
CHAPTER I

BACKGROUND ANALYSIS

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CHAPTER I :

BACKGROUND ANALYSIS

This study relates to overdues of farm loans with special reference to loans to co-operatives in Bhedasgaon village (Dist. Kolhapur.)

By farm loans is meant loans given to the agriculturists either for capital improvement of land so that the land productivity improves or for meeting the production expenses for raising various crops. Capital improvement of land can be done by land improvement programmes, or by purchase of tractor, or by purchase & installation of pump-sets for irrigation, or by launching a lift irrigation scheme, or by digging a new well etc. Loans for capital improvement of land are normally for long-term period. Such loans may also be for a medium-term period. Production loans are mainly for meeting production expenses of various crops. Production expenses comprise of cost of seeds, fertilizers, labour charged & Irrigation charges. Production loans which are usually called as crop loans are normally for a short-term period usually extending upto 12 months & in exceptional cases to 18 months depending on the time required for harvesting a particular crop. Consumption loans are also given by an agency doing short-term financing. Such loans are for meeting the consumption needs, particularly extra-ordinary ones, of the poor agriculturist.

Overdues of Farm Loans

Farm loans are repayable on the basis of whether they are short-term, medium-term or long-term & the repaying capacity of the agriculturist - borrower. Short-term loans which are either crop loans or consumption loans are repayable within a period of 12 months (or 18 months in certain specified cases) immediately after the crops are harvested. Medium-term loans are repayable annually within a period of three to five years depending upon the repaying capacity & the life of capital improvement made out of such medium-term loan. Long-term loans are repayable in annual instalment spread over a period of 5 to 15 years depending upon the life of capital improvement made & the repaying capacity of the agriculturist - borrower.

If these farm loans are not repaid within the specified period of time, they or the instalment due become overdue. Thus, overdues of farm loans are the loans or annual instalments remaining unpaid even after the due date for their repayment is over.

Overdues of farm loans have become a threatening problem with regard to all the types of farm loans mentioned above for the various agencies engaged in advance of these loans.

Credit Supplying Agencies.

Long-term farm loans are advanced by co-operative Land Development Bank and Commercial Banks, including Nationalized Banks. Regional Rural Banks (RRBs) have also entered the field in 1970. District Central Co-operative Banks (DCCBs) particularly after the establishment of National Bank for Agriculture and Rural Development (NABARD) in the early 80^s have recently entered the field of long term lending for agricultural development. Even with these developments one finds that long-term lending for agricultural development is mainly done by Co-operative Land Development Banks. In Maharashtra is obtained the unitary structure with Maharashtra State Co-operative Bank Operating throughout the state with its various District branches & sub-branches at Taluka level or below.

Short-term & medium-term loans for agriculture are advanced by the Co-operative Credit Structure, commercial banks (including the Nationalised Banks), and Regional Rural Banks (RRBs). Co-operative Credit Structure consists of State Co-operative Bank at the apex, District central Co-operative Banks at the district level & Primary Agricultural Credit Societies (PACS) working at village level. In Maharashtra, there is Maharashtra State Co-operative Bank with 30 District Central Co-operative Banks and 18,374 PACSs as on 30th June, 1986. This is a federal structure unlike the unitary one in case of land development bank, in the sense that the PACSs are federated at district level in a District Central Co-operative Bank (DCCB) and the DCCBs, in turn are federated at state level in a state Co-operative Bank. The co-operative credit structure is eligible to obtain refinance from the NABARD.

Nature of the Problem of Overdues

Nature of the problem of overdues can be explained by the following remarks of Datey Committee 1 :

"The mounting overdues in the co-operatives dispensing short-term & medium-term agricultural credit in the country have been causing serious concern to the Government of India, the Reserve Bank of India, the state governments and to the co-operative credit institutions themselves as these have been acting as a serious restraint on the smooth flow of credit & consequently affecting the investment of working as well as durable capital in, and the modernization of, agriculture on a large scale. The overdues of primary agricultural credit societies as well as those of central co-operative banks which are parts of the co-operative credit structure have been rising steadily over the past five years despite the stabilisation arrangements which were designed to take care of situations arising out of crop failures caused by natural calamities. In some states, the overdues have assumed such alarming proportions that the co-operative credit institutions have so stagnated as not to be relied upon to provide any support to the agricultural programmes in their areas."

The above remarks of Datey Committee made in 1974 are still applicable to the overdues of co-operative institutions in the country. Of course, they are still applicable to the state of Maharashtra. Average percentage of overdues of the District Central Co-operative Banks in Maharashtra as on 30th June 1972, as quoted by Datey—Committee was 32% (with all-India average of 36%) and that same data was 44% (with all-India average of 44%)

1 : RBI : "Report of the study Team On Overdues of Co-operative Credit Institutions" (1974), pp.1.

2 Ibid : PP. B, 17.

Following Table shows the position of overdues in the state of Maharashtra at the levels of DCCBs & PACS s.

Table No. 1.1 : Statement showing overdues at the levels of DCCBs & PACSs
(Figures shows percentage of Overdues to total demand for the year.)

	1981	1985	1986*
DCCBs	40.0	42.0	42.8
PACSs	42.7	43.0	48.2

Source : Compiled from "Co-operative Movement at a glance in Mahatashtra state - 1986" published by commissioner for Co-operation & Registrar, Co-operative Societies, M.S., Pune (1986)

* Figures are provisional.

Causes of Overdues

Datey Committee, referred to above, has studied the problem of overdues of farm loan in such a comprehensive manner that the causes of overdues identified by it apply even today. The committee has surveyed all the state Co-operative Banks, District Central Co-operative Banks & PACSs in the country & analysed the data collected on a country-wide basis for over 36,000 borrowers of 233 PACSs. Thus the causes identified are widely applicable. These causes, as identified by the committee were as follows :

1. An analysis was made of the relationship between certain factors & the levels & trends of overdues. For this purpose, the factors were grouped into two categories viz, external factors which might be said to be beyond the control of the lending institutions, for example, climatic conditions, irrigation facilities & cropping pattern & internal factors such as presence of a full-time paid secretary, arrangement for supervision & volume of business of a society. It was found that there was some evidence of a specific & positive relationship between overdues &

certain internal factors such as the, size of business of an indebted society & full-time paid secretary for the society in that the overdues were somewhat lower in societies having full-time, paid secretaries of a larger volume of business, than in the societies which did not have either of them. The other relationships with the overdues especially those pertaining to external factors could not be established; for instance the overdues of central banks had increased even in areas not at all or only marginally affected by natural calamities. The existence of favourable external factors had not in a majority of cases helped arrest the upward trend in overdues, much less to keep them low. In fact, even when these factors were quite favourable, both the levels & trends of overdues were moving upward.

2. An analysis of data collected on a country-wide basis for over 36,000 borrowers of 233 primary agricultural credit societies (of which over 29,000 were defaulter members) showed that small, medium or big farmers behave more or less alike in the matter of repayment of their dues in time & that overdues were prevalent in all the categories of borrowers with only marginal variations. Default is thus universal & prompt repayment exceptional in any of the categories. Further, the smallest of the small farmers i.e; those whose size of land holding was below 3 acres accounted for the single largest group of defaulters viz; 33 percent or one-third of the total number of defaulters followed by small farmers i.e., those whose size of holding was between 3 & 5 acres accounting for about one-fourth of the total & big farmers i.e., those whose size of holding was 10 acres & above accounting for one-fifth of the total. Moreover, the category of smallest of small farmers accounted for the largest percentage of chronic defaulters (32%) followed by the big farmers with holdings over 10 acres (21%).

3. The comparative analysis of the position of overdues of the co-operative credit institutions operating in a few "backward" districts & "developed" districts showed that while adverse geo-physical & agricultural conditions might act as impediments to recovery to ~~on~~ certain extent, high levels & consistent defaults could not be related to much to a district being "backward" but to the financial weakness & operational inefficiency of the co-operative credit institutions in the district. The general backwardness of the district or the occasional occurrence of natural calamity in an otherwise "developed" district had served as a pretext for widespread wilful default.

4. Members of the managing committees of societies & the directors of the central banks have shown a general apathy in the matter of recovery of loans. A large number of members of the managing committees were themselves defaulters. The managements have not initiated coercive action promptly, where ever persuasive measures failed.

5. The conclusion appears to be inescapable that lack of will & discipline among cultivators to repay were the principal factors responsible for the prevalence of overdues in the co-operatives. Defaults were, by & large, wilful. The defective lending policies pursued by the co-operatives, the apathy of the managements in taking quick action against recalcitrant members & above all, the absence of a favourable climate for which the state governments were found to be responsible to some extent, had served as contributory factors.

6. The deficiencies in lending policies especially inadequate & untimely credit or overfinancing or lack of supervision over the end-use of credit, inadequate application of fertilizers, fixation of unrealistic due dates & what was worse, financing of defaulters had encouraged defaults & led to the piling up of overdues. At the same time, some of the deficiencies in the lending policies like low scales of finance, delays in sanction & disbursement & arbitrary cuts in sanctions had acted as deterrents to maximising production. Adoption & vigorous pursuit of appropriate lending policies are desirable for checking the upward trend in overdues.

7. The inability of a cultivator to obtain adequate & timely finance & at times without incurring unwarranted expenditure would greatly vitiate his desire to meet his obligation. It is in this context that the central & state co-operative banks with active guidance from the RBI should on an experimental basis take steps for the progressive introduction of the cash credit system in areas having viable & well-established primaries with full-time paid staff at their disposal & where perennial irrigation is available & multicropping undertaken or where the cultivation of cash crops like sugarcane, coconut arecanut, betel-vine, banana & coffee is predominant.

8. The attitudes & certain policies pursued by the state governments have created a very unfavourable climate for repayment of co-operative dues. Defaulters of co-operative societies were financed by some of the state governments through 'taccavi' loans. Some of the governments have written off such loans on a large scale. The decisions of the governments to write off their agricultural loans have created an impression among the defaulters of co-operatives that their loans also need not be repaid; some state governments have unduly delayed & deferred execution proceedings relating to the recovery of co-operative dues. Blanket stay orders on awards pending execution had been granted by some state governments for one reason or another. Besides, certain statements made by the representatives of the governments had given the impression to the borrowers, explicit or implicit, that co-operative dues need not be repaid. The overall effect of all these has been to place a premium on default & vitiate the climate for prompt repayments.

Study by Dadhich :

Another study made by C.L. Dadhich³ comes to almost the same conclusions as have been drawn by Datey Committee.

The term 'wilful default' as explained by Dadhich, means defaults of the debts when it is within the capacity of the borrower to repay but is not paid. Dadhich has stated the causes of wilful default as follows :

- i) Re-lending
- ii) Uncertainty of finance
- iii) Harassing the management &
- iv) An element of fear about the future financial position of the society.

Dadhich has further categorised the wilful defaulters in the following manner:

- a) Those who have large size of holdings.
- b) Those belonging to higher castes groups.
- c) These having better level of education.
- d) These with large borrowings.
- e) Those who are members or ex - members of the management committee or their close associates.

3 Dadhich C.L. - Overdues in farm co-operative credit: Popular Prakashan, Bombay (1977)

Stabilization Arrangement

Relief through stabilisation arrangement may be given to the defaulting members affected by natural calamity. This was done as per the recommendations of the All India Rural Credit Survey Committee 1954 on a regular footing by establishing Agricultural stabilization funds at the different levels of the co-operative credit structure & at the national level with the Reserve Bank.

Datey committee has given specific recommendations as to nature of relief and financial arrangements when there are two/three successive failure, one crop failure etc. Rehabilitation of non - wilful defaulters, measures for recovery of overdues & structural arrangements (the most important of them being the creation of viable units at the primary level of the three - tier co-operative credit structure were some of the other areas in which Datey committee has made specific concrete suggestions.
