The net result will be that not only the remaining amount of overdues and even non-overdues loans may not get repaid as everyone expects that with pressure tactics, the Government will yield and announce further relief.

The demand for relief may spread to other sectors of economy like rural industries, cottage industries. This
may spread to the states, where no crops have failed. The issue of writing off Loans of small and marginal farmers has thus potential danger of ultimately on economy and what has proposed to a aim as relief would become an avalanche.

The Reserve Bank of India has vehemently opposed such waiver because such a step would vitiate the environment of timely payment and effective recyling credit. The morale of recovery position will considerably disrupt and with the result farmers will not care to repay their dues. In the day-to-day, the problem of overdues may become a common phenomenon.

However, it is wrong to think that all defaulters are aspiring after waiver of their dues. Even amidst civilised world, our villagers are such after extra mundane thoughts of attaining solvation by liquidating their dues instead of getting it 'written off. But their number is less. It is evident from the study that 40% of defaulters felt that their financial position was not too bad to repay their dues. But they demanded lower rate of interest, crop insurance for all crops and extension of recovery period, support price interest free loan during crop failure and also non-charging of penal interest.

If adequate finance is provided by the PACSs, farmers will
not borrow from non-institutional agencies at an exhorbitant rate of interest. Inadequate finance will definitely affect the borrowers mainly in two ways. On the one hand, to fill the credit gap, he may borrow at higher rate of interest from money lenders or commission agents, to whom he generally gives preference as far as repayment of loan is concerned. He has to fall prey to distress sale in order to settle money lenders dues. On the other hand, he has to curtail some of the agricultural activities involving more expenditure. This will hamper his production and repaying capacity. PACS loan, therefore, should be sufficient to meet the entire expenditure on agricultural operations. During his production cycle, consumption loan may be advanced to some extent to distract him from the hold of money lenders. 70% of small farmers, 60% of big farmers, 58% of medium farmers felt the inadequacy of loan through cooperatives.

12. An analysis of data pertaining to inadequacy of loan on the basis of castes, it is revealed that 56.5% among upper castes consisting of Brahmins and lingayats, followed by 53.3% of middle castes and 53% of lower caste borrowers felt the inadequacy of loan. Thus among the borrowers, who received inadequate finance, the percentage of defaulters was comparatively more in respect of upper castes than middle and lower caste borrowers.
13. The percentage of defaulters will also increase when the extent of inadequacy of loan by PACS goes on increasing. It is revealed that the percentage of default was 70 among those whose inadequacy was over 70%, 64 among those whose inadequacy of loan was between 55 to 70%, 63 among those whose inadequancy was 40-55%, and 60 among those, whose inadequancy was less than 25%.

14 Since the farmers do not get adequate finance, they have to borrow from non-institutional agencies at higher rate of interest and become more faithful to them. It is revealed that 43% of MF, 44% of S.F, 56% of MDMF, and 38% of BF were borrowed from non-institutional agencies. But the percentage of defaulters was 60 among MF, 69 among MDMF and 79 among BF.

Thus a large number of medium farmers borrowed from non-institutional agencies and they became defaulters to the PACSs in large number. Hence, 'larger the percentage of borrowers from non-institutional agencies, higher will be the percentage of defaulters to PACS', holds true. If the PACSs are really interested in ameliorating the economic conditions of the farmers to boost up agricultural production, they must provide not only adequate credit but also supply the same in time. Otherwise, they will have to borrow
from non-institutional agencies at higher rate of interest and thus fall in a cobweb of poverty.

15. Since the rate of interest on private loan is 3 to 4 times more than that of the PACS loan, the farmers give first preference to liquidate the private loan. On account of this preference, they became defaulters to PACSs. Thus it can be said that the percentage of defaulters is more when the rate of interest paid by them on PACS loan is more. This shows the pathetic conditions of farmers. With a view to eradicating usuary and to eschew middleman's role in the market, cooperation took its birth but proved incapable to handle the situation efficiently.

16. Agricultural credit advanced by PACSs is not only inadequate but also untimely. Hence, credit delayed is credit denied owing to the fact that timely agricultural operations are held up, which in turn directly affect the yield and borrowers capacity to repay. The percentage of defaulters among the receivers of loan in time is 52 and among non-received, 60.

Since the percentage of defaulters was less among receivers of loan in time than the non-receivers of loans in time, it can be said that delay in advancing loans is responsible for mounting overdues.
17. It can be more emphatically stated that the percentage of default will go on increasing as long as delay happens. It is abundantly clear from the study that delay was caused not due to non-production of records or non-availability of sureties, but mainly due to apathy of the officers of DCC Banks and secretaries. However, the study indicates that the necessary delay is also due to lengthy and cumbersome procedures adopted while advancing loans.

18. Consequences of delay in the receipt of loan from PACS mostly lead to diversion of loan to unproductive purposes like consumption and non-purchase of essential inputs necessary for raising crops, which considerably affect production and his repaying capacity. It is revealed from the study that out of 217 borrowers affected by delay in receipt of loan, 116 borrowers did not purchase or inadequately purchase the necessary inputs or diverted loan to consumption purposes.

19. Distance of members' residence from the societies bears some relation to their repaying habits. A borrower who is in the vicinity of society may utilise the loans properly for production purposes and may be regular in repayment due to good harvest. This is so because, every day the employees and board of directors can meet such
members casually and can keep watch on them effectively. Thus it may be said that the longer the distance, the lower will be credit delinquency. If the area of operation of the society covers only one village, the fundamental principles of mutual knowledge and trust can be kept intact.

It is revealed that out of 320 borrowers, 245 or 77% of borrowers were residing in the headquarter villages of PACS and among them 131 borrowers were defaulters, which means 53% residing in the vicinity of head quarters of PACS were defaulters. Further it is noticed that the percentage of defaulters among the borrowers residing within the radius of 1 to 2 kms. from head quarter's village of the PACS was about 65%. To ensure a close supervision over the utilisation of loan and recovery, it is essential that the area of operation of PACSs should not be unwieldy.

20. Many of the PACSs are yet to be re-organised taking into consideration their viability. Even with the lapse of 85-86 years of introduction of cooperative movement in our country, no perceptible progress has been achieved in securing owned building with proper modernised counters. Most of the secretaries are not paid adequately and with the result, they are not devoting their full attention to manage the affairs of the society as efficiently as possible.
PACSs should be able to pay return for the capital and to contribute to the statutory and other reserves. No stone should be unturned in making the PACS capable of bringing all the eligible rural families into cooperative fold. PACS should be made capable to implement production plan of the village coming under their area of operation. Their ability should be strengthened in bringing about effective linking of credit with marketing. There should be a better capacity to supervise the end-use of credit supplied. There should be consumers' counters for efficient distribution of better essential commodities at fair price. They should be made capable of attracting local deposits and share capital to the maximum extent. The area of operation should not be either too large to cover many villages situated over and above 5 kms, from the head quarters village of the society, or it should not be too small to maintain the working of the society as efficiently as possible. The affairs of the society should not be too unwieldy and impersonal to manage efficiently. As far as possible, the area of the society should be co-terminus with the area of operation of village panchayats.

21. On account of insufficient financial accommodation, many farmers are required to use cash component for the purchase of extra fertilisers and some of the farmers have
to purchase fertilisers on credit basis from private dealers. It is revealed from the study that 53% of defaulters, among the extra purchasers of fertilisers, had to purchase fertilisers from out of the cash component advanced to them.

Further, it is also noticed that 16% of borrowers have sold the fertilisers taken from PACS as "B" component of loan. 21% of total defaulters have sold their fertilisers. The percentage of defaulters among the sellers and non-sellers of fertilizers was 74 and 54 respectively. The percentage of defaulters among the sellers of fertilisers 77 m respect of MF and 71 in the case of SF and MdMF and 75 in respect of BF. This shows that the percentage of defaulters was more among the sellers of fertilisers than that among the non-sellers of fertilisers.

22. It is ascertained in the field study that most of the farmers, now a days, are adopting high yielding varieties at least on a smaller area. It is also admitted that all farmers are aware of the fact that without applying fertilisers they will not get proper yield, but the crux of the problem appears in respect of timely application in proper doses on the basis of soil analysis report. Likewise adoption of pesticides has become a necessity in respect of high yielding varieties, which are mostly susceptible to diseases. In fact, pesticides are costlier and not within the reach
of small and marginal farmers. Incidence of pest is mostly found on a larger area covering even a cluster of villages. Under such circumstances individual and isolated efforts will not be sufficient to curb it satisfactorily. In this connection, Government should come to the aid of farmers by tackling the issue in time. In case the Government fails to help the farmers in time, the farmers will have to incur a lot of expenditure on control of pests. Both these measures will definitely lead to accumulation of overdues. The percentage of defaulters was 63 among the users of high yielding hybrid varieties of seeds, 56 in respect of users of pesticides, and also among the users of fertilisers and 50 among those who used compost manure.

23. It is commonly believed that longer the association with co-operatives, lesser will be the default among the borrowers because of their long standing relationship and association with the co-operatives. It is evident from the study that the percentage of defaulters was 80 in respect of members whose association with co-operatives was less than 5 years whereas it was 56 in respect of 5 to 10 years of association, 51 in respect of 10 to 15 years of association, 58 in respect of 15 to 20 years of association, 53 in respect of 20 to 25 years of association and 52 in respect of 25 and above years of association.
Even in all types of farmers with less than 5 years of association as members of their PACS, the percentage of defaulters was 78 to 92 except in respect of marginal farmers where it was found to be 50. In toto, it clearly indicates that, "longer the period of membership, lesser will be the percentage of defaulters." This may be due to the absence of feeling of true ownership among the new entrants.

24. Proper education is the only solution to infuse a sense of responsibility in them to repay their dues in time. The State and district co-operative Unions have to play a crucial role for educating the principles and practice of co-operation and its crucial role in moulding their socio-economic aspects of their life. It is revealed from the study that about 20% of total members received training in member education imparted by State/district co-operative Unions. Further among the receivers of member education training, the percentage of defaulters was 37, whereas it was 63 among the non-recipients of training. Thus the member education programme of co-operatives can have a direct impact on the reduction of overdues. The district co-operative unions should, therefore, take an immediate step to impart training not only to the board of directors, but also to the members more vigorously. The member education may go a long way in appraising the
farmer-members, their sense of duty towards punctual repayment of dues of their society.

25. Lack of vigilance and watchful eye of officers including supervisors have led to diversion of loans. Diversion of loans to unwarranted purposes has definitely contributed to a large chunk of overdues. Since the resources are scarce, the proper end-use of co-operative credit needs to be monitored on a perennial basis. Out of 320 borrowers, 179 or 44% diverted the loan advanced by PACSs. The highest number (i.e. 54%) of diverters was found among big farmers, 40% of defaulters diverted crop loan for the purposes such as consumption, education, health, re-lending, litigation, purchase of assets, business and profession, purchase of bullocks, farm implements and marriage. 8% of them diverted for re-lending purposes to earn extra income.

26. In order to avoid diversion of loan for unproductive purposes, it should be advanced in 3-4 instalments at different crucial stages of cultivation. If the society provides loan in instalments, it can be ascertained whether the loan is actually required by the farmers at each of the stages of cultivation. In case of crop failure, the farmer will have to face much hardship due to his indebtedness to the society. If water resources or monsoons are unfavourable, the society can freeze
other instalment of credit. To that extent, the farmer may be saved from falling a victim to the vice of indebtedness. The proper utilisation of loan is an imperative need to generate necessary resources for its early repayment. Meagre resources of co-operatives are thus channelled into plenty of unproductive purposes.

(iv) Natural Calamities.

It has been noticed that natural calamities such as severe droughts, floods, cyclones, hail storms and pests result in complete or partial failure of crops, which impairs the repaying capacity of the borrowers. Corollary to this predicament, is the mounting up of overdues and denial of timely fresh finance for carrying on their agricultural operations in subsequent seasons.

The All India Rural Credit Survey Committee, 1951 came to the rescue of farmers and co-operatives by recommending the setting up of "Agricultural Credit Stabilisation Fund." This fund was set up to grant conversion of ST loans into MT loans to the farmer-borrowers of the societies, affected by natural calamities like failure of crops, by assessing the situation of the same through "Annewari system." Conversion facilities are granted only in the event of Annewari being 6 annas or less.
Loans-cum-grants are also provided by the State Government's to the State Co-operative Banks. This assistance is fully reimbursed by the Central Government of India under a centrally sponsored scheme in the form of 75% as grant and 25% as loans, carrying interest at 6%.

If there is a recurrence of natural calamity for the second time, MT loans initially granted for 3 years are rescheduled and made payable within 5 years, from the date of conversion of loan. Concurrently, another MT loan is sanctioned for converting the ST loan due for repayment during that year. Thus the farmer has to repay 3 loans i.e. MT conversion loan of 3 years, MT conversion rephasing loan of 5 years and also current year's crop loan, which become very difficult for the repayment. It is, therefore, essential to enhance the period of recovery during repeated crop failures.

It is revealed in the field study that the percentage of overdues in some societies is comparatively more, though the villages in the area of operation were not declared by Annewari. It is revealed from the study that the average percentage of overdues in the Dharwad district is 65, whereas it is 50 in Mandya district which is lower than that of Dharwad.
The reasons attributed to lesser percentage of overdues in Mandya district, can be cited in favour of larger area covered by assured irrigation facilities, by canal and cash crops like sugarcane, mulberry, etc., whereas in Dharwad district there is no assured irrigation facility by canal to the extent available in Mandya district. It is noticed more often than not that the crops are very much lashed away by heavy rains causing considerable damage leading to collapse of the crops as in the case of Hanagal taluka and also drying up of tanks on account of lack of ground water level.

It is also noticed in the Dharwad district that Annewari has not been declared in some of the villages even though drought conditions prevailed there. This is due to the negligence of Revenue Authorities. In some good villages also, Annewari is declared just to appease the dominant and influential leaders. It can, therefore, be concluded that crop failures are not the only strong reason responsible for large chunk of overdues, because crop failures may be for 3-4 years and not permanently. Hence, the causes for overdues can be ascribed to internal factors like defective loan lending policies, lack of effective supervision, absence of linking of credit with marketing, wilful default, etc.

As the natural calamities are the commitant effect of vagaries of nature, the defaulters cannot be blamed for the overdues caused, since the causes of default are purely external and beyond the control of borrowers.
It is evident from the study that an average percentage of overdues is 75 in Raichur district and 65 in Kolar district, which is comparatively higher than that of Kolar district. Reasons for mounting overdues in Raichur district can be attributed to lack of building up of adequate internal water resources, larger dependence on dry farming and raising inadequate cash crops, whereas in Chikkaballapur of Kolar district, internal water resources through bore wells, dug wells, and tanks have been fairly developed. They grow mostly horticultural crops and mulberry which are fetching normal price in the market.

In such districts, the State Government should come to the rescue of farmers in developing infra-structures for augmenting the income of the farmers and to enable them to repay their dues promptly.

IV. **Measures introduced for the Recovery of Overdues in Karnataka**

1. Most of the PACSs are managed by inexperienced, unqualified, untrained and low paid, locally appointed part-time secretaries with unsecured job conditions. As per section 111A of the KCS Act, 1959, for each society there shall be a salaried official secretary entrusted with the responsibility of correct maintenance of accounts, safe custody of
cash on hand and all resources of the society. He shall exercise such powers and perform all other duties as may be prescribed in the bye-laws of the society, subject to the provisions of the regulations made under section 128 A of KCS Act, 1959.

When their salary is very meagre and not in accordance with the work load and responsibility entrusted to them, they will indulge in malpractices and do not evince keen interest in improving the recovery position. This leads to mounting up of overdues. They should, therefore, be given adequate salary according to the working capital of the society. Incentives in the form of promotion should be given to such of the secretaries whose performance is found to be satisfactory. Common Cadres should be developed recruitment policies should be streamlined so as to prevent inefficient secretaries to be recruited on favouritism and nepotism by greasing palm. Posts of secretaries of PACSs should be made transferable. A permanent disciplinary control should be made effective by framing separate rules and regulations to cooperatives on par with. Common and Cadre Conduct Authority Rules, prevailing in Government services. A permanent Common Cadre Fund should be constituted and developed to meet out the salaries of secretaries of weak PACSs.
2. The linking of credit with marketing, besides enabling members of PACS to avail the benefits of organised marketing, helps in the recovery of loans, out of the sale proceeds of the produce and thus enables in reducing overdues without much pinch. The linking of credit with marketing scheme has almost become a misnomer and has not made much headway on account of several obstacles encountered at all levels viz; 1) members' level, 2) primary credit society's level, and 3) marketing society's level.

1. AT MEMBERS' LEVEL.

The scheme suffers from ignorance of members, lack of confidence in the working of credit and marketing societies and indebtedness of the borrower members from various sources of finance.

2. AT PRIMARY CREDIT COOPERATIVE SOCIETY'S LEVEL.

The scheme is discouraged on account of vested interests of the office bearers of the society and lack of adequate technically qualified and experienced personnel to attend to the various functions like assembling, grading and transportation.

3. AT MARKETING SOCIETY'S LEVEL.

There are three important drawbacks. First, the
business practices of the marketing societies are not on par with other traders. Payments for sales of the produce are not made immediately and thus linkage suffers. Secondly, the leadership suffers handicap on account of vested interests. Thirdly, societies are not generally located at mandi places. Fear of malpractices will also hinder linkage.

Besides these, lack of active interest by Central Cooperative Banks and Cooperative Department and adverse seasonal conditions were also responsible for poor linkage. The penalties like higher rate of interest and lowering the scale of finance should be provided for those who do not pay the minimum compulsory part of the loan through linkage. Then members who market their produce through marketing cooperative societies and repay through linkage should be given 5 to 10% of the recoveries as additional loan with a suitable rebate in the rate of interest. Loanees should be made to execute a bond for sale of produce through PACSs. Though the recovery through linkage failed, it must succeed, since the best hope in reducing mounting overdues is lying there. Arrangements should be made to post the officials of the DCC Banks at regulated market yards to pursue recovery through linkage, involving commission agents and Regulated Market Committees.
The agricultural products of the farmers pass through various stages before they reach the consumers. In this process between the producer and the consumers, several middlemen and specialised agencies handle the produce and they charge high prices for their services. Thus the producer loses a considerable portion of the consumer's price. The main object of co-operative marketing is to see that the producer gets a fair price for his produce. This is possible only if the produce handled by the producers is sold through a network of co-operative marketing societies federated themselves into the apex body, specialising in the art of trade by establishing depots in the terminal markets where the produce is consumed. Specialised separate marketing co-operative societies should be established for marketing of major different agricultural commodities. In the event of excess produce, it should be either exported or purchased outrightly for keeping buffer stock. State Trading Corporation and Warehousing Corporation will help a lot. Corporation sponsored by the State Government with the aid of central governments should be established to deal with price support measures. Support prices for different agricultural commodities should be revised as and when the cost of cultivation increases.
4. The interest subsidy scheme was introduced in 1983. It was made applicable only to small and marginal farmers. However, this scheme was extended even in the years 1984, 1985, 1986, 1987 and 1988 covering all farmers who borrowed up to Rs.10,000/-. The interest subsidy scheme extended by the Government of Karnataka consists of two types. They are 1) interest subsidy, and 2) incentive subsidy.

1. INTEREST SUBSIDY

Government sanctions subsidy to the farmers who repay their entire overdue loans - principal amount of ST, MT conversion and LT loans to the extent of their entire liabilities towards interests on overdues of principal amount as on 30th June or within due dates fixed by lending financial institutions to the extent of the difference between the lending rates of the NABARD to the State co-operative apex bank and the rate at which loans sanctioned to the farmers by PACS/PLDBs. The State Government also sanctioned to those farmers who paid the current dues within the due dates fixed by the lending financial institutions on ST, MT conversion and LT loans.
By this concession, the farmers were required to pay only 7% interest on their borrowings as against 12.85% payable by small farmers and 14% payable by other farmers. Out of the subsidy amount, the share of the DCC Bank was 1% and that of Apex Bank ¾% and balance was borne by the Government.

2. INCENTIVE SUBSIDY:

The PACSs are eligible for incentive subsidy of 2% of the total value of agricultural produce and the marketing societies at 5%. Thus the object of this scheme is to encourage linking of credit with marketing, concurrently boosting up the business of marketing societies. The scheme provides a chance for the wilful defaulters to repay their dues.

The loan advanced by PACS/PLD Banks has almost become interest free, because if the farmer repays his dues before the due date, he has to pay at 7% against 14% in case of big farmers and 12% in case of the small farmers.

Further, he is eligible to get incentives at 5% on the total sales value of the produce sold through Taluka Agricultural Produce Co-operative Marketing Society
but equal to total loan taken from the PACS. In other words, small and marginal farmers need not to pay any interest for the loans borrowed from the PACSs and others have to pay only 2½%.

The interest subsidy scheme does not differentiate between big and small farmers, wilful defaulters and ordinary defaulters. The credit worthiness and the punctuality of prompt repayers was not recognised and rewarded suitably.

The scheme actually spoiled the repaying habits of even the regular repayers.

The unscrupulous long standing wilful defaulters have again entered and usurped the lovers of powers of co-operatives by clearing their dues. These vested interests will spoil the co-operatives.

If the subsidy is not released by the Government immediately, the PACS have to pay interest to DCC Banks for the loan borrowed and secondly Government will not pay interest if there is a delay in releasing it.
SUGGESTIONS:

In the light of the findings narrated so far, the following suggestions have been made to curb the rising trend in overdues.

1. **Effective Rehabilitation of Weak and Dormant PACSs**.

   A systematic programme of rectification, consolidation and revitalisation of dormant and weak co-operatives should be chalked out in a phased manner by the Registrar of co-operative societies. The work of administrators, special officers and liquidators should be reviewed regularly by the divisional officers. Dues locked up in such societies should be recovered promptly.

2. **Establishment of Co-operative Rehabilitation Corporation**.

   Co-operative Rehabilitation Corporation on an All India or State basis, should be established with the aid and advice of the NABARD, the Central Government and the National Co-operative Development Corporation. The working capital of the Corporation may be contributed by the institutions which are associated with the co-operative movement. The proposed corporation should provide funds for extension and adhoc grants for the redemption of deadlog of overdue debts after ensuring all possible
efforts to realise the same. Technical know-how and expert guidance should also be made available through this corporation. It should work out effective rehabilitation measures and implement the same promptly.

3. **Early Issue of Annewari Certificates**

National Agricultural Stabilisation Funds are available for the conversion of short-term loans into medium-term loans in the event of crop failures assessed by Annewari system which generally takes 6-8 months or even longer period without which the stabilisation arrangement cannot be set in motion, what is necessary is, to gear up the machinery of the State Government which is engaged in the formal declaration of Annewari for issuing certificates there to for affected villages and to reduce time lag between the occurrence of calamity and the declaration of annewari for about 2 months. Stabilisation rules should, therefore, be liberalised. State Agricultural Relief and Guarantee Fund should be constituted to step up the guarantees which they offer.

4. **Increasing the Scope of Crop Insurance**

Crop insurance with wider coverage of risks is no doubt a comprehensive scheme and it aims at
compensating the farmers. It will also promote investments and innovations in agriculture.

Crop insurance is the integral part of the institutional infrastructure and is the essential feature for agricultural development, which is basically insecure. Without protection against insecurity of Agriculture, the entire structure of agric. credit is affected. Therefore, there is an urgent need of protection against the hazards of agriculture and this can be done only by means of an appropriate Crop Insurance Scheme linked to the agricultural credit structure. It may be extended to all crops and to all areas in the State. Insurance premium may be borne by the State Government.

5. Agricultural Research and Development Measures:

The main objective of the agricultural research is to devise a method by which the economic yield per acre can be continuously enhanced without detriment to the long-term productivity of the soil, sun light, water, soil nutrition, etc., which are the major sources of energy to the plant; while morphological weaknesses such as disease, pests, weeds and excessive temperature constitute the avenues of expenditure which should be managed efficiently at appropriate time. As the irrigation sources are only 16% in the State and as such there is no other alternative
except adoption of efficient Dry Land Farming Techniques in the remaining 84% of the area by introducing drought resistant varieties on a larger scale. Still 19% of fallow land is yet to be brought under plough. Newer and better high yielding varieties should be evolved and introduced to increase the per hectare yield by harnessing the human and natural resources to the optimum extent. By doing so, farmer will get more income to repay his dues.

6. Single window System for Credit Delivery

At village level there should be only one institutional farm credit agency instead of multiple agencies to avoid dual financing. As far as possible ST, MT and LT credit needs of the farmer should be channelled through a common window of PACSs, since they are the sheet anchor, upon which the entire edifice of the co-operative credit structure is built. Short-term credit structure should provide investment and consumption credit also on a more rationalised basis. While MT and LT loans structure should also aim at production credit besides catering credit needs for land improvement or capital investment. Co-operative alone have the organisational potential to reach millions of small and scattered farmers at gross root level. The mere existence of growing demand for credit is not the justification for multiple
agencies. Another agency would not have arisen, had there been adequate financial and managerial resources at the disposal of co-operatives. There are concrete cases of over-finance made by other multiple agencies which have indeed resulted in accumulation of overdues.

7. Viability of co-operative credit structure

The area of operation of the primary agriculture credit co-operatives should not be too large to be impersonal, and preferably within the radius of 3-4 miles from the headquarters of the society taking into consideration social cohesion, close contact and mutual obligation. On the other hand, it should not be too small to be uneconomical. As far as possible, the area should be co-terminuses with village punchayatás. Diversified supply and distribution activities be undertaken. It should be able to set up an office and appoint a full-time paid secretary besides being able to pay return for the capital and to contribute to the statutory and other reserves to absorb the shocks of overdues.

8. Proper Co-ordination - Vertical and Horizontal:

At present, supervisors are over burdened with
heavy work load which should be reduced to ensure effective supervisions. They should be entrusted with 5-6 co-operative societies taking into account the total number of members to be served. Their job charts should be revised. They should conduct 2 inspections and visit all societies in a month and submit reports regularly to the office of the bank to which he is attached. He should tour 20 days with 10 night halts outside the headquarters. A movement register should be maintained to control his movement. He should be personally made responsible for filing up of cases under section 70, 99, and 69 and follow-up action to get the award, to file Executive Proceedings and to pursue recovery.

9. Common Cadre Authority :

Common cadres of qualified and trained personnel at apex and central banks levels should be built up for effective discharge of supervisory and other responsibilities.

10. Secretarial Developmental Programmes in PACSs

The practice of appointing honorary secretaries
has been legally stopped, as per the provisions of section 111 A of the KCS Act 1959. He shall be the custodiam of all records of co-operative society and shall be responsible for the current maintenance of accounts and records. He shall exercise such powers and perform other duties as may be prescribed in the bye-laws of the society. At present, he is poorly paid and as such he is not evincing keen interest in the better working of the society. So he should be given proper scales of pay. Promotion may be linked with jumps in working capital. They should be given proper incentives as promotion. Recruitment policies should be streamlined so as to prevent recruitment on nepotism, favouritism and greasing plam. A permanent disciplinary control should be made effective by framing separate rules and regulations to co-operative employees on par with Common cadre Authority and Conduct Rules prevailing in Government service. A permanent common cadre fund should be re-started and developed by the contribution of Apex Bank, DCC Banks and Governments to meet out the salaries of weak PACSs. DCC Banks may be discouraged from dabbling in village politics. They should be given recovery target. They should be imparted job-oriented training.
11. **Rationalisation of lending policies** :

The lending policy should be so streamlined as to ensure timely supply of adequate cash and kind components in instalments strictly adhering to the seasonality in disbursement of loans. Loans, as such, should be advanced in right quantity for right purpose by avoiding all time consuming delays and cumbersome procedures. In this connection, production card or renewing cash credit system may be introduced.

Just to appraise the loan transactions to the family members of the managing borrower the signatures of the other major family members including female members, should be obtained in the loan application.

The provisions according to the K.C.S. Act pertaining to co-op. and development Banks may be incorporated even in respect of recovery of MT loan instalments due to PACS.

12. **Voluntary Social Organisations** :

At village level voluntary organisations like youth clubs, friends association, mehila mandals, should be
rejuvenated and their constructive role in moulding the human values of mutual help, thrift, cooperation, good conscience, emotional integrity, natural justice and brotherhood should be developed, assuring the dignity of the individual and unity of the nation. Just similar to Vikas Vahini volunteer Programme of the NABARD, recovery programmes be launched. Four aspects of this new economic programme covering provisions of essential commodities at reasonable prices, increased production and employment, removal of rural poverty and stringent action against economic affences should be taken up.

13. Moderately High Rate of Interest:

It is not only advisable to discourage reckless borrowing and for re-lending but also to provide for bad and doubtful debts, to cover management expenses and to build up the owned resources rapidly. High rate of interest must become the instrument of rapid recovery of overdues and also deflecting credit from consumption to production, from less profitable to more profitable ventures. Interest subsidy scheme should not be continued. In fact the cultivator is not so much worried about the rate of interest as about the adequacy and timeliness of the loan. Malpractices like benami loans, borrowing
in the name of relatives and friends and offering allurements to recovery officers should be avoided. Diversion of credit to unproductive purposes should be stopped. Penal provision under section 109 should be enforced against benami transactions. Dangers of facile credit should be stemmed out.

14. Formation of State Agricultural Corporation for the Acquisition of Lands Under Bid

A "State-Agricultural Financing Corporation", in each state owned by the state Government should be set up with adequate funds with a view to bid in the auction sale of land for an amount which would settle the dues of the societies or DCC Banks just to overcome the difficulties of lack of bidders whenever lands are put to auction.

15. Linking of Credit with Marketing:

The linking of credit with marketing besides enabling the members of PACS to avail the benefits of organised marketing, helps in the recovery of loans, out of sale proceeds of the produce and thus helps in reducing overdues without much pinch. The linkage has almost become a misnomer and has not made much headway on account
of several obstacles at various levels. The scheme suffers from lack of confidence in the working of credit and marketing cooperatives, vested interests of the office bearers and directors of the society lack of adequate personnel to attend to the various functions like assembling, grading, transportation, etc. Moreover borrower members attach more importance and priority in clearing the loans borrowed from private sources at high rate of interest. Bill payment at TAPCMS of RMC level is not done promptly. Linkage should be enforced not only to TAPCMS but also to commission agents in the market yard. They should be involved in the recovery of PACS dues and supervisors from DCC Banks should be posted there to supervise. Business practices of TAPCMS also are to be on par with private traders.

Besides these, lack of active interest by DCC Banks, cooperative Department and adverse seasonal conditions were also responsible for poor linkage. The penalties like higher rate of interest and lowering the scale of finance should be provided for those who do not pay even the minimum compulsory part of the loan through linkage. Simultaneously additional loan and rebate in the rate of interest should be extended to those who are loyal in linkage. Provision of 29 c (5) of KCS Act, 1959,
should be strictly enforced not only to marketing societies but also to PACSs, where the directors of such societies fail to sell their produce through marketing societies. The loans of PACSs should be automatically adjusted against the sales proceeds of the borrower, on the basis of the list of the borrowers produced by the PACSs.

16. **Support Prices to Agricultural Commodities**

The overall objective of a support price policy is to ensure remunerative price to maintain a reasonable degree of stability. Minimum support prices of major agricultural commodities should be announced well in advance of the sowing season to stimulate farmers to produce more. Procurement prices should also take into account the size of the anticipated crops in addition to requirements of public distribution and buffer stocking. The food corporation of India, State Trading Corporation, Cooperatives State Cooperative Marketing Federation, NAFED etc are to be immensely involved in securing better prices for the agricultural produces. They can play a pivotal role in stabilising prices.

17 **Owned resources**

Shocks of mounting overdues can be absorbed by
strengthening owned resources of the society. There should be an effective arrangement for the collection of share capital by enrolling fresh members and deposits should be mobilised by extending the facilities of deposit insurance. Statutory reserves should be maintained and kept intact in the form of deposits with DCC banks. By doing so, the borrowing powers of the society and the members will be enhanced. Provisions of the KCS Act, 1957 under section 23A should be reformulated. Non-adjustment of additional share capital of the borrowers of PACS against their dues, with a view to maintain borrowing limits and financial stability of the PACS.

18. Revamping of Co-operative Education and Training:

Broad based co-operative education and training should be imparted to the secretaries of co-operatives, Supervisors, inspectors, auditors, Board of directors of Co-operatives and general members of PACS by opening Co-operative Training Centres in all the districts. Paraapatetic training campus at interior parts of taluka and hobilies should be arranged for all those vitally concerned with co-operative movement. The training should be job-oriented and management and technology oriented.
Short-term training programme should be conducted for all the concerned personnel of agricultural credit co-operatives on agricultural credit management highlighting on recovery aspect.

Member education programmes now conducted by district co-operative unions should be revamped with emphasis on recovery aspect. Women co-operative education officer of district/State co-operative unions should conduct peripatetic training camps for women members to infuse a sense of repayment discipline among them.

The entrenched position of vested interests in the PACs should be checked and curbed even by introducing strict legal measures, if need be. Section 29 c and D of the KCS Act 1959 should be reformulated covering all defaulters including sureties of co-operative structure. Uneconomic, non-genuine co-operatives with superious membership should be checked. Money lenders in credit-co-operatives, traders in marketing co-operatives, be discouraged to ensure quality of membership.
20 **Disqualifying the sureties of the defaulters:**

Sureties of the defaulters should also be disqualified along with the principal borrower from enjoying the rights of members, such as, voting, contesting for election, being appointed or nominated as directors.

21 **Measures for effective recovery:**

The recovery should coincide with the period when the farmer-borrower possesses maximum liquidity. Where the cultivator grows both cash and food crops, repayment may be fixed to suit the harvesting of the crops, mostly the cash crops whose yield is the highest. The seasonality in recovery of dues should be ensured by communicating the due dates to the borrowers, through advance notices, so that borrowers will be mentally prepared to liquidate their dues. The notice should be issued in different coloured papers indicating first demand, second demand and last demand preferably in green and red colours, which are the symbols of mental preparation towards liquidity and final warning.

22 Recovery drive should be launched at an appropriate time of harvesting season.
Involving the Board of Directors in the Recovery of Loans

Managing committee members of the ward or area of PACSs/Banks should be made responsible to recover the dues from the defaulters. In the initial stage, all possible persuasive measures should be adopted. Legal and coercive measures should be adopted in the extreme cases of recalcitrance.

Superseding the Board of Directors, in the Case of poor Recovery

If 50% of the demand of the loans advanced is not recovered in any year, the board of directors of such societies and banks must be superseded except during the period of natural calamities.

The DCC Banks are not taking coercive measures against the defaulters of PACS, eventhough there is a clear cut provision under section 71 A and 71 B of KCS Act, 1959 to do so. The DCC Banks and commercial banks should therefore, be enforced to take coercive measures to recover the dues from the wilful defaulters.

Coercive Measures

Inspecting officers/supervisors of DCC Banks should see that all cases of wilful defaulters are referred to arbitration.
and recovery proceedings should be taken up on top priority so that the other defaulters, who are watching the outcome, will learn that lesson and repay promptly. Civil imprisonment, in addition to destraint of their properties will check their tendencies of wilful default.

27 Revenue and police authorities should render all possible assistance during recovery programme. The provision of separate recovery staff under the charge of judicial officer will improve the position of recovery.

28 Statutory provisions for the constitution of stabilisation Fund.

Even though the All India Rural Credit Survey Committee, 1954 recommended for the constitution of National Agricultural credit stabilisation Fund at all levels i.e. State Coop. Apex Banks, DCC Banks and PACSs; but it was found during the field study that except, DCC Banks and Apex Bank, hardly few societies have constituted this fund and very meagre amount of net profit is refunded back to this fund, even if this fund is constituted in some PACSs. Hence it is advisable that all PACS should constitute this fund compulsorily and set apart 15 percent of their net profit to this fund every year as DCC Banks and Apex Banks contribute to this fund, from their net profit for the creation of such fund,
from out of net profit, the necessary provision should be incorporated under section 57 of KCS Act, 1959.

29 Cooperatives should be made sole Agencies to Distribute fertilisers and other farm inputs.

Cooperatives, such as Agricultural marketing and PACS should be made sole agencies to distribute the fertilisers and other agricultural inputs to enable them to enhance their turnover and become self-reliant. With this the adverse impact on the recovery of dues can be reduced by engaging the handsomely paid full-time secretaries.

30 Prompt payment of Interest subsidy amount by the Government

The Interest subsidy scheme launched by the State Government to boost up the recovery of dues of PACS definitely affect the repayment discipline among the borrowers. It is therefore not advisable for the recontinuation, even during the years of good harvest.

Even then this scheme is continued, the present system of remitting the interest subsidy amount directly to PACS should be modified. The interest subsidy amount to be released by the Government should be remitted directly to Apex Bank with instructions to make book adjustments.
at DCC Banks and PACS level. This will help the PACS in preventing the losses in the form of interest to be paid to DCC Banks if Government makes delay in the payment of interest subsidy. Further this scheme should be made applicable only to the small and marginal farmers belonging to drought areas.

31 **Issue of Recovery certificate promptly:**

The certificate under section 99 of KCS Act, 1959 should be issued by the Registrar within 30 days from the receipt of application from the society, so as to enable the sale officers to speed up the recovery proceedings.

32 **Financial assistance from DCC Banks to weak PACS for filing Arbitration cases**

The concerned DCC Banks should come to the aid of the financially weaker PACSs to file arbitration cases against the defaulters. Because it was ascertained in the field study, that some of the PACSs were so financially weak that they could not meet the arbitration fees.

33 **Modification in the procedure of fixing the scale of finance**

Presently the scale of finance is fixed and prepared by the DCC Banks by calling the Technical Workers' Meeting.
every year. Since the cost of cultivation is varying from taluk to taluk, village to village and from the farmer to the farmer, it would be more scientific, if the scale of finance is fixed every year at the taluka level if not at village level.

34 Assessment of the potential repayment capacity of the Borrowing family:

Besides, considering the land, the nature and the number of crops etc., the other factors such as, number of earning members in the family, subsidy occupations undertaken, the number of dependents on the farmer borrowers, their age, habits, character, social recognition etc., should also be taken into consideration, while assessing the potential capacity of the borrower.

35 Association between PACS and Village Agricultural Assistants

Agricultural assistants, dairy extension officers, etc., play an important role in promoting the welfare of the farmers. They should cooperate and participate in the task of collecting information relating to the credit worthiness of the farmer borrowers to the secretary. Further, the secretary of the society must also see that the services of these are made available to the members.
Streamlining the Recovery Procedure and Period:

As and when the farmers harvest different crops during different seasons, the society should endeavour to collect their dues, instead of attempting for the recovery only at the end of the year. Further, they may also be persuaded to repay their dues as and when, they get the income from the non-agricultural sources at any point of time during the year.

To conclude, the proper and successful working of the PACSs is depending upon sincerity, honesty, efficiency and co-operative endeavour of all those who are involved directly and indirectly in the management of the PACSs. The responsibility of recovering the agricultural credit rests not only on the credit disbursing agencies, but also on farmer-borrowers themselves and the Government. The co-operative endeavour of all these would go a long way in creating a suitable climate for the timely recovery of co-operative credit provided to the farmer-borrowers by the PACSs.