

**INDEBTEDNESS OF FARMERS: A STUDY OF  
FARMER BORROWERS OF PRIMARY  
AGRICULTURAL CREDIT SOCIETIES IN  
PALAKKAD DISTRICT OF KERALA STATE**

**By**  
**SOWMYA K.C.**  
(2006 – 15 – 102)

**THESIS**

**Submitted in partial fulfilment of the  
requirement of the degree of**

*Master of Science in Co-operation & Banking*  
**(RURAL BANKING AND FINANCE MANAGEMENT)**

**Faculty of Agriculture**


**Department of Rural Banking and Finance Management  
COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT  
KERALA AGRICULTURAL UNIVERSITY  
VELLANIKKARA, THRISSUR – 680656  
KERALA, INDIA  
2010**

*Declaration*

## **DECLARATION**

I hereby declare that thesis entitled “INDEBTEDNESS OF FARMERS: A STUDY OF FARMER BORROWERS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN PALAKKAD DISTRICT OF KERALA STATE”, is a bonafide record of research work done by me during the course of research and that the thesis has not previously formed the basis for the award to me for any degree, diploma, associateship, fellowship or other similar title of any other University or Society.

Vellanikkara  
02.08.10

  
SOWMYA K.C  
(2006-15-102)

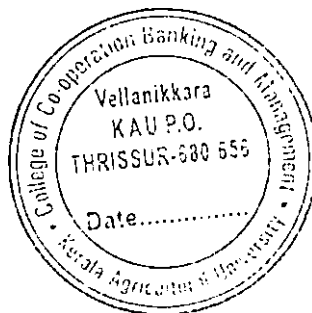
*Certificates*

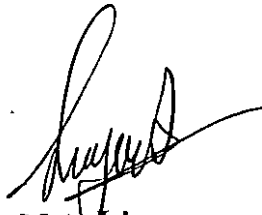
Dr. M.A. LIZY  
Associate Professor  
Department of Rural Banking and  
Finance Management

## CERTIFICATE

Certified that the thesis, entitled "INDEBTEDNESS OF FARMERS: A STUDY OF FARMER BORROWERS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN PALAKKAD DISTRICT OF KERALA STATE", is a record of research work done independently by Miss. Sowmya K.C. (2006-15-102), under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship for her.

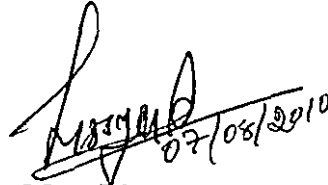
Vellanikkara  
02.08.10



  
Dr. M.A. Lizy  
(Chairperson)  
Advisory Committee

## CERTIFICATE

We, the undersigned members of the Advisory Committee of Miss. Sowmya K.C. (2006 - 15 - 102), a candidate for the degree of M.Sc. (Co-operation and Banking) with specialization in Rural Banking and Finance Management, agree that the thesis entitled "INDEBTEDNESS OF FARMERS: A STUDY OF FARMER BORROWERS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN PALAKKAD DISTRICT OF KERALA STATE", may be submitted by Miss. Sowmya K.C., in partial fulfillment of the requirement of the degree.

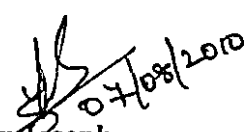


**Dr. M.A. Lizy**

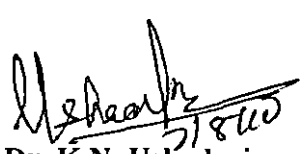
Associate Professor

Department of Rural Banking and Finance Management,  
College of Co-operation, Banking and Management

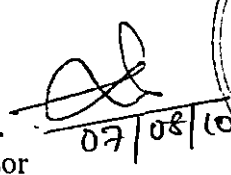
Vellanikkara  
(Chairperson)



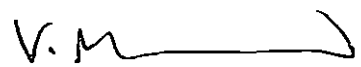
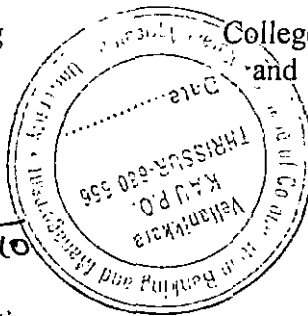
**Dr. Molly Joseph**  
Professor and Head  
Department of Rural Banking  
and Finance Management,  
College of Co-operation, Banking  
and Management, Vellanikkara  
(Member)



**Dr. K.N. Ushadevi**  
Associate Professor  
Department of Rural  
Marketing Management  
College of Co-operation, Banking  
and Management, Vellanikkara  
(Member)



**Dr. Laly John.C.**  
Associate Professor  
Department of Agricultural Statistics  
College of Horticulture, Vellanikkara  
(Member)



**Dr. V. Mohamasundaram**  
Associate Professor  
Department of Economics  
P.S. College of Arts & Sciences  
Civil Aerodrome Post  
Columbatorre - 641 016

*Acknowledgement*

## ACKNOWLEDGEMENT

*I humbly bow my head before the Almighty, who blessed me with will power and courage to complete this endeavour successfully, in spite of the most difficult times faced by me during the period of my study. I submit this small venture before god for his grace in providing me with health and strength through out the study.*

*With deep respect, I express my heartfelt gratitude and indebtedness to Dr.M.A.Lizy, Associate Professor, Department of Rural Banking and Finance Management and Chairperson of my Advisory Committee for her keen interest, valuable advice, constructive criticism and above all, wholehearted support, understanding and constant encouragement rendered throughout the period of investigation and preparation of thesis.*

*I am respectfully thankful to Dr.Molly Joseph, Professor and Head, Department of Rural and Banking and Finance Management and member of Advisory Committee for her expert counsel, sage guidance and valuable suggestions throughout my course of study.*

*I express my heartfelt thanks to Dr.K.N.Ushadevi, Associate Professor, Department of Rural Marketing Management and member of my Advisory Committee for her valuable suggestions and rentless support throughout the endeavour.*

*It is my pleasant privilege to acknowledge Dr.Laly John.C, Associate Professor, Department of Agricultural Statistics and Advisory Committee Member for her timely advise, valuable suggestions and inspiring encouragement rendered during the course of this research work.*

*I am very much grateful to Dr.Shaheena.P, Department of Development Economics, who was an infinite source of inspiration and showered valuable and loving advices throughout my academic pursuit. I am highly obliged to her for her valuable suggestions and help during the course of the thesis work.*

*I also place my deep sense of gratitude to Dr.E.V.K.Padmini, Department of Rural and Banking and Finance Management for her co-operation, kind concern and support during the entire period of my study.*



*I would like to place on record of my heartfelt thanks to Dr.U.Ramachandran, Associate Dean, for his timely help and encouragement throughout my academic career.*

*I wish to extend my wholehearted gratitude to all the faculty members of the college for this advice and encouragement during the course of the study.*

*I have benefited immensely from the Library, College of Co-operation, Banking and Management. I owe my thanks to Shri.Sathian.K.P, Librarian, and all library assistants for the help extended by them.*

*I am also thankful to all the office staff in CCBM for their help and co-operation in all academic matters.*

*I sincerely acknowledge the kind concern and continuous support which I have received from the respondent members and staff members of the PACS in Palakkad District.*

*With all regards, I sincerely acknowledge the wholehearted co-operation and timely help rendered by Honest Pagemakers, Thrissur for converting my hand written manuscript into the present typed version.*

*True words of thanks to all my friends, more personally I would like to express my sincere gratitude to Girish, Sapna chechy, Jayaram, Anjali and Nataraj for providing the much needed shoulders in times of need.*

*The award of KAU Junior Research Fellowship is gratefully acknowledged.*

*I am forever indebted to my family for all their support, unceasing encouragement, boundless affection, deep concern, prayer and personal sacrifices, which helped me to overcome many hurdles experienced during the course of time.*

**Sowmya K.C.**

## *Contents*

## CONTENTS

---

CHAPTER	TITLE	PAGE NO.
I	DESIGN OF THE STUDY	1-14
II	REVIEW OF LITERATURE	15-31
III	MATERIALS AND METHODS	32-37
IV	RESULTS AND DISCUSSION	38-75
V	SUMMARY OF FINDINGS AND CONCLUSION	76-84
	BIBLIOGRAPHY	
	APPENDICES	
	ANNEXURES	
	ABSTRACT	

---

## *List of Tables*

## LIST OF TABLES

Table No.	Title	Page No.
1.1	Estimated number of total and indebted farmer households and amount outstanding in each state	5
1.2	Source-wise credit flow to agriculture: 1975-76 to 2007-08	9
4.1	Selectd performance indicators of Preuvemba SCB, 2000-01 to 2005-06	40
4.2	Selectd performance indicators of Polppuly SCB, 2000-01 to 2005-06	42
4.3	Total Loans and Advances of Peruvemba and Polpully SCB, 2000-01 to 2005-06	44
4.4	Term wise demand and overdues of Peruvemba SCB, 2000-01 to 2005-06	46
4.5	Term wise Demand and Overdues of Polpully SCB, 2000-01 to 2005-06	47
4.6	Socio-economic profile of sample borrowers of the selected PACS	50
4.7	Classification of overdues of defaulters	53
4.8	Overdue amount and Educational level of sample defaulters of selected PACS	55
4.9	Overdue amount and occupational status of sample defaulters of selected PACS	57
4.10	Overdue amount and monthly family income of sample defaulters of selected PACS	58
4.11	Overdue amount and land use pattern of sample defaulters of selected PACS	60
4.12	Reason for default - Response of sample defaulters of selected PACS	61
4.13	Sources of additional funds for meeting the project cost of sample defaulters	65
4.14	Efficiency index of Peruvemba SCB (PACS 1)	69
4.15	Efficiency index of Polpully SCB (PACS 2)	69
4.16	Reasons for default – Organisational Level response	71
4.17	Defaulter Level Suggestions for reducing indebtedness	73
4.18	Organisational Level Suggestions for reducing indebtedness	75

## *Abbreviations*

## **ABBREVIATIONS**

AAGR	-	Average Annual Growth Rate
BODs	-	Board of Directors
BDS	-	Business Development Planning
CCB	-	Central Co-operative Bank
FSS	-	Farmers Service Societies
KCC	-	Kisan Credit Card
LAMPS	-	Large Size Adivasi Multi-Purpose Societies
MIS	-	Management Information System
MT Loan	-	Medium Term Loan
MSP	-	Minimum Support Price
NABARD	-	National Bank for Agricultural and Rural Development
NSSO	-	National Sample Survey Organisation
PACS	-	Primary Agricultural Credit Societies
Ors	-	Quantitative Restrictions
RBI	-	Reserve Bank of India
RRBs	-	Regional Rural Banks
SAS	-	Situation Assessment Survey
SCB	-	State Co-operative Bank
SSI	-	Small Scale Industries
ST Loan	-	Short Term Loans
WTO	-	World Trade Organisation

*Introduction*



# CHAPTER I

## DESIGN OF THE STUDY

There has been a distinct slowdown in agricultural growth during the past two decades, inspite of substantial acceleration in the growth of the Indian economy. The slowdown is accompanied by a significant reduction in the share of agriculture in national product, but without much reduction in the share of workers depending on it for their livelihood. The two faces of the emerging distress are the manifestation of agrarian crisis that threatens the livelihoods of farmers, particularly those of the small and marginal ones; and the agricultural development crisis of reduction in its overall growth rate accompanied by declining profitability. The support systems to farming have weakened, public investments in agriculture have declined. In the absence of any breakthrough in cost reducing technologies, the rising input prices have made cultivation un-remunerative. The result is the manifestation of agrarian crisis, often, in the extreme form of distress that results in suicides by some farmers.

The issue of farmers' indebtedness becomes a matter of intense debate whenever the agricultural sector faces distress. But, the root cause of the current crisis is not indebtedness alone - indebtedness is just a symptom. The underlying causes are stagnation in agriculture, increasing production and marketing risks, institutional vacuum and lack of alternative livelihood opportunities.

The credit needs of the agricultural sector have vastly expanded in the wake of its modernization and commercialization. There is an urgent need to expand the production base of agriculture with emphasis on small and marginal farmers so as to integrate them with mainstream development. This calls for appropriate technological innovations, institutional alternatives and introduction of novel instruments of intervention.

In fact borrowing and indebtedness are two sides of the same coin, while borrowing is the cause and indebtedness is the result. A clear distinction may be made between credit and indebtedness. Unless and until various facts of indebtedness, namely the sources of borrowing, the purpose of borrowing and the productive nature of the borrowed money are examined one cannot have a comprehensive understanding of indebtedness. The nature of debt burden may differ across tenants, different farm size, and the nature of activities pursued by the borrowers.

### **1.1 AGRICULTURAL INDEBTEDNESS**

Agricultural indebtedness has remained an important issue in India mainly due to its socio-economic dimensions and ramifications. Despite tremendous expansion of the branch network particularly in rural areas after nationalization of private sector banks and the growth of institutional credit for agriculture, the severity of agricultural indebtedness has persisted.

The decline and uncertainty in earnings from agricultural operations, along with the increasing dependence on purchased inputs means a higher level of borrowings including borrowing from informal sources and consequent difficulties in meeting repayment obligations, which add fuel to the farmers' distress. The problem is compounded by the near absence of effective risk mitigation measures in the field and the insensitivity of rural institutions. Both the public investments and profitability in agriculture have declined.

The suicides by farmers in different states have made the problem of indebtedness of farmers a central issue necessitates urgent attention.

Indebtedness is that level of debt burden for the individual, which offsets the process of credit recycling, impedes production and productivity and forces a person into an intractable vicious debt trap.

Agricultural indebtedness is the result of a variety of factors operating together. The declining profitability in agriculture, rising commercialization with weakened support systems, decline in public investments, ineffective and inadequate risk mitigation arrangements, absence of any technological breakthrough in reducing costs/increasing productivity, the rising input prices, insensitive rural institutions and extremely poor quality and coverage by the formal credit institutions and lack of stringent action in case of supply of poor quality of inputs (while germination rates of seeds are often good, the yield are not) and the periodic natural calamities have contributed towards the manifestation of agrarian crises in the Indian economy.

According to the report of Expert Group on Agricultural Indebtedness (2007, chaired by R. Radhakrishna), the major reasons for farmer indebtedness are:

- ❖ Indebtedness of farmers is largely because agriculture depends mainly on the monsoon, the return from crop cultivation is not assured most of the time, which ultimately affects the repaying capacity of the farmers.
- ❖ Though agricultural credit has increased manifold, most of the farmers depend fully/partly on non-institutional sources where the rates of interest are quite high and the terms of condition often exploitative.
- ❖ The dominance of middlemen often prevents the farmers from getting remunerative prices for their produce.
- ❖ The farmers do take loans for social functions/medical expenses, etc., from moneylenders, which do not yield any incomes and the interest rate are high leading to indebtedness.

## 1.2 INDEBTEDNESS AMONG THE FARMERS - ALL INDIA LEVEL

Indebtedness among Indian farmers has long been recognized by the observers of rural scene in India. The Deccan Riots Commission (1875) reported that one-third of occupants of the government land were under debt. The Famine Commission of 1880 reported that one-third of the land holders in the country were in deep debt and another one-third were also in debt but in a position to redeem it. The Famine Commission 1901 estimated that more than 80 per cent of the cultivators were under debt. The great depression (1929-33) considerably increased the burden of debt of the farmers (Kaushal, 1979). The problem of indebtedness of the farmers continues in the post-Independence period. The proportion of indebted cultivators came down to 46.1 per cent in 1971 and further declined to 22.3 per cent in 1981. In the subsequent period, the proportion of indebted cultivators increased to 25.9 per cent in 1991 and has increased sharply to 57.2 per cent in 2003. If farmers engaged in allied agricultural activities (going by principal source of income) are added to the cultivators then the proportion of indebted farmers at all-India level is estimated at 48.6 per cent (NSSO, 59<sup>th</sup> Round). Thus, the proportion of indebted farmers has been higher than that was estimated in 1971. Deceleration in agricultural growth in the 1990s is regarded as one of the most important factors responsible for increasing indebtedness.

There is a wide variation in the number and proportion of indebted farmers across the states and union territories in India. At the all-India level 48.6 per cent of the total farmer households are reported to be indebted. The incidence of indebtedness is the highest in Andhra Pradesh (82.0 per cent) followed by Tamil Nadu (74.5 per cent), Punjab (65.4 per cent), Kerala (64.4 per cent), Karnataka (61.6 per cent) and Maharashtra (54.8 per cent).

Table 1.1. Estimated number of total and indebted farmer households and amount outstanding in each state

State	Estimated number of farmer households ('00)	Estimated number of indebted farmer households ('00)	Percentage of farmer households indebted	Average amount outstanding per indebted farmer (Rs.)
1	2	3	4	5
Andhra Pradesh	60,339	49,493	82.0	23,965
Arunachal Pradesh	1,227	72	5.9	493
Assam	25,040	4,536	18.1	813
Bihar	70,804	23,383	33.0	4,476
Chhattisgarh	27,598	11,092	40.2	4,122
Gujarat	37,845	19,644	51.9	15,526
Haryana	19,445	10,330	53.1	26,007
Himachal Pradesh	9,061	3,030	33.4	9,618
Jammu & Kashmir	9,432	3,003	31.8	1,903
Jharkhand	28,238	5,893	20.9	2,205
Karnataka	40,413	24,897	61.6	18,135
Kerala	21,946	14,126	64.4	33,907
Madhya Pradesh	63,206	32,110	50.8	14,218
Maharashtra	65,817	36,098	54.8	16,973
Manipur	2,146	533	24.8	2,269
Meghalaya	2,543	103	4.1	72
Mizoram	780	184	23.6	1,876
Nagaland	805	294	36.5	1,030
Orissa	42,341	20,250	47.8	5,871
Punjab	18,442	12,069	65.4	41,576
Rajasthan	53,080	27,828	52.4	18,372
Sikkim	531	174	38.8	2,053
Tamil Nadu	38,880	28,954	74.5	23,963
Tripura	2,333	1,148	49.2	2,977
Uttar Pradesh	1,71,575	69,199	40.3	7,425
Uttaranchal	8,962	644	7.2	1,108
West Bengal	69,226	34,696	50.1	5,237
Group of UT's	732	372	50.8	10,931
All India	8,93,504	4,34,242	48.6	12,585

Source: NSSO (2005), Indebtedness of farmer households, 59<sup>th</sup> Round, Government of India, New Delhi, 2003.

The highest amount of per farmer debt is reported from Panjab (Rs.41,576) followed by Kerala (Rs.33,907), Andhra Pradesh (Rs.23,965), Tamil Nadu (Rs.23,963), Rajasthan (Rs.18,372), Karnataka (Rs.18,135) and Maharashtra (Rs.16,973).

### **1.3 FARM DISTRESS IN KERALA**

Kerala's agriculture sector is unique in several ways. Some of its special features are (i) highly fragmented and small size of holdings, except the plantation sector, (ii) homestead farming with mixed crops yielding high income, (iii) larger area under commercial crops, especially capital intensive perennial tree crops, (iv) export orientation of crops, such as spices, cashew, rubber, coffee, tea, etc., (v) high credit and hired labour intensive cultivation and (vi) higher indebtedness of farmers. Some of these unique features are now found to be the handicaps of the sector.

Unlike other states in the country, agricultural trade liberalization adversely affected the agricultural sector in the State as more than 80 per cent of the agricultural commodities/products produced in the State are dependent on the situation of domestic and/or international markets (Economic Review 2003, Government of Kerala). The export intensity of production of some of the crops like pepper, cardamom, cashew, etc., is high in the State. As the Kerala's economy was a relatively closed economy until mid-1990s, cultivation of commercial crops such a coconut, rubber, tea, coffee, spices, etc., was fairly profitable even without much improvement in productivity and value addition because of protected internal market and prospects for exports. However, with the removal of quantitative restrictions (QRs) and lowering of tariff levels of imports, farmers cultivating commercial crops have been affected following higher imports and stiff competition for exports in the international market. In the recent period, there was significant rise in imports of commodities like pepper, cardamom, tea, etc., which seems to have affected domestic prices of these crops in the State and, in turn, the financial position of the cultivators. In the liberalized trade environment, small and

marginal farmers, in particular, are not able to compete with other commodity producing countries due to continued lower yields and high cost of cultivation as no restructuring programme was undertaken to improve the export competitiveness of the commodities to operate in a new trade environment.

During the last few years, the problem aggravated due to deficiency in rainfall, sharp decline in prices, lower production and the consequent increase in debt burden of the farmers.

Agricultural sector in Kerala, unlike other states in the country, has historically been dominated by commercial crops such as coconut, rubber, tea, coffee and spices. With more market orientation and better profitability of cultivation, the share of commercial crops in total area under cultivation in the State has been rising at the expense of food crops such as rice and tapioca.

Traditionally, Kerala has been a major exporter of commodities such as pepper, cardamom, ginger, cashew kernels, coir and coir products, tea and coffee. Export of agricultural commodities from the state has been recorded fairly good growth till towards the end of the 1990s. While exports of commodities from the State suffered in the recent years, there was a rise in the import of commodities which are infact produced and exported from the State for decades together.

A manifestation of lower exports and higher imports was decline in the domestic prices of most of the commodities. With trade liberalization, the rise in price was very low (for paddy and pepper) or negative (for cardamom and coffee) during the period from 1997-98 to 2005-06.

The decline in productivity and prices affected the profitability of the cultivation, especially in case of farms using hired labour. The loss is more in case of paddy, pepper, arecanut and ginger.

The opening up of the agricultural sector to international trade has made the farming community in Kerala vulnerable due to surge in imports, decline and high volatility in prices, as happened in case of many other developing economies (Pal and Wadhwa, 2006). The structural limitations like small size of holdings, cultivation of low yielding age-old plants, weak capacity for storing of the produce to take advantage of the market situation, lack of infrastructure, high dependence on weather and susceptibility to natural calamities, etc., affected the farming community, instead of benefiting from the trade liberalization.

#### 1.4 FARMERS INDEBTEDNESS IN KERALA

The sluggishness in production and decline in prices, *inter alia*, due to lower exports and higher imports, increased the debt burden of the farmers. In general, incidence of indebtedness in rural areas in Kerala is higher than the national average. This is due to factors like concentration on cash crops, higher value of assets per households and availability of credit through the good network of both formal and informal credit agencies. Among the farmer households, the incidence of indebtedness was higher in Kerala 64.4 per cent (fourth highest incidence among the states) as against the national average of 48.6 per cent. Further, the average amount of loan outstanding per farmer household in Kerala was Rs.33,907 as against the national average of Rs.12,585 (NSSO, 2005). Over the years, the average amount of cash borrowing per household in rural areas was much higher in Kerala than the national average.

The farmer households in rural areas in Kerala mostly borrowed from formal institutional agencies than from informal agencies. In 2003, 82.3 per cent of the outstanding loans of farmer households were taken from formal agencies, which was considerably higher than the national average of 57.7 per cent. A noteworthy feature of the source of borrowing of farmers in Kerala was their lower dependence on money lenders, which was only 7.4 per cent as against the national average of 25.7 per cent (NSSO, 2006).



It is striking to note that in Kerala the farmer households borrowed mostly for non-agricultural purposes. The share of non-farm business in total loans borrowed was more than the share of expenditure in farm. Only around 44.0 per cent of the loan amount was utilized for productive purpose and the rest (66.0 per cent) was utilized for non-productive purposes like consumption, social function, etc. (NSSO, 2006). Needless to mention that this kind of borrowing, sustained over a period, will lead to high level of indebtedness.

## 1.5 CO-OPERATIVE CREDIT

The co-operative movement was started in India largely with a view to providing agriculturists funds for operations at low rates of interest and protect them from the clutches of money lenders. Historically, cooperative societies have played a vital role in the provision of institutional credit to the agricultural sector. With the entry of commercial banks in rural areas the share of cooperative credit in total agricultural credit had gone down. It fell from 70.8 per cent in 1975-76 to only 19.39 per cent in 2007-08 (Table 1.2).

Table 1.2. Source-wise credit flow to agriculture: 1975-76 to 2007-08

Agency	(Rs. in crore)									
	1975-76	1983-84	1993-94	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Cooperatives	1186	2938	10117	23524	23636	26875	31231	39404	42480	43684
Regional rural banks	2	263	977	4854	6070	7581	12404	15223	20435	24814
Scheduled commercial banks	405	1885	5400	33587	39774	52441	81481	125477	166485	156850
Other agencies	82	185	0	80	80	84	193	382	NA	NA
Total Credit	1675	5244	16494	62045	69560	86981	125309	180486	229400	225348

Source: For Commercial Banks from Reserve Bank of India; for Cooperatives and Regional Rural Banks from National Bank for Agriculture and Rural Development (NABARD), 2008.

Although the share of cooperative credit is now much lower than that of commercial banks, the reach of cooperative credit societies is much wider. Cooperative credit societies have more than twice the number of rural outlets and four times more accounts than those of scheduled commercial banks and RRBs put together. Cooperative credit societies provide small loans to small borrowers in rural areas.

The Primary Agricultural Credit Societies (PACS) are continuing as the main source of agricultural credit to the farmers in the rural areas even after the introduction of nationalization of banks in India. PACS, the credit institutions at the grass roots level, deal directly with individual borrowers and grant short term and medium term loans. Short term credit having duration of less than 15 months is provided as crop loans, Jewel loans and consumption loans. Crop loans are provided for the purpose of buying seeds, fertilizers, pesticides etc., consumption loans help in purchasing durables. Medium term loans with duration of 15 months to five years are provided for land improvement, buying cattle, agricultural implements and also for other industrial purposes. The scale of finance varies from different crops and purposes. The rate of interest varies according to the amount of loan and the purpose for which it is provided.

The cooperative credit system in India is the largest in the world with 1.06 lakh Primary Agricultural Credit Societies (including FSS and LAMPS) at the village level, 369 Central Cooperative Banks (CCB) at the district level and 31 State Cooperative Banks (SCB) at the state level. Thus the cooperatives have a three tier structure.

The SCB gets fund from NABARD (National Bank for Agricultural and Rural Development) and advances loans to the CCBs which inturn advance loans to the PACSs which are in direct touch with farmers.

## **1.6 PALAKKAD - AT A GLANCE**

Palakkad is one of the fourteen revenue districts of Kerala. The district, situated almost in the centre of Kerala state, has no coastal line. The district opens the state to the rest of the country through the Palakkad gap. It is often called as the “Gateway of Kerala”.

The district is one of the main granaries of Kerala and its economy is primary agricultural. Agriculture engages more than 65 per cent of the workers and 88.9 per cent of the district’s population is rural in nature. Palakkad is the land of palmyards and Paddy fields. Along with Kuttanadu, Palakkad is major paddy growing area of state. The district which receives least rain in Kerala is Palakkad. It is also the hottest district in Kerala. Palakkad is the second largest district of Kerala.

## **1.7 AGRICULTURE**

“Rice bowl of Kerala” is the synonym for Palakkad. The net cultivated area of the district is 284 lakh hectares. i.e., 64 per cent of the geographical area. Major portion of the cultivable land is used for raising food crops. All food crops together account for about 80 per cent of the gross cropped area and paddy alone accounts for about 60 per cent of it. Coconut, groundnut cotton, sugarcane, pepper, banana and cashew nut are some of the major cash crops raised.

## **1.8 AGRARIAN DISTRESS IN PALAKKAD DISTRICT**

Traditionally Palakkad is a low-rainfall region owing mainly to the 32 to 40 km wide Palakkad Gap in the Western Ghats on the Tamil Nadu border. Polpully, the paddy heart land of Chittur taluk is facing the worst water scarcity in the region.

A failed monsoon brings distress to Kerala, its second longest river, the Bharathapuzha, was virtually dry and Palakkad district faces the worst drought in its history in 2004. Since 2000, the farmers of the district had been facing drought or flood. In 2003, the district was declared drought affected area by the state government. Short duration crops like paddy, banana, sugarcane, etc. and other cash-crops like coconut and arecanut were also destroyed in the drought. In 2004, the district faced a severe drought. There was no water to irrigate 50,000 acres of paddy from the Malampuzha dam then.

The Malampuzha dam, the biggest irrigation dam in the state, has failed to provide water for the second crop in Palakkad, Chittur and Alathur taluks for the first time since 1955 when it was commissioned.

In Chittur, 45000 acres of paddy field were destroyed as the area could not get water from the inter state Parambikulam - Aliyar project in 2000 to 2004. In Walayar, 10,000 acres of paddy field was destroyed as there was no water available from the dams of Walayar, Chulliyar and Meenkara due to drought. This had ruined the paddy farmers of the district resulting in 56 farmers committed suicide due to huge debt.

In 2007, the first crop of paddy harvesting in August-September was not possible due to heavy rain. More than 60 per cent of the paddy cultivation was destroyed in the 2007 monsoon. A study on the intensity of drought and the consequent damage to crops in Kerala indicates that Palakkad is the worst affected district in the state.

## **1.9 OBJECTIVES OF THE STUDY**

The objectives of the study are:

1. To identify the factors that contribute to the problems of indebtedness among farmers in Palakkad district.
2. To suggest the measures to be taken to solve the problems.

## **1.10 SCOPE OF THE STUDY**

Though there are a number of factors behind the present agrarian crisis, it is the growing indebtedness that compels attention. It is the decline in earnings that results in the inability to repay debt that trigger farmers decision to commit suicide. Hence indebtedness of farmers becomes a central issue to be addressed. In this context the study attempts to find out the constraints of the farmers to repay their obligations and the problems of indebtedness of farmers in Palakkad district. The study is expected to facilitate to take more efficient measures by PACS to reduce the problems of indebtedness.

## **1.11 PRACTICAL UTILITY**

The demand for agricultural credit in India is anticipated to grow rapidly considering the envisaged high growth in the agricultural sector, greater market orientation and the emerging importance of subsidiary activities. Meeting this growing demand is a challenging task. The recovery of loans in the agricultural sector is poor due to low level of income generation especially on small sized holdings, diversion of loans, inadequacy of the loans leading to their diversion and wilful default under the hope of their waiver. To help the rural people to get rid of indebtedness it is required to carry out empirical investigations for understanding the process in which indebtedness becomes self-perpetuating.

The study analysed the factors that contribute to the problems of indebtedness, the findings of the study are intended to improve the vocation of farming as well as the working of the PACS in the state of Kerala.

## **1.12 LIMITATIONS**

The study has been undertaken at a micro level, among two PACS in Palakkad district. Therefore the results of the study cannot be generalized to other

banks or districts. The indebtedness of farmers in India is as diverse and heterogeneous as are the agrarian conditions. There are wide regional, institutional, class and community differences in the nature and magnitude of farmers indebtedness. The resource base of agriculture varies from region to region. The objective of the study have been examined through a field level survey including only 90 sample borrowers, as well as through the data collected from the response of Board of Directors of the PACS under consideration. Therefore, the findings of the analysis may not be appropriate for a broader generalisation. Biased and prejudiced opinions from the part of the sample borrowers cannot be ruled out.

### **1.13 ORGANIZATION OF THE REPORT**

The report of the study has been divided into five chapters. The first chapter is introductory in nature. The second chapter delves into the review of literature relevant to the topic of the study. The third chapter explains the concepts used and gives a description about the materials, methodology employed for the analysis of the data. The results and discussions of the study are presented in the fourth chapter and the last chapter highlights the summary of findings and conclusion of the study.

## *Review of Literature*

## CHAPTER II

### REVIEW OF LITERATURE

Literature review aims to portray the critical points of current and collected knowledge on the topic under study. A brief review of available literature, on various topics related to the study is attempted and presented in this chapter under the following sub headings:

- 2.1 Farmer Suicide
- 2.2 PACS and Agricultural Credit
- 2.3 Agriculture and indebtedness

#### 2.1 FARMER SUICIDE

Hawton *et al.*, (1997) opined that the proportional mortality ratio for suicide is higher in farmers than in the general population. The reason for this are likely to be complex, but may include easy availability of firearms, stress related to work, financial difficulties and family problems. A psychological autopsy study of suicide conducted the case of 84 farmers who died between 1991-94 is presented and some preliminary findings are discussed

Pickett *et al.*, (1998) suggested a biologically plausible link between exposures to certain pesticides and the occurrence of suicide among farm operators. These analyses were based on data from Canadian Farm operators cohort. This study does not provide support for the main hypothesis under study, exposure to pesticides is an important risk factor for suicide among farmers. Although secondary to main hypothesis, a number of other risk factors for suicide were suggested. These have implications for the future study and targeting of suicide prevention programmes in rural Canada.



Revathi (1998) made comments on a previous study by Parthasarathy and Shameem on the suicides of cotton farmers in Andhra Pradesh, India. Although it acknowledges that the issues to the discussion. These are; debts incurred through well-digging to ensure sufficient irrigation water; and the growing incidence of pesticide dealers and commission agents as sources of credit to farmers, both of whom can exploit the farmer through the provision of inputs.

Bose (2000) observed that the increase in suicidal incidents among farmers and farmers indebtedness of the rural population in the province of Punjab, India are due to failure of the cotton crop, high cost of pesticides, overuse of pesticides and the use of fake pesticides supplied by dealers, and over mechanization of agriculture. It is indicated that social development has not kept pace with economic growth. Green revolution, technology, mechanized agriculture and media exposure have not changed the mindset of the people. Research on social transformation and planning for mobilization of youth are suggested in building the nation.

Deshpande (2002) examined the agricultural and socioeconomic situations faced by the farming community in the state. The paper is based on findings from a field survey of 99 cases of suicides, as well as from case studies and literature review. The following are explored: landholding and assets, land use and crop pattern cost of cultivation, production environment, household income borrowing, credit and repayment prices and marketing structure, and the social and support system. Remedial measures to avert suicides by farmers in the future are then suggested.

Mohanty and Sangeeta (2004) analysed 30 cases of farmer suicides in the districts of Amravati, Yavatmal and Wardha (10 cases from each district) in Maharashtra, India. It compares the agro-economic conditions of the victims' families to that of an equal number of control cases selected from each district. The study reveals that although crop losses, indebtedness and market imperfections

cause hardship to farmers, social factors are also at work, which lead in some cases to suicides.

Sharma (2004) argues that farmers suicide represent only a small perceptible part of the bigger problem of rural economic crisis in Andhra Pradesh, India. To attribute the rural crisis entirely to poverty and drought would be an oversimplification of the situation and the several ways in which the village economy is under stress today. It is also argued that hastily announced relief packages do not address this complex situation.

Mohanty (2005) presented in his paper about farmer suicides in Amravati and Yavatmal districts, Maharashtra, India, are evaluated in relation to Durkheimian theory, which attributes such acts to an historically specific combination of social and economic causes. Lower and middle caste peasants and small holders found themselves trapped between enhanced aspirations generated by land reform and other post-1947 measures, and the reality of neoliberalism (rising debt, and declining income). Suicides among large and medium farmers belonging to the higher castes in Maharashtra were occasioned by failures in business, trade and politics. Such cases are consistent with the argument put forward by Durkheim, that suicide is an effect of individualization, a process of socio-economic 'estrangement' from agrarian communities experienced by rural producers in the context of rapid economic growth.

Mohankumar and Sharma (2006) opined that the agrarian crisis and farmers' distress in Kerala are closely linked to the liberal policy regime implemented in the country in the recent past. The association between the two is more in the regions of the state that are heavily dependant on export-oriented crops such as coffee and pepper. The worst affected are the small farmers, as they are more vulnerable to crop losses and price declines. Unless the plight of farmers is addressed in terms of changing the macro-policies and regulating taxes prices and imports the condition of the farmers cannot be improved on a sustainable basis, either by increasing the availability of institutional credit or providing some alleviatory steps to the victims of suicide families. Another important dimension

of agrarian crisis is asset loss through sale of land. The farmers who committed suicides irrespective of the size of holdings has sought sale of land for repaying debts, sale of land is considered to be the last resort of the farmers.

Suri (2006) has pointed out several structural and social factors responsible for farmer suicide: the changed pattern of land holdings, changed cropping pattern due to a shift away from light crops to cash crops, liberalization policies which prematurely pushed Indian agriculture into the global markets without a level-playing field, heavy dependence on high cost of cultivation, volatility of crop outputs, market vagaries lack of remunerative prices indebtedness, neglect of agriculture by the government, decline of public investment, break up of joint families, individualization of agricultural operations, so on and so forth.

According to Surinder (2006) one of the major cause of rising cases of farmers suicide is growing indebtedness. As agriculture is the principal livelihood source for 65 percent of India's population, the prime concern is the deceleration in its growth, combined with insufficient capital formation. These are interlinked with factors like infrastructure gaps, monsoon dependency, genetic erosion of crop varieties, weak linkage between research and extension and post harvest marketing support.

Vaidyanathan (2006) opined that people are driven to the extreme step of suicide not only because of imprudently large borrowing from high cost sources and for non-productive uses but also because the increase in net incomes from loans used for productive purposes falls far below expectations. Suicide afflicted households have also borrowed heavily for digging/deepening wells and for cultivating input-intensive high-value crop in the expectation of high yields and good prices. Failure of these expectations is a major reason for their inability to repay debts.

According to Aher (2007) uncertain mansoon, non availability of credit increasing prices of seeds, pesticides and fertilizers, agriculture has become a most

critical industry and farmers and suffering due to economic distress and they are committed suicide on large scale in different provinces. The tackling of farmers' problems thus becomes key factor in rebuilding new India. In order to provide human face to the liberalized economy agricultural credit reforms are urgently needed to bridge the gap between agriculture and other sectors.

Jeromi (2007) revealed that following trade liberalization and also due to a host of other factors like deficient rainfall, excessive concentration on export oriented perennial crops, decline in production and productivity, fall in prices etc; the agricultural sector of the Kerala state has been facing a crisis during the last one decade, which led to rise in farmers indebtedness and suicides. While farm distress continued, there was significant rise in loans issued by formal financial institutions in the recent period, especially short-term loans thus raising the indebtedness of farmers further. *Agricultural crisis was one of the major reasons for suicides, but not the sole reason.* Most of the farmers had private borrowings from friends and relatives. Their inability to repay these loans is considered as the proximate reason for committing suicide. The experience of Kerala, thus clearly shows that without adequate safety nets and restructuring programmes, if a sector is pushed to the forces of competition there will be severe consequences.

Lall and Singh (2007) attempts to capture the picture of increasing suicide among farmers in the country. The minimum support price mechanism, high cost of production and low price of the procedures, import and subsidies, the economic policies and the WTO agreements and common minimum programme are responsible for the present agricultural crisis. Relief packages and policies for farmers are immediate relieves only and ignore the remunerative prices. The MSP mechanism and high agri-input cost is more puzzling phenomenon for low crops yields and agriculture crisis.

Meeta and Rajivlochan (2007) attempt to analyse in-depth investigation into the farmers suicide. Sociologically, the incidence of farmer suicide in Punjab, Andhra Pradesh and Maharashtra due to indebtedness in actually the result of the

combined effect of relative deprivation and sudden crisis which came in the category of anomic suicide. Globalisation, WTO trade policies and domestic negligence have had a devastating effect on India's farmers. The major recommendations suggested by them are; interaction between government functionaries and village society, with active monitoring of farmers, removing of loopholes of existing money lending, providing social, psychological help, extending the help of health centers, counsel the media to stop highlighting suicide and more important ex-gratia payment to suicide victims.

Mohankumar (2007) conducted a study of 630 cases of farmer suicides in Kerala state. Poverty is the cause and effect of agrarian crisis in Kerala. The poverty among farmers was driven by fall in the prices of agricultural products and high wage and cost of production. This paved way for increasing rural indebtedness for the farming population indebtedness is the immediate reason for resisting extreme step of suicide by farmers in Kerala.

Ramanuja *et al.*, (2007) observed that the various reason/ factors for farmers suicides. They are economical like-faulty inputs like spurious seeds pesticides and fertilizers, their high prices; low and fluctuating prices, inadequate marketability of the output etc. Ecological factors include drought, fluctuating yield, devastation caused by the natural-scientific establishment etc. ill health of farmers, alcoholism and prevalence of various addictions. Depression, lack of societal and community fallback and early marriages are the major sociological factors.

Sindhu and Kamal (2007) opined that India is a land of marginal and small farmers. The small size of operational holdings becomes a big hindrance to bring improvement in agriculture. Mainly due to economic distress, about one lakh farmers had committed suicides in the country between 1998 and 2003. Most of them were small and marginal farmers.

According to Sukale (2008) the main causes of the farmers suicide in Maharashtra-about 68 per cent of the sample farmers committed suicides due to huge indebtedness to institutional (54%), and money lenders (14.5%), family problems caused (24%) suicides, ill health (10.5%), addiction to alcoholism (5%) were also other reasons of suicides. However indebtedness was the major causes of suicides, certain policy recommendation which can solve the critical situation in Maharashtra. Increase in minimum support prices, increase in various agricultural concession in premium of crop insurance, use of contract farming and use organic farming. This will reduce the suicide of farmers.

## **2.2 PACS AND AGRICULTURAL CREDIT**

Vagganer (1981), explained about the importance of primary agriculture credit Co-operatives in the disbursement of credit to the small and marginal farmer agricultural labourers and to other weaker sections in India and in the creation of job opportunities for them. It highlights the problem of overdues and lack of dedicated leaders at the village level and absence at good management as contributory causes for malfunctioning of these Co-operatives.

Ranga Reddy (1988) assessed the loan repayment patterns among member of Gunter District Central Co-operative Bank, Andra. He opined that the non-repayment of loan is shown to be caused by a number of factors including crop failure, natural calamities, social consumption, accumulation of debt, poor health, expenditure on education and decline in product prices.

Reddy (1989), investigated the extent and structure of overdues at the central Co-operative bank and the sample of 14 Primary Agriculture Credit Societies in Gundur district, Andhra. The incidence of defaulters to PACS is higher for medium term loan than short term loans and for large farmers compared to small farmers.

The Co-operative movement in Palashi village of Bankhra District, West Bengal, was examined by Das Gangopadhyay and Mitra (1990) for growth in

membership, number of borrower as well as defaulters, the magnitude and per capita loan disbursement. The main source of data is Primary Agricultural Credit Society (PACS) of Palashi, which is assessed for the growing importance of the village's co-operative movement. The findings do not provide a strong basis for concluding that the co-operative services have been unable to reach the poorer section of the population.

Reddy (1990) opined that incidence of defaulters in Primary Agricultural Credit Society (PACS) is greater among producers of food crops than non-food crops. The incidence of defaulting is higher amongst large farmers than small farmers and the informal sector dominates the rural credit scene, accounting for nearly 60% of rural credit. While the dominance of the professional money-lenders have declined, the dominance of agricultural money-lenders has remained intact.

Suresh (1991) evaluates the impact of co-operative credit on agricultural incomes, drawing on evidence from Primary Agricultural Credit Societies in Thrissur district, Kerala. Data from 168 member beneficiaries, selected from 10 PACS, show how the volume of credit services extended to members has grown over the years and indicate the size of the credit gap between the availability of, and demand for funds. The rate of credit utilization is also analysed and the impact of credit utilization is considered on the relevant activities. Although co-operative services clearly play an important role in the rural credit market, there is said to be a need to develop a better organizational, managerial and technological structure for the institutions.

Desai and Namboodiri (1993) investigate the performance of two rural financial institutions, the Anand Farmer's Co-operative Bank and Aruvikara Farmer's Co-operative Bank in Trivandrum district, Kerala. The impact of the two banks on rural house hold was studied by comparing the use of modern farm inputs and per hectre income of borrowers and non borrower, and both aspects were found to be higher for borrowers.

Having examined the Co-operative credit against better use of inputs in Agriculture, Pande (1994) concluded that although small farmers use credit better, and have a higher factor productivity, they suffer from a lack of access to co-operative credit in order to achieve higher production through the better use of inputs, the PACS credit distribution policy should be oriented to provide a higher amount of credit to small farmers.

Sha (1994) opined that the success of Business development planning (BDP) project in India, to increase agricultural productivity and production, linked with storage and marketing and thereby raise the income of farmers through the activities of Primary Agricultural Credit Societies (PACS) has mainly depended on the voluntary adoption of the planning function by the management of the PACS.

Jugale and Patil (1997) opined that the economic viability of PACS is higher in irrigated than non-irrigated regions. The large number of small farmer members have borrowed a small share of total loans, whereas a few big farmers have enjoyed a large share of loans.

Vivek *et al.*, (2003) analysed the loan disbursement by Primary Agricultural Credit Societies in Punjab, India during the period 1988-2001, based on secondary data. The analysis showed that the volume of credit disbursed has increased during the study period. The societies provided more short-term loans rather than medium-term agricultural loans to their members, and proportion of non-agricultural loans to total loan was low.

Satish (2005) has classified borrower of agricultural credit into two classes. One class, which has smaller landholdings lesser capital equipment and is at the lower end of economic prosperity. This co-operative borrower class mainly comprises of small and marginal farm of capital equipment. He also opined that commercial banks should be preferred institutions for commercial farmers while the co-operatives with their less formal and more user friendly systems can serve



the small farmer type of clientele. The small and marginal farmers tend to be the client of the co-operative banking system.

According to Singh and Sekhon (2005), kisan credit card scheme aim at adequate and timely support from the banking system to the farmer to meet the credit needs of crop production and ancillary activities. As many as 73 per cent of the KCC beneficiaries were satisfied with the present cost of accessing the KCC limit, all the farmers were satisfied with the operational efficiency of the KCCs. The major constraints in the working of the KCCs were too many intermediaries in obtaining the suitable securities and finding the guarantor. All the farmers were quite satisfied with the attitude of the loan officers. Thus, by and large the KCCs can be termed as quite efficient especially when it comes to the fulfillment of the short term production credit requirement of all farm size classes.

Jery (2006) in his study has evaluated the Primary Agricultural Co-operative Bank for their functional efficiency. The banks showed a good performance in giving loan to the farmers, particularly crop loans on the basis of specified scale of finance and jewel loans with some formalities to meet any need of the farmers. This has the implication that the positive growth trends in performance variables of PACS need to be sustained and strengthened.

Ambhore (2007) made an attempt to understand the problems and remedies in the healthy development of village based agricultural credit societies. Weak credit is the key problem in the development of PACS in Maharashtra. Due to lack of irrigation and lack of water and land management farmers cannot repay the loan and hence the loan overdues increases and farmers enter into a vicious circle, which further increases their agonies. The problems of rural small and medium farmers are basically related to wrong policy of PACS, which can be strengthened by making drastic changes in rural credit policies.

Kamalakaran and Namasivayam (2007) have stated that in the field of co-operation the Primary Agricultural Credit Societies provide mainly short and medium term loans to the agricultural sector.

Naidu and Reddy (2007) observed that among the institutional agencies co-operatives are the single largest agency providing agricultural credit since their inception. Co-operatives as purveyors of rural credit have come to occupy a predominant place among the institutional credit agencies. The share of co-operative banks in the institutional credit for agriculture and allied activities has declined from 45 percent in 96-97 to 41 percent during 2000-01. They also suggested that, under the prevailing economics scenario of liberalization and globalization, the co-operatives have to be strong enough to compete in the open market.

Singh (2007) has observed that co-operatives and commercial bank had almost equal share in total credit disbursement in 1997 of around 45 %. However the share of commercial banks has increased to 65% in 2004-05. While the share of co-operatives in total disbursement dropped to 25%. He also suggested that the state financial support for the strengthening of co-operatives.

Murthy and Veena (2008) opined that the co-operatives are the most important financial institution in the rural areas. In terms of network, outreach and coverage they account for about 43 percent in the credit flow for agriculture. The long term as well as short term co-operative credit played an important role in the agricultural credit scenario and made a significant contribution in getting the indebted farmers out of the clutches of money lenders and also in the private capital formation in agriculture and development of rural areas.

Sailaja *et al.*, (2008) revealed that the number of defaulters in Primary Agricultural Co-operative Societies are more in case of small farmers followed by medium and large farmers. Frequent drought conditions, high cost of cultivation, non-remunerative agricultural prices and low agricultural income are major reasons

for non-repayment of loans. They also suggested that, strict monitor and supervision of the utilization of loan. Loan should be sanctioned to eligible applicants only, proper procedure with a suitable repayment schedule, adequate incentives for prompt repayment of loans, avoid unnecessary interference of political leaders in the working of the bank and the sanction of loans in particular, introduction of crop insurance scheme, provide adequate prices, give subsidies to all agricultural inputs, nominal interest rate and effective implication of kisan credit card by banks etc., to overcome the problem of mounting over dues and develop rural farmers.

## **2.2 AGRICULTURE AND INDEBTEDNESS**

Siva Kumar (1978) examined the problems of production and marketing faced by different classes of cultivators in two selected villages in Changalpatta district of Tamil Nadu, India. The differences in yield per acre among the different classes are ascribed to their choice of input use and their resource constraints. The large scale farmer is the most market oriented of all classes selling 87% of his gross output, whereas the medium, petty and land less peasants sold 68, 25 and 26 respectively. Indebtedness and the urgent need for cash forced the petty peasants and land less peasants to sell their paddy at prices which are most disadvantageous.

Dawar (1989) examined the magnitude of agricultural indebtedness to various institutional agencies in India with special reference to Andhra Pradesh, the causes of indebtedness, reviews measures taken by government, and suggests measures for improving the recovery of loan instalments.

Badhani and Saksena (1990), opined that the Rural indebtedness is an age old problem in India. Despite considerable efforts under taken by the government in the post independence period to eliminate the influence of money lenders and traders from the rural economy, the problem remains. A credit based marketing system is in operation. This arises when the farmer faces the problem of supporting himself during the off season, when income is not available purchasing

goods on credit from village traders, he is forced to sell his agricultural produce for a very low price. A case study of Garamani, a small hill town in Jumaun, Uttar Pradesh, was undertaken. The sample consists of 100 house holds and the resultant data shows trading practices, rates of interest charged and socio-economic background of respondents. Solutions to the problem include establishing a consumer credit co-operative society which should be well charged with the marketing of agricultural products and establishing reasonable interest rate for credit.

Power (1991) observed that by the end of 1989, 32% of farmers in the Irish Republic had current loans for farming purposes. Thus leaves a large number of farmers without liabilities and a low overall level of farm indebtedness. Results from the National Sample Survey shows that the extent of borrowing is greater on large farms and those earning higher levels of income. In 1989, a relatively small number of farms were in a serious situation of over borrowing. While the decline in farming income will definitely affect the ability to repay outstanding loans in an increasing number of cases.

Raj and Chauhan (1994) opined that a large proportion of Indian farmer debt is due to expenses relating to socio-religious obligations. Risk and uncertainty in Indian agriculture is also responsible for farm indebtedness. Although banks have made remarkable progress after nationalization to retrieve farmers from the grip of money lenders, they have not made much headway in reducing debt. The extent of rural indebtedness increased from Rs. 7500 million in 1950-51 to Rs. 39210 million in 1970-71. The legal, moral and educational measures to be taken to deal with the debt problem are discussed briefly.

Davies (1996) conducted an empirical investigation of the annual rate of insolvency in agriculture and horticulture in England and Wales revealed a relationship with the price of land. The rate of insolvency was negatively related to the current price of land but the lag structure estimated suggests that the rate of insolvency could be positively related to the land price two years previously. In

accordance with a theoretical model which shows that the optimal gearing strategy under rising land prices induces farmers to increase their indebtedness.

Meenakshi and Sharmishta (1998) observed that the Indian state of West Bengal has experienced high growth of agricultural productivity since the late 1970s. This period has also witnessed a growth of an informal credit market with a new lending class comprising traders catering to the working capital needs of farmers. A survey in Hugli district shows a high dependence of small and marginal farmers on this market. Deprived of the relatively cheaper credit from the formal institutions these farmers are compelled to depend on high interest bearing loans for productive purposes and thereby face the risk of falling into a vicious cycle of perennial indebtedness. The role banks can play in breaking this vicious cycle is addressed.

Singh (2001) throws light on the extent of rural indebtedness and the relative importance of informal credit market vis-à-vis the formal credit market in meeting the credit needs of different segments of rural people in Uttar Pradesh, India. He also examined the interlocking of the rural credit market with other agrarian markets and the dominance and dependence between the lender and borrower. The relative interest rates and transaction costs of borrowing in the formal and informal credit markets are worked out and the perceptions of the borrowers about the working of the rural financial institutions and informal sector money lenders are analysed. Suggestions about the regulation or reform of the rural informal credit market are presented.

The situation assessment survey of farmers carried out by the National Sample Survey Organisation (2003) came out with several startling findings on farmer's condition: half of the farmers are indebted and much of the indebtedness was due to agricultural expenses, inequality in income between the rural and urban households and between the cultivators and non cultivators has been growing.

Lenka (2005) pointed out that the agriculturally prosperous states are found to have become home to a large number of indebted farmer households compared to their number in less prosperous ones. Most of the indebted farmer households belong to the category of marginal and small farmers and they are concentrated in the disadvantaged social groups such as Scheduled Tribe (ST) and Scheduled Caste (SC) and other backward classes (OBC). The most important point is that even after a decade of economic reforms, the professional money lenders were the predominant source of lending for the rural farmers. He also suggested that the Government must gear up the machineries to protect them from the clutches of the professional money lenders. At the same time, provision for adequate finance may be made to instill confidence in the mind of these poor farmers who constitute the real strength of the economy.

Mishra (2005) observed that farm families in USA often hold large quantities of wealth and like any other family assess their financial progress by reviewing their networth position periodically. Wealth has an impact on many decisions such as production retirement and succession of the farm. This study also measures how much of the variability in farm household assets and debt is attributed to the variability in farm and non farm sources of assets and farm and non farm sources of debt.

Narayanamoorthy and Kalamkar (2005) from their study on “Indebtedness of farmer households across states” observed that the incidence as well as extent of indebtedness has considerably increased among the farmer households over the last one decade across the states and both the incidence as well as the extent of indebtedness is found to be relatively higher among those states that are relatively developed in terms of agriculture.

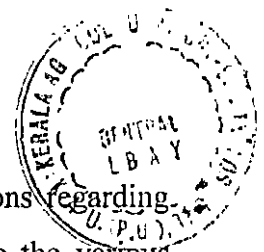
Mishra (2006) observed that the absence of a formal rural financial market leads to a dependence on informal source with great interest burden. The marginal and small farmer is however willing to experiment and take risks. But the farmer is not able to visualize that a bad monsoon leading to crop failure or a glut in

market can push him into indebtedness and a crashing of dreams in short, the farmers is faced with yield, price, credit, income and weather uncertainties. The way out is to merge bold public policy initiatives with civil society engagement.

Rao and Suri (2006) opined that it is not crop loss alone but multiple factors like spurious seeds and pesticides, non-remunerative prices for their produce, increasing expenditure on health and education etc. that contribute to the acceleration of the agrarian crisis and indebtedness.

Sidhu and Gill (2006) opined that the prevalence of informal loan generates interlinked transactions in the market. The farmer borrowing from informal sources generally use their crop as collateral and commit to sell the output to the lenders. The professional money lenders or commission agents charge high interest rates and also exploit the farmers in supply of inputs and marketing of agricultural output. This has negative implication for agricultural development and cripples the farmers' capacity to return loans and come out of debt trap. The case of crop failure due to natural calamities pest attacks also add to high incidence of indebtedness of farmers and contribute to high level of debt per farmer. They also suggests that the rural credit institutions shall have to shed their inhibitions to support the process of agricultural diversification and development.

Patil (2008) observed that the high indebtedness of the Indian farmer is a manifestation of the neglect and inadequate investment in agriculture. The small and marginal farmers who form the over whelming percentage of Indian farmers households are the worst suffers. Most of them are continuing in agriculture because of the complete absence of any alternative. They neither have land or other assets, education or any marketable skill to make a reasonable living. He also suggest some measures to overcome this problems such as; one-time settlement/compromise for non wilful defaulters, improvement in risk mitigation arrangements, constitution of the agriculture relief fund, improving the functioning of the agricultural credit societies, protecting farmers farm distress sale and implementation of liberal debt redemption schemes.



Though many have made substantial opinions and suggestions regarding indebtedness and farmers suicides, it is much important to analyse the various reasons for indebtedness and to suggest measures to resolve the problem.

The experience of Kerala during the past decade shows how and to what extent a traditional export oriented agricultural sector in a small local economy can suffer due to trade liberalization and comprehensive restructuring programmes. With a decline in exports, rise in imports and consequent drop in prices, couples with frequent drought, stagnant production and productivity farm income declined drastically and increased the indebtedness of farmers. A sad manifestation of the severity of the situation was the widespread suicides by farmers in the state.



## *Materials and Methods*

## **CHAPTER III**

### **MATERIALS AND METHODS**

The study entitled “Indebtedness of farmers: A study of farmer borrowers of PACS in Palakkad District” has been carried out with the twin objectives of identifying the factors that contribute to the problems of indebtedness among farmers in Palakkad District and to suggest the measures to be taken to solve the problems. The analysis is done at two levels – one at the borrower level and the other at the organizational level.

#### **3.1 CONCEPTUAL CLARIFICATION**

The terms and concepts used in the study are as follows:

##### **i) Overdue**

Loans and interest, which are not repaid on due dates, are known as overdues. The accepted standard of measurement of overdue is in relation to ‘demand’.

##### **ii) Demand**

Demand means the quantum of loans, which have fallen due, and not those, which are yet to become due for repayment.

##### **iii) Wilful defaulters**

Those borrowers who have not repaid the loan even after having adequate income and the capacity to repay are termed as wilful defaulters.

#### **iv) Non wilful defaulters**

The defaulters who do not have adequate income and capacity to repay the loan dues are defined as non-wilful defaulters.

#### **v) Short Term Agricultural Loan / Kisan Credit Card**

PACS provide short term agricultural operation loan for a period not exceeding one year. Short term agricultural loans are provided for seasonal agricultural operations such as purchase of seed, fertilizers, improvement in land, paddy cultivation, maneuvering of crops etc. For production purpose out of the total loan amount 75% will be provided in the form of cash and remaining in the form of kind (i.e. fertilizers, pesticides, seed etc;) for effective utilization. Maxim loan amount will be Rs. 25000.

#### **vi) Medium Term Agricultural loans**

PACS provide medium term agricultural loan for a period of three or five years for the purpose like sinking of or repair at well, construction of bunds, purchase of machinery, purchase of cattle, conversion of short term loan to medium term loan, animal husbandry activities. The maximum loan amount will be Rs. 500000.

#### **vii) Ordinary Loans**

Loans provided for Non Agricultural purposes like, education, marriage, cottage and village industries, small scale industries.

#### **viii) Gold Loans**

Short term loans provided against the security of "Gold". One appraiser will be there for verifying the value of gold/gold ornament. Only 75% of the actual value of the gold will be given as loan.

## **3.2 METHODOLOGY OF THE STUDY**

The study has been conducted by using data collected from both primary and secondary sources. Secondary data were used mainly for examining the performance indicators of the sample PACS, term-wise classification of overdues and loans and advances of these PACS. The study is based on data collected for a period of six years from 2000-2001 to 2005-06. The main sources of secondary data were documentation of selected PACS and journals like economic survey, Economic Review, Indian journal of Agricultural Economics, EPW etc. Primary data were collected from sample beneficiaries as well as from the President, Secretary and other officials of selected PACS.

### **3.2.1 Sampling Procedure**

For conducting the study- 'Indebtedness of farmers in Palakkad District' two Villages 'Polpully'- The paddy heartland of Chittur and 'Peruvemba' have been randomly selected and the PACS of these two villages were taken for the study. Since two PACS are functioning in each of these villages, a total of two PACS in the district were selected. The selected PACS include Peruvemba Service Co-operative Bank (PACS 1) and Polpully Service Co-operative Bank (PACS 2).

A sample of 45 borrowers from each bank has been compiled at random from the list of borrowing members such that 76.67 percent of them were defaulters and rest were prompt repayers.

For analyzing the effectiveness of PACS to solve or reduce indebtedness problems, ten officials (including President and Secretary) from each PACS were selected.

The primary data regarding socio-economic characteristics, loan utilization pattern, overdue position, income adequacy and reason for default have been collected from sample borrowers with the help of a pre-tested structured interview

schedule (Appendix 1). Information regarding the role of PACS in resolving the indebtedness problems, banker-member relations and their opinion about the present loan operation system were collected from the officials of PACS (Appendix II).

### 3.2.2 Analysis of data

Various methods and techniques has been used to analyze the data collected for the study. The extent of loans and overdues to each PACS has been worked out and compared, for which variables like membership, paid up share capital, loan amount sanctioned, demand overdue position, percentage of overdue and profit/loss of each bank were compiled. Simple correlation between overdues (dependent variable) has been found out to understand the degree of relationship. Simple growth rate and Average Annual Growth Rate (AAGR) have been worked out in the case of selected performance indicators of the sample banks as well as in the term-wise classification of demand and over dues of the banks. Average Annual Growth Rate (AAGR) has been calculated using the following formula.

$$AAGR = \left[ \text{Antilog} \left[ \frac{\log Y_n - \log Y_o}{n-1} \right] - 1 \right] \times 100$$

Where  $Y_n$  = Current Year value of variable

$Y_o$  = Base Year value of the variable

$n$  = Number of Years

Correlation between over dues and the socio-economic characteristics of the respondent borrowers, like level of education, occupation and annual income of the borrowers has been found to assess the influence of these factors on their repayment behaviour.

For identifying and ranking the factors responsible for default as well as the suggestion for reducing over dues at the borrower and organizational levels priority index has been calculated. Based on the ranks assigned by respondents to each of the factor in the order of importance, the index value was worked out as follows.

Suppose there are ‘n’ factors to be ranked, say  $X_1, X_2, X_3, \dots, X_n$ , the respondents would assign one to ‘n’ ranks. These ranks would be converted into scores in such a way that ‘n’ score is allotted to that factor which the respondent ranked 1<sup>st</sup>, n-1 score to the 2<sup>nd</sup> rank and thus score one to the n<sup>th</sup> rank. The aggregate score of each factor would be obtained by adding up the individual scores so obtained. Maximum obtainable score would be the numerical product of the number of respondents and the number of factors applicable in that particular case. Priority index has been computed using the following formula:

$$P_{X_i} = \sum_{i=1}^n \frac{ES_i}{n \times N} \times 100$$

Where,

$P_{X_i}$  = Priority index value for the factor  $X_i$

$ES_i$  = Aggregate score obtained for factor  $X_i$

n = Number of factors

N = Number of respondents

In order to examine the effectiveness of the existing loan management system, an organizational level evaluation has been undertaken. The opinion of the officials including the president and secretaries of the selected PACS regarding their relationship with members, intra-bank relations, commitment of employees and directors, organizations overall performance and the weakness of the loan mechanism, have been analyzed using efficiency indices. The efficiency indices have been prepared on a five point scale by assigning ranks from five to one and the index value have been classified as highly efficient, moderately efficient and least efficient. The following formula has been employed for calculating these indices.

$$E. I = \frac{\sum_{i=1}^n e_{ij}}{\sum_{i=1}^n \max. E_{ij}} \times 100$$

Where,

E.I = Efficiency Index

i = Respondent

j = Character

In addition to the above statistical tools, bi-variate tables, simple averages and percentages have also been used for the analysis in the case of selected indicators while presenting the performance indicators of the bank and socio-economic profile of the borrowers.

The results of the analysis of data collected from the sample banks and borrowers as outlined above, are presented and discussed in the next chapter.

## *Results and Discussion*



## **CHAPTER IV**

### **RESULTS AND DISCUSSION**

Indebtedness, in particular farmers indebtedness has long been treated as a distress phenomenon. If the borrowers crop fails due to natural calamities, drought, use of spurious inputs, infructuous investments or other unforeseen reasons, or if production becomes uneconomic because of high input costs, stagnant technology and lack of remunerative prices which make it impossible for the farmer to repay his capital and interest. Finally, and this is quite common, interest becomes a heavy liability if the loan is taken from non institutional sources like money lenders at high rates of interest. The accumulated liability of principal and compound interest can sometimes become crippling, and the borrower is forced to mortgage or sell his land losing thereby his only means of livelihood. Hence, a study on “Indebtedness of farmers” provide insights into varied dimensions of farmers indebtedness.

This chapter is devoted to identify the factors that contribute to the problems of indebtedness among farmers in Palakkad district and to suggest the measures to be taken to solve these problems. This chapter is presented in three broad sections viz.,

- 4.1. Extent and dimensions of indebtedness
- 4.2. Reasons for indebtedness
- 4.3 Suggestions for reducing indebtedness

#### **4.1 EXTENT AND DIMENSIONS OF INDEBTEDNESS**

The extent of overdues of Peruvemba and Polully Service Co-operative Banks of Palakkad District and relation of selected performance indicators of these two PACS on the indebtedness along with the term wise classification of overdues are summarized in present section.

#### 4.1.1. Peruvemba Service Co-operative Bank

The important performance indicators of Peruvemba SCB like membership share capital, loans and advances, overdues and net profit are analysed here to know the progress of the bank during the study period.

Table 4.1 depicts that the membership of Peruvemba SCB has gradually increased from 30104 in 2000-01 to 33747 in 2005-06. The AAG is 2.31 percent. The paid up share capital also registered a steady increase from Rs.82.91lakhs in 2000-01 to Rs96.77lakhs in 2001. The AAG of share capital is 3.24 percent for the period.

The loans and advances achieved significant progress during the period by reaching Rs.1989.89lakhs in 2005-06 the year in which maximum rate of growth was reported. The overdues of the bank increased from Rs.230.11lakhs in 2000-01 to Rs830.81lakhs in 2005-06. The annual average growth is 29.38 percent. Drought is the most pertinent cause for default in Agricultural loans by farmers of PACS. Inadequacy of income and expectation of write off as the next major reason for non-repayment of loans. Drought has resulted in lower – earnings for farmers. Moreover, farmers believe that Governmental policies have led the agricultural economy of Kerala into the present crisis. So they have expected a favourable action from government for writing off all agricultural loans. Mounting overdues will lead the bank to loss. It is seen that the bank achieved the highest net profit amount of Rs28.92lakhs in 2000-01 and reduced to Rs.3.84lakhs in 2005-06. In the year 2002-03, bank has faced highest amount of loss i.e. Rs. 36.55lakhs.

Table 4.1. Selected performance indicators of Peruvemba SCB, 2000-01 to 2005-06

(Rs. in lakhs)

Year	Member ship (No.)	Paid up capital (Rs.)	Loans and advances (Rs)	Loan amount disbursed (Rs)	Demand (Rs.)	Overdue (Rs.)	Overdue to demand (%)	Profit/ loss (Rs.)
2000-01	30104 (-)	82.91 (-)	1129.28 (-)	1015.31 (-)	1064.69 (-)	230.11 (-)	21.61	28.92 (-)
2001-02	31122 (3.38)	89.87 (8.39)	1272.37 (12.64)	864.56 (-14.85)	1044.09 (-1.93)	322.32 (40.07)	30.87	0.31 (-98.93)
2002-03	32115 (3.19)	97.61 (8.61)	1439.68 (13.15)	964.92 (11.61)	1212.37 (16.12)	414.77 (28.68)	34.21	-36.55 (-11890.32)
2003-04	32566 (1.4)	100.32 (2.78)	1615.71 (12.23)	1043.82 (8.18)	1377.23 (13.6)	509.44 (22.82)	36.99	-33.86 (-7.36)
2004-05	33212 (1.98)	97.9 (-2.41)	1707.95 (5.71)	1104.21 (5.79)	1626.52 (18.1)	614.54 (20.63)	37.78	-15.67 (-53.72)
2005-06	33747 (1.61)	96.77 (-1.15)	1989.89 (16.51)	1388.76 (25.77)	2182.6 (34.19)	830.81 (35.19)	38.07	3.84 (-124.51)
AAGR	2.31	3.24	12.05	7.3	16.01	29.48	-	-24.34

Source : Annual report and financial statement of Peruvemba SCB, 2000-01 to 2005-06.

Note : Figures in bracket indicate annual growth rate

AAGR refers to Average Annual Growth Rate.

Agriculture is the main occupation of most of the people in Palakkad District. The major agricultural crops include paddy, sugarcane maize, tapioca and vegetables. All are short-term crops. But severe drought or flood over the years which led to non-repayment of loans by farmers to PACS.

#### **4.1.2 Polpully Service Co-operative Bank**

Before attempting to examine the reasons for indebtedness of borrowers of PACS in Palakkad district, it is pertinent to analyze the performance of PACS during the study period, for this important performance indicators like membership, share capital, loans and advances, overdues and net profit are considered.

Polpully SCB had a membership of 24792 in 2000-01, which declined gradually to 11832. The annual average growth rate in membership of Polpully SCB was -8.77 percent for the study period. There was a steady decline in the membership. But the paid up share capital has reported an increase from Rs. 52.48 lakhs in 2000-01 to Rs62.17lakhs in 2005-06. The AAG in share capital of Polpully SCB was 3.57 percent for the reference period.

The loan outstanding position of Polpully SCB registered a steady growth from Rs911.87lakhs in 2000-01 to Rs 1509.61lakhs in 2005-06, thus recording an AAG of 10.67 percent. The overdue position of the Polpully SCB was also increased from Rs.186.32lakhs in 2000-01 to Rs428.13lakhs in 2005-06. The AAG was 18.37 percent. The net profit position was showing a fluctuating trend and increased from Rs0.31lakhs in 2000-01 to Rs1.72lakhs 2005-06, but the AAG is negative ie -42.47. In 2003-04 Polpully SCB has faced a loss of Rs1.46lakhs.

The gradual increase in loans and advances of Polpully SCB as per table 4.2.is attribute to the existence of potential borrowers in agricultural and non-agricultural activities. Palakkad district is known as the rice bowl of Kerala. Other than rice, sugarcane, banana, coconut etc. are the major crops in Palakkad district all are short-term crops. This actually enables the farmers to depend upon PACS for loan.

Table 4.2. Selected performance indicators of Polppuly SCB, 2000-01 to 2005-06

(Rs in Lakhs)

Year	Member ship (No.)	Paid up capital (Rs.)	Loans and advances (Rs)	Loan amount disbursed (Rs)	Demand (Rs.)	Overdue (Rs.)	Overdue to demand (%)	Profit/ loss (Rs.)
2000-01	24792 (-)	52.48 (-)	911.87 (-)	1222.14 (-)	506.04 (-)	186.32 (-)	36.81	0.31 (-)
2001-02	2542 (2.54)	56.62 (7.89)	990.28 (8.6)	1149.17 (-5.97)	529.11 (4.56)	249.91 (34.13)	47.23	1.14 (267.74)
2002-03	10487(-58.75)	61.16 (8.02)	1047.13 (5.74)	1260.06 (9.65)	596.72 (12.78)	287.1 (14.88)	48.11	3.56 (212.28)
2003-04	10943(4.35)	63.52 (3.86)	1170.37 (11.77)	1452.65 (15.28)	741.69 (24.29)	338 (173.73)	45.57	-1.46 (-141.01)
2004-05	11194(2.29)	63.25 (-0.43)	1364.1 (16.55)	1716.09 (18.14)	775.76 (4.59)	375.81 (11.19)	48.44	5.58 (-482.19)
2005-06	11832(5.7)	62.17 (-1.71)	1509.61 (10.67)	2075.84 (20.96)	1012.98 (30.58)	428.13 (13.92)	42.26	1.72 (-69.18)
AAGR	-8.77	3.53	10.67	11.61	15.36	18.37	-	-42.47

Source : Annual report and financial statement of Peruvemba SCB, 2000-01 to 2005-06

Note : Figures in bracket indicate annual growth rate

AAGR refers to Average Annual Growth Rate.

The decline in the net profit position of the bank is mainly due to the mounting overdues in the Polpully SCB. Farmers were unable to make repayment of loan. The AAG of overdues is 18.37 percent. Since 2000, the farmers of the district had been facing drought or flood. Short duration crops like paddy, banana, sugarcane etc: and other cash-crops like coconut and arecanut were also destroyed in the drought. This might be one to the reason for mounting overdues in the bank.

#### **4.1.3 Loans and Advances**

PACS have classified their agricultural loans and advances into short-term, medium-term advances. Short-term loans are provided for a period upto one year for seasonal agricultural operations like paddy cultivation, maneuvering of cash crops like coconut, areca nut, rubber, pepper etc: medium term loans are provided for a term upto five years for dairying poultry, land development and renovation of wells, other than this PACS are providing gold loans and loans for meeting immediate consumption needs of members.

In the case of Peruvemba SCB, it is observed that the lion's share of the total agricultural loans is composed of medium term loans of around 72.68 percent. The predominance of medium term loans has actually resulted in a meagre share of short-term agricultural loans at around 3.38 percent. At the same time, the share of ordinary loans and gold loans maintained a stagnant range of around 2.42 percent and 21.50 percent respectively. A noticeable feature is that only the share of medium-term agricultural loans showing an increasing share to total loans and advances.

Drought is the most pertinent cause for default in short term agricultural loans by farmers of PACS. Majority of the farmers have an opinion that the ST loan amount is not sufficient for agricultural operations. So again they depend upto gold loan or medium term loan for meeting insufficient amount. Sometimes the farmers repaid the loan by taking gold loan or medium term loan from the PACS. That was the major reason behind the increased share of medium- term and gold loan in total loans and advances.

Table 4.3 Total Loans and Advances of Peruvemba and Polpully SCB, 2000-01 to 2005-06

(Rs in Lakhs)

Loans and Advances of Peruvemba SCB					
Year	ST agri. loan	MT agri. loan	Ordinary	Gold loan	Total loans and advances o/s
2000-01	38.67(3.42)	788.7(69.82)	32.53(2.88)	269.69(23.88)	1129.58(100)
2001-02	38.88(3.06)	927.84(79.26)	29.42(2.31)	276.23(21.71)	1272.37(100)
2002-03	45.8(3.18)	1077.13(74.82)	28.02(1.95)	288.73(20.06)	1439.68(100)
2003-04	64.31(3.98)	1189.7(73.63)	37.52(2.32)	324.19(20.06)	1615.71(100)
2004-05	53.68(3.14)	1259.62(73.75)	39.53(2.31)	355.12(20.79)	1707.95(100)
2005-06	69.56(3.5)	1415.59(71.14)	54.92(2.76)	449.81(22.6)	1989.89(100)
Loans and Advances of Polpully SCB					
Year	ST agri. loan	MT agri. loan	Ordinary	Gold loan	Total loans and advances o/s
2000-01	47.81(5.24)	88.97(9.76)	389.11(42.67)	385.98(42.33)	911.87(100)
2001-02	51.1(5.16)	140.65(14.2)	392.939(39.68)	405.6(40.96)	990.28(100)
2002-03	55.11(5.26)	184.03(17.57)	393.29(37.56)	414.7(39.6)	1047.13(100)
2003-04	69.43(5.93)	232.04(19.83)	404.64(34.57)	464.26(39.67)	1170.37(100)
2004-05	114.08(8.36)	276.72(20.29)	445.7(32.67)	527.6(38.68)	1364.1(100)
2005-06	116.8(7.74)	308.7(20.45)	443.66(29.39)	640.38(42.42)	1509.61(100)

Source : Annual report and financial statement of Peruvemba and Polpully SCB, 2000-01 to 2005-06

Note : Figures in parenthesis denotes percentage to total loans and advances

Table 4.3 already exhibits that there was a progressive increase in the share of short term agricultural loans of Polpully SCB from Rs. 47.81lakhs in 2000-01 to Rs. 116.8lakhs in 2005-06. At the same time, the share of medium-term agricultural loans has also increased from 9.76 percent in 2000-01 to 20.45 percent in 2005-06. The quantum of ordinary loans has registered a considerable decline from 42.67 percent in 2000-01 to 29.39 percent in 2005-06. The share of gold loans has maintained a stagnant range of around 40.5 percent during the study period.

#### **4.1.4 Term Wise Demand and Overdues of Peruvemba SCB**

The term wise demand and overdues of Peruvemba service Co-operative Bank from 2000-01 to 2005-06 has been highlighted in Table 4.4.

The demand and overdues of medium-term loans has been increasing at a faster pace over the years. On the other hand demand for short-term loans were showing an increasing trend, but the share of overdues of short term loans to total overdues were showing a decreasing trend. The demand as well as overdues of gold loan showing a faster growth, but the shares of overdues of gold loans to total overdues were showing a decreasing trend. Share of overdues of gold loans to total overdue was decreased from 16.23 percent in 2000-01 to 5.02 in 2005-06. But the demand has doubled over the years. Majority of the farmers were taking gold loans to repay the short term agricultural loans. Gold loans can be renewed after one year by paying the interest, compared to other loans it is easily accessible to farmers. That might be the reason for the decreasing trend of overdues of gold loan.



Table 4.4 Term wise demand and overdues of Peruvemba SCB, 2000-01 to 2005-06

(Rs in Lakhs)

Year	ST Loans			MT Loans			Gold Loan			Total		
	Demand (Rs.)	Overdue (Rs.)	(%) of Overdue	Demand	Overdue	(%) of Overdue	Demand	Overdue	(%) of Overdue	Demand	Overdue	(%) of Overdue
2000-01	59.69 (5.61)	19.39 (8.43)	32.48	485.59 (45.61)	173.38 (75.35)	35.71	519.41 (48.79)	37.34 (16.23)	7.19	1064.69 (100)	230.11 (100)	21.61
2001-02	51.55 (4.94)	20.66 (6.41)	40.08	503.75 (48.25)	251.14 (77.92)	49.85	488.79 (46.81)	50.52 (15.67)	10.34	1044.09 (100)	322.32 (100)	30.87
2002-03	56.59 (4.67)	24.73 (5.96)	43.7	646.14 (53.3)	347.04 (83.67)	53.71	509.64 (42.04)	43 (10.37)	8.44	1212.37 (100)	414.77 (100)	34.21
2003-04	50.54 (3.67)	31.47 (6.18)	62.27	761.62 (55.3)	457 (89.71)	60	565.07 (41.03)	20.97 (4.12)	3.71	1377.23 (100)	509.44 (100)	36.99
2004-05	79.78 (4.91)	26.02 (4.23)	32.61	925.76 (56.92)	554.46 (90.22)	59.89	620.78 (38.17)	34.06 (5.54)	5.49	1626.32 (100)	614.54 (100)	37.79
2005-06	86.96 (3.98)	41.95 (5.05)	48.24	1137.75 (52.13)	747.13 (89.93)	65.67	957.89 (43.89)	41.73(5.0 2)	4.36	2182.6 (100)	830.81 (100)	38.09

Source : Annual report and financial statement of Peruvemba SCB, 2000-01 to 2005-06

Note : Figures in parenthesis denotes percentage to total demand and overdue

Table 4.5 Term wise Demand and Overdues of Polpully SCB, 2000-01 to 2005-06

(Rs in Lakhs)

Year	ST Loans			MT Loans			Gold Loan			Total		
	Demand (Rs.)	Overdue (Rs.)	(%) of Overdue	Demand	Overdue	(%) of Overdue	Demand	Overdue	(%) of Overdue	Demand	Overdue	(%) of Overdue
2000-01	25.02 (4.94)	18.16 (9.75)	72.58	198.46 (39.22)	100.53 (53.96)	50.66	282.56 (55.84)	67.63 (36.3)	23.93	506.04 (100)	186.32 (100)	36.82
2001-02	30.38 (5.74)	24.13 (9.66)	79.43	198.58 (37.53)	119.63 (47.87)	60.24	300.15 (56.73)	106.15 (42.48)	35.37	529.11 (100)	249.91 (100)	47.23
2002-03	31.85 (5.34)	28.03 (9.76)	88.01	262.32 (43.96)	171.75 (59.82)	65.47	302.55 (50.7)	87.32 (30.41)	28.86	596.72 (100)	287.1 (100)	48.11
2003-04	25.54 (3.44)	22.9 (6.78)	89.66	342.73 (46.21)	212.44 (62.85)	61.98	373.42 (50.35)	102.66 (30.37)	27.49	741.69 (100)	338 (100)	45.57
2004-05	20.54 (2.65)	16.68 (4.44)	81.21	354.11 (45.65)	238.9 (63.57)	67.46	401.11 (51.71)	120.23 (31.99)	29.97	775.76 (100)	375.81 (100)	48.44
2005-06	157.97 (15.59)	57.01 (13.32)	39.09	451.3 (44.55)	298.34 (69.68)	66.11	403.71 (39.85)	72.78 (17)	18.03	1012.98 (100)	428.13 (100)	42.26

Source : Annual report and financial statement of Polpully SCB, 2000-01 to 2005-06

Note : Figures in parenthesis denotes percentage to total demand and overdue

#### **4.1.5 Term Wise Demand and Overdues of Polpully SCB**

Data pertaining to the term wise classification of demand and overdues of Polpully Service Co-operative Bank together with the extent of overdues to demand for each category have been highlighted in the Table 4.5.

It is observed from the table 4.3 that the demand as well as overdue is the highest in the case of medium term loans and gold loans. Majority of the farmers have an opinion that the short-term loan amount was not sufficient for agricultural operation. Since 2000 Palakkad District had been facing severe drought/flood. That might be one of the reasons for non-repayment of agricultural loans. Lumpsum repayments of short term agricultural loans are also inconvenient for the farmers. So the farmers depending on medium term loans or gold loans for repayment of short term agricultural loans and also to meet the insufficient amount for agricultural operations.

The main objective of PACS must be to provide loans and advances for agricultural purposes. A deviation from this situation depicts that the demand for non-agricultural loans (Gold Loan) were increasing steadily. But the fact is that the farmers are the major borrowers of the Gold Loan and they are using this either for agricultural operation or for repayment of old loans.

#### **4.2 REASON FOR INDEBTEDNESS**

Agriculture in Palakkad district is passing through a very difficult period as a result of steep fall in prices of most of the farm commodities. New economic policies, globalization, import policies of agricultural products, low price, high price of raw material used in agricultural production, lack of subsidies, long term negligence of irrigation facilities, incomplete planning of urgent development policies, high interest rate and non institutional loan, excessive use of chemical fertilizers and pesticides, continuous drought etc are the major factors which led to the agricultural debt trap in Palakkad.

Though the factors for indebtedness are heterogeneous in nature, it is necessary to analyse them at the grass root or borrower level. Hence a field level study has been conducted covering two PACS viz., Peruvemba SCB and Polpully SCB. To examine the reasons behind indebtedness, 45 borrowers from each PACS have been interviewed.

After giving a brief picture about the socio-economic characteristics of the selected borrowers, the overdues of the sample defaulters have been classified, so as to find out the relation of these factors on overdues. The influence of the socio-economic factors on the overdues of the respondents is analysed by means of correlation. The factors leading to overdues have been identified and prioritized using priority index.

#### **4.2.1. Socio-Economic Profile of Sample Borrowers**

Socio-economic profile of the borrowers is a pre-requisite for examining the factors responsible for increasing indebtedness. The possible demographic factors affecting the repayment behaviour of individuals are sex, educational level, occupational status, family income and expenditure. The details of these factors collected from the borrowers have been presented in Table 4.6

It is seen from Table 4.6 that majority of the sample borrowers were males (76.67 per cent). This might be due to the reason that in many of the households males are the only earning members. It is observed from the Table 4.6 that, in these two PACS majority of the defaulters were male borrowers. Most of the female borrowers of agriculture loans were not engaged in agriculture activities. They are playing the role of housewives and the loans were taken in their names. It was utilized by their counterparts or sons, they have already taken loans from the society for agricultural or non agricultural purposes and made default in repayments. So they forced to take loans in the names of their wife or mother (female family members).

Table 4.6 Socio-economic profile of sample borrowers of the selected PACS

Parameter	PACS (1)		Total	PACS (2)		Total
	Defaulters	Prompt repayers		Defaulters	Prompt repayers	
<b>Sex</b>						
1. Male	27 (77.14)	8 (80)	35 (77.78)	25 (73.53)	9 (81.82)	34 (75.56)
2. Female	8 (22.86)	2 (20)	10 (22.22)	9 (26.47)	2 (18.18)	11 (24.44)
Total	35 (100)	10 (100)	45 (100)	34 (100)	11 (100)	45 (100)
<b>Education</b>						
Illiterate	10 (28.57)	5 (50)	15 (33.33)	6 (17.65)	1 (9.10)	7 (15.55)
Primary	15 (42.86)	1 (10)	16 (35.56)	11 (32.35)	3 (27.27)	14 (31.11)
Secondary	7 (20)	2 (20)	9 (20)	9 (26.47)	3 (27.27)	12 (26.67)
Above sec.	3 (8.57)	2 (20)	5 (11.11)	8 (23.53)	4 (36.36)	12 (26.67)
Total	35 (100)	10 (100)	45 (100)	34 (100)	11 (100)	45 (100)
<b>Occupation</b>						
Agri. & Allied	23 (65.71)	6 (60)	29 (64.44)	19 (55.88)	4 (36.36)	23 (51.11)
Service & Business	9 (25.71)	2 (20)	11 (24.44)	8 (23.53)	4 (36.36)	12 (26.67)
Non Agril. Lab	3 (8.57)	2 (20)	5 (11.11)	7 (20.59)	3 (27.27)	10 (22.22)
Total	35 (100)	10 (100)	45 (100)	34 (100)	11 (100)	45 (100)
<b>Monthly income</b>						
2000-5000	11 (31.43)	0 (0.0)	11 (24.44)	20 (58.82)	2 (18.18)	22 (48.89)
5001-10,000	22 (62.86)	8 (80)	30 (66.67)	10 (29.41)	8 (72.72)	18 (40.00)
Above 10,001	2 (5.71)	2 (20)	4 (8.89)	4 (11.77)	1 (9.10)	5 (11.11)
Total	35 (100)	10 (100)	45 (100)	34 (100)	11 (100)	45 (100)
<b>Nature of family</b>						
Joint	20 (57.14)	8 (80)	28 (62.22)	18 (52.94)	5 (45.50)	23 (51.11)
Nuclear	15 (42.86)	2 (20)	17 (37.78)	16 (47.06)	6 (54.50)	22 (48.89)
Total	35 (100)	10 (100)	45 (100)	34 (100)	11 (100)	45 (100)

Source : Survey Data

Note : Figures in parenthesis indicate percentage to total

Educational level of the sample borrowers of selected banks has been classified as primary, secondary and above secondary level. Majority of the borrowers had only informal or primary education (57.78 per cent). The same tendency is seen in the case of the defaulters also. Among the prompt repayers of these two banks 52.38 per cent of them had educational status of secondary level or above secondary level. This indicates that educational level had influence on the repayment behaviour of the borrowers.

The monthly family income of the sample borrowers has been categorized as between Rs. 2000 and Rs.5000, between Rs. 5001 and Rs.10,000 and above Rs.10,000. Majority of the borrowers selected for the study had a monthly family income ranging from Rs.5001-Rs.10,000 (53.33 per cent). A considerable proportion of the sample borrowers of PACS (1) belonging to the category of higher monthly family income (Rs.5001-Rs.10,000) when compared to PACS (2). Majority of the defaulters of PACS (2) belonging to the category of lower monthly income level (Rs.2000-Rs.5000) and most of the borrowers were belonging to this category. This might be due to the reason that earning members in the family of the borrowers in PACS (2) is less compared to PACS (1). There was more number of joint families among borrowers of PACS (1) compared to PACS (2). Most of the prompt repayers of PACS (1) belonging to the category of monthly family income between Rs. 5001 and Rs.10,000. This indicates that nature of family of sample borrowers had influence on the repayment behaviour of the borrowers. Most of the prompt repayers of PACS (2) were also belonging to the category of monthly family income between Rs.5001 and Rs.10,000. This might be due to their occupational status. Majority of them (63.64 per cent) were considered agriculture as their secondary occupation. They were doing service and business or working as non agricultural labourers under big contractors.

The occupation of the sample borrowers included in the study has been divided into agriculture and allied activities, services and business and non agricultural labourers. It is evident from the Table 4.6 that majority of the respondents of the selected PACS are engaged in agriculture (57.78 per cent). This

may be attributed to the predominance of agriculture in the area of operation of PACS. But most of the prompt repayers of these two PACS are considering agriculture as their secondary occupation (52.38 per cent). Their primary occupation is service and business or they are working as non agricultural labourers. According to their opinion income from agricultural sector has been declining over recent years, which might be the reason for considering agriculture as a secondary occupation.

Majority of the sample borrowers are living in Joint families (56.67 per cent). The same tendency is seen in the case of prompt repayers also. This indicates that nature of family had influence on the repayment behaviour of the borrowers.

The socio-economic profile of sample borrowers clearly portrays the predominance of borrowers who have been engaged in agriculture followed by service and business and non agricultural labourers. Male respondents were much more than females and most of the respondents had only informal and primary education. Majority of the sample borrowers had monthly family income between Rs.5001 and Rs.10,000.

Area of operation of the sample PACS has been confined to Rural areas. Majority depends on agriculture for their livelihood. Dependence on agriculture is one of the important reason for indebtedness of farmers. The poverty among farmers was driven by fall in prices of agricultural product and high wages and cost of production. This paved the way for increasing rural indebtedness for farming population. Since, the income from agriculture has declined, but the cost of living is increasing, which results in insufficient income to meet their expenses and to repay the loan. The paddy cultivators in Palakkad district are facing a very miserable economic crisis due to rising cost of cultivation, reduced profitability, high agricultural wages, stagnation or fall in the prices of agricultural commodities

#### 4.2.2. Classification of Overdues of Defaulters

The overdue amount of the defaulters of the selected PACS has been classified into four categories viz. below 10,000, Rs.10001 to 25000, Rs.25001 to 50,000 and above 50,001 and is depicted in Table 4.7.

Table 4.7 Classification of overdues of defaulters

Overdue amount (Rs.)	PACS (1)	PACS (2)	Total
Below 10,000	2 (5.71)	3 (8.82)	5 (7.25)
10,001-25,000	18 (51.43)	14 (41.18)	32 (46.38)
25,001-50,000	12 (34.29)	14 (41.18)	26 (37.68)
Above 50,001	3 (8.57)	3 (8.82)	6 (8.69)
Total	35 (100)	34 (100)	69 (100)

Source : Survey Data

Note : Figures in parenthesis indicate percentage to total

This classification has been done to analyse the extent of default made by borrowers of the PACS. The prominence of defaulters in the category of overdues between Rs.10,001 to Rs.25,000 implies that many of them are short term borrowers.

#### 4.2.3 Influence of Socio-Economic Characteristics on Overdues

The socio-economic characteristics of the sample respondents discussed earlier is related to the level of overdues, by means of correlation, to examine the extent of influences of these factors on their overdues.

##### 4.2.3.1 Level of Overdues and Educational Status

An apriority reasoning is that, those borrowers with better educational will have better awareness of problems and consequences of overdues and better



will be the loan repayment. Hence an attempt has been made to analyse the relationship between educational level and overdues of sample defaulters in Table 4.8.

As already seen in Table 4.6 most of the defaulters in sample borrowers are educationally backward (informal and primary level). But it is seen in Table 4.8 that the highly educated group were responsible for higher amount of overdues (ie., above Rs.50,001). Majority of the defaulters in PACS (1) are educationally backward (71.43 per cent). The correlation between overdues and educational status of defaulters of PACS (1) show a significant relationship. But in the case of PACS (2) 50 per cent of the defaulters are educationally backward and remaining 50 per cent are educationally forward. The correlation between overdue and educational status of PACS (2) did not show significant relationship. This indicates the presence of wilful defaulters in this bank.

Table 4.8 Overdue amount and Educational level of sample defaulters of selected PACS.

Overdue amount	PACS (1)				Total	PACS (2)				Total
	Illiterate	Primary	Secondary	Above Secondary		Illiterate	Primary	Secondary	Above Secondary	
Below 10,000	1 (10)	0	1 (14.29)	0	2 (5.71)	1 (16.67)	1 (9.09)	1 (11.11)	0 (0)	3 (8.82)
10,001-25,000	4 (40)	10 (66.67)	4 (57.14)	0	18 (51.43)	4 (66.67)	4 (36.36)	3 (33.33)	3 (37.50)	14 (41.18)
25,001-50,000	3 (30)	5 (33.33)	2 (28.57)	2 (66.67)	12 (34.29)	1 (16.67)	6 (54.55)	3 (33.33)	4 (50)	14 (41.18)
Above 50,001	2 (20)	0 (0)	0 (0)	1 (33.33)	3 (8.57)	0 (0)	0 (0)	2 (22.22)	1 (12.5)	3 (8.82)
Total	10 (100)	15 (100)	7 (100)	3 (100)	35 (100)	6 (100)	11 (100)	9 (100)	8 (100)	34 (100)

Source : Survey Data

Note : Figures in parenthesis indicate percentage to total

#### ***4.2.3.2 Level of Overdues and Occupation***

A comparison of overdues of different occupational classes such as farmers, businessmen and non-agricultural labourers has been made to identify the relation between the occupation and overdues which is highlighted in Table 4.9.

It is seen from Table 4.9 that of all the three categories of occupational classes farmers were responsible for major portion of overdue amounts. As already stated in Table 4.6 this might be due to reduced profitability and income of agriculture sector. The correlation between overdues and occupational status of defaulters show significant relationship. Businessmen and non agricultural labourers were responsible for smaller portion of overdue amount.

The farmers in Kerala were now caught in a situation of rising cost of production and low prices for agricultural commodities. This is considered as one of the most important reason behind the increase in farmer's indebtedness.

Table 4.9 Overdue amount and occupational status of sample defaulters of selected PACS.

Overdue amount (Rs.) No. of defaulters	PACS (2)				Total	PACS (1)				Total
	Below 10,000	10,001-25,000	25,001-50,000	Above 50,000		Below 10,000	10,001-25,000	25,001-50,000	Below 10,000	
a) Agri & Allied activities	1 (33.33)	9 (64.29)	9 (64.29)	0	19 (55.88)	1 (50)	11 (61.11)	9 (75)	2 (66.67)	23 (65.71)
b) Service and business	0	3 (21.43)	3 (21.43)	2 (66.67)	8 (23.53)	1 (50)	4 (22.22)	3 (25.0)	1 (33.33)	9 (25.71)
c) Non Agri. Labour	2 (66.67)	2 (14.29)	2 (14.29)	1 (33.33)	7 (20.59)	0	3 (16.67)	0	0 (0)	3 (8.57)
Total	3 (100)	14 (100)	14 (100)	3 (100)	34 (100)	2 (100)	18 (100)	12 (100)	3 (100)	35 (100)

Source: Survey Data

Note : Figures in parenthesis indicate percentage to total

#### 4.2.3.3 Level of Overdues and Monthly Income

It is known that overdues are closely related to the income of the borrowers, irrespective of their occupational status, such that higher the income, lower the dues. An attempt has been made in Table 4.10 for analyse the relationship between the level of income and the overdues. For this purpose monthly family income has been classified as Rs.2001 to Rs.5000, Rs.5001 to 10,000 and above 10,001.

Table 4.10 Overdue amount and monthly family income of sample defaulters of selected PACS

Overdue amount	PACS (1)			Total	PACS (2)			Total
	Monthly family Income (Rs.)				Monthly family Income (Rs.)			
	2001-5000	5001-10,000	Above 10,001		2001-5000	5001-10,000	Above 10,001	
Below 10,000	1 (19.09)	1 (4.54)	0 (0)	2 (5.71)	3 (15)	0 (0)	0 (0)	3 (8.82)
10,001-25,000	8 (72.73)	9 (40.91)	1 (50)	18 (51.43)	11 (55)	3 (30)	0 (0)	14 (41.18)
25,001-50,000	2 (18.18)	9 (40.91)	1 (50)	12 (34.29)	6 (30)	6 (60)	2 (50)	14 (41.18)
Above 50,001	0 (0)	3 (13.64)	0 (0)	3 (8.57)	0 (0)	1 (10)	2 (50)	3 (8.82)
Total	11 (100)	22 (100)	2 (100)	35 (100)	20 (100)	10 (100)	4 (100)	34 (100)

Source : Survey Data

Note : Figures in parenthesis indicate percentage to total

Majority of the defaulters had a monthly family income ranging from Rs.5001 to Rs.10,000 in PACS (1); along with the increase in family income, the amount of overdues also increased. But in case of PACS(2) no significant relation was identified, it was found that majority of defaulters are from lower

income group (i.e., Rs.2001 to Rs.5000). This findings give an indication that, in case of PACS (1), the high overdues is due to the wilful default from the part of borrowers. On the other hand, the existence of such wilful default is rules out in PACS (1). Banks have to identify wilful defaulters and adopt suitable methods to speed up the recovery process, along with proper appraisal and follow up measures so that such wilful defaultes can be avoided.

#### **4.2.3.4 Level of Overdues and Land Use Pattern**

The sample defaulters were classified into three size classes based on their land use pattern, 0-2.44 acres (Marginal farmers); 2.45-4.88 acres (small farmers); above 4.89 acres (Medium farmers). Majority of the sample defaulters were marginal or small farmers (65.22 per cent). Small and Marginal farmers are more vulnerable to crop losses and price fall. They find it extremely difficult to pay back the loans they have incurred to grow crops and survive. The small and marginal farmers are wiling to experiment and take risk of borrowing. But the farmer is not able to visualize that a bad monsoon leading to a crop failure or a glut in the market can push him into indebtedness.

Table 4.11 Overdue amount and land use pattern of sample defaulters of selected PACS

(land in acres)

Overdue amount	PACS (1)			Total	PACS (2)			Total
	Less than 2.44	2.45 - 4.88	Above 4.89		Less than 2.44	2.45 - 4.88	Above 4.89	
Below 10,000	1 (16.67)	1 (5.56)	0 (0)	2 (5.71)	3 (33.33)	0 (0)	0 (0)	3 (8.82)
10,001-25,000	5 (83.33)	10 (55.56)	3 (27.27)	18 (51.43)	6 (66.67)	8 (66.67)	0 (0)	14 (41.18)
25,001-50,000	0 (0)	6 (33.33)	6 (54.55)	12 (34.29)	0 (0)	4 (33.33)	10 (76.92)	14 (41.18)
Above 50,001	0 (0)	1 (15.56)	2 (18.18)	3 (8.57)	0 (0)	0 (0)	3 (23.08)	3 (8.82)
Total	6 (100)	18 (100)	11 (100)	35 (100)	9 (100)	12 (100)	13 (100)	34 (100)

Source : Survey Data

Note : Figures in parenthesis indicate percentage to total

#### 4.2.4. Defaulter Level Reasons for Indebtedness

The high volume of indebtedness of rural farmer is a manifestation of the neglect and inadequate investment in agriculture. Agriculture became a cash based individual enterprise requiring high investments in modern inputs and wage labour. Now, a farmer has to draw more and more credit to plough it into the land. As a result, the demand for credit had increased by several times when compared to the earlier period. Lack of remunerative prices in such a situation would cause immense trouble to farmers, in addition the crop fails - due to either natural or man-made factors - the farmer's economy is doomed. The uncertainty, of crop yield and fluctuations in the prices of agricultural produce caused a great deal of mental distress to the farmers.

Table 4.12 Reason for default - Response of sample defaulters of selected PACS

Sl. No.	Reasons	PACS (1)		PACS (2)		Total	
		Score	Priority index (%) (I)	Score	Priority index (%) (II)	Score	Priority index (%) (I)
1	Inadequacy of income	350	100 (I)	271	77.43 (II)	621	88.71 (I)
2	Non-institutional loan and High interest rate	146	41.71 (VI)	105	30 (VII)	251	35.86 (VI)
3	Natural calamities and crop failure	265	75.71 (III)	350	100 (I)	615	87.86 (II)
4	Non availability of labourers and high wages	273	78 (II)	268	76.57 (III)	541	77.29 (III)
5	Defective loan policies	9	2.57 (X)	27	7.71 (X)	36	5.14 (X)
6	Illness of borrower/family members	121	34.57 (VII)	87	24.86 (VIII)	208	29.71 (VIII)
7	Ceremonies	89	25.43 (IX)	83	23.71 (IX)	172	24.57 (IX)
8	Failure in loan waiver/ write off policies	264	75.43 (IV)	182	52.00 (V)	446	63.71 (V)
9	Fixation of unrealistic due	246	70.29 (V)	261	74.57 (IV)	507	72.43 (IV)
10	Lack of access to consumption loans	105	30 (VIII)	139	39.71 (VI)	244	34.86 (VII)
	Maximum obtainable score	350	100.00	350	100.00	700	100.00

Source : Survey Data

Note : Figures in parenthesis indicate the rank obtained for each reason



The response of sample defaulters on the reasons for increasing indebtedness has been ranked on the basis of priority index and is presented in Table 4.12. A uniform pattern is noticed regarding the responses of the defaulters of PACS (1) and PACS (2), who felt that inadequacy of income, natural calamities and crop failures, non availability of labourers and high wages were the main reasons for indebtedness. Faith in loan waiver or write off policy, non institutional loan and high interest rate, defective loan policies, illness of borrowers or family members, ceremonies, fixation of unrealistic due and lack of access to consumption loans and diversification of income have also been pointed out as reasons behind increasing indebtedness of farmers.

Having seen the major reason for increasing indebtedness of farmers, a detailed examination of these reasons has been attempted in the following sections.

#### ***4.2.4.1. Inadequacy of income***

As discussed earlier, low level of income from agriculture was found to be the major reason for non repayment of loans by the borrowers. Farm income is coming under pressure because of increasing input prices without a proportionate increase in output prices. Fragmentation and subdivision of land holdings has also adversely affected income (Annexure III).

Lower crop yields and farm income resulting due to lack of technical know how, declining irrigation facilities, fall in agricultural prices and high cost of production are finally throwing small and marginal farmers into condition of inability to repay the loan amount and force to look up for another form of credit for investment in next season.

The prices of agricultural products have fallen during the neo-liberal period especially after 1997. During 1990s till 1996-97 farm prices of rice and non-food crops like coconut, pepper were rising at a robust rate of 10 per cent.

However, with trade liberalization the rise in price was very low for paddy during the period from 1997-98 to 2006-07. While the prices received by farmers were either declining or rising at a lower rate, prices paid by farmers were increasing at a very high rate.

#### ***4.2.4.2. Non Availability of Labourers and High Wages***

The decline in agricultural growth in Kerala normally attributed to price fall, increase in cost of production and high agricultural wages. Majority of the defaulters opined that non availability of labourers especially male labourers and high wages were the important problems during harvest period. In Kerala the normal wage which was Rs.39.61 in 1991-92 increased to Rs.250 in 2007-08 which is one of the highest in India. The wage rate for agricultural workers has increased over the years. But the price trend of agricultural products shows a declining trend both domestically and internationally during the period.

Rice production is more and more employment intensive than any other agricultural product. The area under rice cultivation has come down to 10.27 per cent to total cropped area in 2004-05 from nearly 30 per cent during the seventies and the worst affected district is Palakkad (Geetha, 2006). This resulted in shrinkage of employment opportunities. Due to lack of employment opportunities and seasonal character majority of the people are not ready to work as agricultural labourers. For the remaining agricultural labourers, the daily wages exceeded the minimum wage levels and this is not affordable for the poor peasants. In earlier period most of the farm work were done by family members. But due to the breakage of joint family system this is not possible now. Due to subdivision of landholding adoption of new machineries for agricultural operations will not be economical especially for marginal and small farmers. So the farmers are forced to hire agricultural labourers at high wages.

#### ***4.2.4.3. Natural Calamities and Crop Failure***

Since 2000 the farmers of Palakkad district had been facing frequent drought or flood. In 2003 the district was declared as drought affect area by the state government. In 2004 Palakkad district has faced one of the worst drought in its history. The Malampuzha dam the biggest irrigation dam in the state has failed to provide water for the second crop in Palakkad.

At Polpully, the paddy heartland of Chittur Taluk short duration crop like paddy, banana sugarcane etc. and other crops like coconut and arecanot were destroyed in the drought. Polpully was one of the most seriously affected area. Most of the farmers in that area were thrown into the hands of indebtedness. There was no water to irrigate 50,000 acres of paddy from the Malampuzha dam. Due to this, farmers in Palakkad district cultivating paddy only once in a year. Farmers are not ready to take the risk of cultivating paddy in the summer season. So there came a deep decline in the income from agriculture.

#### ***4.2.4.4. Faith in Loan Waiver or Write off Policies***

The loan write of policy of the government has a negative impact on the decision of the borrowers to repay their dues. Such policy measures are beneficial to defaulters and this in then encourages the prompt repayers to deliberately delay their repayment. Moreover, expecting such future proposals from the part of the government, the borrowers await for such write-off resulting increased number of wilful defaulters. They also diversify the income for some other purpose and failed to repay the loan. So the government should avoid such policies and rather provide incentives for prompt repayment.

#### 4.2.4.5. Fixation of Unrealistic Due

Majority of the defaulters opined that the installment amount was not fixed according to their income earning capacity and that the overdue could be reduced considerably, if the installment amount were reduced.

Majority of the farmers were small and marginal farmers have taken Kisan Credit Card Loan. They have to repay the principal and interest within one year in lumpsum. According to their opinion, it is not convenient for them, they want to repay it in installments. The repayment schedule was not based on their income generation period i.e., the time of repayment did not coincide with the season of the yield. They also opined that banks were not extending the repayment time even in case of genuine difficulties.

#### 4.2.4.6. Defective Loaning Policies

The analysis revealed that the loans and advances provided by the banks were insufficient to meet the project cost there by forcing the borrowers to approach other sources for finance. This inturn puts an additional burden on them which ultimately affect the repayment of bank dues.

Table 4.13 Sources of additional funds for meeting the project cost of sample defaulters

Sl. No.	Source	PACS (1)	PACS (2)
1	Personal savings	13 (37.14)	10 (31.25)
2	Borrowings from friends/ relatives	10 (28.57)	11 (34.38)
3	Loans from other agencies	(0)	1 (3.13)
4	Local Money Lenders	4 (11.43)	3 (9.36)
5	Gold loan from PACS (for Agri. operations)	9 (22.86)	7 (21.88)
	Total	35 (100)	32 (100)

Source : Survey Data

Note : Figures in parenthesis indicate percentage to total

The sources of additional funds for meeting project cost of the sample borrowers are exhibited in Table 4.13. It can be inferred from the Table 4.13 that the borrowers of PACS (1) and PACS (2) had to depend mainly on friends/relatives in order to mobilize the additional funds.

Borrowings from friends and relatives are called “Kai Vayappa” for which usually no interest is charged, but one has to return it at the promised date. When farmers were not able to repay the money borrowed from friends and relatives on time, it created tension and family problems, as the creditors are very familiar and seen every day it will become a prestige issue. The inability to repay these loans is considered as the proximate reason for committing suicide.

#### ***4.2.4.7. Ill Health of Borrowers and Family Members***

The defaulters of PACS (1) and PACS (2) indicated that ill health of borrowers and their family members had a impact on their loan repayment behaviour. The unexpected medical expenses of the borrowers from their income, result in reduction in their incremental income, leading to non-repayment of loans in time.

#### ***4.2.4. 8. Ceremonies***

Because of large family size and less numbers of family members for farm work, and due to other compulsory traditional social expenses the farmers are unable to repay the loan amount regularly. A higher proportion of debt were used for non-productive purposes like social ceremonies.

#### ***4.2.4.9. Diversion of Income for Consumption Purposes***

Due to the diversion of income for consumption purposes the dues were continuously increasing. Moreover the pattern of life in Kerala is slightly different from the other states, as Keralites are highly interested in conspicuous

consumption and prefer to live at a higher level than what they can afford. The expenses on purposes like education, various ceremonies and house construction are very high and in addition they avail all the modern facilities too. They spend more on festival occasions instead of productive purposes and repayment of loans. Extravagant spending and improvident borrowings was one of the major reason for increasing indebtedness of farmers.

#### ***4.2.4.10. Non Institutional Loan and High Interest Rate***

In Palakkad district dependency of farmers on non-institutional sources was much less. This could be attributed to the spread of commercial bank and co-operative banks or societies in the rural areas of these states. Lack of flexibility, insistence of collaterals and non-availability of appropriate products are the real problems of institutional credit. Farmers opined that the local money lenders including private chit funds were easily accessible. Insufficient institutional credit and easy credit from non-institutional sources like money lenders, commission agents were found to be the major reasons for continuous indebtedness of mainly marginal and small farmers to non-institutional sources.

#### **4.2.5 PACS and Loan Operations**

Farmer's indebtedness was strikingly a regional phenomenon; while formalization of informal debt is an important step in reducing debt burden of farmers. The most serious aspect of the crisis in agriculture is declaration in its growth along with the distressed state of farmers in general and that of small and marginal farmers in particular. Innovative alternatives are needed to provide them with better institutional credit support. In Kerala credit co-operative societies were acting as an important source of finance. Institutional credit availability to agriculture should be increased, excluded sections of the farmer households be brought into its ambit and a qualitative improvement in the credit delivery arrangements be brought about. The debt burden of farmers to informal sources

should be reduced by formalizing it through transferring the informal debt to formal institutions.

The primary agricultural credit societies (PACS) are continuing the main source of agricultural credit to farmers in the rural areas.

#### ***4.2.5.1. Efficiency index of PACS (1) and PACS (2)***

Survey has been conducted among ten officials from each PACS consisting Presidents, Secretaries and employees for assessing the effectiveness of the loan management system and also for identifying the reasons for indebtedness in their opinion, which are presented in this part of the analysis. Six statements including the loan operation system and related aspect were given to the respondents who were asked to opine on a five point scale. The efficiency of the loan management system was classified as highly efficient (index above 90 percent), moderately efficient (index between 75 percent and 90 percent) and least efficient (below 75 percent). An inter-bank comparison has also been done based on the index values. The efficiency indices of PACS (1) and PACS (2) are given in table 4.14 and 4.15

It is clear from the index values of PACS (1) that the loan operation system is least efficient (48 percent) and in the case of PACS (2) it is moderately efficient. The overall performance of PACS, commitment of BODs, management, member relations, intra-bank relations were appreciable. But in the opinion of the bank officials, presidents and secretaries, there was something more to be perfected in the existing loan operation system. A specifically notable point is that the existing loan operation system in PACS (1) is found to be least efficient (48 percent). This supported by the fact that the overdues of the PACS (1) were more among the two PACS.

Table 4.14 Efficiency index of Peruvemba SCB (PACS 1)

Sl no	Parameters	Highly satisfied	Moderately satisfied	No opinion	Dissatisfied	Totally dissatisfied	Total	Index
1	Overall performance of the organization	7	3	-	-	-	10	94
2	Commitment of Board of directors	10	-	-	-	-	10	100
3	Management of the society	10	-	-	-	-	10	100
4	Member relations	10	-	-	-	-	10	100
5	Intra-bank relations	10	-	-	-	-	10	100
6	Present loan operation	0	1	2	7	0	10	48
	Average index	90.33						

Source : Survey Data

Table 4.15 Efficiency index of Polpully SCB (PACS 2)

Sl no	Parameters	Highly satisfied	Moderately satisfied	No opinion	Dissatisfied	Totally dissatisfied	Total	Index
1	Overall performance of the organization	10	-	-	-	-	10	100
2	Commitment of Board of directors	10	-	-	-	-	10	100
3	Management of the society	10	-	-	-	-	10	100
4	Member relations	10	-	-	-	-	10	100
5	Intra-bank relations	10	-	-	-	-	10	100
6	Present loan operation	3	7	-	-	-	10	86
	Average index	97.67						

Source : Survey Data



#### **4.2.6 Reasons for Default – An Organisational Level Analysis**

Out of the thirteen statements on factors leading to indebtedness of farmers, eleven statements have been selected based on the responses of the organizational respondents. These statements have been ranked based on the priority index and furnished in Table 4.16.

The analysis proved that the Banks also had a role in mounting up of overdues. It was found that the staff and management of the banks considered absence of modern management techniques and Management Information System (MIS), lack of staff training, infrastructural facilities and ineffective legal machinery as the important issues behind the poor loan recovery performance.

A perusal of Table 4.16 reveals that natural calamities, crop failure, low or insufficient income from agriculture and high cost of cultivation, non availability of laboures and high wages are the major threats for farmers. Due to lack of easy accessibility of formal sources of credit, delay in disbursement of loan and high formalities, farmers are depending upon informal sources of credit at high rate of interest.

Misutilisation of loan due to inadequate staff for field supervision and loan appraisal was yet another problem as far as PACS were concerned. The effectiveness of any scheme to a greater extent is correlated to the number of visits made by the bank officials to the beneficiaries. There exist a drastic need for skilled personnel for field supervision and loan appraisal. It is obvious that co-operatives are still following traditional methods and techniques of management, which has to be replaced by modern measures of management and accounting.

Table 4.16 Reasons for default – Organisational Level response

Sl no	Reasons	PACS (1)		PACS (2)		Total	
		Score	Priority index (%)	Score	Priority index (%)	Score	Priority index (%)
1	Natural calamities and crop failure	100	90.91 (I)	92	83.64 (II)	192	87.27 (I)
2	Low and insufficient income from agriculture and high cost of cultivation	91	82.73 (III)	93	84.55 (I)	184	83.64 (II)
3	Ignorance or illiteracy of farmers and dependence on informal sources of credit at high rate of interest	50	45.45 (VI)	34	30.91 (IX)	84	38.18 (IX)
4	Lack of easy accessibility of formal sources of credit	13	11.82 (XI)	12	10.91 (XI)	25	11.36 (XI)
5	Non availability and high wages for labours	87	79.09 (IV)	89	80.91 (IV)	176	80 (IV)
6	Misutilisation of loan due to inadequate staff for field supervision and loan appraisal	49	44.55 (VII)	52	47.27 (VII)	101	45.91 (VI)
7	Extravagant and improvident borrowing for non productive purposes	41	37.27 (IX)	58	52.73 (VI)	99	45 (VII)
8	Wilful defaulters	43	39.09 (VIII)	45	40.91 (VIII)	88	40 (VIII)
9	Delay in disbursement of loan with high formalities.	22	20.00 (X)	22	20 (X)	44	20 (X)
10	Poor member relations, lack of modern management techniques and absence of management information system	71	64.55 (V)	72	65.45 (V)	143	65 (V)
11	Lack of irrigation facilities adequate etc. marketing facilities infrastructure facilities	93	84.55 (II)	91	82.73 (III)	184	83.64 (III)
	Maximum obtainable score	110	100	110	100	220	100

Source : Survey Data

Note : Figures in parenthesis indicate the rank obtained for each reason

### **4.3 SUGGESTIONS FOR REDUCING INDEBTEDNESS**

Having enquired into the borrower level and organizational level reason for indebtedness and having measured the efficiency level of the loan management system, it is necessary to develop policy guidelines for the improvement of this situation. The suggestions of borrowers and the officials of the banks have been analyzed using priority index and are enumerated in the subsequent sections.

#### **4.3.1 Defaulter Level Suggestions**

The suggestions given by the defaulter have been grouped under nine statement and the indices worked out in Table 4.17 gives a summary of their responses.

As per the Table 4.17 loan waiver or write off policies, adequate loan amount, timely credit and reminders, smaller installments, incentives for proper repayment, adequate production, distribution and marketing support are the important suggestions of the defaulters for reducing overdues. It is to be noted that most of the borrower level suggestions require a change in policy level decisions. The banks can of course send early and timely reminders to the defaulters and keep contacts with them, which will definitely have a positive impact.

Table 4.17 Defaulter Level Suggestions for reducing indebtedness

Sl no	Suggestions	PACS (1)		PACS (2)		Total	
		Score	Priority index (%)	Score	Priority index (%)	Score	Priority index (%)
1	Provision for adequate field staff for project supervision and guidance	66	20.95 (IX)	65	20.63 (IX)	131	20.79 (IX)
2	Incentives for proper repayment	177	56.19 (IV)	166	52.70 (V)	343	54.44 (III)
3	Creation for awareness through good customer-banker relations	82	26.03 (VIII)	101	32.06 (VIII)	183	29.05 (VIII)
4	Provide adequate loan amount	161	51.11 (VI)	170	53.97 (III)	331	52.54 (V)
5	Timely credit and timely reminders	202	64.13 (III)	125	39.68 (VII)	327	51.90 (VI)
6	Smaller installments	237	75.24 (II)	273	86.67 (II)	510	80.95 (II)
7	Reduction in interest rate	169	53.65 (V)	166	52.70 (VI)	335	53.17 (IV)
8	Loan waiver/write off policies for default due to natural calamities	299	94.92 (I)	313	99.37 (I)	612	97.14 (I)
9	Provide adequate production distribution and marketing support	152	48.25 (VII)	169	53.65 (IV)	321	50.95 (VII)
	Maximum obtainable scores	315	100	315	100	630	100

Source : Survey Data

Note : Figures in parenthesis indicate the rank obtained for each reason.

### **4.3.2. Organisational Level Suggestions**

The organizational level analysis on the suggestions to reduce indebtedness Table 4.18 reveals that the legal machinery has to be made effective: The officials were of the view that providing adequate loan amount at concessional rate of interest and remunerative prices for agricultural products would minimize the severity of indebtedness. They were of the opinion that providing loans to eligible farmers and incentives for proper repayment would be an essential element for a better recovery system. Timely disbursement of loan with less formalities has also been emphasized.

Thus, it can be obviously inferred from the analysis that the main demand from the defaulters was the fixation of smaller installments and putting into effect the provision of adequate loan amount, for which policy level decisions have to be taken. It was also noted that adequate field staffs for project supervision and loan appraisal was lacking in these banks.

According to the opinion of officials wilful defaulters are very less in the area. Majority of the farmers were lacking adequate income from agriculture and they do not have any other sources of income. Since 2000 Palakkad District was facing severe drought or flood. The loan amount given under Kisan Credit Card (Rs. 25,000) was not adequate for doing agricultural operations. So the farmers depending informal sources for credit. This will increase the debt burden of farmers. Because of these problems farmers were unable to repay the loans and PACS were facing the problems of mounting overdues.

Another important thing is, the suggestions shows that the officials have no opinion regarding the loans waiver or write off system of government, this encourages the borrowers to avoid repayment of loan.

Table 4.18 Organisational Level Suggestions for reducing indebtedness

Sl no	Suggestions	PACS (1)		PACS (2)		Total	
		Score	Priority index (%)	Score	Priority index (%)	Score	Priority index (%)
1	Timely disbursement of loan with less formalities	19	31.67 (V)	36	60 (III)	55	45.83 (IV)
2	Provide loans to eligible farmers and loan waiver system of government is to be discouraged to avoid willful default.	26	43.33 (IV)	24	40 (V)	50	41.67 (V)
3	Provide incentives for proper repayment	44	73.33 (II)	33	55 (IV)	77	64.17 (III)
4	Remunerative prices for agricultural products.	39	65 (III)	54	90 (I)	93	77.50 (II)
5	Providing adequate loan amount at concessional rate of interest for credit worthy borrowers.	48	80 (I)	47	78.33 (II)	95	79.17 (I)
6	Providing consumption loans to avoid loan diversification and dependence on money lenders.	11	18.33 (VI)	17	28.33 (VI)	28	23.33 (VI)
	Maximum obtainable scores	60	100	60	100	120	100

Source : Survey Data

Note : Figures in parenthesis indicate the rank obtained for each reason.

*Summary of Findings and Conclusion*

## **CHAPTER V**

### **SUMMARY OF FINDINGS AND CONCLUSION**

Farming has always been a part of cultural and tradition in rural India. It is no secret that most farmers in India are in a vicious debt trap. Their cash returns from agriculture are barely enough to service their debt. Farmers are just not able to derive sufficient income to pay for the incurring cost. There is large scope for institutional agencies to expand the credit base of farm households further. Institutional credit availability to agriculture should be increased. The debt burden of farmers to informal sources should be reduced by formalizing it through transferring the informal debt to formal institutions. The Primary Agricultural Credit Societies (PACS) are continuing as the main source of agricultural credit to the farmers in the rural areas even after the introduction of nationalization of banks in India.

Agriculture in Palakkad is passing through a very difficult period as a result of steep fall in price of most of the farm commodities, new economic policies, globalization, import policies of agricultural production, lack of subsidies, long term negligence of irrigation facilities, incomplete planning of urgent development policies, high interest rate, working of non banking financial institutions, excessive use of chemical fertilizers and pesticides, continuous drought etc are the factors which lead to the agricultural debt trap in Palakkad.

The study entitled “Indebtedness of farmers: A study of farmer borrowers of PACS in Palakkad district” was therefore taken up with the twin objectives of identifying the factors that contributes to the problems of indebtedness among farmers in Palakkad district and to suggest the measures to be taken to solve the problems.

For conducting the study indebtedness of farmers in Palakkad District two villages ‘Polpully’- the paddy heartland of Chittur and Peruvemba villages have been randomly selected and PACS operating in these two villages were taken



analyze the role of Co-operatives in agricultural finance. The selected PACS include Peruvemba Service Co-operative Bank (PACS 1) and Polpully Service Co-operative Bank (PACS 2)

The sample frame comprised of ninety respondents i.e.: Forty-five respondents from each PACS at random such that 76.67 percent of them were defaulters and the rest were prompt repayers or non defaulters included as a control group. In addition to this ten official from each PACS including the President and Secretary were also interviewed to look into the effectiveness of PACS to solve or reduce indebtedness problems and also for analyzing the effectiveness of the existing loan operation system. Pre-tested structured schedules were administered to collect the required information from the respondents. The secondary data for the analysis were compiled from the annual reports and financial statements of these banks during the study period of six years from 2000-2001 to 2005-06.

The annual growth rate and AAGR of important indicators like membership loans disbursed, demand, profit and overdue were worked out. Simple correlation between overdues and the other variables were also found out to understand the degrees of their relationship. The reasons for indebtedness as well as the suggestions to reduce indebtedness at the borrower level were ranked and the degree of importance of each statement was found out using priority index. Similar information was collected at organizational level also, in order to assess the effectiveness of the loan operations system of PACS efficiency index on various statements including the present loan operation system and the performance of PACS were also worked out. Simple averages, bi-variate tables and percentages also formed a part of the analysis.

## **5.1 THE MAJOR FINDINGS**

The major findings evolved from the study are summarized under three heads viz.,

5.1.1 Extent and dimensions of indebtedness

5.1.2 Borrower level reasons and factors affecting indebtedness

5.1.3 PACS and loan operation

### **5.1.1 Extent and dimensions of indebtedness**

Both PACS are showing an increasing trend in overdues in absolute figures and in terms of percentage to demand. Profits of the PACS have eroded due to provisioning for accumulated overdues. Among the selected PACS the demand and overdues of medium term and short term loans has been increasing at a faster pace over the years.

There has been an increase in demand for non agricultural loans such as gold loan in both PACS. Majority of the farmers have an opinion that the short term loan amount was not sufficient for agricultural operations and the lumpsum repayments of short term loans were also inconvenient for the farmers. Majority of the farmers were taking gold loans to repay the short term agricultural loans. Gold loans can be renewed after one year by paying the interest, compared to other loans it is easily accessible to farmers.

The decline in the net profit position in the bank is mainly due to the mounting overdues in both PACS. Farmers were unable to make repayment of loan. The AAG of overdues of Peruvemba SCB is 29.38 percent and in the case of Polpully SCB, it is 18.37 percent. Since 2000 the farmers of the District had been facing drought or flood. Short duration crops like paddy, banana, sugarcane etc. and other cash-crops like coconut and arecanut were also destroyed in the drought. This might be one of the important reasons for mounting over dues in the bank.

### 5.1.2 Borrower level reasons and factors affecting indebtedness



Palakkad is the rice bowl of Kerala. Palakkad accounts for nearly thirty nine percent of the total Paddy produced in the state (2006). However absence of proper policies to ensure stable and just prices to farmers has resulted a lopsided development. A large acreage of paddy fields remains uncultivated and many farmers have abandoned paddy cultivation. The cost of cultivation is the highest in Kerala and more so in Palakkad. Crop failures due to drought for past few years, poor procurement facilities, absence of irrigation facilities and insufficient marketing arrangement have worsened the situation. The burning issues are timely procurement of farm products and just price. The average cost of cultivation of paddy there is around Rs.8 per kg and the present price for paddy is only Rs 8.50 to Rs. 9 per kg. The procurement price should be raised. Though the productivity in the District is satisfactory high, gross production is shrinking.

Low level income from agriculture was found to be the major reason for non repayment of loans by borrowers. Lower crop yields and farm income resulting due to lack of technical knowhow, declining irrigation facilities, fall in agricultural prices and high cost of production are finally throwing small and marginal farmers into condition of inability to repay the loan amount and force to look up for another form of credit for investment in next season.

Majority of the defaulters opined that non availability of labourers especially male labourers and high wages were the important problems during harvest period. Farmers could not harvest their paddy in the current seasons due to shortage of labourers. The high cost of labour can not be met by the paddy farmers who are already in debt.

Since 2000 the farmers of Palakkad District had been facing frequent drought or flood. Due to this farmers in Palakkad District cultivating paddy only once in a year. Farmers are not ready to take the risk of cultivating paddy in summer season.

The loan write-off policy of the government has a negative impact on the decision of the borrowers to repay their dues. Moreover, expecting such future proposals from the part of the government, the borrowers await for such write-off results in increased number of wilful defaulters.

Most of the farmers opined that repayment schedule was not fixed based on their income generation period i.e. the time of repayment did not coincide with the season of the yield. The analysis revealed that the loans and advances provided by the banks was insufficient to meet the project cost there by forcing the borrowers to other internal sources for finance.

The unexpected medical expenses of the borrowers from their income, compulsory traditional social expenses, diversion of income for consumption purposes are some other reasons behind the non repayment of the loan regularly. Extravagant spending and improvident borrowing was one of the major reasons for increasing indebtedness of farmers.

Lack of flexibility, insistence of collaterals and non availability of appropriate products are the real problems of institutional credit. Insufficient institutional credit and easy credit from non institutional sources like money lenders, commission agents were found to be the major reasons for continuous indebtedness of mainly marginal and small farmers to non institutional sources.

An enquiry into the reasons for indebtedness reveals that low investment, low productivity, shrinking land holdings, drought and crop failures, inadequate irrigation facilities, private money lenders who charged high interest rates, unremunerative prices for produce, lack of market access and lack of supplementary income for farmers, high cost of cultivation are the major factors behind the increasing indebtedness of farmers.

### 5.1.3 PACS and loan operation

The Primary Agricultural Credit Societies (PACS) are continuing as one of the main source of agricultural credit to the farmers in rural areas. Although the share of co-operative credit is now much lower than that of commercial banks, the reach of co-operative credit societies is much wider. Co-operative credit societies have more than twice the number of rural outlets and four times more accounts than those of scheduled commercial banks and RRBs put together. Co-operative credit societies provide small loans to small borrowers in rural areas.

Efficiency index of the existing loan management system of the sample PACS have been compared with each other along with certain other parameters like commitment of BOD and employees, relationship with members, intra-bank relations, present loan operation system and overall performance of both PACS. The average index of these parameters has revealed that PACS (2) has the highest average index of ninety seven percent. It is clear from the index values of PACS (1) that the loan operation system is least efficient (forty eight percent) and in the case of PACS (2) , it is moderately efficient.

The overall performance of PACS, commitment of BODs, management, member relation, intra-bank relations were appreciable. But in the opinion of bank officials, there was something more to be perfected in the existing loan operation system. In addition to the borrower level reasons, some organizational lapses were also found to be responsible for the poor recovery performance of these PACS. Inadequate staff for field supervision and loan appraisal, ineffective legal machinery, lack of infrastructure facilities and modern management techniques were the major organizational factors identified.

The borrowers and officials of both PACS interviewed to elicit suitable measures for tackling the problems of indebtedness. Majority of the defaulters opined that smaller installments, reduction in interest rates, timely reminders, and disbursement of loan with less formality could improve the present situation. The

defaulters also stressed the need for incentives for proper repayment as well as a strict action against wilful defaulters. These suggestions reveal that a change in the policy level decisions required immediate attention.

However, at the organizational level, it was suggested that the legal action towards wilful defaulters, provision of loans only after analyzing the credit worthiness of borrowers, minimizing government control thereby ensuring autonomy to co-operatives would improve the situation. Lengthy procedures of sanction and disbursement of loan being a common problem to all the borrowers have to be simplified and made customer friendly.

## **5.2 SUGGESTIONS**

Considering the enduring suicides and the widespread economic and social crisis, Palakkad District actually deserves immediate help and assistance from the union and state Government. The following suggestions may be incorporated as a means of reducing the level of indebtedness.

Lengthy procedures of sanction and disbursement of loans, being a common problem to all the borrowers, have to be simplified and made customer friendly. Allocate adequate amount to write-off the existing loan liabilities of the farmers. To avoid wilful defaults in the expectation of write off, it is suggested that loan write off policy may be adopted in the case where the amount outstanding are small, the security available is negligible and the expenses to be incurred might be more than the amount likely to be recovered. Implement a special project in the district to protect paddy cultivation and to conserve water, soil and forest.

One of the important cause for indebtedness of farmers in Palakkad District was drought and crop failure. Since 2000 the farmers of Palakkad District had been facing frequent drought or flood. Creation of more surface storages, construction of diversion structures, water quality management, linking of reservoirs with water

supply schemes, protection of wet lands and paddy fields etc; are various measures to counter drought situation in Palakkad District.

Supervision and follow up are two sides of the same coin. The numbers of follow up visits by bank staff have positive relation with recovery, and it will help to avoid loan diversification for consumption purposes. Hence, frequent visits to the borrowers place, regular follow- up and monitoring together with the creation and maintenance of good banker customer relationship will certainly reduce the level of wilful default.

In the Union Budget of 2008, the finance minister announced a bank loan waiver of nearly Rs 71,000 crore, a decision taken in background of the increasing farmers suicides in the country. However this did not actually bring down the incidence of suicides, except for having the salutary effect of postponing the inevitable. The waiver only applies to formal loans, where as a large part of the smaller farmers have debt to informal money lenders at high interest rates.

Income from agriculture is not sufficient to meet the daily family expenses of a farmer. Farmers are not able to make any surplus income to repay the loan from formal or informal sources and making investments for the next year production. There should be a rigid and firm policy of the state government to support rice farmers by way of assured minimum support price (MSP).

## CONCLUSION

Indebtedness or overhang of debt has been both due to the exogenous factors such as weather induced crop uncertainties and endogenous reasons such as the consumption needs of the farmers that have taken precedence over the repayment obligations. For many farmers this could be genuine as incomes from agricultures may not have been sufficient to generate a surplus. There is an urgent need to develop a positive approach by all the concerned parties to attack the problems of indebtedness.

The reality remains very clear that farmer is just not able to derive sufficient income to pay for the recurring costs. Basically the problem is that agricultural debt can be mitigated only when the income from agriculture is able to take care of the cost of inputs for which the loan has been taken. Better complacency from the part of the borrowers and proper monitoring and management of the advance from the part of the banks together can achieve a better performance.



## *Bibliography*

- Aher, N.P. 2007. Distress and Relief: Issues in farmers committing suicides. *Southern Economist*. 45 (20): 19-22.
- Ambhore, S. 2007. Primary Agricultural Co-operative Credit Societies : Micro study. *Southern Economist*. 45 (21) : 14-16.
- Badhani, K.N. and Saksena, R.M. 1990. Credit based marketing system perilous for poor peasants: A case study. *Indian Co-operative Review*. 28 (1) : 11-20
- Bose, A. 2000. From Population to pests in Punjab: American boll worm and suicides in cotton belt. *Economic and Political Weekly*. 35 (38): 3375 – 3378.
- Das, A.B., Gangopadhyay.S. and Mitra.A. 1990. Agricultural Co-operative Credit Movement (PACS): A case study. 27 (3): 312-320.
- Davies, A.S. 1996. Insolvency in agriculture : Bad managers or the common agricultural policy. *Applied Economics*. 28 (2) : 185-193.
- Dawar, R. 1989. Overdues in agricultural advances : Causes and remedies. *Indian Co-operative Review*. 27 (1) : 69 – 87.
- Deshpande, R.S. 2002. Suicide by farmers in Karnataka : Agrarian distress and possible alleviatory steps. *Economic and Political Weekly*. 37 (26) : 2601 – 2610.
- Hawton, K., Simkin, S. and Malmberg, A. 1997. A study of suicide in farmers in England and wales. *Journal of Pphyschosomatic Research*. 43 (1) : 07-111.
- Jeromi, P.D. 2007. Impact of Agricultural Trade Liberalisation : Farmers indebtedness and suicides in Kerala. *Indian Journal of Agricultural Economics*. 62 (2) : 159-175.
- Jery, J.T. 2006. Working of primary Agriculture Cooperative Bank: A case study. *Southern Economist*. 45 (9) : 29-32.
- Jugale, V.B. and Patil, D.T. 1997. Distortion in PACS credit : A case study of Miraj Taluk. *Indian cooperative Review*. 35 (2) : 169 – 184.

- Kamalakannan, K. and Namasivayam, A. 2007. Institutional Agricultural credit in post reform period. *Southern Economist*. 46 (2) : 1314.
- Lall, R. and Singh, P. 2007. Farmer's suicide : An analysis. *Southern Economist* 46 (14) : 25-27
- Lenka. J. 2005. Indebtedness and rural farmer House holds: A profile of Major states in India. *Indian. Jn. of Agri. Econ.* 60 (3): 359-361.
- Meenakshi, R. and Sharmistha, D. 1998. Institutional and non- institutional credit in agriculture: Case study of Hugly district of West Bengal *Economic and Political Weekly*. 33 (48). 2997-3002.
- Meeta and Rajivlochan. 2007, Farmers suicide: Facts and possible policy interventions. *Journal of Rural Development*. 26 (2): 307-314
- Mishra, A.K. 2005. Decomposition and variability in farm households assets and debt. *Journal of Agribusiness* 23 (2) : 163 – 182.
- Mishra, S. 2006. Farmers suicides in Maharashtra. *Economic and Political Weekly*. 41 (16) : 1538 – 1545.
- Mohankumar, P.S. 2007. Agricultural crisis and incidence of poverty in Kerala. *Southern Economist*. 46 (11): 5 – 8
- Mohankumar, S. and Sharma, R.K. 2006. Analysis of farmer suicides in Kerala. *Economic and Political Weekly*. 41 (16) : 1553-1558.
- Mohanty, B.B. 2005. we are like the living dead : Farmers suicides in Maharashtra, western India. *Journal of Peasant Studies*. 32 (2): 243 – 276.
- Mohanty, B.B. and Sangeeta, S. 2004. Farmers suicides in Maharashtra. *Economic and Political Weekly*. 39 (52): 5599 – 5606.
- Murthy, C.M. and Veena, K.P. 2008. Impact of Agricultural credit through PACRDBs. *Southern economist*. 46 (20) 21-22.
- Naidu, C.V. and Reddy, M.R. 2007. Agricultural credit in India: An Analysis. *Southern Economist*. 45 (20) : 11-15.

- Naidu, C.V., Rukmani, M. and Sailaja, K. 2008. Problems of Recovery in PACS: A study. *Southern Economist*. 46 (20) : 23-26.
- Narayanamoorthy, A. and Kalamkar, S.S. 2005. Indebtedness of farmer households across states : Recent Trends, Status and Determination. *Indian. Jn. of Agri. Econ.* 60 (3) : 289-301.
- Patil, B.V. 2008. Agriculture indebtedness : Crisis and revival. *Economic and Political Weekly*. 43 (5) : 47-52.
- Pickett, W., King, W.D., Lees, R.E.M., Bienefeld, M., Morrison, H.I. and Borison, R.J. 1998. Suicide mortality and pesticide use among Canadian farmers. *American Journal of Industrial Medicine*. 34 (4) : 364 – 372.
- Power, D. 1991. The extent of farm indebtedness. *Farm and Food*. 1 (1) : 18-19.
- Raj, M.S. and Chauhan, D.T. 1994. Farmer's debt : Causes, magnitude and way out. *Artha vikas*. 30 (28) : 11 – 16
- Ramanuja, R.K., Narasimha, R.M. and Venkateshwarlu, R. 2007. Farmers' suicide: A Sociological perspective. *Kurukshetra*. 55 (8) : 36-39
- Ranga Reddy, A. 1988. causes of farm co-operative over dues: A study on Guntur district. *Indian Co-operative Review*. 26 (2) : 167-186.
- Rao, P.N. and Suri, K.C. 2006. Dimensions of Agrarian Distress in Andhra Pradesh. *Economic and Political Weekly*. 41 (16) : 1546 – 1552.
- Ready, A.R. 1989. Dimensions of farm co-operative overdues in Guntur District. *Indian Co-operative Review*. 26 (3) : 285 – 305.
- Reddy, A.R. 1990 Agricultural development and problems of its recovery. *Kurukshetra*. 27 (10) : 6-12.
- Revathi, E. 1998. Farmers suicide: Missing issues. *Economic and Political Weekly*. 33 (20): 1207
- Sarma, E.A.S. 2004. Is rural economy breaking down? Farmer's suicide in Andhra Pradesh. *Economic and Political Weekly*. 39 (28) : 3087-3089.

- Satish, P. 2005. Agricultural credit: Are there two distinct classes of borrowers. *Indian Journal of Agricultural Economics*. 60 (3) : 309-308
- Sha, A.K. 1994. Business Development planning in PACS. *National Bank New Review Bombay*. 10 (2) : 28-32
- Shrinder, S. 2006. Farmers suicide cases: Emerging issues. *Margin*. 38 (3) : 1-8
- Sidhu, R.S. and Gill, S.S. 2006. Agricultural credit and indebtedness in India : Some issues. *Indian. Jn. of Agri. Econ*. 61 (1) : 11-35.
- Sindhu, M.S. and Kamal, V. 2007. Development experience of Indian agriculture: An appraisal of post – reform period. *Southern Economist*. 46 (11) : 9-14.
- Singh, A.K. 2001. Rural informal credit market in Uttar Pradesh: Source: Occasional paper. National Bank for Agriculture and Rural Development, Mumbai, p. 150.
- Singh, G. 2007. Importance of Rural credit in Indian Agriculture. *Kurukshetra*. 55 (9) : 31-38. .
- Singh, H. and Sekhon, M.K. 2006. Benefits of the kisan credit card scheme : An analysis. *Indian Journal of Agricultural Economics*. 60 (3): 319-334.
- Sivakumar, S.S. 1978. Aspects of agrarian economy in Tamil Nadu : A study of two villages *Economic and Political Weekly*. 13 (19) : 812 – 821.
- Sukale, V.V. 2008. Problem of farmers' suicide: An analysis. *Southern Economist*. 47 (1) : 33-34
- Suresh, K.A. 1991. Impact of co-operative credit on agricultural income. *Indian Co-operative Review*. 29 (1) : 7-12.
- Suri, K.C. 2006. Political economy of agrarian distress : *Economic and Political Weekly*. XL1 (16) : 1523-1529.
- Vagbaner, M. 1981. How have PACS fared : A study. *Kurukshetra*. 29(17): 4-10.

- Vaidyanathan, A. 2006. Farmers suicides and the agrarian crisis. *Economic and Political Weekly*. 41 (38): 4009 – 4013.
- Vivek, B., Suhag, K.S. and Hasija.R.C. 2003. Pattern of loan disbursement by Primary Agricultural Credit Societies (PACS) in Punjab. *Environment and Ecology*. 21 (1) : 200-203.

*Appendices*





## B. Family particulars

1.1) Nature of the family : Joint / Nuclear

1.2) Basic facilities at home

1. House : Tiled roof  Concrete  Thatched

2. Vehicles (specify):

3. Household equipments: TV  Fridge  Washing machine  others

4. Cooking energy: Gas  Kerosene  Others

5. Periodicals) : daily  Magazine

6. Furniture:

7. Drinking water: Well  Motor  Public  Pipe connection

1.3) Structure of the family :

		Male Adult	Female Adult	Male Children	Female Children
i	Dependent				
ii	Fully employed				
iii	Partially employed				
	Total				

1.4) Monthly family income :

Below 2000	2001-5000	5001 - 10,000	10,001 – 20,000	20,001 – 25,000	Above 25,000

1.5) Total monthly expenditure (Rs.) :

Consumption purpose	Education	Ceremonies	Others (specify)	Total

**II. Details of crops cultivated :**

Crops cultivated	Rice	Pepper	Ginger	Banana	Areca nut	Coconut	Rubber	Vegetables	Others
Area									
Production									

**III. DETAILS OF LOAN**

3.1) Type of loan :

Short term / Medium term

3.2) Nature of loan :

Scheme loan / Production loan / Consumption loan / Crop loan

3.3) Components of loan

a) In cash (amount) :

b) In kind (if any) :

Sl. No.		Weight (kg)	Amount (Rs.)
1	Seed		
2	Fertilizers		
3	Pesticides		
4	Others (specify)		
	Total		

3.4) Date of application of loan :

3.5) Date of disbursement of loan :

Difference - Delay in getting loan (in days):

3.6) Owners stake or margin :

3.7) Purpose of the loan :

3.8) Is there any subsidy element :

If yes, specify the amount sanctioned :

Amount you actually received :

- 3.9) Did you face any problem in getting : Yes / No  
the loans. If yes
- a) Procedural delay
  - b) Lack of adequate security to hypothecate or pledge
  - c) Vested interest
  - d) Bribery
  - e) Inadequate assistance by bank officials
  - f) Interference of politicians
  - g) Others (specify)
- 3.10) Whether the total loan amount : Yes / No  
received was sufficient
- 3.11) How did you manage your portion of project outlay:
- a) Personal savings
  - b) Borrowed from friends / relatives
  - c) Loans from other agencies
  - d) Local money lenders
  - e) Others (specify)
- 3.12) If borrowed what is the rate of interest :



#### IV. LOAN UTILISATION PATTERN

- 4.1) a) Have you utilized the entire amount of loan for the purpose :  
b) If no, the amount utilized : Full, half, quarter  
Amount misutilised :  
TOTAL :  
c) Reasons for not utilizing the amount  
i) To meet consumption expenses  
ii) Ceremonies  
iii) Expenses for Agricultural / Non-agricultural operations  
iv) Educational expenses of children  
v) Others (specify)
- 4.2) Did any body from the society visit your Premises / plot before and after sanctioning the loan : Yes / No  
If yes, how many times
- 4.3) Did the banker explain to you all the details regarding loan like rate of interest installment, repayment, period etc. :
- 4.4) Whether you were aware of the implications of the documents that you have signed while taking the loan : Yes / No
- 4.5) Did the banker educate you regarding the income that can be generated or give you any advise, technical or otherwise for your activity : Yes / No
- 4.6) Whether total area under cultivation increased after taking loan : Yes / No  
If yes:  
a) Area before taking loan :  
b) Area after taking loan :

## V. REPAYMENT CAPACITY

### 5.1) Expenses

A) In raw materials

- i)
- ii)
- iii)
- iv)

5.2) Labour cost :

C) Cost of credit :

D) Family expenses :

TOTAL :

5.3) Income (Gross) :

5.4) Other statutory expenses :

5.6) Net income :

## VI. REPAYMENT / OVERDUE POSITION

6.1) Schedule of repayment of loan :

- a) Monthly
- b) Quarterly
- c) Half yearly
- d) Annual

6.2) Period of repayment

6.3) a) Have you repaid all the installments: Yes / No  
of the loan promptly

b) If yes, did you repay the loan out of: Yes / No  
the income obtained from the scheme

c) Did you receive any incentive for : Yes / No  
prompt repayment

If yes, specify

d) Reasons for prompt payment

- i) Sufficient income from agriculture
- ii) Sufficient income from other sources
- iii) Smaller installments

iv) Attracted by incentives for prompt payment

v) Others (specify)

6.4) Is the number of installments prescribed by the banker for repayment, suitable and convenient to you

6.5) If no, how many installments do you feel appropriate

VII. What is your own suggestion for overcoming this problem? :

VIII. Whether you/your family faced any problems related to indebtedness. :  
If yes, what is it (specify)

#### IX. SERVICES PROVIDED BY PACS

1) Input supply

2) Distribution and marketing of Agricultural products

3) Technical assistance

4) Necessary supervision and advice

5) Storage facilities

6) Others (specify)

#### X. INFRASTRUCTURE FACILITIES AVAILABLE FOR FARMERS IN THE AREA

1) Road

2) Railway

3) Transportation

4) Marketing facilities

5) Communication facilities

6) Storage facilities

7) Electricity

8) Irrigation facilities

9) On line trading

XI. REASONS FOR DEFAULT IN REPAYMENT  
(Rank your reasons, if there is more than one)

- a) Fall in price of Agricultural commodities
- b) Crop failure
  - i) Lack of irrigation facility
  - ii) Low quality seeds
  - iii) Natural calamities
  - iv) Non availability of labourers in time
  - v) Others (specify)
- c) Loan diversification
- d) Ancestral debt
- e) Non-institutional loan
- f) High interest rate (bank)
- g) Defective loan policies
- h) Lack of recovery efforts
- i) Illness of borrower / family members
- j) Ceremonies
- k) Faith in loan waiver / write off policies
- l) Lack of access to the consumption loans and diversification of income for consumption purposes
- m) Non-availability of input in time

XII. According to your opinion what is :  
the main reason behind your  
indebtedness

XIII. SUGGESTIONS FROM DEFAULTERS FOR REDUCING INDEBTEDNESS

- a) Provisions for adequate field staff for project supervision and guidance
- b) Incentives for proper repayment
- c) Creation of awareness through good customer-banker relations
- d) Provide adequate loan amount
- e) Smaller installments



- f) Timely credit
- g) Timely reminders
- h) Adoption of appropriate schedules of repayment
- i) Reduction in interest rates
- j) Fixation of recovery period in coincidence with harvest / income period
- k) Loan waiver / write off policies for default due to Natural calamities
- l) Provide adequate production distribution and marketing support

**APPENDIX - II**  
**KERALA AGRICULTURAL UNIVERSITY**  
**COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT**  
**INDEBTEDNESS OF FARMERS: A STUDY OF FARMER BORROWERS OF**  
**PRIMARY AGRICULTURAL CREDIT SOCIETIES IN PALAKKAD DISTRICT**  
**OF KERALA STATE**  
*Schedule for the organizational survey*  
(For Academic purpose only)

1. Name and Designation :
2. Address :
3. Experience in the organisation :  
(In years)

Sl. No.		Highly satisfied	Moderately satisfied	Satisfied	No opinion	Dissatisfied	Total dissatisfied
i	Opinion about the overall performance of the organization						
ii	Opinion about the commitment of Board of Directors						
iii	Opinion about the management						
iv	Opinion about the relationship with the members						
v	Opinion about inter bank relations						
vi	Opinion about the present loan operation system of society						
vii	Opinion about management information system of society						

4. Reasons for the indebtedness of farmers

Sl. No.		Strongly agree	Agree	No opinion	Disagree	Strongly disagree
i	Misutilisation of loan due to inadequate staff for field supervision and loan appraisal					
ii	Delay in disbursement of loan and high formalities for loan disbursement					
iii	Ancestral debt					
iv	Subdivision and fragmentation of holdings					
v	Natural calamities and influence of climate					
vi	Failure in compensating land fertility					
vii	Low/insufficient income from Agricultural sector					
viii	Ignorance and illiteracy of farmers					
ix	Money lender and vicious circle of money lenders					
x	High rate of interest					
xi	Extravagant and improvident borrowing for non-productive purposes					
xii	Lack of adequate infrastructural facilities, Marketing facilities etc.					
xiii	Lack of technological development					

5. Role of banks in resolving the indebtedness problems

- a) Providing adequate loan amount at : concessional rate of interest
- b) Providing direct production distribution : and marketing support
- c) Encouraging thrift habit among : members

- d) Implementing special schemes for :  
increasing agricultural production in  
the area
- e) Associating itself with the programmes :  
of welfare and social economic  
development of village
- f) Providing consumption loans to avoid :  
loan diversification and dependence  
on money lenders
- g) Providing expected services to farmers :  
within reasonable time
- h) Timely disbursement of loan with less :  
formalities
- i) Providing additional loans to defaulters :  
to compensate the losses occurred due  
to the failure of the scheme
- j) Providing loans for eligible farmers to :  
avoid willful default
- k) Coercive action against willful :  
defaulters
- l) Technical guidance and Necessary :  
Advice for farmers
- m) Conducting member education :  
programmes
- n) Providing adequate staff for held :  
supervision and loan appraisal
- o) Providing incentives for proper :  
repayment
- p) Proper inspection of before sanctioning :  
of loan
- q) Proper monitoring of utilization of :  
loan

r) Sending notice of repayment :

s) Continuous contact with borrowers :

t) Multi-purpose societies :  
(Provision for fertilizers equipments etc.)

u) Any other (specify)

i)

ii)

iii)

6. Whether the Bank following any waiver/ write off policies: Yes / No

a) If yes, specify:

*Annexures*

## ANNEXURE-I

### Area, Production and Productivity of Principal Crops

Sl. No.	Crops	Area (Ha.)			Production (MT)			Productivity (Kg./Ha.)		
		2003-04	2004-05	2005-06#	2003-04	2004-05	2005-06#	2003-04	2004-05	2005-06#
1	Rice	287340	289974	275742	570045	667105	629987	1984	2301	2285
2	Jowar	2129	2566	2500	1087	1309	1275	511	510	510
3	Ragi	1504	1383	800	1217	1119	728	809	809	910
4	Other Cereals	1233	955	700	960	746	560	779	781	800
5	Pulses	5998	8428	8000	4930	8390	8080	822	995	1010
6	Sugarcane	3535	1921	2200	29098	15430	17670	8231	8032	8032
7	Pepper	216440	237669	240551	69015	74980	75704	319	315	315
8	Chillies	682	823	825	679	775	777	996	942	942
9	Ginger	8516	9991	9285	32972	45305	38747	3872	4535	4173
10	Turmeric	2774	2881	3000	5652	6244	6477	2037	2167	2159
11	Cardamom	41332	41378	38865	8875	8616	9329	215	208	240
12	Areca nut	102504	107572	108208	105490	110340	110641	1029	1026	1022
13	Banana	55906	58866	62141	442220	475371	488061	7910	8075	7851
14	Other Plantains	53496	54612	55460	399717	416115	421415	7472	7619	7599
15	Cashewnut	86376	81547	80727	65655	60584	57624	760	743	714
16	Tapioca	94297	88486	94982	2540790	2400043	2585096	26945	27123	27217
17	Sweet Potato	1002	836	1000	11981	10013	11991	11957	11977	11991
18	Groundnut	2687	1346	3162	1988	996	2811	740	740	889
19	Sesamum	1204	883	821	285	260	287	237	294	350
20	Coconut *	898498	899267	899943	5876	6001	6013	6540	6673	6575
21	Cotton **	2949	1472	2655	4748	2370	4275	1610	1610	1610
22	Tobacco	76	40	43	423	223	90	5666	5575	2093
23	Coffee	84684	84644	84644	63850	54300	60175	754	642	711
24	Tea	38327	35040	35043	57553	49508	56384	1502	1413	1609
25	Rubber	478402	480661	494400	655134	590778	739225	1369	1437	1495

#Area, Production and Productivity for 2005-06 are provisional except Paddy, Cardamom, Coffee, Tea and Rubber

\* Production of Coconut in million numbers and productivity in No's/ha

\*\* Production of Cotton in No. of bales of 170 kg.

Source : Economic Review 2006, Government of Kerala

## ANNEXURE-II

### Index of Area, Production and Productivity of Crops in Kerala Base - Average of Triennium ending 1993-94

Sl.No.	Crops	2003-04	2004-05	2005-06
1	2	3	4	5
	<b>AREA</b>			
<b>A</b>	<b>All Crops</b>	<b>92.87</b>	<b>93.17</b>	<b>93.68</b>
<b>B</b>	<b>Food Grains (1+2)</b>	<b>55.24</b>	<b>54.08</b>	<b>51.31</b>
1	Cereals	56.46	54.76	51.95
2	Pulses	26.89	37.78	35.86
<b>C</b>	<b>Non-Food Grains (3to8)</b>	<b>103.69</b>	<b>103.82</b>	<b>105.24</b>
3	Oil Seeds	100.56	100.20	100.47
4	Fibres	23.33	11.64	20.10
5	Plantation Crops	110.31	108.42	110.90
6	Condiments & Spices	119.04	127.80	127.43
7	Fruits and Vegetables	87.06	84.77	88.13
8	Other Crops	56.65	30.77	65.96
	<b>PRODUCTION</b>			
<b>A</b>	<b>All Crops</b>	<b>108.75</b>	<b>96.84</b>	<b>102.15</b>
<b>B</b>	<b>Food Grains(1+2)</b>	<b>54.30</b>	<b>63.48</b>	<b>59.91</b>
1	Cereals	54.30	63.49	59.92
2	Pulses	30.45	51.82	49.90
<b>C</b>	<b>Non-Food Grains</b>	<b>103.86</b>	<b>100.59</b>	<b>106.90</b>
3	Oil Seeds	115.10	118.29	118.77
4	Fibres	23.26	11.59	20.96
5	Plantation Crops	165.87	169.72	182.79
6	Condiments & spices	143.60	151.53	148.61
7	Fruits & Vegetables	101.51	97.71	104.22
8	Other Crops	61.23	32.47	36.84
	<b>PRODUCTIVITY</b>			
<b>A</b>	<b>All Crops</b>	<b>117.10</b>	<b>103.93</b>	<b>109.04</b>
<b>B</b>	<b>Food Grains (1+2)</b>	<b>98.3</b>	<b>117.38</b>	<b>116.76</b>
1	Cereals	96.17	115.94	115.34
2	Pulses	113.24	137.16	139.15
<b>C</b>	<b>Non-Food Grains (3to8)</b>	<b>100.16</b>	<b>96.89</b>	<b>101.58</b>
3	Oil Seeds	114.46	118.05	118.21
4	Fibres	99.7	99.57	104.28
5	Plantation Crops	150.37	156.54	164.80
6	Condiments & spices	120.63	118.49	116.17
7	Fruits and Vegetables	106.6	115.26	118.28
8	Other Crops	108.08	105.52	55.86

Source : Directorate of Economics and Statistics, 2006



**ANNEXURE-III**  
**Growth of Agricultural Income in Kerala (1990-00 Prices)**

SL.No	Year	Agricultural income (Rs.in crores)	Rate of change over previous year	Percentage contribution to State income
1.	2000-01	12334	0.47	17.30
2.	2001-02	12272	-0.50	16.53
3.	2002-03	12334	0.50	15.52
4.	2003-04	11955	-3.07	13.91
5.	2004-05*	12597	5.37	13.55
6.	2005-06**	12712	0.91	12.66

Source: Economic Review, 2006, Government of Kerala

Note : \* Provisional \*\* Quick

**ANNEXURE-IV**  
**Agency-wise Ground Level Credit Flow in India**

Agency	2001-03	2003-04	2004-05	2005-06	2006-07
Co-operative Banks	23,636	26,875	31231	39404	42480
Regional Rural Banks	6,070	7,581	12404	15223	20434
Commercial Banks	39,774	52,441	81481	125477	140382
Others	80	84	193	382	-
<b>Total</b>	<b>69,560</b>	<b>86,981</b>	<b>125309</b>	<b>180486</b>	<b>203296</b>

Source: Annual Report - NABARD 2006-07

**ANNEXURE-V****Progress on Kisan Credit Card issued through PACS as on 31-03-2006**

(Rs. in lakhs)

Sl. No.	District	No. of societies	No. of cards issued	Loan Outstanding
1.	Thiruvananthapuram	92	133317	20154.00
2	Kollam	124	22647	3393.20
3	Alappuzh	91	23416	6018.78
4	Pathanamthitt	158	9230	1462.45
5	Kottayam	105	44934	9700.00
6	Idukki	19	62091	7301.17
7	Ernakulam	48	9770	2655.30
8	Thrissur	110	75542	6587.00
9	Palakkad	84	28525	3338.82
10	Malappuram	98	19505	2420.83
11	Kozhikode	101	38815	14381.34
12	Wayanad	26	39934	4642.36
12	Kannur	99	124546	13438.00
14	Kasaragod	63	65525	7086.12
	<b>Total</b>	<b>1118</b>	<b>693793</b>	<b>102579.37</b>

Source : Economic Review, 2006, Government of Kerala

**INDEBTEDNESS OF FARMERS: A STUDY OF  
FARMER BORROWERS OF PRIMARY  
AGRICULTURAL CREDIT SOCIETIES IN  
PALAKKAD DISTRICT OF KERALA STATE**

By  
**SOWMYA K.C.**  
(2006 – 15 – 102)

**ABSTRACT OF THE THESIS**  
Submitted in partial fulfilment of the  
requirement of the degree of

*Master of Science in Co-operation & Banking*  
(RURAL BANKING AND FINANCE MANAGEMENT)

Faculty of Agriculture

Department of Rural Banking and Finance Management  
COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT  
KERALA AGRICULTURAL UNIVERSITY  
VELLANIKKARA, THRISSUR – 680656  
KERALA, INDIA  
2010

## ABSTRACT

The study entitled “Indebtedness of farmers: A study of farmers borrowers of Primary Agricultural Credit Societies in Palakkad District was conducted to examine the factors that contribute to the problems of indebtedness among the farmers in Palakkad District and to suggest the measures to be taken to solve the problems.

The study was conducted among two PACS of Palakkad District viz., Peruvemba Service Co-operative Bank (PACS 1) and Polpully Service Co-operative Bank (PACS 2). The sample size included 90 respondents i.e., 45 borrowers from each PACS at random, of which 76.67 per cent were defaulters and rest were non-defaulters. Ten officials (including President and Secretary) from each PACS were also interviewed to collect information on the effectiveness of the loan operation system of the PACS. Secondary data on selected performance indicators of the PACS were also used for the study. Statistical tools like Average Annual Growth Rate (AAGR), simple averages, percentages, simple growth rate, simple correlation, efficiency index, priority index and bi-variate tables were used for the analysis.

The analysis revealed that inadequacy of income, natural calamities and crop failures, non availability of labourers and high wages were the main reasons for indebtedness. Faith in loan waiver or write off policy, non institutional loan and high interest rate, defective loan policies, illness of borrower or family members, ceremonies, fixation of unrealistic due and lack of access to consumption loans and diversification of income have also been pointed out as reasons behind increasing indebtedness of farmers.

The study revealed that procedural delays, lack of adequate securities to hypothecate, misutilisation of loans and inadequate income restricted the borrowers from getting timely loans. It was further observed that defective loaning policy, conspicuous consumption and illness of family members as well as hope for loan

write-off policy were the other reasons behind non-repayment by borrowers. Majority of the defaulters opined that the loan amount provided by PACS were insufficient to meet the project cost there by forcing the borrowers to approach other sources for finance. This inturn puts an additional burden on farmers.

From the interbank comparison on the effectiveness of the present loan operation system, it was found that the loan operation system of PACS (1) is least efficient and in the case of PACS (2) it is moderately efficient. The overall performance of PACS, commitment of BODs, management, member relations, intra-bank relations were appreciable. But in the opinion of the bank officials, Presidents and Secretaries there was something more to be perfected in the existing loan operation system.

According to the officials and employees of PACS, the reasons for indebtedness include natural calamities, high cost of cultivation, insufficient income from agriculture, non availability of labourers etc. The mounting overdues affecting the net profit position of PACS. Misutilisation of loan due to inadequate staff for field supervision and loan appraisal was yet another problem as far as the PACS were concerned. The effectiveness of any scheme to a greater extent is correlated to the number of visits made by the bank officials to the beneficiaries. There exist a drastic need for skilled personnel for field supervision and loan appraisal. It is obvious that co-operatives are still following traditional methods and techniques of management, which has to be replaced by modern measures of management and accounting.

