

**INDEBTEDNESS OF FARMERS IN MULLANKOLLY  
PANCHAYAT OF WAYANAD DISTRICT**

*By*

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(2006-15-101)**



**THESIS**

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

**Master of Science in Co-operation &  
Banking**

**(RURAL BANKING AND FINANCE MANAGEMENT)**

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**2010**

*DECLARATION..*

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## DECLARATION

I hereby declare that thesis entitled “**INDEBTEDNESS OF FARMERS IN MULLANKOLLY PANCHAYAT OF WAYANAD DISTRICT**” 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.

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## CERTIFICATE

Certified that the thesis, entitled “INDEBTEDNESS OF FARMERS IN MULLANKOLLY PANCHAYAT OF WAYANAD DISTRICT” is a record of research work done independently by Mr. *S.Nataraja Subramanian (2006-15-101)*, under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship to him.

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We, the undersigned members of the Advisory Committee of Mr.S.Nataraja Subramanian., 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 in Mullankolly Panchayat of Wayanad District” may be submitted by Mr. S. Nataraja Subramanian., in partial fulfillment of the requirement for the degree.

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**S.NATARAJA SUBRAMANIAN**

**(2006-15-101)**

*DEDICATION...*

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*Dedicated to all  
my well wishers...*

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## ABBREVIATIONS

ARDB	- Agricultural Rural Development Bank
AAGR	- Average Annual Growth Rate
Ca.BMP	- Canara Bank of Mullankolly Panchayat
Co.BMP	- Co-operative Bank of Mullankolly Panchayat
CMIE	- Centre for Monitoring Indian Economy
DCB statement	- Demand Collection Balance statement
DPAP	- Drought Prone Area Programme
FTA	- Free Trade Agreement
GDP	- Gross Domestic Product
IRDP	- Integrated Rural Development Programme
KCC	- Kisan Credit Card
MIS	- Management Information System
NABARD	- National Bank for Agriculture and Rural Development
NFL	- Non Farm Loans
NMGBMP	- North Malabar Gramin Bank of Mullankolly Panchayat
NPA	- Non Performing Asset
NSSO	- National Sample Survey Organisation
PAU	- Punjab Agricultural University
RHL	- Rural Housing Loan
RRB	- Regional Rural Bank
SAS	- Situation Assessment of Farmers
SLBC	- State Level Bankers Committee

*Introduction...*

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## CHAPTER 1

### INTRODUCTION

India is a country where agriculture directly shapes the daily hopes and aspirations of vast majority of the population. Agriculture provides employment to 55 per cent of the population of the country and contributes 18 per cent in Gross Domestic Product (GDP) and accounts for 1.82 per cent of export earnings. Indian agriculture today is on the threshold of manifold growth on account of diversification and burgeoning demand from domestic as well as international markets. The potential growth is immense and adequate investment flow is one pre requisite for achieving the potential.

The paramount significance of credit in agriculture has been recognised in India from the beginning of the 20th century itself. In India, where the economy is predominantly agrarian, the need for enhancing agricultural production by improved methods of agricultural practices and mechanisation has been well recognised. The credit needs of the farmers were met by money lenders in earlier times along with landlords, traders and common agents. In 1951-52, the non-institutional agencies together accounted for 92.7 percent of the cultivators borrowings. Professionally money lenders who supplied 44.8 percent of the total demand were the single largest credit agency. The development of institutional credit has been universally recognised as an essential pre-condition for agricultural progress. The ineffectiveness and inadequacy of Taccavi loans left no other institutional agency for the farmers to fall back upon. Money lenders had no definite rules of lending; their amount of loan would depend upon their whims and fancies; always charged very high interest on the loans and made the farmers indebted to them for generations. Institutional credit on the other hand is to provide cheap credit to the farmers which should be both adequate and timely.

## **1.1 AGRARIAN SECTOR IN INDIA**

Indian agriculture is currently passing through a period of severe crisis. Although some features of the crisis started manifesting themselves in certain parts of India during the late 1980s, the crisis has assumed a serious dimension since the middle of the 1990s. One of the tragic manifestations of the crisis is the large number of suicides committed by the farmers in some parts of India. On the credit front, the function of the rural cooperative credit institutions deteriorated in many parts of the country. The emphasis on economic efficiency has led to the neglect of the social priorities in commercial banks and regional rural banks lending. Targeted and priority lending are under pressure. The result is going dependence on non institutional credit at very high rates of interest. It is only recently that some efforts have been made to rejuvenate the credit system in the country. Except for a few crops, the procurement mechanism does not serve the purpose of ensuring minimum prices to agricultural producers in many parts of the country.

There are many dimensions for the present agrarian crisis in India. The search for a solution therefore needs to be comprehensive by taking into consideration all the factors that contribute to the crisis. Furthermore, both long term and short term measures are required to measure the numerous problems associated with the agrarian crisis. Admittedly farmer's indebtedness, particularly due to growing borrowings from high cost informal sources, is one of the major manifestations of the crisis that needs to be addressed forthwith. In the short run some concrete measures have to be taken up to reduce the debt burden of the vulnerable sections of the peasantry. For this, the institutional arrangements for credit, extension and marketing need to be revived. In the long run, a serious attempt has to be made to rejuvenate the agricultural sector with large investments in rural infrastructure and in agricultural research and technology. The long term needs of the farmers have to be augmented.

## **1.2 AGRICULTURE SECTOR IN KERALA**

The agricultural sector in Kerala is heterogeneous in nature. Level of agricultural production in Kerala is far below the national average and the situation is further deteriorating in recent years. The agricultural sector has been facing deep crisis since 1999. The crisis caused by the price fall in the spices, plantation crops and nut crops between 1999 and 2001 has been reversed to a large extent in the case of most of the crops by 2002 and 2003. But, in the case of crops like pepper, the price crash persisted till 2008. The area and

production of food grains and tubers are declining continuously and the cultivators are turning to cash crops and other non-food crops, in the expectation of more economic benefits (Annexure-I). The major crops cultivated in the State include rice, coconut, tapioca, banana and other plantains. Rice, the principal food crop of Kerala shows a drastic reduction in the area under cultivation as well as production during the last two decades. The major plantation crops cultivated in Kerala are tea, coffee, rubber, cardamom etc. The area of production and productivity of these plantation crops and their comparison with India is shown in Annexure II

Coconut, the chief product of Kerala's rural economy, indicates an improvement in its area and production. The production, area under cultivation and productivity of all crops in Kerala shown in Annexure-III. The contribution of agriculture to the State Domestic Product shows a gradual decline during the reference period. Agricultural income contributed 12.66 per cent of the State income during 2005-06(Annexure IV)

Acknowledging that agricultural sector is the backbone of the State's economy, the policy says that all efforts will be made to attract new investments for replanting more remunerative and high-yielding plants. Besides, a chain of agro-based industries will be established in the State and umbrella brands created for the products. The Government will collaborate with the Spices Board to set up spices parks at potential locations like Idukki and Wayanad. Also, State-owned agencies will be encouraged to manufacture value-added products from pepper, cardamom, ginger and turmeric and to explore domestic as well as international markets for them. An institutional mechanism will be developed to source expertise from premier research organizations for preservation and processing of agricultural products. Further, application of biotechnology will be promoted in agriculture and food processing industries.

While examining the impact of Free Trade Agreements (FTA) certain unique features of Kerala's agriculture which affected the livelihood of farmers in the State need to be noted

- Kerala has 66.57 lakh holdings (as per 2000-01 data of Kerala Government) with an average size of holding of 0.22 hectares compared to 1.47 hectares at the national level.
- Agricultural sector is closely linked with the livelihood security of 95 percent of the State's population.
- Kerala accounts for 1.56 percent of the net sown area and 1.61% of gross cropped area in India.

- The value of output contributed by Kerala in respect of traded crops includes 92.50% of rubber, 85% of black pepper, 81% of cardamom, 55% of tapioca, 50% of the coconut, 33% of coffee, 17% of arecanut, 14% of cashew and 12% of dry ginger.
- At the same time, Kerala's share in export of the products of these crops was as high as 94% in rubber, 92% of pepper, 83% of spices oil, 74% of cardamom, 67% of cashew kernel, 63% of ginger, 22% of turmeric, 27% of curry powder and 16% of vanilla and 95% of cashew shell oil.
- Kerala accounted for 2/3 (67.45%) share of the export of spices at the national level. Out of Rs.983 crores of foreign exchange earned in 2004-05 through the export of pepper, cardamom, ginger, turmeric, curry powder, spice oils and oleoresins, nutmeg and mace and vanilla, Kerala contributed as much as Rs. 663 crores which constituted 67.45% share. Hence, Kerala plays a very decisive role in India's agricultural exports especially in the case of certain spices and plantation crops.
- Since domestic and international markets are highly interdependent, enhanced imports and exports under FTAs will have important implications on the domestic production, consumption, domestic product prices and levels of living of the farmers.
- It is alleged that the present crisis in pepper and spices has been caused by the enhanced imports of agricultural products consequent on FTAs.
- One unique feature of Kerala's agricultural sector is the high degree of trade sensitivity. Approximately 80% of the gross cropped area is under plantation crops, spices and nut crops

### 1.3 AGRICULTURAL SECTOR IN WAYANAD

This high altitude district is characterized by the cultivation of perennial plantation crops and spices. The major plantation crops include coffee, tea, pepper, cardamom and rubber. Coffee based farming system is a notable feature of Wayanad. Coffee is grown both as pure crop and as a mixed crop along with pepper. Pepper is grown largely along with coffee in the northeastern parts of the district (70.150 ha), especially in Pulpally and Mullankolly areas. Coffee in Wayanad (70,150 ha) shares 33.65 per cent of the total cropped area in the district and 78 per cent of the coffee area in the state. Other major crops are coconut (8826 ha.), Arecanut (5722ha), Tea (5728 ha.) and Rubber (2954 ha.). Vanilla cultivation in assuming importance in the district.

Paddy is cultivated in 19308 hectares. The rice fields of Wayanad are in the valleys formed by hillocks and in majority of paddy lands, only a single crop is harvested. Ginger

cultivation in Wayanad has also substantially increased in recent times and the ginger produced is mainly marketed in the form of green ginger. Homestead farming assumes importance in this district. The average size of holdings is 0.68ha. A variety of crops including annuals and perennials are grown in these small holdings. The crops include coconut, arecanut, pepper, vegetables, tuber crops, drumstick, papaya, etc. and fruit trees like mango and jack.

The crop patterns/crop combinations prevalent in this district are not based on any scientific norms. Therefore scientific cropping patterns suitable for the agro-ecological situation are to be recommended.

### **1.3.1 Marketing of agricultural produce**

The marketing of coffee was fully regulated by the Coffee Board till 1992 and the entire coffee grown in the district had to be pooled to the Board. But in the Coffee policy of 1995-96, the Government exempted small-scale growers possessing land less than 10 hectares from the obligation of pooling. Those growers with more than 10 hectares of coffee plantation were obliged to provide 60 per cent of their produces to the Coffee Board. But Government of India recently announced the abolition of the pooling system for coffee altogether from 14th September 1996 and coffee growers are now free to market either in the domestic market or export.

Pepper is marketed mainly as dried berries. The different agencies engaged in the marketing of the produce are hill produce merchants, marketing societies, commission agents and exporters. Being an export-oriented commodity, pepper prices show frequent fluctuations depending on the international prices prevailing for the commodity from time to time. Ginger is mainly marketed as green ginger. Cardamom is sold at auction centres. Traders are licensed by the Spices Board and they participate in the different marketing centers for auction. Rubber is a controlled commodity and is mainly marketed in the form of smoked rubber sheets. A large number of private dealers as well as the primary rubber marketing societies under the Rubber Marketing Federation, operate at the village level for the purchase and sale of the commodity.

Wayanad has 25 agricultural units known as Krishi Bhavans. Each unit is under the charge of an Agricultural Officer and 2 or 3 Agricultural Assistants. There is also a

farm of the Tribal Development Department known as Cheengeri Extension Scheme, Ambalavayal and it is managed by the Agricultural Department. The office of the Principal Agricultural Officer is located at Kalpetta which co-ordinates the schemes.

#### **1.4 STATEMENT OF THE PROBLEM**

Indebtedness, in particular farmers' indebtedness, has long been treated as a distress phenomenon. It is indeed so if the debt taken is not used for productive purposes like purchase of inputs that augment output or creation of assets that augment the earning base of the borrowers and instead is used for consumption purposes or marriages and social ceremonies. Debt can also become a distress phenomenon if the borrower's crop fails due to natural calamities, drought, use of spurious inputs, in fructuous 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 moneylenders 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. In some cases, indebtedness and failure to pay can become one of the important causes for farmers' suicides.

Short-term crop loans by farmers are used for purchase of inputs and long-term loans for building of assets like tube wells irrigation pump sets or for land improvement. There is increasing evidence that farmers in India are using a major proportion of their borrowings for productive purposes. Hence, under normal circumstances mere outstanding indebtedness may not be a distress phenomenon in most cases but only indicates their requirements for carrying out productive activities.

##### **1.4.1 Incidence of Indebtedness**

Of the 89.33 million farmer households estimated in 2006, the Situation Assessment of Farmers (SAS) shows that 43.42 million or 48.6 per cent were indebted (Annexure-VI). In other words, more than half – 45.91 million or 51.4 per cent – were not indebted either from institutional or non-institutional sources. A large proportion of them might have been



financially excluded. The average outstanding debt per farmer household was at Rs.12,585 and per indebted farmer household was at Rs.25,902.

A state-wise analysis showed that in 2006 incidence of indebtedness was higher in states which had input-intensive or diversified agriculture. The incidence of indebtedness was the highest in Andhra Pradesh followed by Tamil Nadu, Punjab, Kerala, Karnataka, Maharashtra and Haryana (Annexure-VI). Average debt per farmer was higher in states with higher incidence of outstanding debt. For instance, average outstanding debt per farmer household was higher in the state of Punjab followed by Kerala, Haryana, Andhra Pradesh and Tamil Nadu - all relatively developed and better banked states. On the other hand, the incidence of indebtedness as well as outstanding debt per farmer was low in the states of central, eastern and north-eastern regions of the country indicating partly low absorptive capacity and partly inadequacy of banking services. In the states of Andhra Pradesh, Karnataka, Kerala, Maharashtra and Punjab where suicides were reported, both indebtedness and outstanding debt per farmer household were higher than the all-India level. As will be seen, in these states except for Kerala, large proportion of the debt was incurred for productive purposes. Strikingly, sources of debt were different. For instance, in Maharashtra the institutional sources accounted for a major portion of the debt whereas in Andhra Pradesh it was from moneylenders.

#### **1.4.2 Debt by Sources**

Total debt of farmer households was estimated at Rs.1.12 lakh crore in 2003; of which Rs.65,000 crore was from institutional agencies and Rs.48,000 crore from non-institutional agencies. Private moneylenders accounted for Rs.29,000 crore and traders Rs.6,000 crore. About Rs.18,000 crore of debt from non-institutional sources, a major portion of which was from moneylenders, carried an interest rate greater than 30 per cent. Clearly, there is an urgent need to relieve the farmers from private debt carrying high interest rate by transferring it to institutional agencies.

### **1.4.3 Debt by land size**

The incidence of indebtedness and the share of institutional finance in outstanding debt for all-India increased with the size of land holding (Annexure-VII). The incidence of indebtedness increased from 46 per cent for marginal and small farmer households to 66 per cent for large farmers and the share of institutional agencies in the debt increased from 51 to 68 per cent. The average size of loan per farmer also increased with the landholding size. Small and marginal farmer households, which accounted for 80 per cent of indebted farmer households, absorbed 51 per cent of the total outstanding credit from institutional agencies. The dependency of marginal and small farmers was more on non-institutional agencies than of large farmers. As against large farmers, one-third of whose debt was from non-institutional sources, one-half of the debt of small and marginal farmers was from non-institutional sources. The marginal farmers received a relatively smaller share even from cooperatives and had to depend more on private moneylenders.

### **1.4.4 Debt by interest rates**

Interest rates charged by the non-institutional agencies were much higher than those charged by institutional agencies for outstanding debt as at the end of June 2002. About 85 per cent of outstanding debt of cultivator households from institutional agencies was in the interest rate of 12 to 20 per cent per annum. On the other hand, 36 per cent of cultivator households' outstanding debt from non-institutional agencies was at the interest rate of 20 to 25 per cent and another 38 per cent of outstanding debt at high interest rate of 30 per cent and above. This shows the exploitative nature of non-institutional credit market (Annexure-VIII)

## **1.5 AGRICULTURAL LOAN POSITION IN KERALA**

Agricultural credit by commercial banks in Kerala has crossed the mandatory level of 18 per cent during the first quarter of the current year(2008-09) The outstanding agricultural advances at the end of the previous year was at Rs 11,377 crore and a further Rs 770 crore was added in the first quarter of this year, taking the outstanding level to Rs 12,147 crore. This constituted 18.86 per cent of the total credit, which was an all-time high, it was revealed at the review meeting of the State Level Bankers' Committee (SLBC) held here the other day. During the quarter ended June 30, 2007, the banks disbursed Rs 5,256 crore to the

priority sector, which was 17.51 per cent of the target of Rs 30,018 crore for the whole year. Of the disbursement target for 2007-08, Rs 11,602 crore has been earmarked for the agricultural sector, Rs 4,749 crore for the small-scale industries sector and Rs 13,667 crore for the other priority sectors.

Under the Prime Minister's Relief Package for distressed farmers, the banks in the State extended relief measures in three identified districts (Idukki, Wayanad and Palakkad) under the first component of waiver of overdue interest, the banks waived an amount of Rs 223.82 crore in respect of about three lakh farmers' accounts. Out of this amount, Rs 218.94 crore was reimbursed to the banks by the Reserve Bank and the National Bank for Agriculture and Rural Development. In the case of rescheduling of the accounts of distressed farmers, the banks achieved a progress of 43 per cent by rescheduling 1.3 lakh accounts with an outstanding amount of Rs 320.75 crore. Also, the banks extended Rs 32.26 crore of fresh finance in about 8,700 accounts that were rescheduled.

## **1.6 AGRICULTURAL LOAN POSITION IN WAYANAD**

Apart from obtaining a portion of the Rs.60,000 crore loan waiver package, the district will get a share from the funds allocated for the multi-sectoral development plan for 90 minority concentration districts in the country. Wayanad is the lone minority concentration district in the State that has been selected by the Union Ministry of Minorities based on the census data on population, socio-economic indicators and basic amenities indicators. The district has a low socio-economic status. The Kerala Cabinet decided to free small farmers of Wayanad district from repayment of farm loans not exceeding Rs.25000 taken from cooperatives up to June 30, 2006. The benefit is available to farmers owning not more than one acre of farmland.

## **1.7 OBJECTIVES OF THE STUDY**

The objectives of the study are

- ❖ To assess the extent and magnitude of indebtedness of farmers in Mullankolly Panchayat of Wayanad district of Kerala state
- ❖ To identify the reasons for the indebtedness of the farmers in Mullankolly Panchayat

## **1.8. SIGNIFICANCE OF THE STUDY**

With regard to the topic “Indebtedness” it is the most complex of all problems associated with institutional credit. There are many reasons for the indebtedness problem of farmers mainly consisting of changing government policies, price fluctuations in the market, pest and disease attack and so on. The study therefore examines the causes for indebtedness of farmers in Mullankolly Panchayat of Wayanad district and explores the present loan recovery system of three banks i.e. Canara Bank, Co-operative Bank and North Malabar Gramin Bank. Altogether the study attempts to find out the problems and constraints of the borrowers to repay their obligations to the banks and its effect on the banks performance. The study is expected to facilitate a better recovery management among the banks in Kerala.

## **1.9 PRACTICAL UTILITY**

The institutions in rural and agricultural credit sector have reached a crisis stage when viewed from the qualitative aspects of repayment of loans. Timely recovery of loans is a pre-condition effecting recycling of funds for agricultural purposes. Indebtedness continues to be a problem for the banks in spite of the achievements it has made. Though, in the theoretical sense the loans issued by banks are recoverable, practically there are innumerable problems in repayment, which hampers the loan recovery management.

Since the study aims to identify the reasons for indebtedness and volume and extent of indebtedness, it would be of practical utility especially to the administrators, policy makers and bankers to evolve suitable strategies in framing appropriate policy measures for better recovery and repayment of loans.

## **1.10 LIMITATIONS**

The study has been undertaken at micro level, among 90 farmers and 3 banks, i.e. (Canara Bank, Co-operative Bank and North Malabar Gramin Bank) each with its own peculiar characteristics. Therefore, the results of the study cannot be generalised to other banks or institutions. The objectives of the study were examined through a field level survey including only 90 sample borrowers, as well as through the data collected from the responses of secretaries, Board of Directors (BODs) and other officials of the banks under

consideration. Therefore, the findings of the analysis may not be appropriate for a better generalisation. Biased and prejudiced opinions from the part of the sample borrowers cannot be ruled out.

### **1.11 ORGANISATION OF THE REPORT**

The study is organized in five chapters. The first chapter deals with the statement of the problem, objectives of the study, significance of the study, limitations and practical utility. The second chapter deals 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 and methodology employed for the analysis of 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...*

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CHAPTER 2  
REVIEW OF LITERATURE



The role of credit and credit institutions in augmenting production and productivity is well recognized. The overdue advances of banks in India are mounting and, in consequence, the non-performing assets in their portfolio are on the rise thereby affecting the banks viability. Banking being a business of trust and confidence, it is necessary for every bank to maintain it throughout. Since it is public money, it has to be used properly and carefully. Poor recovery implies distorted recycling of funds. Uninterrupted lending activity requires effective recovery performance as a pre-condition.

Indebtedness has been a persistent problem with all financial institutions. Several studies in this regard have been conducted from time to time and a number of high level committees have made innumerable recommendations for reforms in the functioning and rehabilitation of the rural credit structure. The main thrust of Indian public policy towards rural credit must be to ensure sufficient and timely credit at reasonable rates of interest to a large segment of the population. Unless pragmatic measures in this regard are resorted to, the chances of curing the problem of indebtedness remains remote. To throw light on the contemporary bearing of this malice, the findings of some studies have been comprehended under three sections:

- 2.1 Reasons for indebtedness
- 2.2 Consequences of indebtedness
- 2.3 Methods to overcome the problem of indebtedness

### 2.1 REASONS FOR INDEBTEDNESS

Studies on indebtedness in the banking system suggest that the problems of indebtedness have sizable overhand component arising from improper selection of borrowers and activities. Various studies also reveal that there are several internal factors such as weak credit appraisal, non-compliance to lending norms and willful defaulters that contribute to high indebtedness.

Athreya *et al.*,(1990) have stated that there are many reasons for the indebtedness, firstly the agricultural activities are typically seasonal and heavily dependent upon monsoon rainfall, secondly though distribution of institutional credit for agricultural purpose has increased, still farmers rely on non-institutional sources(money lenders and

others), thirdly the domination of middlemen in agricultural product market, which prevents farmers from getting remunerative prices for their produce is also considered to be one of the main reasons for the indebtedness.

Bhatt (1993) has remarked that writing off loans had considerable impact on the recovery performance of banks. The announcement by the government regarding the waiver for loans has aggravated the situation of indebtedness as the borrowers expected such schemes in future and deliberately avoided paying the installments and interest.

Dandekar (1993) has stated that the dependence of marginal and small farmers on informal sources for credit is still high. That means, the small farmers have very least accessibility (18 percent) to institutional credit while other two groups, i.e., medium and large farmers accounted for 29 and 55 percent respectively of the total credit from institutional sources. In other words, the non – institutional share in the total credit has decreased with increasing farm size.

Gosh (1995) has revealed that, from the opinion of West Bengal Government experts, NPAs are alarming due to the low recovery position of government sponsored schemes such as Integrated Rural Development Programme (IRDP), Drought Prone Area Programme (DPAP) etc. It shows that the government machinery for the supervision of these programmes and bank officials are equally responsible for the malady.

Mani *et al.* (1996), while examining the level and composition of gross domestic capital formation at the national level with particular reference to agricultural sector, observed that even though institutional credit for agriculture has increased substantially over the years, the share of long-term finance to total institutional credit seemed to be very low(15-20 %).

Bahadur (1997), Singh *et al.* (1998) and Yadav *et al.* (1998) have found that inadequacy, untimeliness, diversion of cash loans, demand for high security etc. are the major factors which did not allow the borrowers to use funds in a proper manner.

Jayanthi and Balakrishnan (1997) opined that the unprecedented rise in credit to some extent has contributed towards mounting level of overdues of banks.

Rao and Sathyanarayanan (1997) reckoned that education, annual income, socio-economic status, land holdings and irrigation potentiality are the crucial variables that influenced the repayment behavior of borrowers of co-operatives in Maharashtra.

Sali (1998) in his study “An enquiry into the non performing advances of Primary Co-operative Agricultural and Rural Development Banks in Southern Kerala” has come to the conclusion that sudden increase in NPAs are due to loan waiver policy,



inadequate income generated from project, illness of family members, diversion of income, conspicuous consumption, defective loaning policies and lack of access to consumption loan.

Sidhu *et al* (2000) has stated that the yield of principal crops increased tremendously during 1970s, which has led to increase the net returns of the farmers. Despite the increased use of agricultural inputs, the returns were almost stagnant during 1980s and have started declining since 1990s. This is also one of the reasons for indebtedness.

According to Government of Kerala (2003) Report, 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 the crops in Kerala and in turn, the financial position of the cultivators. The imports further increased following Free Trade Agreement (FTA) with countries like Sri Lanka, which produce and export many of the commodities which are produced and exported from Kerala.

According to Government of Kerala (2003) and Jeromi (2005) the income generated in the sector has either declined or remained stagnant (0.3 per cent per annum from 1997-98 to 2005-06), mainly due to fall in prices, stiff competition for its exports and also due to imports after the trade liberalization.

According to National Sample Survey Organisation (2003) Report, half of the farmers are indebted and much of the indebtedness are due to agricultural expenses; inequality in income between the rural and urban households and between the cultivators and non-cultivators.

The report also stated that, the sluggishness in production and decline in prices, inter alia, due to lower exports and higher imports and 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 good network of both formal and informal credit agencies

Rai and Shailendra (2003) have remarked that unviable project, slackness in proper evaluation of the project, delay in the implementation and commencement of the project, misappropriation of funds, high cost of borrowings, delay in initiating recovery proceedings, lack of timely follow-up, willful default in payment of loan installment by the financial institutions are the reasons behind increasing size of NPAs.

Krishnaprasad (2004) has stated that, apart from this price crash, the severe fall in production due to persisting drought conditions over the last four years and frequent disease outbreaks were other factors which led to severe loss of income for farmers of

Wayanad. This has forced them into vicious debt traps and the consequent suicides. It is to be noted that being perennial crops, coffee and pepper need to be replanted once they are damaged and they may take up to 4 or 6 years to start yield.

Joseph and Joseph (2005) have opined that the restructuring of the agricultural sector in Kerala and to salvage itself from the 'high cost syndrome' during 1970s and 1980s have been thwarted by the trade liberalization in the 1990s and thereafter.

Kurup (2005) has stated that the sluggishness in production and decline in prices, interalia, 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 at 64.4 per cent (fourth highest incidence among the States) as against the national average of 48.6 per cent.

According to Government of Kerala (2006) Report the main reason behind these suicides has been the debt problem. Most of them take loans from banks and when something happens to the crop, they are in deep trouble. Government has also made it easier for banks to attach property on lapse of loan payments. This has become a major social problem in Wayanad.

The Report also stated that (2006), during the last few years, the problem aggravated due to deficiency in rainfall, sharp decline in prices and lower production. As a result 2000 farmers have committed suicide in the state. Though it is now four years since the aggravation of the problem, there was no abatement of the situation as measures taken so far were not effective in tackling the issue.

Pal and Wadhwa (2006) have stated that the international commodity prices have remained extremely volatile during the implementation of the WTO provisions on agricultural trade.

Pal and Wadhwa also (2006) opined that the opening up of the agricultural sector to international trade has made the farming community in Kerala vulnerable to surge imports, decline and high volatility in prices, as happened in case of many other developing economics.

Srijit (2006) has observed that, in the last seven years, bad seeds, costly pesticide and drought have triggered debt which resulted in the suicide of 4,500 farmers in Andhra Pradesh alone, but no one is taking responsibility

According to Shreyas (2006), 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 liberalisation sans any safety nets and comprehensive restructuring programmes. With a decline in exports, rise in imports and a consequent drop in prices, coupled with frequent droughts, 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.

Sukhpal *et al.* (2008), have stated that, economic factors like decreasing productivity, falling profits and level of income have pushed farmers into the debt trap in Punjab

## 2.2 CONSEQUENCES OF INDEBTEDNESS

Recovery of the loans advanced to the needy has a direct bearing on the economic survival, efficiency and prosperity of the bank and affects its ability to recycle the funds. Non-payment of bank dues by a section of the borrowers would only mean denying the benefit to other borrower and also cripples the capacity of the bank to draw refinance from apex institutions. The consequences of alarming increase of indebtedness as pointed out by different authors are described in this section.

Jaganath and Altaf (1993) from their study on "Priority sector financing in India and the recovery of bank advances" observed that the increasing overdues in commercial banks restricted the smooth flow of credit. If the dues accumulated alarmingly then the health of banking system would be jeopardised and the recycling of funds, which is the key element in development of banking system, would be adversely affected.

Balakrishnan (1991) has opined that there was a tendency on the part of higher level tiers of structure to toss the problem of the overdues which inhibited credit expansion on one hand and economic viability of lending institutions on the other

Ramachandran (1997) has opined that the NPA concept has been overplayed by the RBI so much that if there is a slightest doubt that the advance may become NPA, the banker refuses to lend or pass on the proposal to higher ups to avoid personal risk.

According to Narasimham Committee Report (1998) the NPAs has been increasing to untenable levels, as a result of which there has been an all round deterioration in the efficiency and competitiveness of banks with serious consequences to the economy as a whole.

The National Bank for Agriculture and Rural Development (NABARD) chair unit at Punjab Agricultural University (PAU) conducted a study on overdue loans and indebtedness in the cotton belt of Punjab during 1998-99. The study found that the debt burden was so severe that the marginal, small and semi-medium farmers were unable to pay off even the interest of outstanding debt, not to speak of any reduction in the debt burden

Mohankumar and Sharma (2006) has reported that accumulation of debt beyond the repayment capacity during a few years. was the immediate provocation for resorting to the extreme step of suicide

Sidhu and Sucha (2006) have stated that the consequences of loans and their transformation into outstanding debt are considerably influenced by sources of loans. It is a well known fact that availability of loans from formal sources makes them cheap because interest rates on regulated loans are very low. But when loans are available from informal sources, they involve high interest rates

K.V.Karmakar (2008) has stated that, while the farmers suffer from the problem of indebtedness, the bankers suffer from the problem of increasing non-performing assets and losses due to indebtedness and the financing agencies may lose their viability to receive finance from higher financing agencies

Sukhpal *et al.* (2008), have stated that, as a result of indebtedness, some farmers commit suicide as a means of escape. Indebtedness is the major reason behind suicide.

C.Vasudevulu *et al.* (2008), from their study on “Problems of Recovery in PACS” have stated that the high level of overdues restricts the capacity of lending institutions to recycle funds, besides threatening the prospects of continued flow of external credit for agricultural development. A wide range of causes influence the level and the trends in overdues of the agricultural credit institutions

## 2.3 METHODS TO OVERCOME THE PROBLEM OF INDEBTEDNESS

The challenges thrown on account of declining recovery was one of the serious concerns and this need to be objectively diagnosed, so that prompt solution can be prescribed. How this problem can be tackled and how to form new machinery for recovery management is an important area where researchers have to make substantial enquiries. Hence, available studies in this regard have been reviewed so as to highlight all possible suggestions for effective management of indebtedness.

According to Narasimham committee (1998) Report, to tackle the problem of indebtedness special tribunals should be set up for the recovery of agricultural loans. The committee recommended the setting up of special tribunals which could expedite the recovery process.

Sidhu *et al.* (2000) have suggested that, in order to reduce the farmers fixed costs, the individual farmers investments in heavy machinery and equipment for which agricultural service centres with village cooperative societies/entrepreneurs should be encouraged from where the farmers can hire the machinery on payment basis. It is one of the important measures to tackle the problem of indebtedness

Sidhu *et al.* (2004), have suggested that, provide loans to farmers for heavy machinery strictly on economic feasibility, generate off-farm employment opportunities and implementation of the Crop Insurance Scheme are the important measures to mitigate the problem of indebtedness

Arvind and Jagannath (2005) have suggested that promoting non-farm earning opportunities will reduce the level of indebtedness of farmer households. They also suggested that the problem of NPAs can be studied and tackled from two fronts: remedial measures for managing current NPAs and maintenance of performing assets

Ashokan and Anitha (2005) have suggested that through contract farming the indebtedness among farmers can be alleviated to a large extent without jeopardising the financial health of the bank

Choudry and Krishna (2005) found that better yield and desire for future loans are the major factors that prompted them for regular repayment particularly the small farm

households. It was also observed that the non-farm income of the borrowers is also an equally important factor in making regular loan repayment

Deepak (2005) from his study on "Mapping Strategies for Efficient Rural Credit Delivery System through Co-operatives in Maharashtra" has suggested for remedying the malady of default in repayment of loan that Co-operatives societies should ensure that "No dues" certificate invariably produced by the applicant before the loan is sanctioned to him. Any lenience in this respect would be self-defeating

Jayaraman *et al* (2005), from their study on "Rural Credit in Karnataka: Systemic Weaknesses and Corrections" have suggested that bank officials should strictly monitor the utilisation of the loan by frequent visits to the borrowers so that the loans are used by them for the purpose for which they are sanctioned

Joshi *et al.* (2005) have suggested that, there is a need to redirect the commercial banks to extend loan facilities liberally to small farmers. This would pave the way for lessening the role of non-institutional agencies and thus help the farmers to escape from the clutches of the moneylenders to avoid indebtedness

Jeromi (2005) from his study on "Agricultural Sector in Kerala and Issues relating to Credit" have come to the conclusion to tackle the problem of indebtedness that, encourage banks to evolve their own debt relief measures, counsel farmers and increase farmer-banker communication were required

Sambasiva (2005) has suggested some measures to mitigate the problem of indebtedness. He supported measures such as poverty alleviation programmes, Backward Area Development Programmes and Specific programmes such as Minimum Support Prices, Crop Insurance and National Calamity Fund to be strengthened. He also suggested that the emphasis on social banking rather than profit-based banking must be revived

Vijaya (2005) from her study on "An Economic Analysis of Rural Indebtedness in Northern Telangana Zone of Andhra Pradesh" have come to the conclusion for mitigating the problem of indebtedness that to arrange of sufficient credit from institutional sources, provision of remunerative prices, storage facilities, quality inputs,

elimination of malpractices in market yards and creation of a strong Agriculture Technical Advisory System are required

According to Indian Bank Report (2005-06), for better recovery and to tackle the problem of indebtedness, adequate incentives should be given to the farmers for prompt repayment of loans and to the employees of the bank for better recovery

Mohankumar and Sharma (2006) have found that, some of the farmers resorted to sale of land to solve the problem of indebtedness. They found that 24 percent of the deceased farmers sold land which constituted 8.4 percent of their land. It shows that distress sale was not very high because land documents are mostly in the custody of financial institutions, which have provided loans

The Expert Group Report on the problem of agricultural indebtedness (R.Radhakrishnan, 2007) has recommended that rescheduling of loans in the case of natural calamities like floods, cyclone, drought etc. and has suggested waiver of interest liability for the extended period of the loan. The waiver liability is proposed to be met equally by the central and state governments

Jeromi (2007) has suggested that, selective write off of legacy loans (which are very old) of marginal farmers upto Rs.50,000, introduce incentives for loan repayment scheme for small farmers and reduction of interest on all agricultural loans are the measures to tackle the problem of indebtedness

According to Field Survey of Primary Agricultural Credit Society, Ittepali (2008) political leaders should not be allowed interfere in the working of the bank and the sanction of loans in particular. The bank officials must be left free to grant loans only to the deserving applications and to take suitable action against the defaulters

Rukmani (2008) from her study on "Problem of Recovery in PACS" has suggested that proper procedure with a suitable repayment schedule should be adopted for the recovery of loans at the time when the farmers sell their produce. Efforts should be made well in advance to recover loan installments by sending timely reminders and notices to the parties concerned before the due date

Sharma *et al.* (2008), from their study on “Recovery Management in Rural Credit” have suggested that the introduction of crop insurance scheme, provision of adequate prices for farmers’ products, nominal interest rates and implementation of ‘Kissan Credit Card’ by banks are the measures to tackle the problem of indebtedness

Srijit (2008) has suggested the formalisation of informal loans through a one-time measure of providing long-term loans by banks to farmers to enable them to repay their debts to the moneylenders. The local Panchayat Raj Institutions and non-governmental organisations should be facilitators of this process

Sukhpal *et al.* (2008), have suggested in Economic and Political Weekly that, regularise and continuously monitor the functioning of non-institutional sources of finance, improve the functioning and lending procedure of the commercial banks and strengthen the functioning of co-operatives are the important measures to tackle the problem of indebtedness

Sailaja *et al.* (2008), from their study on “Problems of Recovery in PACS” have suggested that loan should not be sanctioned to any one in a hurry or under pressure. Every application for loan should be properly and thoroughly scrutinised so that no loan is sanctioned to any ineligible applicant.

Though many have made substantial suggestions for efficient recovery, it is of much importance to analyse the need for strengthening the legal frame work addition to initiating promotional measures among members and creating good member-banker relations.

The mounting burden of overdue has a critical impact on the expansion of bank credit. Increasing overdues will restrict the smooth flow of credit and will affect the further investment in agricultural and non-agricultural sector. Sufficient care and strict vigil while advancing loans, through project appraisal should be strengthened so as to reduce the chances of overdues of current advances in future. Though, much research efforts have been taken on the issue of loan recovery, the implications are yet to be studies with the seriousness it deserves. The present study attempts to achieve this end.



*MATERIALS AND METHODS...*

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## CHAPTER 3

### MATERIALS AND METHODS

The study entitled “Indebtedness of farmers in Mullankolly Panchayat of Wayanad district of Kerala State” has been carried out with the twin objectives of the reasons for indebtedness and the volume and extent of indebtedness. 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) Non Performing Assets (NPAs)**

NPAs are those loan assets where interest and/or principal installment are in arrears beyond two quarters. Thus, a loan asset would become a non-performing asset if the installment or interest remains overdue for six months. NPA in banks are classified into substandard, doubtful and loss assets:

##### **iv) 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.

#### **v) Non-wilful defaulters**

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

#### **vi) Scheme loans**

Scheme loans are time bound programmes, which are formulated for earmarked areas and implemented under expert supervision. Some of the purposes for which long term loans are given are minor irrigation, soil conservation, farm mechanisation, development of horticulture crops and plantation, dairying, poultry, fisheries and processing of agricultural produce.

#### **vii) Ordinary loans**

Long term loans, provided for purposes like levelling and bunding, soil conservation, cattle shed, crushing yard, smoke house and fencing, which comes under farm sector are being covered under the ordinary loans.

#### **viii) Non-farm loans (NFLs)**

These loans provided for activities like business, small-scale industries, new industrial ventures and purchase of vehicles.

#### **ix) Rural Housing Loans (RHLs)**

RHLs are provided for setting up of new houses and renovating old ones. National Housing Bank (NHB) refinances these loans. A maximum limit of five lakh rupees is provided for building or purchasing new houses and one lakh rupees for renovating existing houses. The maximum period of repayment is upto 15 years.

### **3.2 METHODOLOGY OF THE STUDY**

The study made use of data collected from both primary and secondary sources. Secondary data were used mainly for examining the selected performance

indicators of the sample Co-operative Bank, Canara Bank and North Malabar Gramin Bank of Mullankolly Panchayat of Wayanad district and also for the purpose-wise and age-wise classification of the overdues of these banks. The study is based on data for a period of six years from 1998-99 to 2003-04. The main sources of secondary data were documentation of the selected banks and journals like Economic Survey, Banking Finance, CMIE, Land Bank Journal and Agricultural Banker. Primary data were collected from sample beneficiaries as well as from the staff and Board of Directors (BODs) of banks selected for the study.

### **3.1.2 Sampling procedure**

For conducting the study on the loan recovery management of banks in Kerala, Co-operative Bank, Canara Bank and North Malabar Gramin Bank of Mullankolly Panchayat of Wayanad district has been randomly selected for detailed study.

A sample of 30 borrowers from each bank which became total of 90 farmers has been selected at random from the list of borrowing members such that 66.67 per cent of them were defaulters and the rest were prompt repayers.

For analysing the effectiveness and satisfaction of the present loan recovery and management system, 20 officials (including secretaries and BODs) from each bank were selected.

The primary data regarding the details of loan, loan utilisation pattern, income adequacy, overdue position and reasons for default have been collected from the sample borrowers with the help of a pre-structured interview schedule (Appendix-I). Information regarding institutional arrangement for management and recovery of loans, banker-member relations and their opinion about the present system of loan recovery practices were collected from the staff and other officials of the bank (Appendix-II)

### 3.2.2 Analysis of data

Various methods and techniques have been used to analyse the data collected for the study. While analysing the factors responsible for overdues, the extent of overdues of each bank 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 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 purpose-wise classification of demand and overdues of the banks. Average Annual Growth Rate (AAGR) has been calculated using the following formula.

$$AAGR = \left\{ \frac{\text{Antilog} (\log y_n - \log y_o) - 1}{n-1} \right\} * 100$$

Where  $Y_n$  = Current year value of the variable

$Y_o$  = Base year value of the variable

$n$  = Number of years

Chi square test between overdues and the socio-economic characteristics of the respondent borrowers, like level of education, occupation and annual income of the borrowers has been found out 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 indebtedness at the borrower and organisational levels, priority index has been calculated. Based on the ranks assigned by respondents to each of the factors 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 nth rank. The aggregate score of each other 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:

$$PXi = \sum_{i=1}^n \frac{Si}{n * N} \times 100$$

Where,

PXi = Priority index value for the factor x1

ESi = Aggregate score obtained for factor x1 .

n = Number of factors

N = Number of respondents

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

$$E.I = \frac{\sum_{i=1}^n eij}{\sum_{i=1}^n \max .Eij} \times 100$$

Where,

E.I = Efficiency index

i = Respondent

j = Character

In addition to the above statistical tools, bivariate 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 banks and socio-economic profile of the borrowers.

The analysis, presentation and interpretation of data collected from the sample banks and borrowers by applying the concepts and techniques discussed above, are dealt in the next chapter.

## RESULTS AND DISCUSSION...



## CHAPTER 4

### RESULTS AND DISCUSSION

The agrarian crisis that has rampaged through rural India for the past few years has been associated very clearly with a rising burden of indebtedness among farmers. The inability to repay past debt and therefore to access fresh loans has been widely accepted as the most significant proximate cause of the farmers' suicides that were so widespread in Andhra Pradesh, Karnataka, and are apparently continuing in areas like Wayanad in Kerala, Vidarbha in Maharashtra and some areas of Punjab and Rajasthan.

Despite this, apart from reports from the field by some persistent journalists and other observers, there has been nothing in the shape of aggregate data that would provide some estimate of the actual extent of rural indebtedness. These reports have suggested that the decline in access to institutional credit has driven more farmers back to potentially more exploitative usurious relations with traditional moneylenders or input dealers. Repayment problems, resulting from the greater difficulties of cultivation because of rising input prices and volatile output prices have been compounded by the higher interest rates charged by these informal sources.

The poor recovery performance of the financial institutions (banks) is a major bottleneck in the smooth flow of credit to borrowers and for its own development activities. Most of the financial institutions become unprofitable and burdened with unsustainable level of indebtedness. Unless the recovery at the banks level is improved and a healthy financial position is built up, the short-term and long-term credit structure will become weak and tottering in the years to come. Hence, a study on the indebtedness of farmers in Mullankolly Panchayat of Wayanad district of Kerala covering 90 farmers and three banks (North Malabar Gramin Bank, Co-operative bank and Canara Bank) of that panchayat will definitely bring out the indebtedness of farmers and reasons for indebtedness in that panchayat. It will bring to light the strength and weaknesses of the system followed by those banks.

The analysis of the indebtedness of the farmers in Mullankolly Panchayat of Wayanad district is presented in the following sequence.

4.1 The extent and magnitude of indebtedness of farmers in Mullankolly Panchayat of Wayanad district

4.2 The reasons for the indebtedness of the farmers

4.3 Loan recovery system in these banks.

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

The extent of overdue of Co-operative Bank, Canara Bank and North Malabar Gramin Bank of Mullankolly Panchayat of Wayanad district and the relation of selected performance indicators of these banks on the overdue along with the purpose-wise and age-wise classification of overdue are summarised in the present sections.

For the analysis of the purpose-wise demand and overdue, the classification of loans and advances of these banks into agricultural and non-agricultural loans has been followed. Agricultural loans include Ordinary and Scheme loans while non-agricultural loans comprises of Non Farm Loans (NFLs) and Rural Housing Loans (RHLs).

Scheme loans are given for activities like minor irrigation, soil conservation, dairying, poultry, fisheries and development of horticulture crops and plantations. Banks provide ordinary loans for activities coming under the farm sector such as levelling and bunding, crushing yard, fencing and building smoke houses. Loans and advances for the activities like business, small scale industries, new industrial ventures and purchase of vehicles come under NFLs, whereas RHLs are provided for setting up of new houses and renovating old ones. The ensuing is an account of the indebtedness in the three banks.

##### **4.1.1 Co-operative Bank of Mullankolly Panchayat (Co.BMP)**

A brief picture on the selected performance indicators of the Co.BMP during the period of six years (1998-99 to 2003-04) is presented in table 4.1

Table 4.1. Selected performance indicators of Co.BMP, 1998-99 to 2003-04

(Rs.in lakhs)

Year	Paid up share capital (Rs)	Loan amount disbursed (Rs)	Demand (Rs)	Overdue amount (Rs)	Overdue to demand (%)	Profit/loss (Rs)
98-99	68.68 (-)	102.30 (-)	200.28 (-)	118.67 (-)	59.10	+7.08 (-)
99-00	89.12 (29.76)	165.86 (62.13)	220.56 (10.13)	126.83 (6.88)	57.50	+10.01 (41.38)
00-01	106.87 (19.92)	219.38 (32.27)	289.43 (31.23)	132.68 (4.61)	45.84	+12.68 (26.67)
01-02	128.43 (20.17)	298.56 (36.09)	346.87 (19.85)	143.63 (8.25)	41.40	+14.36 (13.24)
02-03	140.68 (9.54)	453.48 (51.89)	438.36 (26.38)	176.80 (23.09)	40.33	-2.38 (-116.57)
03-04	180.93 (28.61)	483.48 (6.62)	513.63 (17.17)	267.99 (51.58)	52.17	-3.43 (44.12)
AAGR(%)	21.6	37.80	20.95	18.88	-	+1.77

Source: Annual reports and financial statements of Co.BMP

Note: Figures in parentheses indicate annual percentage growth rate

AAGR refers to Average Annual Growth Rate

It can be seen from the performance indicators like the paid up share capital, loan amount disbursed and demand for loans have shown an increasing trend. However, the overdues of the bank increased from Rs.118.67 lakhs in 1998-99 to Rs.267.99 lakhs over the years registering an Average Annual Growth Rate (AAGR) of 18.88 per cent. Incidence of indebtedness accumulated over the years might have led to the drastic decline in profit from Rs.14 lakhs in 2001-02 to a loss of Rs. 3.43 lakhs in 2003-04. An impact performance of a bank is its profit position. It can be seen from the above table that the bank registered increase in profit from 1998-99 to 2001-02. Nonetheless, it plunged into loss making situation during the last two years of the study.

#### **4.1.1.1 Purpose-wise demand and overdue**

Data pertaining to the purpose-wise classification of demand and overdue of Co.BMP together with the extent of overdue to demand for each category have been highlighted in table 4.2. Having examined the trends in overdues during the recent years, it is interesting to analyse the purpose wise demand and overdue of the banks.

Table 4.2 Purpose-wise demand and overdue of Co.BMP, 1998-99 to 2003-04

(Rs.in lakhs)

Year	Agricultural loans						Non-agricultural loans						Total		
	Ordinary loans			Scheme loans			Non-farm loans			Rural housing loans					
	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue
98-99	89.85 (-)	39.87 (-)	44.37	60.67 (-)	45.83 (-)	75.53	26.68 (-)	18.92 (-)	70.91	23.08 (-)	14.05 (-)	60.87	200.28 (-)	118.67 (-)	59.25
99-00	75.96 (-15.46)	31.96 (-19.84)	42.07	70.98 (-9.86)	54.69 (19.33)	77.04	40.69 (52.51)	15.62 (-17.44)	38.38	32.93 (42.68)	24.56 (74.80)	74.58	220.56 (100)	57.50 (100)	57.50
00-01	86.39 (13.73)	30.36 (-5.00)	35.41	101.68 (43.25)	70.38 (28.69)	69.21	66.85 (64.29)	20.68 (32.39)	30.93	34.51 (4.80)	13.26 (-46.00)	38.42	289.43 (100)	134.68 (100)	46.53
01-02	98.68 (14.23)	30.68 (1.05)	31.10	143.34 (40.97)	88.17 (25.27)	61.94	88.36 (32.18)	16.33 (-21.03)	18.48	16.49 (-52.21)	8.45 (-36.27)	51.24	346.87 (100)	143.63 (100)	41.40
02-03	104.86 (6.26)	37.43 (22.04)	35.69	187.46 (30.78)	102.13 (15.83)	54.48	101.69 (15.08)	15.66 (-4.10)	15.40	44.35 (168.95)	21.58 (155.38)	48.69	438.36 (100)	176.80 (100)	40.33
03-04	101.18 (-3.50)	70.76 (89.00)	69.93	219.43 (17.05)	168.84 (65.31)	76.94	100.62 (-1.05)	28.76 (83.65)	28.58	92.40 (108.34)	19.63 (-9.03)	21.24	513.63 (100)	267.99 (100)	52.17
AGR(%)	3.05	17.45		24.44	30.89		32.60	14.69		54.51	27.77		20.95	18.88	

Source: DCB statements of Co.BMP (1998-99 to 2003-04) Note: Figures in parentheses indicate annual percentage growth rate

AAGR refers to Average Annual Growth Rate

It is observed from table 4.2 that demand as well as overdue is the highest in the case of scheme loans belonging to the agricultural loans category. But the AAGR of demand in the case of RHLs of the non-agricultural loans category and AAGR of overdue in the case of scheme loans of agricultural loans category are the highest during the reference period. The reduction in interest rate on housing loans and tax concession on the principal and interest might be the reasons for the increase in the demand for housing loans. Moreover, most of the agricultural land in the area of operation of the Bank has been converted into housing colonies and business and industrial centres. . The percentage of overdue is the highest for scheme loans followed by ordinary loans.

#### 4.1.1.2 Age-wise overdue

Age-wise classification of overdue has greater significance in the analysis of the recovery performance of banks. The overdue has been classified as overdue below one year, 1 to 2 years, 2 to 3 years, 3 to 4 years and above four years. Table 4.3 depicts the changes in the age-wise overdue at the bank level.

Table 4.3 Age-wise classification of overdues of Co.BMP, 1998-99 to 2003-04

(Rs.in lakhs)

Year	Below 1 year	1-2 years	2-3 years	3-4 years	Above 4 years	Total amount of overdue
98-99	8.51 (7.17)	18.74 (15.79)	28.52 (24.03)	32.22 (27.15)	30.68 (25.85)	118.67 (100)
99-00	16.04 (12.65)	17.56 (13.85)	25.87 (20.40)	34.72 (27.38)	32.64 (25.73)	126.83 (100)
2000-01	13.10 (9.87)	20.68 (15.59)	22.87 (17.24)	38.79 (29.24)	37.24 (28.07)	132.68 (100)
01-02	15.01 (10.45)	22.73 (15.82)	25.87 (18.01)	39.67 (27.62)	40.35 (28.09)	143.63 (100)
02-03	18.54 (10.49)	29.44 (16.65)	34.74 (19.65)	44.70 (25.28)	49.38 (27.93)	176.80 (100)
03-04	38.91 (14.52)	39.49 (14.74)	44.58 (16.63)	68.67 (25.62)	76.34 (28.49)	267.99 (100)
AAGR(%)	43.62	17.01	10.97	17.61	21.16	18.89

Source: Annual reports and DCB statements of Co.BMP, 1998-99 to 2003-04

Note: Figures in the parentheses denote the percentage to total indebtedness

As seen in table 4.3, there has been an overall increase in the overdue in all age groups. The overdue below one year shows the highest AAGR of 43.62 per cent, followed by 21.16 per cent in above 4 years category. This indicates the lack of bank's effort in reducing the overdue position, by taking suitable recovery measures. High overdue with longer period increases the chances of bad debts, adversely affecting the working capital availability and cost of the funds.

#### 4.1.2 Canara Bank of Mullankolly Panchayat (Ca.BMP)

The performance indicators like paid up share capital, loan amount disbursed, demand, overdue and profit are given in table 4.4

Table 4.4. Selected performance indicators of Ca.BMP, 1998-99 to 2003-04 (Rs.in lakhs)

Year	Paid up share capital (Rs)	Loan amount disbursed (Rs)	Demand (Rs)	Overdue amount (Rs)	Overdue to demand (%)	Profit/loss (Rs)
98-99	145.36 (-)	320.93 (-)	440.89 (-)	75.69 (-)	17.17	+36.33 (-)
99-00	159.68 (9.85)	398.86 (24.28)	493.63 (11.96)	82.06 (8.42)	16.62	+40.68 (11.97)
00-01	200.32 (25.45)	440.69 (10.49)	520.38 (5.41)	100.42 (22.37)	19.29	+42.44 (4.33)
01-02	240.68 (20.15)	520.58 (18.13)	666.73 (28.12)	111.61 (11.14)	16.73	+36.44 (-14.13)
02-03	280.94 (16.73)	583.68 (12.12)	700.86 (5.12)	132.10 (18.36)	18.85	+38.58 (5.87)
03-04	323.72 (15.22)	700.68 (20.04)	867.67 (23.80)	157.00 (18.84)	18.09	+45.36 (17.55)
AAGR(%)	17.48	17.01	14.88	15.83		5.12

Source: Annual reports and financial statements of Ca.BMP

Note: Figures in parentheses indicate annual percentage growth rate

AAGR refers to Average Annual Growth Rate

It could be seen from the table that there is a gradual increase in the amount of overdue from the year 1998-99 to 2001-02. It has to be noted that the bank made profit during all the years under observation. It increased from 36.33 lakhs in 1998-99

to Rs.42.44 lakhs in 2000-01. There was a dip in profit during 2001-02, Nevertheless it increased again in the subsequent years. Eventhogh the overdue amount is increased, the profit also increased, the reason behind that is the bank's overdue amount is mainly because of non-agricultural loan and the bank imposed some legal machinery to get their loan amount. This shows the effectiveness of the Canara Bank.

#### **4.1.2.1 Purpose-wise demand and overdue**

The purpose-wise demand and overdue of the Ca.BMP from 1998-99 to 2003-04 is presented in table 4.5



Table 4.5 Purpose-wise demand and overdue of Ca.BMP, 1998-99 to 2003-04

(Rs.in lakhs)

Year	Agricultural loans						Non-agricultural loans						Total		
	Ordinary loans			Scheme loans			Non-farm loans			Rural housing loans					
	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue
1999	98.23 (-)	18.64 (-)	18.97	250.64 (-)	30.68 (-)	12.24	50.92 (-)	16.94 (-)	30.26	41.10 (-)	9.43 (-)	22.94	440.89 (-)	75.69 (-)	17.17
2000	109.18 (11.14)	20.18 (8.26)	18.48	292.89 (16.85)	35.36 (15.25)	12.07	53.34 (4.75)	14.36 (-15.23)	25.92	38.22 (-7.00)	12.16 (28.95)	28.81	493.63 (100)	82.06 (100)	16.62
2001	138.65 (27.00)	30.45 (50.89)	21.96	283.25 (-3.29)	38.67 (9.36)	13.65	58.38 (9.45)	17.82 (24.09)	30.52	40.10 (4.92)	13.48 (10.85)	33.60	520.38 (100)	100.42 (100)	19.29
2002	187.39 (35.15)	36.68 (20.46)	19.57	358.67 (26.63)	40.65 (5.12)	11.33	73.92 (26.62)	18.63 (4.55)	25.20	46.75 (16.58)	15.65 (16.10)	33.97	666.73 (100)	111.61 (100)	16.73
2003	192.68 (2.82)	42.98 (17.17)	22.30	370.36 (3.26)	46.18 (13.60)	12.46	67.64 (-8.50)	22.56 (21.10)	33.35	70.18 (50.12)	20.38 (30.22)	29.03	700.86 (100)	132.10 (100)	18.85
2004	240.37 (24.75)	49.13 (14.31)	20.43	480.68 (29.79)	57.53 (25.58)	11.96	85.82 (26.88)	27.98 (24.02)	28.60	60.47 (-13.84)	22.36 (9.71)	31.97	867.67 (100)	157.00 (100)	18.09
AAGR (%)	20.17	22.22		14.65	13.78		11.84	11.71		10.16	19.17		14.88	15.83	

Source: Annual reports and financial statements of Ca.BMP (1998-99 to 2003-04) Note: Figures in parentheses indicate annual percentage growth rate

AAGR refers to Average Annual Growth Rate

It can be seen from table 4.5 that the demand and indebtedness of all loans had been increasing over the years. Demand and indebtedness of scheme loans are the highest compared to other loans with Rs.480.68 lakhs and Rs.57.53 lakhs respectively during 2003-04. This shows the farmers interest in availing loans from scheme loans compared to ordinary loans. The percentage of overdue is the highest for rural housing loans followed by non-agricultural loans. But at the same time, the demand and overdue of these rural housing and non-farm loans are smaller than other loans. The AAGR of demand and overdue in the case of ordinary loan of agricultural loans category is the highest with 20.17 per cent and 20.22 per cent respectively.

#### 4.1.2.2 Age-wise overdue

The details regarding age-wise classification of overdue of Ca.BMP is furnished in table 4.6

Table 4.6 Age-wise classification of overdue of Ca.BMP, 1998-99 to 2003-04

(Rs.in lakhs)

Year	Below 1 year	1-2 years	2-3 years	3-4 years	Above 4 years	Total amount of indebtedness
98-99	10.94 (14.45)	20.86 (27.56)	18.97 (25.06)	13.24 (17.49)	11.68 (2.21)	75.69 (100)
99-00	14.20 (17.30)	22.12 (26.96)	20.87 (25.43)	11.64 (14.18)	13.23 (16.12)	82.06 (100)
2000-01	23.52 (23.42)	35.87 (35.72)	18.67 (18.59)	11.38 (13.32)	10.98 (10.93)	100.42 (100)
01-02	27.43 (24.58)	40.43 (36.22)	20.62 (18.48)	13.45 (12.05)	9.67 (8.66)	111.61 (100)
02-03	27.37 (20.71)	55.12 (41.73)	23.32 (17.65)	15.41 (11.67)	10.88 (8.24)	132.10 (100)
03-04	28.07 (17.88)	76.76 (48.90)	22.76 (14.50)	16.78 (10.69)	12.63 (8.04)	157.00 (100)
AAGR(%)	22.88	31.30	4.12	5.47	2.55	15.83

Source: Annual reports and statements of Ca.BMP, 1998-99 to 2003-04

Note: Figures in the parentheses denote the percentage to total overdue

It can be observed from table 4.6 that the indebtedness in the age group of 1-2 years formed the major portion of the total overdue (31.30%) and it has been

increasing consistently during the reference period. This implies that the recent borrowers of the bank were responsible for this situation. Hence, if urgent steps like frequent visits and follow up actions are undertaken by the bank, the borrowers can be motivated for prompt repayment thereby reducing the level of overdue. Further, it is observed that the overdue in the age group of above 4 years formed small portion of the total overdue during the reference period.

#### 4.1.3 North Malabar Gramin Bank of Mullankolly Panchayat (NMGBMP)

The selected indicators of NMGBMP for a period of six years from 1998-99 to 2003-04 has been highlighted in table 4.7

Table 4.7. Selected performance indicators of NMGBMP, 1998-99 to 2003-04 (Rs.in lakhs)

Year	Paid up share capital (Rs)	Loan amount disbursed (Rs)	Demand (Rs)	Overdue amount (Rs)	Overdue to demand (%)	Profit/loss (Rs)
98-99	7412.00 (-)	300.42 (-)	296.45 (-)	144.73 (-)	48.82	+9.43 (-)
99-00	7616.00 (2.75)	360.64 (20.04)	310.16 (4.62)	148.12 (2.34)	47.75	+10.21 (8.27)
00-01	7819.00 (2.66)	375.34 (4.07)	349.63 (12.72)	168.36 (13.67)	48.15	+8.64 (-15.37)
01-02	8213.00 (5.04)	400.63 (6.74)	346.38 (-0.92)	172.45 (2.43)	49.78	+7.54 (-12.73)
02-03	8517.00 (3.70)	426.58 (6.48)	363.74 (5.01)	178.36 (3.43)	49.03	-2.24 (-129.70)
03-04	8998.00 (5.65)	483.67 (13.38)	400.68 (10.16)	186.42 (4.52)	46.52	-3.68 (64.28)
AAGR(%)	3.97	10.41	6.32	5.28		-17.05

Source: Annual reports and financial statements of NMGBMP

Note: Figures in parenthesis indicate annual percentage growth rate

AAGR refers to Average Annual Growth Rate

According to table 4.7, the paid up share capital, loan amount disbursed, demand and overdue amount have been increasing from the year 1998-99 to 2003-04. The amount of overdue increased from Rs.144.73 lakhs in 1998-99 to Rs.186.42 lakhs in 2003-04 with an AAGR of 5.28. The profit of the bank increased from Rs.9.43 lakhs in 1998-99 to Rs.10.21 in 1999-00. Further, the profit continuously

decreased upto 2002-03. By 2003-04 the loss incurred by the bank was Rs.3.68 lakhs which shows the bank's inefficiency in management of funds.

#### **4.1.3.1 Purpose-wise demand and overdue**

The demand, overdue and percentage of overdue of various categories of loans provided by NMGBMP has been provided in table 4.8

Table 4.8 Purpose-wise demand and overdue of NMGBMP, 1998-99 to 2003-04

(Rs.in lakhs)

Year	Agricultural loans						Non-agricultural loans						Total		
	Ordinary loans			Scheme loans			Non-farm loans			Rural housing loans					
	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue	Demand (Rs)	Overdue (Rs)	% of overdue
98-99	120.68 (-)	64.67 (-)	53.58	80.34 (-)	38.36 (-)	47.74	56.46 (-)	22.64 (-)	40.09	38.97 (-)	19.06 (-)	48.90	296.45 (-)	144.73 (-)	48.82
99-00	134.38 (11.35)	63.63 (-1.61)	47.35	88.64 (10.33)	43.67 (13.84)	49.26	46.34 (-17.92)	19.36 (-14.49)	41.77	40.80 (4.70)	21.46 (12.59)	52.59	310.06 (100)	148.12 (100)	47.75
00-01	122.58 (-8.78)	65.67 (3.21)	53.57	101.63 (14.65)	56.16 (28.60)	55.25	83.68 (80.57)	22.63 (16.89)	27.04	41.74 (2.30)	23.90 (11.37)	57.25	349.63 (100)	168.36 (100)	48.15
01-02	90.63 (-26.06)	60.68 (-7.60)	66.95	126.24 (24.21)	61.63 (9.74)	48.81	86.43 (3.29)	28.36 (25.32)	32.81	43.08 (3.21)	21.78 (-8.87)	50.35	346.38 (100)	172.45 (100)	49.78
02-03	98.67 (8.87)	63.68 (4.94)	64.53	140.38 (11.20)	60.34 (-2.09)	42.98	80.63 (-6.71)	35.64 (25.67)	44.20	44.06 (2.27)	18.70 (-14.14)	42.44	363.44 (100)	178.36 (100)	49.03
03-04	102.58 (3.96)	60.02 (-5.75)	55.79	158.62 (12.99)	63.68 (5.54)	41.45	98.24 (21.84)	33.76 (-5.27)	34.36	41.24 (-6.40)	28.96 (54.86)	70.22	400.68 (100)	186.42 (100)	46.52
AAGR(%)	-2.13	-1.37		14.68	11.12		16.21	9.62		1.21	11.16		6.32	5.28	

Source: DCB statements of NMGBMP (1998-99 to 2003-04)

Note: Figures in parentheses indicate annual growth rate

AAGR refers to Average Annual Growth Rate



As seen in table 4.8, demand and overdue of scheme loans are higher than other loans followed by ordinary loans. Demand and overdue of rural housing loan are lower compared to all others. The percentage of overdue is higher in ordinary loan category compared to others followed by scheme loans. The AAGR of demand is highest in non-farm loans with 16.21 per cent and the AAGR of overdue is highest in scheme loan with 11.12 per cent. Agricultural loans were responsible for major part of overdue during the study period. This shows the inability of bank officials to recover their agricultural loan. Therefore, bank needs to further strengthen its efforts to reach a lower level of overdue in the years to come in agriculture loan sector.

#### 4.1.3.2 Age-wise overdue

Table 4.9 highlights the age-wise classification of overdue of NMGBMP

Table 4.9 Age-wise classification of overdue of NMGBMP, 1998-99 to 2003-04

(Rs.in lakhs)

Year	Below 1 year	1-2 years	2-3 years	3-4 years	Above 4 years	Total amount of overdue
98-99	8.51 (5.88)	28.60 (19.76)	30.61 (21.15)	32.33 (22.33)	44.68 (30.87)	144.73 (100)
99-00	5.19 (3.50)	30.23 (20.41)	32.12 (21.69)	33.71 (22.76)	46.87 (31.64)	148.12 (100)
2000-01	5.39 (3.20)	34.41 (20.44)	36.72 (21.81)	40.21 (23.88)	51.63 (30.67)	168.36 (100)
01-02	7.13 (4.13)	33.12 (19.21)	37.21 (21.58)	42.32 (24.54)	52.67 (30.54)	172.45 (100)
02-03	6.87 (3.85)	34.64 (19.42)	38.21 (21.42)	43.98 (24.66)	54.66 (30.65)	178.36 (100)
03-04	6.35 (3.41)	35.83 (19.22)	41.57 (22.30)	44.12 (23.66)	58.55 (31.41)	186.42 (100)
AAGR(%)	-2.82	4.76	6.41	6.61	6.00	5.28

Source: Annual reports and DCB statements of NMGBMP, 1998-99 to 2003-04

Note: Figures in the parentheses denote the percentage to total overdue

It can be observed from table 4.9 that overdue above 4 years, 3-4 years and 2-3 years contribute the lion's share of the total overdue of the bank. Bank should try to control this at this stage, otherwise it would affect the credit recycling process and

may lead to resource crunch ultimately. The age group of overdue below one year has been showing a declining trend in 1999-00, 2002-03 and 2003-04, which is reflected in its lower AAGR (-2.82%). This may be due to the efforts taken by the bank to reduce overdue of lower age groups.

From the above analysis, with regard to profit, Canara Bank showed highest profitability. Co-operative Bank and North Malabar Gramin Bank have incurred loss, during the last two years of study period (2002-03 and 2003-04). In the case of loan amount disbursed, Canara Bank topped followed by North Malabar Gramin Bank and Co-operative Bank. Co-operative Bank accounted for highest overdue amount followed by North Malabar Gramin Bank and Canara Bank. In the case of percentage of overdue, with regard to Co-operative Bank, agricultural loan accounted for highest percentage of overdues especially scheme loans. With regard to Canara Bank, non-agricultural loan accounted for highest percentage of overdue, whereas in the case of North Malabar Gramin Bank, agricultural loan category accounted for highest percentage of overdue. In the case of age-wise overdue, Co-operative Bank and North Malabar Gramin Bank have highest amount of overdue in the age group of overdue above 4 years, whereas Canara Bank have highest amount of overdue in the age group of overdue of 1 to 2 years. The differential programme of the above three banks in reducing the overdue over the years taken up for analysis is an interesting topic of enquiry, which will be taken up elsewhere in the present study.

#### **4.2. REASONS FOR THE INDEBTEDNESS OF THE FARMERS**

Various reasons have lead to gradual deterioration in the quality of advances which result in the growth of indebtedness of the farmers. Though these factors are heterogeneous in nature, it is necessary to analyze them at the grass root or borrower level. Hence, a field study has been conducted covering Mullankolly Panchayat of Wayanad district. The details of farmers were collected from three banks viz., Canara bank, Co-operative Bank and North Malabar Gramin Bank of Mullankolli Panchayat. To examine the reasons for indebtedness of the farmers, totally 90 farmers were interviewed. Out of 90 farmers, 60 are Debt farmers, and 30 are Non-debt farmers. In order to get a better idea about the working environment in the selected banks, the

borrower's problem in obtaining loans and their satisfaction with respect to the functions of the banks have been analyzed using simple averages and percentages. The influence of the socio economic characteristics on the indebtedness of the respondents is analyzed by means of chi-square test. The factors leading to indebtedness 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 to examine the reasons for increasing indebtedness. The possible demographic factors affecting the repayment behavior of individuals are sex, age, occupational status, educational level, family income, land area, monthly income, and nature of family. The type of dwelling is also a reflection of the socio-economic status of the borrowers and hence is included in the analysis. The details of birds eye view of these factors collected from the borrowers have been presented in Table in 4.10

Table 4.10 Socio-economic profile of sample borrowers of the selected banks.

Parameter	Non - defaulters	Defaulters		
		Low defaulters (below Rs.10000)	Medium defaulters(Rs.10000 to 15000)	High defaulters(above Rs.15000)
<b>SEX</b>				
Male	23(76.7%)	12(85.7%)	17(81.0%)	20(80.0%)
Female	7(23.3%)	2(14.3%)	4(19.0%)	5(20.0%)
Total	30(100%)	14(100%)	21(100%)	25(100%)
<b>AGE</b>				
30 to 40	6(20.0%)	5(35.7%)	10(47.6%)	9(36.0%)
40 to 50	24(80.0%)	9(64.3%)	11(52.4%)	16(64.0%)
Total	30(100%)	14(100%)	21(100%)	25(100%)



<b>OCCUPATIONAL STATUS</b>				
Agriculture and allied activities	18(60.0%)	6(42.9%)	15(71.4%)	14(56.0%)
Services and business	12(40.0%)	8(57.1%)	6(28.6%)	11(44.0%)
Total	30(100%)	14(100%)	21(100%)	25(100%)
<b>EDUCATIONAL LEVEL</b>				
Illiterate	1(3.3%)	1(7.1%)	1(4.8%)	1(4.0%)
Primary	6(20.0%)	2(14.3%)	3 (14.3%)	6(24.0%)
Secondary	12(40.0%)	5(35.7%)	11(52.4%)	10(40.0%)
Secondary and above	11(36.6)	6(42.9%)	6(28.6%)	8(32.0%)
Total	30(100%)	14(100%)	21(100%)	25(100%)
<b>MONTHLY INCOME</b>				
Below Rs.5000	0(0.0%)	7(50.0%)	12(57.1%)	17(68.0%)
Rs.5000 to 10000	13(43.3%)	4(28.6%)	5(23.8%)	4(16.0%)
More than Rs.10000	17(56.7%)	3(21.4%)	4(19.0%)	4(16.0%)
Total	30(100%)	14(100%)	21(100%)	25(100%)
<b>RELIGION</b>				
Hindu	10(33.3%)	7(50.0%)	7(33.3%)	7(28.0%)
Christian	14(46.7%)	5(35.7%)	13(61.9%)	15(60.0%)
Muslim	6(20%)	2(14.3%)	1(4.8%)	3(12.0%)
Total	30(100%)	14(100%)	21(100%)	25(100%)
<b>LAND AREA</b>				
below 4.8acres(small farmers)	0(0%)	5(35.7%)	10(47.6%)	15(60%)

4.8 to 10 acres(medium farmers	13(43.3%)	6(42.9%)	6(28.6%)	5(20%)
more than 10 acres(large farmers	17(56.7%)	3(21.4%)	5(23.8%)	5(20%)
Total	30(100%)	14(100%)	21(100%)	25(100%)
<b>TYPES OF HOUSES</b>				
Tiled house	9(20%)	6(42.8%)	12(57.3%)	12(48%)
Concrete house	21(80%)	6(42.8%)	4(19%)	6(24%)
Thatched house	0(0%)	2(14.4%)	5(23.7%)	7(28%)
Total	30(100%)	14(100%)	21(100%)	25(100%)
<b>VEHICLES</b>				
Two wheeler	13(43.3%)	6(42.8%)	6(28.5%)	4(16%)
Four wheeler	6(20%)	1(7.1%)	1(4.7%)	0(0%)
No vehicle	11(36.6%)	7(50%)	14(66.6%)	26(84%)
Total	30(100%)	14(100%)	21(100%)	25(100%)
<b>NATURE OF FAMILY</b>				
Joint family	6(20%)	6(42.9%)	12(57.1%)	16(60%)
Nuclear family	24(80%)	8(57.1%)	9(42.9%)	9(40%)
Total	30(100%)	14(100%)	21(100%)	25(100%)

Source: Primary data

Note: Figures in the parentheses indicate percentage to total.

It is seen from table 4.10 that majority of the sample borrowers were male members i.e. 76.7 percent in the case of non- defaulters, 85.7 percent in the case of low defaulters, 81 percent in the case of medium defaulters and 80 percent in the case of high defaulters. It could be because of the fact that, in many of the households male

members are the only earning members and the property to be pledged in order to avail the loan is in the name of the family head or the earning member.

The age wise classifications of the sample borrowers are 30 - 40 and 40 - 50. It is evident from Table 4.10 that most of the respondents are in the age group of 40 - 50 i.e. 80 percent in the case of non defaulters, 64.3 percent in the case of low defaulters, 52.4 percent in the case of medium defaulters and 64 percent in the case of high defaulters. This might be due to the reason that the aged people are having experience in farming compared to younger people and they don't know any other work other than agriculture.

The occupation of the sample borrowers included in the study has been divided into agriculture and allied activities and services and business. It is evident from table 4.10 that most of the respondents are engaged in agriculture and allied activities and are deriving major source of income from agriculture as against the general picture of agriculture being delegated as secondary source of income in Kerala. A contributory factor could be the ownership of land and then lack of knowledge/skill in other occupation. In non-defaulters case the agriculture and allied activities contribute 60 per cent. Among the non-defaulters, 60 percent derives their major share of income from agriculture. Their shares are 42.9, 71.4, and 56 percent respectively for low, medium and high defaulters. This could be attributed to the fact that the borrowers belong to services sector like teaching and business sector.

It could be seen from the table that, all the respondents except one had formal education. In low defaulters category 35.7 percent have secondary education, while 42.9 percent have above secondary education. But in the case of medium defaulters, 52.4 percent have secondary education and only 28.6 percent have above secondary education. Like wise in high defaulters' case also 40 per cent of respondents belong to secondary education category and only 32 per cent from secondary and above category. Here also those who are having secondary and above education opt for other jobs like services and business sector.

The monthly family income of the sample borrowers has been categorized as (1) Below Rs. 5000 (2) Rs. 5000 to 10000 (3) more than Rs. 10000. In non defaulters case majority of the borrowers belong to income group of more than Rs.10000

category (56.7%). In low, medium and high defaulters case majority of the farmers belong to Income below Rs.5000 category i.e. 50 percent, 57.1 percent and 60 percent for low, medium and high defaulters respectively. This might be due to the reason that majority of the farmers defaulters belong to farming community. Their major source of income is agriculture and agriculture has become a loss making proposition in the area year by year because of the price fluctuations in the market for their produce in short run period.

Land area of the farmers has more important bearing on the level of indebtedness of farmers. On the basis of land holdings, farmers have been classified into small farmers (below 4.8acre), medium farmers (4.8 to 10 acres) and large farmers (more than 10 acres). It is generally hypothesized that education level and the extent of overdues are inversely related. Therefore this study also proves the association between the level of education and level of indebtedness.

Yet another important factor which is expected to have influence on level of indebtedness of farmers is level of income. A significant variable which in turn determining the level of income of the farmers is the size of holdings and cropping pattern ( Sukhpal et al (2008) have stated that, economic factors like decreasing productivity, falling profits and level of income have pushed farmers into the debt trap in Punjab)

A strong inverse association between size of holdings and level of overdues could be gauged from the above table. In non defaulter's case, there are no small farmers. More than 50 per cent of the non defaulters belong to large farmers' category. Remaining 43.3 per cent of farmers belong to medium farmers' category. This might be due to the reason that, because of large land holdings the farmers can earn more money. In low defaulters case, medium farmers have significant contribution (42.9%). But in medium and high defaulters' case majority of the farmers belong to small farmers' category, as small land holdings are not able to produce more and earn more money.

From the table (4.10), it is clear that the respondents belong to nuclear family further which accounted for 80 percent in non defaulters' category respondents and remaining 20 percent from joint family system. In low defaulters case also, the respondents belong to nuclear family occupying higher percentage (57.1%), than joint family (42.9%). However, it is to be noted that the medium and high defaulters belong to joint families than nuclear families. Thus it seems that the number of family members is positively related to indebtedness, this is due to expenditure for the joint family is higher than the nuclear family

The type of dwellings is a reflection of economic and social status of a person. Types of farmers' houses do not seem to have much influence on indebtedness. In the case of types of houses, mostly the non defaulters and low defaulters are having tiled and concrete houses. With regard to vehicles and other possessions, all are having two wheelers except a few. Some of the non defaulters and low defaulters have four wheelers. High defaulters are not having any vehicle due to insufficient income.

There seems to be an association between the extent of indebtedness and size of the family. This might be due to the reason that the expenses for family purposes are higher in the case of joint family compared to nuclear family. Therefore, the farmers are using the loan amount for their family purposes. The table also gives religious classification of respondents. Religion of the sample borrowers is classified into Hindu, Christian and Muslim. Majority of the non-defaulters belong to Christian religion (46.7%). Medium and high defaulters are also Christian's i.e. 61.9 percent and 60 percent respectively.

#### **4.2.2 Classification of indebtedness of the respondents of selected banks**

On the basis of overdue, farmers selected for the study have been classified into four categories viz., Non defaulters (No indebtedness), Low defaulters (indebtedness below Rs.10000), Medium defaulters (indebtedness amount between Rs.10000 to 15000) and high defaulters (indebtedness amount more than Rs.15000) and is depicted in Table 4.11. This classification has been done to analyze the extent of default made by the borrowers of the three banks.

Table 4.11 Overdue classification of the respondents of selected banks

Overdue position	Canara Bank (Mullankolli panchayat)	Co-operative Bank(Mullankolli panchayat)	North Malabar Gramin Bank(Mullankolli panchayat)	Total no of farmers
Non defaulters	10(33.3%)	10(33.3%)	10(33.3%)	30(100%)
<b>Defaulters</b>				
Low defaulters(below Rs.10000)	6(42.9%)	5(35.7%)	3(21.4%)	14(100%)
Medium defaulters(Rs.10000 to 15000)	6(28.6%)	7(33.3%)	8(38.1%)	21(100%)
High defaulters(above Rs.15000)	8(32%)	8(32%)	9(36%)	25(100%)
Total no of farmers	30(34.2%)	30(33.6%)	30(32.2%)	90(100%)

Source: Primary data

Note: Figures in the parentheses indicate percentage to total.

Table 4.11 reveals the prominence of defaulters. It could be seen from the table that the share of high defaulters are relatively higher. With regard to low defaulters, Canara Bank is having highest percentage (42.9%) followed by Co-operative Bank (35.7%). In the case of medium defaulters' category, North Malabar Gramin Bank is having 38.1 percent and Co-operative Bank and Canara Bank is having 33.3 per cent and 28.6 per cent of overdue respectively.. With regard to high defaulters' category

North Malabar Gramin Bank is having 36 percent of overdue. Co-operative Bank and Canara Bank is having 32 per cent each. In over all performance all banks are having contribution to farmer's indebtedness. This might be due to the reason that farmers are having interest to take loan from all the banks.

#### 4.2.3 Classification of indebtedness of defaulters from other sources

In addition to loans from banks, farmers availed loans from other sources like money lenders, agencies and friends. The overdue position of farmers from other sources is exhibited in table 4.12

Table 4.12 Overdue position of respondents from other sources

Overdue position	Money Lenders	Agencies	Friends	Total no of farmers
Non defaulters	1(3.3%)	0(0%)	0(0%)	1(3.3%)
<b>Defaulters</b>				
Low defaulters	0(0%)	0(0%)	14(100%)	14(100%)
Medium defaulters	12(57.1%)	4(19%)	5(23.8%)	21(100%)
High defaulters	17(68%)	7(28%)	1(4%)	25(100%)

Source: Primary data

Note: Figures in the parentheses indicate percentage to total.

\* The figure represents percentage of total no. of non-defaulters (30)

As seen from the above table in non defaulters' case, only one non defaulter had taken loan from other sources .i.e. money lender. This point to the fact that all other non defaulters got sufficient amount of loan from banks. In low defaulters' case, they depend on their friends for loan than banks. But with regard to medium and high defaulters' case, money lenders are their important source for other loan. Money lender's contribution is 57.1 percent and 68 percent for medium and high defaulters

respectively. It could be because of the fact that, the money lenders are charging higher interest (around 15%) for their loan compared to seven percent by banks.

#### 4.2.4. Level of loan utilisation of the respondents and overdue position.

Level of loan utilisation of the farmers is analyzed to know the efficiency of the farmers in utilizing the loan amount. The table 4.13 exhibits the relationship between the repayment position and level of indebtedness.

Table 4.13 Level of loan utilisation of the respondents and overdue position

Overdue position	Loan amount utilisation (100%)	Loan amount utilisation (50%)	Loan amount utilisation (25%)	Total no of farmers
Non defaulters	30(100%)	0(0%)	0(0%)	30(100%)
Defaulters				
Low defaulters	9(64.2%)	3(21.4%)	2(14.2%)	14(100%)
Medium defaulters	7(33.3%)	6(42.8%)	8(38.1%)	21(100%)
High defaulters	2(8%)	9(36%)	14(56%)	25(100%)
Total no of farmers	48(48%)	18(18%)	24(24%)	90(100%)

Source: Primary data collected

Note: Figures in the parentheses indicate percentage to total

According to table 4.13 only the non defaulters had made complete utilization of loan received. In the case of defaulters low, medium and high defaulters utilised the loan amount 64.2 percent, 33.3 percent and 8 percent of loan respectively. Among the defaulters percent utilisation, the loan utilisation was 21.4 percent by low, 42.8 percent by medium and 36 percent by high defaulters. With regard to 25 percent utilisation category, it was highest (56%) in the case of high defaulters. It can be observed that the higher the loan amount utilisation, the lower the indebtedness.

#### 4.2.5. Purpose wise utilisation of loan amount.

Comparison of overdue position with the utilisation of the agricultural loan amount is presented in Table 4.14 This analysis reveals whether there is diversification



of agricultural loan amount. The uses of money for other purposes are classified into (1) Consumption purpose, (2) Ceremonial purpose (3) Non-agricultural purpose and (4) Educational purpose

#### 4.14 Purpose wise utilisation of loan amount by the respondents.

Defaulted position	consumption purpose		ceremonial purpose		non-agri purpose		education purpose	
	yes	No	yes	no	yes	no	yes	No
Non defaulters	0(0%)	30(100%)	0(0%)	30(100%)	0(0%)	30(100%)	0(0%)	30(100%)
Low defaulters	0(0%)	14(100%)	0(0%)	14(100%)	0(0%)	14(100%)	10(71.4%)	4(8%)
Medium defaulters	2(9.5%)	19(90.5%)	0(0%)	21(100%)	0(0%)	21(100%)	13(61.9%)	8(38.1%)
High defaulters	4(16%)	21(84%)	0(0%)	25(100%)	0(0%)	25(100%)	15(60%)	10(40%)

Source: Primary data

Note: Figures in the parentheses indicate percentage to total

From the above table, it could be deduced that all the non – defaulters utilised the loan amount for agricultural purposes only. However, the defaulters diverted the loans primarily to meet the educational expenses to the tune of 71.4 percent, 61.9 percent and 60 percent respectively for low, medium and high defaulters. The medium and high defaulters used a small portion of loan for consumption purpose also. Absence of any other source of income coupled with poor agricultural performance prompted them to divert the loan amount to meet educational expenses.

#### 4.2.6 Increase in land holdings increase and level of indebtedness

The effectiveness of the loans in increasing the possessions of land holdings is analysed in this present section. Table 4.15 shows the relationship between the land holdings increase and level of indebtedness.

#### 4.15 Overdue amount and land holdings increase of the respondents

Category	Increase of area in acres								Total farmers
	0.5	1	1.5	2	2.5	3	3.5	4	
Low defaulters	2(6.7%)	0(0.0%)	10(33.3%)	0(0.0%)	13(43.3%)	2(6.7%)	3(10.0%)	0(0.0%)	30(100%)
Medium defaulters	1(7.1%)	1(7.1%)	6(42.9%)	1(7.1%)	4(28.6%)	0(0.0%)	1(7.1%)	0(0.0%)	14(100%)
High defaulters	6(28.6%)	3(14.3%)	5(23.8%)	1(4.8%)	1(4.8%)	1(4.8%)	3(14.3%)	1(4.8%)	21(100%)
Total	7(28.6%)	5(20.0%)	6(24.0%)	2(8.0%)	2(8.0%)	1(4.0%)	2(8.0%)	0(0.0%)	25(100%)
of total	16(17.8%)	9(10%)	27(30%)	4(4.4%)	20(22.2%)	4(4.4%)	9(10%)	1(4.8%)	90(100%)

Source: Primary data collected

Note: Figures in the parentheses indicate percentage to total

Table 4.15 reveals that, 13 out of 30 non-defaulters could increase the land holdings by 2.5 acres after using the loan amount. 10 non-defaulters land increased by 1.5 acres, 3 non-defaulters land area increased by 3.5 acres, 2 non-defaulters land area increased by 0.5 acres and 3 acres after using the loan amount. In low defaulters case their land holdings have also increased but not that much like non defaulters. In medium defaulters case 6 out of 14 medium defaulters are having increase of 0.5 acre and in high defaulter's case there is an increase of 0.5 acre (16 out of 25 high defaulters). Remaining is comparatively less. This might be due to the reason that medium and high defaulters are not getting that much income like low and non defaulters due to the small land holdings.

#### 4.2.7 Level of Indebtedness and Schedule of repayment of loan amount

Schedule of repayment of loan is analyzed to know the capacity of farmers to repay the money and how frequently the farmers repay the amount. Table 4.16 depicts

the relationship between the schedule of repayment of loan and level of indebtedness. The schedule of repayment of loan has been classified into four parts, i.e. (1) Monthly repayment, (2) Quarterly repayment (3) Half yearly repayment and (4) Yearly repayment.

#### 4.16 Schedule of repayment of loan by sample respondents.

Classification of respondents	Monthly repayment	Quarterly repayment	Half yearly repayment	Annual repayment	Total no of farmers
Non defaulters	27(90%)	3(10%)	0(0%)	0(0%)	30(100%)
<b>Defaulters</b>					
Low defaulters	7(50%)	5(35.2%)	2(14.2%)	0(0%)	14(100%)
Medium defaulters	9(42.8%)	5(23.6%)	7(33.3%)	0(0%)	21(100%)
High defaulters	8(32%)	11(44%)	6(24%)	0(0%)	25(100%)

Source: Primary data

Note: Figures in the parentheses indicate percentage to total

From the above table, it can be observed that those who are following monthly repayment don't have that much overdue. In non defaulter's case, 90% of non defaulters used to repay the amount monthly as they have money to repay the loan amount in each and every month. In low, medium and high defaulters case monthly repayment account for 50 percent, 42.8 percent and 32 percent respectively. In high defaulters case, the quarterly repayment is highest (44%) compared to others. In medium defaulters case, half yearly repayment is highest (33.3%) compared to others. The medium and high defaulters are not repaying the loan amount in proper interval as they are not having adequate income in every month. Due to their poor financial position and other family expenses they are not able to repay the loan amount properly.

#### 4.2.8 Level of indebtedness and sources for repayment of loan amount

Sources for repayment of loan are analyzed to know how the farmers are collecting the amount to repay the loan amount. Table 4.17 shows the relationship between the mode of repayment of loan and level of indebtedness.

#### 4.17 Sources for repayment of loan amount by the sample respondents.

Classification of respondents	Repayment of loan out of agricultural income		Any incentives provided by bank		Total no. of farmers
	yes	No	yes	no	
Non defaulters	14(35%)	16(65%)	0(0%)	30(100%)	30(100%)
<b>Defaulters</b>					
Low defaulters	11(78.5%)	3(21.5%)	0(0%)	14(100%)	14(100%)
Medium defaulters	16(76.2%)	5(23.8%)	0(0%)	21(100%)	21(100%)
High defaulters	20(80%)	5(20%)	0(0%)	25(100%)	25(100%)

Source: Primary data

Note: Figures in the parenthesis indicate percentage to total

From table 4.17, the low (78.5%) medium (76.2%) and high defaulters (80%) are repaying the loan amount out of their agricultural income, which reveals their inability to repay the full loan amount from agriculture due to low income from agriculture. Further, it can be seen that the banks are not providing any incentives to the farmers, which might be a reflection of less importance given to agricultural loan by banks.

#### 4.2.9 Influence of Socio-economic characters on Indebtedness – Chi square test

The association between socio-economic characteristics and level of indebtedness is analysed by using chi-square test. The results are presented in table 4.18

Table 4.18 Influence of Socio-economic characters on Indebtedness - chi square test.

Variable	Pearson Chi-square value	Level of Significance
Loan from money lenders	30.027	0.000
Loan from agency	12.839	0.005
Loan from friends	62.44	0.000
Age	4.444	0.217
Sex	0.505	0.918
Religion	6.369	0.703
Education	4.642	0.976
Primary Occupation	2.952	0.399
Secondary Occupation	3.060	0.382
Interest rate	137.00	0.563
Nature of family	12.518	0.006
Family Income	32.122	0.000
Land area	26.800	0.000

Source: Primary data

As per table 4.18, it could be seen that the variables like loan from money lenders, loan from agencies, loan from friends, nature of family, family income and land area are showing significant relations with indebtedness. The loans from money lenders, friends and agencies claiming high interest compared to banks, which imposes heavy repayment burden on borrowers and increase the probability of defaults. Like wise nature of family, family income and land area are also showing significant relations with indebtedness. Larger the families, larger the expenditure out of income and chances of default are also higher. Family income and land area are negatively

associated with indebtedness. However, it could be noted that age, sex, education, religion and occupation are not having significant relation with indebtedness. From the above it could be concluded that the socio-economic characters like loan from other sources (money lenders, friends and agencies) nature of family, family income and land are the characters which influenced indebtedness. (Reference: Athreya et al., (1990) has stated that though distribution of institutional credit for agricultural purpose has increased, still farmers rely on non-institutional sources i.e., money lenders and others. These money lenders, family income and land holdings of the farmers are also considered to be one of the main reasons for the indebtedness)

#### **4.2.10 Defaulter level reasons for indebtedness**

The reasons for growing volume of indebtedness may be attributed to internal as well as external factors. As revealed by the review of literature, the indebtedness arising from unsound lending policies and poor appraisal procedures, lack of adequate supervision, misappropriation of loans, apathy of management, political and governmental interference and absence of modern management skills were some of the internal reasons. On the other hand, the external reasons may include the aspects such as agricultural price fluctuation in the market, crop failure due to drought, pest and diseases, non – institution loan, absence of marketing facilities for agricultural products, natural calamities, inadequacy of income etc. This highlights the need to trace the actual reasons for non repayment of loans as advanced from the point of view of the borrowers. The responses of sample respondents on the reasons for non – repayment has been ranked on the basis of priority index and is presented in Table 4.19.



Table 4.19.Reasons for default – Response of sample respondents of selected banks

SL.No	Reasons	Canara Bank		Co-operative Bank		North Malabar Gramin bank		Total of 3 Banks	
		Score	Priority Index	Score	Priority Index	Score	Priority Index	Score	Priority Index
1	Fall in price of agricultural commodities	270	100.00 (I)	270	100.00 (I)	270	100.00 (I)	810	100.00 (I)
2	Crop failure due to drought	177	65.56 (III)	170	62.96 (III)	164	60.74 (VI)	511	64.08 (IV)
3	Crop failure due to pest and diseases	179	67.00 (II)	235	87.03 (II)	245	90.74 (II)	659	81.59 (II)
4	Natural calamities	174	64.44 (IV)	168	62.22 (IV)	187	69.30 (IV)	529	65.32 (III)
5	Loan diversification	81	30.00 (IX)	90	33.33 (IX)	123	45.56 (IX)	294	36.30 (IX)
6	Non – Institution loan (Money lenders, agencies and friends)	90	33.33 (VII)	104	38.52 (VIII)	137	50.10 (VIII)	331	40.65 (VIII)
7	Defective loan policies	90	33.33 (VII)	107	39.62 (VII)	175	64.81 (V)	372	45.92 (VI)
8	Government's interference and absence of modern management skills	138	51.11 (V)	155	57.41 (V)	206	76.30 (III)	499	61.61 (V)
9	Absence of marketing facilities	104	38.52 (VI)	108	40.00 (VI)	140	51.85 (VII)	352	43.46 (VII)
10	Maximum obtainable score	30*9 =270	100.00	30*9 =270	100.00	30*9 =270	100.00	810	100.00

Source: Primary data.

Note: Figures in parentheses indicate rank obtained for each reason

A uniform pattern is noticed regarding the responses of the respondents of Canara Bank, Co-operative Bank and North Malabar Gramin Bank who felt that the fall in prices of agricultural commodities is the main reason for default. Crop failure due to pests, diseases and drought, loan diversification, natural calamities, government's interference and absence of modern management skills, crop failure due to defective loan policies, absence of marketing facilities for agricultural produce and defective loan policies have also been pointed out as reasons behind non – repayment.

Having seen the major reasons for non – repayment of loan at the defaulter level, a detailed examination of these reasons has been attempted in the following sections.

#### 4.2.10.1 Fall in prices of agricultural commodities

As discussed earlier, fall in prices of agricultural commodities was found to be the major reason for non – repayment of loans by the borrowers. Wayanad is popularly known as “Kuwait of Kerela”. Because the products like pepper which is popularly known as “King of spices” and cardamom which is popularly known as ‘queen of spices’ are the important crops in Wayanad. Other crops are rubber, coconut, ginger and turmeric. These products fetched highest prices in the market in previous years. As a result, the farmers who are having lands earned lakhs of rupees/month without putting much hard work. But for the past few years the prices of these products declined sharply or fluctuated tilting their fortunes. The following table represents the prices of agricultural products for the past 5 years.

Table 4.20. Trends in prices of agricultural produces. (Prices in Rs/Kg)

Year	Pepper	Cardamom	Rubber	Ginger	Turmeric	Coconut		Coffee
						Coconut oil	Copra	
2003-04	78.43	384.85	47.25	55.00	50.00	50.00	40.25	14.00
2004-05	75.96	355.52	55.00	113.75	48.00	48.00	42.65	16.00
2005-06	67.56	239.33	57.75	113.00	50.00	47.63	32.23	20.00
2006-07	71.38	324.00	87.00	47.75	47.50	54.70	36.61	105.00
2007-08	147.62	395.32	88.00	49.69	24.00	51.57	34.38	135.00

Source; Spices Board, Rubber board and Coconut Development Board, (2008)



Fluctuations in the prices of important agricultural crops in the area could be deducted from the table. As seen from the above table, the prices of pepper during 2003-04 were Rs.78.43/kg in the market. But it was decreased from Rs.78.43 to Rs.67.56/Kg then again increased and fetched Rs.147.62/Kg. Likewise cardamom also fetched Rs.384.85/Kg during 2003-04 and suddenly came down to Rs.355.52 and Rs.239.33/Kg in 2004-05 and 2005-06 respectively. With regard to rubber the prices is Rs.88/kg now. But during 2003-4 it was Rs.47.25/Kg. With regard to ginger, the price was Rs.55/Kg during 2003-04, and then suddenly increased to Rs.113.75/Kg in 2004-05 and 2005-6. But suddenly decreased to Rs.47.75/Kg in 2006-07. With regard to turmeric the prices were changed from Rs.50/Kg in 2003-04 to Rs.24/Kg in 2007-08. With regard to coconut oil, there were slight changes, But in coconut copra the prices were decreased from Rs.40.25/Kg in 2003-04 to Rs.34.38/Kg in 2007-08. With regard to coffee prices, it was increased from Rs.14/Kg in 2003-04 to Rs.135/Kg in 2007-08.

Because of the instability in prices of agricultural products, the farmers suffered a lot. When the export prices in the market were high, the farmers were able to avail more loans from banks to get additional lands, but when the prices came down, the farmers were not able to realise enough returns and they are not able to repay the loan amount which was taken by them to bring in additional lands.

#### **4.2.10.2. Crop failure due to pests and diseases**

Pests and diseases problem unless contained, will spread from one field to another within a short time and they will stand in the way of increasing productivity. The reduction of profit due to pests and diseases is almost more than 50 percent. If pests and diseases are not controlled, it would affect entire field and entire crop will fail. These pests and diseases are influenced by climate, soil characters and topography character also. For example in pepper crop blight disease is the important disease, which will spread to entire field and the profit will be drastically reduced up to lowest amount. During the field survey it was observed that pests & diseases attack added to the woes of the farmers adversely affected the returns and ability to repay the loans.

### 4.2.10.3 Diversify of loans

It is a proven fact that regular supervision during the initial stages of any kind of advance will have a lasting effect on the borrowers and the account. The survey revealed that the loan amount was misutilised for meeting consumption expenditure, ceremonies like marriages, expenses for non agricultural operations, miscellaneous expenditures and for the education of children. Table 4.21 illustrates the purpose and amount of loan diversion by the sample defaulters.

Table 4.21 Purpose of loan diversion by sample respondents of selected banks.

SL.No	Purpose of diversion	Canara Bank	Co-operative Bank	North Malabar Gramin Bank	Total
1	Consumption purpose	1(3.3%)	2(6.67%)	4(13.33%)	7(23.33%)
2	Ceremonies purpose	0(0%)	0(0%)	0(0%)	0(0%)
3	Non agricultural purpose	0(0%)	0(0%)	0(0%)	0(0%)
4	Educational purpose	8(26.67%)	12(40%)	18(60%)	38(42.22%)

Source: Primary data

Note: Figures in the parentheses indicate percentage to total

Table 4.21 indicates that, out of 90 sample respondents of all the 3 banks selected for the study, 45 of them diverted the loan amount for other purposes. Loan amount was diverted mainly for educational purposes and consumption purposes. Canara Bank has the least diversion (3.3 percent for consumption and 26.67 percent for educational purpose) compared to Co operative Bank (6.67 percent for consumption and 40 percent for educational purposes) and North Malabar Gramin Bank (13.33 percent for consumption and 60 percent for educational purposes).

Totally 50 per cent percent of respondents used the loan amount for other than the specified one purposes. One important thing is, the respondents had not used the loan amount for ceremonies and non – agricultural purposes.

#### 4.2.10.4. Non – Institutional loans

In addition to loans from banks, farmers got loans from other sources like money lenders, agencies and friends. The overdue position of farmers from other sources is exhibited in table 4.22

Table 4.22 Overdue position of respondents from other sources

Overdue position	Money lenders	Agency	Friends	Total no of farmers
Non defaulters	1(3.3%)	0(0%)	0(0%)	1(3.3%)
<b>Defaulters</b>				
Low defaulters	0(0%)	0(0%)	14(100%)	14(100%)
Medium defaulters	12(57.1%)	4(19%)	5(23.8%)	21(100%)
High defaulters	17(68%)	7(28%)	1(4%)	25(100%)

Source: Primary data

Note: Figures in the parentheses indicate percentage to total.

As seen from the above table in non defaulters' case, only one non defaulter had taken loan from other sources .i.e. money lender. Non defaulters got sufficient amount of loan from banks. In low defaulters' case, they depend their friends for their loan amount other than loan from banks. But with regard to medium and high defaulters' case, money lenders are their important source for other loan. Money lender's contribution is 57.1 percent and 68 percent for medium and high defaulters respectively. It could be concluded that, the money lenders are charging

more amount of interest (around 15%) for their loan compared to seven percent by banks.

#### **4.2.10.5 Drought and Natural calamities in Wayanad**

The persistent droughts in the last three years have only added to the misery of the farmers. The gravity of the situation is evident from the fact that the entire district was declared as drought affected by the Central Government in 2003 and two villages were brought under the Annavari Relief Project that mandates the Government to make compulsory distribution of all essentials, including water and food, for the sustenance of the people. The severe fall in production due to persisting drought conditions over the last four years and frequent disease outbreaks were other factors which led to severe loss of income for farmers of Wayanad. This has forced them into vicious debt traps and the consequent suicides. It is to be noted that being perennial crops, coffee and pepper need to be replanted once they are damaged and they may take up to 4 - 6 years to start yielding.

#### **4.2.10.6 Governments interference and absence of modern management skills**

Unrestrained imports and changes in tariff regimes brought in by the liberal economic reforms have led to a drastic drop in agricultural prices over the last few years. The crops grown by Wayanad farmers have been the worst hit. The peasants are finding it difficult to recover even the production costs. For e.g. The price of pepper per quintal has come down from Rs 27,000 in 1998 to Rs 6,500 in 2002 and that of coffee beans from Rs 11,000 in 1997 to Rs 2,200 in 2001.

Taking the 1999 market rate as the base, the coffee and pepper cultivators of Wayanad alone are suffering a loss of Rs 639 crore per year i.e. Rs 224 crore losses from coffee and Rs 415 crore loss from pepper (Source: Spices Board, Year:2008). The losses due to falling prices of tea, cardamom, and arecanut, etc. are in addition to this. The Government is fixing minimum support prices for some agricultural products to save the farmers from unstable price changes. Like wise it should announce minimum support prices for pepper, rubber, cardamom and coffee also.

#### 4.2.10.7 Defective loan policies.

The analysis revealed that, the loans and advances provided by the banks was insufficient to meet the project cost, thereby forcing the borrowers to approach other sources for finance, that too, at a higher rate. This in turn puts an additional burden on them which ultimately affects the repayment of bank dues. Table 4.23 illustrates the sources of additional funds for meeting project cost of the sample respondents.

Table 4.23 Sources of additional funds for meeting project cost of sample respondents.

SL.No	Sources	Canara Bank	Co-operative Bank	North Malabar Gramin Bank	Total
1	Local money lenders	6(20%)	10(33.33%)	14(46.67%)	30(20.89%)
2	Loans from other agencies	2(6.67%)	4(13.33%)	5(16.67%)	11(12.22%)
3	Borrowings from friends/relatives	6(20%)	7(23.33%)	8(26.67%)	21(23.33%)

Source: Primary data

Note: Figures in the parentheses indicate percentage to total.

It can be inferred from table 4.23 that the borrowers of Co-operative Bank and North Malabar Gramin Bank had to depend mainly on local money lenders in order to mobilise the additional funds required at exorbitant rates of interest. The borrowers of Co-operative Bank and North Malabar Gramin Bank had to depend on friends and relatives and other agencies also with small percentage. Out of 90 respondents, 63 of them (56.44 %) depend other sources for their additional funds requirement. Hence, they were compelled to pay off the dues of the private agencies and moneylenders first, owing to the high interest rate charged by them and banks due become a matter of secondary importance.

#### 4.2.10.8 Absence of marketing facilities

Agricultural products are always perishable in nature. If the products are not sold within particular time, then the products would decay and lose their value. Therefore, there should be proper marketing and storage facilities for agricultural products. In Wayanad the farmers are not getting good profit for their products in the market, as markets are allocated at far away places from their houses, which increases other costs like transport cost also.

An assessment of reasons for default reveals that fall in price of agricultural commodities, crop failure due to pest and disease attack, crop failure due to drought, crop failure due to natural calamities and government's interference and absence of modern management skills were the major problems related to availing loans and advances. This highlights the tendency of the defaulters to absolve their responsibilities, leaving it entirely upon the banker.

### 4.3 LOAN RECOVERY SYSTEM IN BANKS

Credit is a delicate matter and has to be handled with care, so that it comes back in the right time. But in real situation it is practically impossible to get back whatever is lent, ultimately leading to mounting indebtedness over the years. An efficient recovery system is a precondition for reducing the indebtedness of a bank and thereby improving its overall performance. Hence an attempt has been made to examine the loan recovery system existing in the Canara Bank, Co-operative Bank and North Malabar Gramin Bank.

For the purpose of the study, loan recovery system includes the steps taken by the bank after the installment of interest and principal become due and remains unpaid by the borrowers. The present recovery system in the selected banks is mainly confined to sending due letters and reminders to the defaulters. In addition to this, the bank officials and staff maintain personal contacts with the defaulters to force them to repay the loans. Legal action against the defaulters is the final option in the recovery system.

#### **4.3.1 Efficiency index of the recovery system**

A survey has been conducted among 20 officials from each bank, consisting of employees, secretaries and Board Of Directors, for assessing the effectiveness of the recovery system and also for identifying the reasons for poor recovery performance. Seven statements including the loan recovery system related aspects were given to the respondents who were asked to opine on six-point scale. The efficiency of the recovery mechanism was classified as highly efficient (index above 90 percent), moderately efficient (index between 75 per cent to 90 percent) and least efficient (index below 75 per cent). An inter – bank comparison has also been done based on the index values. The efficiency indices of Canara Bank, Co-operative Bank and North Malabar Gramin bank are given in tables 4.24, 4.25 and 4.26 respectively.

Table 4.24 Efficiency Index of Canara Bank

SL. No	Parameters	Highly satisfied	Moderately satisfied	Satisfied	No opinion	Dissatisfied	Totally dissatisfied	Total	Index
1	Overall performance of the organization	12	7	1	0	0	0	20	92.50
2	Commitment of Board of Directors	18	2	0	0	0	0	20	98.33
3	Opinion about the management	20	0	0	0	0	0	20	100
4	Opinion about the relationship with the members	20	0	0	0	0	0	20	100
5	Opinion about inter bank relations	20	0	0	0	0	0	20	100
6	Opinion about the present loan operation system	1	8	11	0	0	0	20	75.00
7	Opinion about the Management Information System	0	6	14	0	0	0	20	71.66
	Average Index	91.07							

Source: Primary data



Table 4.25 Efficiency Index of Co-operative Bank

SL.No	Parameters	Highly satisfied	Moderately satisfied	Satisfied	No opinion	Dissatisfied	Totally dissatisfied	Total	Index
1	Overall performance of the organisation	10	5	5		0	0	20	87.50
2	Commitment of Board of Directors	8	6	6	0	0	0	20	85.00
3	Opinion about the management	8	6	6	0	0	0	20	85.00
4	Opinion about the relationship with the members	16	2	2	0	0	0	20	95.00
5	Opinion about inter bank relations	16	2	2	0	0	0	20	95.00
6	Opinion about the present loan operation system	5	6	9	0	0	0	20	80.00
7	Opinion about the Management Information System	2	1	7	0	0	0	20	70.83
	Average Index	85.47							

Source: Primary data

Table 4.26 Efficiency Index of North Malabar Gramin Bank

SL.No	Parameters	Highly satisfied	Moderately satisfied	Satisfied	No opinion	Dissatisfied	Totally dissatisfied	Total	Index
1	Overall performance of the organization	0	1	13	0	6	0	20	57.50
2	Commitment of Board of Directors	0	2	12	2	4	0	20	60.00
3	Opinion about the management	0	2	10	4	4	0	20	58.33
4	Opinion about the relationship with the members	2	10	6	2	0	0	20	76.66
5	Opinion about inter bank relations	2	10	6	2	0	0	20	76.66
6	Opinion about the present loan operation system	0	1	2	2	12	3	20	38.33
7	Opinion about the Management Information System	0	0	2	0	16	2	20	35.00
	Average Index	57.49							

Source: Primary data

It is clear from above tables that, the employees of Canara Bank were of the opinions that the Management Information System was less efficient (Index below 75 percent). However they opined that the present loan recovery system is moderately efficient (Index between 75 to 90) in the case of Canara Bank, remaining parameters of Canara Bank highly efficient (Index more than 90) especially inter bank relation and opinion about management showed 100 percent index.. With regard to Co-operative Bank, index of all parameters are coming under moderately efficient category except inter bank relation and opinion about the relationship with the members which is coming

under highly efficient category. Opinion about the Management Information System in Co-operative Bank shows least efficient. Mostly all parameters indices with regard to North Malabar Gramin Bank opinion about inter bank member relation coming under moderately efficient category (index between 75 percent to 90 percent).

#### 4.3.2 Reasons for poor recovery performance – An organisational level analysis

The effectiveness of the loan recovery system has not been very promising in North Malabar Gramin Bank. Certain organisational lapses may also be responsible for the poor recovery performance in addition to the borrower level problem. Out of the 20 statements on factors leading to poor recovery performance, eleven statements have been selected based on the responses of the organisational respondents. These statements have been ranked based on the priority index and furnished in Table 4.27

Table 4.27 Reasons for poor recovery performance – Organisational level response

SL.No	Reasons	Canara Bank		Co-operative Bank		North Malabar Gramin Bank		Total of 3 banks	
		Score	Priority Index	Score	Priority Index	Score	Priority Index	Score	Priority Index
1	Inadequate staff for field supervision & loan appraisal	58	26.36 (I)	51	23.18 (V)	68	30.90 (IX)	177	26.81 (III)
2	Ineffective legal machinery	31	14.09 (IV)	35	15.90 (X)	80	36.36 (III)	146	22.11 (VII)
3	Lack of good work culture and lack of commitment from employees	29	13.18 (VI)	48	21.81 (VII)	52	23.63 (X)	129	19.54 (X)

4	Over politicisation and excess government control	20	9.09 (VIII)	20	9.09 (XI)	20	9.09 (XI)	60	9.09 (XI)
5	Inadequate quality of work environment	26	11.81 (VII)	51	23.18 (V)	80	36.36 (III)	157	23.78 (VI)
6	Lack of commitment form Board of Directors	30	13.63 (V)	40	18.18 (VIII)	76	34.54 (VI)	146	22.11 (VII)
7	Poor member relations	43	19.54 (II)	83	37.72 (I)	84	38.18 (II)	210	31.81 (I)
8	Lack of modern management techniques and absence of Management Information System	41	18.63 (III)	56	25.45 (IV)	89	40.45 (I)	186	28.17 (II)
9	Absence of professionalised managers	20	9.09 (IX)	40	18.18 (VIII)	72	32.72 (VIII)	132	19.99 (IX)
10	Lack of staff training programme	20	9.09 (X)	62	28.18 (III)	80	36.36 (III)	162	24.54 (IV)
11	Lack of infrastructural facilities	20	9.09 (XI)	64	29.09 (II)	74	33.63 (VII)	158	23.93 (V)
	Maximum obtainable score	20*11 =220	100.00	20*11 =220	100.00	20*11 =220	100.00	660	100.00

Source: Primary data

Note: Figures in parentheses indicate rank obtained for each reason

The analysis proved that the banks also had a role in the mounting up of overdues. It was found that the poor member relations, lack of modern management techniques and absence of MIS, inadequate staff for field supervision and loan appraisal, lack of staff training programme, lack of infrastructural facilities, inadequate quality of work environment, lack of commitment of Board Of Directors are the important issues behind the poor loan recovery performance for all the 3 banks. With regard to Canara Bank, inadequate staff for field supervision and loan appraisal, poor member relations, lack of modern management techniques and absence of MIS, ineffective legal machinery and lack of commitment of Board Of Directors are the important issues which lead to poor recovery performance. With regard to Co-operative Bank, poor member relations, lack of infrastructural facilities, lack of staff training programme, inadequate staff for field supervision and loan appraisal and inadequate quality of work environment are their important issues which lead poor recovery performance of that bank. With regard to North Malabar Gramin Bank, poor member relations, lack of modern management techniques and absence of MIS, lack of staff training programme, ineffective legal machinery, inadequate quality of work environment, lack of commitment from Board Of Directors are their important issues which lead poor recovery performance of that bank. One important thing is political interference index is low in all the three banks.

#### **4.3.3 Suggestions for better recovery**

Having enquired into the borrower level and organisational level reasons for high overdues and having measured the efficiency level of the loan recovery 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 analysed using priority index and are enumerated in the subsequent sections.

##### **4.3.3.1 Defaulter level suggestions**

The suggestions given by the respondents have been grouped under 10 statements and the indices worked out in Table 4.28 gives a summary of their responses.

Fixation of smaller installments, provisions for adequate loan amount, staff for field supervision, incentives to prompt repayers, reduction in interest rates, sending timely reminders, timely credit etc. are the important suggestions revealed from the table.

Table 4.28 Defaulter level suggestions for a better recovery system

SL.No	Reasons	Canara Bank		Co-operative Bank		North Malabar Gramin Bank		Total of 3 banks	
		Score	Priority Index	Score	Priority Index	Score	Priority Index	Score	Priority Index
1	Provisions for adequate field staff for project supervision	156	52.00 (V)	182	60.67 (VII)	206	68.67 (VI)	544	60.45 (VI)
2	Incentives for proper repayment	122	40.67 (VII)	242	80.67 (I)	238	79.33 (IV)	602	66.89 (V)
3	Creation of awareness through good customer-banker relations	74	24.67 (X)	88	29.30 (X)	250	83.33 (III)	412	45.77 (VIII)
4	Timely reminders	220	73.33 (III)	198	65.33 (VI)	262	87.33 (II)	680	75.33 (II)
5	Provide adequate loan amount	198	66.00 (IV)	216	72.00 (III)	220	73.33 (V)	634	70.44 (IV)
6	Stern action against willful defaulters	116	38.67 (VIII)	126	42.00 (VIII)	144	48.00 (IX)	386	42.89 (IX)



7	Smaller installments	248	82.67 (I)	234	78.00 (II)	272	90.67 (I)	754	83.78 (I)
8	Timely credit	138	46.00 (VI)	206	68.67 (V)	146	48.67 (VIII)	490	54.45 (VII)
9	Adoption of appropriate schedules of repayment	94	31.33 (IX)	110	36.67 (IX)	126	42.00 (X)	330	36.67 (X)
10	Reduction in interest rates	246	82.00 (II)	212	70.67 (IV)	196	65.33 (VII)	654	72.67 (III)
11	Maximum obtainable score	30*10 =300	100.00	30*10 =300	100.00	30*10 =300	100.00	1200	100.00

Source: Primary data

Note: Figures in parentheses indicate rank obtained for each reason.

The defaulter level suggestions have important role in reducing the indebtedness problem. The suggestions of the defaulters are summarised in table 4.28. Among the ten suggestions, it was found that smaller installments, followed by timely reminders, reduction interest rates, provide adequate loan amount, incentives for proper repayment, provision for adequate field staff for project supervision, timely credit are the important suggestions to reduce the indebtedness problem for all the 3 banks. In the case of Canara Bank smaller installments, reduction interest rates, timely reminders, provide adequate loan amount, provision for adequate field staff for project supervision, timely credit, incentives for proper repayment are the major suggestions suggested by defaulters. With regard to Co-operative Bank incentives for proper repayment, smaller installments, provide adequate loan amount, reduction interest rates, timely credit, timely reminders, and provision for adequate field staff for project

supervision are the major suggestions suggested by defaulters. In the case of North Malabar Gramin Bank smaller installments, timely reminders, creation of awareness through customer-banker relations, incentives for proper repayment, provide adequate loan amount, provision for adequate field staff for project supervision and reduction in interest rates are the major suggestions suggested by defaulters. Form this analysis we came to know that smaller installments is the first and foremost suggestion suggested by all the 3 banks defaulters.

#### **4.3.3.2 Organisational level suggestions**

The organisational level suggestions were collected from 20 officials from each bank, which contain 15 suggestions. The scores given to each parameter in each bank are based on their suggestions and priority index have calculated. Creation of awareness and consequences of mounting overdues among staff members, legal machinery effectiveness has to be initiated and legal action should be imposed on defaulters in time, coercive action against willful defaulters, provide necessary incentives for prompt repayers, formation of special recovery cell, professionalised management and modern Management Information System, provide loans after analysing the credit worthiness of farmers are some of the important suggestions asked to the bank officials. Table 4.29 shows the organisational level suggestions for a better recovery system.



Table 4.29 Organisational level suggestions for a better recovery system-

SL.No	Suggestions	Canara Bank		Co-operative Bank		North Malabar Gramin Bank		Total of 3 banks	
		Score	Priority Index	Score	Priority Index	Score	Priority Index	Score	Priority Index
1	Creation of awareness among the staff members about the consequences of mounting overdues	210	70.00 (V)	202	67.33 (VI)	220	73.33 (V)	632	70.22 (V)
2	Legal machinery effectiveness has to be initiated and legal action should be imposed on defaulters in time	270	90.00 (I)	260	86.67 (II)	280	93.33 (I)	810	90.00 (I)
3	Coercive Action against willful defaulters	132	44 (VIII)	200	66.67 (VII)	220	73.33 (V)	552	61.33 (VII)
4	Provide necessary incentives for prompt repayment	114	37.78 (XI)	156	52.00 (VIII)	102	34.00 (IX)	372	41.26 (IX)
5	Loan waiver system of government is to be discouraged	250	83.33 (III)	220	73.33 (IV)	248	82.67 (III)	718	79.78 (III)
6	Identification of the beneficiaries by the bank field level functionaries	130	43.33 (IX)	148	49.33 (IX)	150	50.00 (VIII)	428	47.55 (VIII)
7	Reduce the formalities of loan disbursement	30	10.00 (XV)	46	15.33 (XIV)	40	13.33 (XIV)	116	12.89 (XV)

8	Provide additional loans to defaulters to compensate the losses occurred due to failure of the scheme	125	41.78 (X)	130	43.33 (X)	68	22.67 (XII)	323	35.93 (XI)
9	Charge additional penal rate of interest on defaulters	98	32.67 (XII)	65	21.78 (XII)	70	23.33 (XI)	233	25.93 (XII)
10	Politicians and Board members who influence the bank for justifying the defaulters should be discouraged	178	59.33 (VII)	226	75.33 (III)	188	62.67 (VII)	592	65.78 (VI)
11	Provide loans only after analysing the credit worthiness of borrowers	260	86.67 (II)	280	93.33 (I)	268	89.33 (II)	808	89.78 (II)
12	Conducting member education programmes	76	25.33 (XIII)	58	19.33 (XIII)	54	18.00 (XIII)	188	20.89 (XIII)
13	Formation of a special recovery cell using the existing staff and Board of Directors	150	50.00 (VI)	100	33.33 (XI)	98	32.67 (X)	348	38.67 (X)
14	Professionalised management and modern management techniques to be incorporated	214	71.33 (IV)	216	72.00 (V)	238	79.33 (IV)	668	74.22 (IV)
15	Provide adequate staff for field supervision and loan appraisal	58	19.33 (XIV)	46	15.33 (XIV)	40	13.33 (XIV)	144	16.00 (XIV)
	Maximum obtainable score	20*15 = 300	100.00	20*15 = 300	100.00	20*15 = 300	100.00	900	100.00

Source: Primary data

Note: Figures in parentheses indicate rank obtained for each reason.

The organisational level analysis on the suggestions for better recovery system (Table 4.29) reveals that the legal machinery has to be made effective and legal action should be imposed on defaulters promptly. The suggestion shows that the analysis of credit worthiness of the borrowers is the important thing from banker's point of view. Apart from this is, the suggestions from bank officials show that they are against the loan waiver system of government, thus encourage the borrowers to avoid repayment of loan. . It has been suggested that the professionalised modern management system are the important suggestions which lead a better recovery performance of the banks. The officials and BoDs(Board of Directors) were of the view that creation of awareness among the staff members about the consequences of mounting overdues would minimise the deliberate default. The suggestions show that the political interference in disbursing loans should be eliminated.

They were of the opinion that coercive action against willful defaulters would be an essential element for a better recovery system. Formation of special recovery cell has also been emphasised. Identification of the beneficiaries by the bank field level functionaries, incentives for prompt repayment, formation of special recovery cell using the existing staff and Board of Directors are the other suggestions of these bank officials. 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. It is therefore of utmost importance to see that every bank is equipped with skilled and professional project supervision machinery. Many of the defaulters were unaware of the consequences of overdues, which may be corrected through member educational programmes and maintain good customer relations. In the case of Canara Bank the legal machinery against defaulters, provide loan after analysing the credit worthiness of the borrowers, loan waiver system of the government is to be discouraged, professionalised management and modern techniques, creation of awareness among the staff members about the consequences of mounting overdues, formation of special recovery cell using the existing staff and Board Of Directors are the major suggestions made by the officials.

With regard to Co-operative Bank, provide loan after analysing the credit worthiness of the borrowers, legal machinery against defaulters, politicians and Board members who influence the bank for justifying the defaulters should be discouraged, loan waiver system of the government is to be discouraged, professionalised management and modern techniques, creation of awareness among the staff members about the consequences of mounting overdues, coercive action against willful defaulters are the important suggestions made by the officials of Co-operative Bank. In the case of North Malabar Gramin Bank the legal machinery against defaulters, provide loan after analysing the credit worthiness of the borrowers, loan waiver system of the government is to be discouraged, professionalised management and modern techniques, creation of awareness among the staff members about the consequences of mounting overdues, coercive action against willful defaulters, politicians and Board members who influence the bank for justifying the defaulters should be discouraged are the important measures suggested by the officials.

SUMMARY OF FINDINGS AND  
CONCLUSION...

### SUMMARY OF FINDINGS AND CONCLUSION

Introduction of new technology in agriculture has brought about a significant increase in the demand for production as well as investment credit. Financial institutions, which have been set up to meet the medium and long-term requirements of industry, trade and agriculture have played a dominant role in the development of these sectors. Development of agriculture, culminating in green revolution and proliferation of small scale industries across the country with diverse fields have been the direct results of the expansion activities of the financial institutions. Agricultural and Rural Development Banks, which are one of the important institutional agencies providing investment credit to agriculture in our country, have recorded an impressive growth in their operations in recent years. In Kerala, the loans disbursed by these banks increased from Rs.336.95 crores in 2000-01 to Rs.500 crores in 2005-06

The rapid growth however led to strains in the operational efficiency of banks and the accumulation of overdues in their loan proliferation. Due to the increasing trend in overdues, majority of these banks are forced to follow the policy of restricted lending. When overdues have grown out of proportion, the recycling of funds as well as their ability to sustain their credit operations are thereby restricted. High overdues have also impaired the eligibility of the credit agencies in availing refinance facilities from the higher tiers. Mounting overdues not only increase the risk but also the cost of transaction for effectively putting into the recovery measures. This may even affect the very existence of these banks and hence a thorough investigation of the various factors leading to the problem of overdues and the effectiveness of the recovery mechanism is of utmost importance.

The study entitled "Indebtedness of farmers in Mullankolly Panchayat of Wayanad District of Kerala State" was therefore taken up with the twin objectives of the reasons for indebtedness and the volume and extent of indebtedness.

The study was confined to three banks, from Mullankolly Panchayat of Wayanad District which included Co-operative Bank of Mullankolly Panchayat (Co.BMP), Canara Bank of Mullankolly Panchayat (Ca.BMP) and North Malabar Gramin Bank of Mullankolly Panchayat (NMGBMP). The sample frame comprised of 90 respondents i.e. 30 respondents from each bank at random (such that 66.67 per cent of them were defaulters and the rest were prompt repayers or non-defaulters). In addition to this, the bank officials,

secretaries and board members were also interviewed to look into the effectiveness of the existing loan recovery practices adopted by the banks. Pre-tested structured interview schedules were administered to collect the required information from the respondents. The secondary data for the analysis were compiled from the annual reports, Demand Collection and Balance Statements (DCB statements) and other published statistical statements of these banks during the study period of six years from 1998-99 to 2003-04.

The annual growth rate and Average Annual Growth Rate (AAGR) of important indicators like membership, loans disbursed, demand, overdues and profit were worked out. The reasons for overdues as well as the suggestions to improve the recovery performance at the borrowers level were ranked and the degree of importance of each statement was found out using priority index. Similar informations were collected at the organisational level also. (To assess the effectiveness of the present loan recovery system). Efficiency index on various statements including the present loan recovery system and the bank performance were also worked out. Simple averages, bivariate tables and percentages also formed a part of the analysis.

## **5.1 MAJOR FINDINGS OF THE STUDY**

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

5.1.1. Extent and dimensions of indebtedness

5.1.2 Borrower level reasons and factors influencing indebtedness

5.1.3 Efficiency of the existing loan recovery system

### **5.1.1 Extent and dimension of indebtedness**

All the banks have shown an increasing trend in overdue, but Co.BMP has the highest rate of overdue in absolute figures and in percentage to demand. Profits of all the banks have eroded due to provisioning for accumulated overdue. Among the selected banks, Ca.BMP has shown the best performance in terms of lower overdue, percentage of overdue to demand as well as growth in membership and profit. On the other side, Co.BMP was found to be the least performing bank with highest level of overdue.

There has been an increase in the demand for agricultural loans (especially scheme loans) as well as non-agricultural loans (especially non-farm loans). Along with the increase in demand, the contribution of the overdue of non-agricultural loans to the overdue

was also increasing tremendously in the case of Co.BMP and NMGBMP, Whereas the overdue of agricultural loans to total overdue was also increasing tremendously in the case of Ca.BMP.

In the case of age-wise overdue, Co.BMP and NMGBMP have highest amount of overdues (in the age group of overdue above 4 years), whereas Ca.BMP have highest amount of overdue in the age group of overdue of 1 to 2 years. The overdue above four years were growing tremendously over the years for Co.BMP and NMGBMP. This implies that as new defaulters are entering the list, the existing defaulters are shifting to the next category of overdue.

### **5.1.2 Reasons for indebtedness**

One of the important reasons from the borrower level for indebtedness is the loan taken from money lenders, agencies and friends. As seen in the analysis in non-defaulters' case, only one non-defaulter had taken loan from other sources .i.e. money lender. This might be due to the reason that all other non-defaulters got sufficient amount of loan from banks. In low-defaulters' case, they depend on their friends for loan than banks. But, with regard to medium and high-defaulters' case, money lenders are their important source for other loans. Money lenders contribution is 57.1 percent and 68 percent for medium and high defaulters respectively. This might be due to the reason that, the money lenders are charging more amount of interest (around 15%) for their loan compared to seven percent by banks.

Majority of the sample borrowers' monthly family income is below Rs.5000 as their only source of income is agriculture. A small portion of low, medium and high defaulters have monthly income of Rs.5000 to 10000 due to their more land area and income from other sources like business. A comparison of indebtedness and monthly family income of sample borrowers of three banks depicted a significant relationship. This establishes that borrowers with higher income level are willfully defaulting.

While analysing the nature of family and indebtedness level, it is clear that the respondents belong to nuclear family account for 80 percent in non-defaulters' category and remaining 20 percent from joint family system. In low-defaulters case also, the respondents belong to nuclear family occupy higher percentage (57.1%), than joint family (42.9%). But in medium and high defaulters category, the respondents belong to joint family is higher than the nuclear family. It seems that the number of family members is positively related to indebtedness because the expenditure for the joint family is higher than the nuclear family.



In the case of the land holdings of borrowers and indebtedness level, there are no small farmers in the non-defaulter's category. In low-defaulters category medium farmers occupied highest percentage (42.9%) followed by small farmers (35.7%). But in medium and high-defaulters category small farmers are major defaulters i.e. 47.6 percent and 60 percent respectively. From this, it can be observed that the small farmers are mostly affected by indebtedness problem due to lower income from small land holdings

The reasons for growing volume of indebtedness were multifarious in nature. The defaulters were of the view that inadequate income, fixation of unrealistic dues, lack of access to consumption loans, diversion of income, misutilisation of loans, ill health of borrowers and family members, faith in loan waiver policy, and defective loaning policies resulted in non-repayment of the loan amount.

Since the loan repayment mechanism of these banks were not linked to the salary deduction scheme, it led to greater chances of willful default. Those borrowers who received adequate income had a tendency for conspicuous consumption which has added to the magnitude of willful default.

In the case of agriculture and allied activities, one of the reasons identified for default was the mismatch between the time of repayment and the income generation period.

Another important reason for indebtedness is the price fluctuations for agricultural produces in the markets. Because of the instability of prices for agricultural products, farmers suffered a lot. When the export prices in the market were so high, they availed more loans from banks to get additional lands, but when the prices came down, the farmers are not able to earn good profit and they are not able to repay the loan amount which was taken by them to purchase additional lands.

Pest and diseases problem is important in agriculture, because it will spread from one field to another within a short period. The reduction of profit due to pest and diseases is almost more than 50 percent.

Out of 90 sample respondents of all the 3 banks selected for the study, 45 of them diverted the loan amount for other purposes. Loan amount was diverted mainly for educational purposes and consumption purposes. Canara Bank has the least diversion (3.3 percent for consumption and 26.67 percent for educational purposes) compared to Co operative Bank (6.67 percent for consumption and 40 percent for educational purposes) and North Malabar Gramin Bank (13.33 percent for consumption and 60 percent for educational purposes). Totally 50 per cent percent of respondents used the loan amount for other than the

specified purposes. The respondents had not used the loan amount for ceremonies and non – agricultural purposes is the important point to be noted here.

The severe fall in production due to persisting drought conditions over the last four years and frequent disease outbreaks were the other factors which led to huge loss of income for farmers of Wayanad. This has forced them into vicious debt traps and the consequent suicides. It is to be noted that being perennial crops, coffee and pepper need to be replanted once they are damaged and they may take upto 4 or 6 years to start yielding.

Agricultural products are always perishable in nature. If the products are not sold in particular time, then the products become waste. So, there should be proper marketing and storage facilities needed for agriculture. In Wayanad the farmers are not getting good profit for their products in the market. If market is far away from their houses, the marketing facilities will influence other costs like transport cost also.

Unrestrained imports and changes in tariff regimes brought in by the liberal economic reforms have led to a drastic drop in agricultural prices over the last few years. The crops grown by Wayanad farmers have been the worst hit. The peasants are finding it difficult to recover even the production expenses. So, the government should take necessary steps to safe guard the farmers.

### **5.1.3 Efficiency of the existing loan recovery system**

A survey has been conducted among 20 officials from each bank, consisting of employees, secretaries and Board of Directors, for assessing the effectiveness of the recovery system and also for identifying the reasons for poor recovery performance. The average index of these parameters has revealed that Canara Bank has the highest average of 91.07 per cent and Co-operative Bank has 85.47 per cent. Canara Bank and Co-operative Bank have shown an outstanding performance in the loan recovery system management while that of North Malabar Gramin Bank was least efficient (average index is 57.49 %).

The present loan recovery system of all banks, except North Malabar Gramin Bank was satisfactory. In addition to the borrower level reasons, some organisational lapses were also found to be responsible for the poor recovery performance of these banks. Poor member relations, lack of modern management techniques and absence of Management Information System, inadequate staff for field supervision and loan appraisal, lack of staff training programme, lack of infrastructural facilities, inadequate quality of work environment, ineffective legal machinery etc., were the major organisational factors identified.

The borrowers and bank officials were interviewed to elicit suitable measures for tackling the problem of indebtedness. As the defaulters of Canara Bank were of the opinion that smaller installments, reduction in interest rates and timely reminders could improve the present situation, the defaulters of Co-operative Bank strongly suggested the incentives for proper repayment and smaller installments. The defaulters of Co-operative Bank also stressed the need for provision of adequate loan amount as well as reduction in interest rates. These suggestions reveal that a change in the policy level decisions requires immediate attention. The defaulters of North Malabar Gramin Bank suggested smaller installments, timely reminders and creation of awareness through good customer-banker relations for in better management of loans.

However, at the organisational level, it was suggested that the legal action towards defaulters, provision of loans only after analysing the credit worthiness of borrowers, loan waiver system of government is to be discouraged and professionalised management and modern management techniques to be incorporated would improve the situation. They also emphasised the need to improve and revitalise the present legal machinery in terms of recovery.

One of the causes for non-repayment was the loan write off policy of the government. This has created a feeling among the borrowers that loans from banks carry no repayment obligation. It is therefore suggested that, loan write off policy may be adopted in the cases where the amount outstanding are small, the security available to the banker is negligible and the expenses to be incurred might be more than the amount likely to be recovered.

## CONCLUSION

Based on the study, a uniform pattern is noticed regarding the opinions of the respondents of Canara Bank, Co-operative Bank and North Malabar Gramin Bank who felt that the fall in prices of agricultural commodities is the main reason for the default of loan by farmers. Crop failure due to pests and diseases, drought, loan diversification, natural calamities, government's interference, absence of modern management skills, absence of marketing facilities for agricultural produce and defective loan policies have also been pointed out as reasons behind non – repayment of loans. Co-operative Bank accounted for

highest overdue amount followed by North Malabar Gramin Bank and Canara Bank. In the case of percentage of overdue, with regard to Co-operative Bank, agricultural loan accounted for highest percentage especially scheme loans. With regard to Canara Bank, non-agricultural loan accounted for highest percentage of overdue, whereas in the case of North Malabar Gramin Bank, agricultural loan category accounted for highest percentage of overdue. In the case of age-wise overdue, Co-operative Bank and North Malabar Gramin Bank have highest amount of overdue in the age group of above 4 years, whereas Canara Bank have highest amount of overdue in the age group of 1 to 2 years. High level of overdue demand high provisioning for the same which adversely affects not only the profitability of the bank but also makes further lending endangered in due course of time if suitable measures are not initiated to check the increasing trend of overdue. There is an urgent need to develop a positive approach by all the concerned parties to attack the problem of overdue. Initiatives from the part of the banks have yielded success as is revealed by Canara Bank of Mullankolly Panchayat (Ca.BMP). The important success points of Canara Bank are the inter bank relations, relationship with the members, efficient management, better loan recovery system and commitment of Board of Directors.

Better complacency from the part of the borrowers and proper monitoring and management of the advances from the part of the banks together can achieve a better performance. Hence, every conceivable effort should be made in this direction with a determination and with all the earnestness of the various officials and non-officials involved in this process of credit management, particularly the recovery of loans.

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APPENDICES...

## APPENDIX - I

**KERALA AGRICULTURAL UNIVERSITY**  
**COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT**  
**INDEBTEDNESS OF FARMERS: A STUDY OF FARMER BORROWERS IN**  
**MULLANKOLLY PANCHAYAT OF WAYANAD DISTRICT OF KERALA STATE**

*Schedule for borrower level survey*

(For Academic purpose only)

### I. PERSONAL DETAILS

#### A. Basic data of the respondent

- 1.1) Name and address of the respondent :
- 1.2) Age :
- 1.3) Sex :
- 1.4) Religion :
- 1.5) Educational Status :
- a) Illiterate
- b) Primary
- c) Secondary
- d) Secondary and above
- 1.6) Occupational status : Primary      Secondary
- a) Agricultural and allied
- b) Services and business
- c) Agricultural labourers
- d) Non agricultural labourers
- e) Others (Specify)
- 1.7) Ownership of land :

		Irrigated		Un irrigated		Total
		Cultivated	Not cultivated	Cultivated	Not cultivated	
1	Owned					
2	Leased					
	Total					

**B. Family particulars**1.1) *Nature of the family* : Joint / Nuclear1.2) *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 :

3.13. Details of loan from PACS

Loan amount applied	Loan amount sanctioned	Date of sanction	Interest %	Security	Term	Holiday period	Repayment started on	Repaid amount		Balance (including interest Rs.)	Overdue (including interest Rs.)
								Principal (Rs.)	Interest (Rs.)		

3.14. Other than banks whether you are : Yes/No  
 depending any other sources for  
 borrowing money



## 3.15. Details of loan

No.	Source	Loan amount (Rs.)	Interest %	Security	Repayment (including interest Rs.)	Overdue (including interest Rs.)	Purpose

#### 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 : Yes / No  
Premises / plot before and after  
sanctioning the loan  
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 impli- : Yes / No  
cations of the documents that you have  
signed while taking the loan
- 4.5) Did the banker educate you regarding : Yes / No  
the income that can be generated or give  
you any advise, technical or otherwise  
for your activity
- 4.6) Whether total area under cultivation : Yes / No  
increased after taking loan
- 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**

**INDEBTEDNESS OF FARMERS: A STUDY OF FARMER BORROWERS IN  
MULLANKOLLY PANCHAYAT OF WAYANAD DISTRICT OF KERALA STATE**

(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)

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

a) If yes, specify:

*ANNEXURES...*

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# 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	237665	240551	69015	74980	75704	319	315	315
8	Chilies	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	Arecanut	102504	107572	108208	105490	110340	110641	1029	1026	1022
13	Banana	55906	58866	62141	442220	475371	488061	7910	8075	7854
14	Other Plantains	53496	54612	55460	399717	416115	421415	7472	7619	7599
15	Cashewnut	86376	81547	80727	65655	60584	57624	760	743	714
16	Taploca	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	Colton **	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 Colton in No. of bales of 170 kg.

## ANNEXURE-II

Plantation Crops - Area, Production and Productivity (2001-2002 to 2005-06)

1	2001-02		2002-03		2003-04		2004-05		2005-06*	
	Kerala 2	India 3	Kerala 4	India 5	Kerala 6	India 7	Kerala 8	India 9	Kerala 10	India 11
<b>AREA (Ha.)</b>										
Tea	36899	438000	37069	511940	36327	512000	35040	-	35043	-
Coffee	84795	347000	83113	355102	84634	327941	84644	327941	84644	327941
Rubber	475039	566558	476047	569667	478402	573980	480543	578000	494400	594000
Cardamom	41336	72000	41412	73125	41332	73237	41378	73725	41367	73795
<b>PRODUCTION (MT)</b>										
Tea	66090	854000	55348	837602	57553	850490	49503	800000	56384	-
Coffee	66690	300600	63322	275275	63850	270500	54300	275500	60175	281900
Rubber	580350	631400	594917	649435	655134	711650	690711	749665	739225	802625
Cardamom	8380	11365	8680	11920	8875	11580	8616	11415	9765	12540
<b>PRODUCTIVITY (kg/ha)</b>										
Tea	1791	1950	1493	1636	1502	1661	1413	-	1609	-
Coffee	786	866	762	775	754	825	642	840	7109	860
Rubber	1222	1114	1250	1140	1369	1240	1437	1297	1495	1351
Cardamom	203	158	210	163	215	158	208	155	236	170

Source : DES, UPASI

\*Provisional

### ANNEXURE-III

#### 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>			
A	All Crops	92.87	93.17	93.68
B	Food Grains (1+2)	55.24	54.08	51.31
1	Cereals	56.46	54.76	51.95
2	Pulses	26.89	37.78	35.86
C	Non-Food Grains (3to8)	103.69	103.82	105.24
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>			
A	All Crops	108.75	96.84	102.15
B	Food Grains(1+2)	54.30	63.48	59.91
1	Cereals	54.30	63.49	59.92
2	Pulses	30.45	51.82	49.90
C	Non-Food Grains	103.86	100.59	106.90
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>			
A	All Crops	117.10	103.93	109.04
B	Food Grains (1+2)	98.3	117.38	116.76
1	Cereals	96.17	115.94	115.34
2	Pulses	113.24	137.16	139.15
C	Non-Food Grains (3to8)	100.16	96.89	101.58
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

## ANNEXURE-IV

### 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: Directorate of Economics and Statistics

Note : \* Provisional \*\* Quic

## ANNEXURE-V

### Agency-wise Ground Level Credit Flow in India

(Rs.crore)

Agency	2002-03	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	-
Total	69,560	86,981	125309	180486	203296

Source: Annual Report - NABARD 2006-07

## ANNEXURE-VI

### Incidence of Indebtedness in Major States: 2006

State	Estimated Number of Indebted Farmer Households	Per cent of Indebted Farmer Households	Average Loan Per Household, Rupees
Andhra Pradesh	49493	82.0	23965
Tamil Nadu	28954	74.5	23963
Punjab	12069	65.4	41576
Kerala	14126	64.4	33907
Karnataka	24897	61.6	18135
Maharashtra	36098	54.8	16973
Haryana	10330	53.1	26007
Rajasthan	27828	52.4	18372
Gujarat	19644	51.9	15526
Madhya Pradesh	32110	50.8	14218
West Bengal	34696	50.1	10931
Orissa	20250	47.8	5871
Uttar Pradesh	69199	40.3	7425
Himachal Pradesh	3030	33.4	9618
Bihar	23383	33.0	4476
Jammu & Kashmir	3003	31.8	1903
Assam	4536	18.1	813
All India	434242	48.6	12585

NA denotes not available

Source: National Sample Survey Organisation (NSSO), *Situation Assessment Survey of Farmers, 2003*.



## ANNEXURE-VII

### Incidence, Amount and Source of Indebtedness by Size Class of Holding: 2006

Size Class of Land Possessed (Hectares)	Total House holds (%)	Total Indebted Househol ds (%)	Incidence of Indeb- tedness (%)	Amount Outstandi ng per Farmer Houshold (Rupees)	Loans from	
					Insti- tutional Agencies (%)	Non Institution al Agencies (%)
< 0.01	1.4	1.3	45.3	6121	22.6	77.4
0.01 – 0.40	32.8	30.0	44.4	6545	43.3	56.7
0.41 – 1.00	31.7	29.8	45.6	8623	52.8	47.2
1.01 – 2.00	18.0	18.9	51.0	13762	57.6	42.3
<b>Up to 2.00</b>	<b>83.9</b>	<b>79.9</b>	<b>46.3</b>	<b>8870</b>	<b>51.3</b>	<b>49.7</b>
2.01 – 4.00	10.5	12.5	58.2	23456	65.1	35.0
4.01 – 10.00	4.8	6.4	65.1	42532	68.8	31.1
10.00 +	0.9	1.2	66.4	76232	67.6	32.4
<b>All Sizes</b>	<b>100.0</b>	<b>100.0</b>	<b>48.6</b>	<b>12595</b>	<b>57.7</b>	<b>42.4</b>

Source: NSSO, *Situation Assessment Survey of Farmers, 2006*

## ANNEXURE-VIII

### Distribution of Debt by Interest Rates and Source for Cultivator Households: 2006

	Institutional	Non- Institutional
Nil	0.5	17.4
0-6	1.8	2.3
6-10	3.0	0.3
10-12	7.4	0.6
12-15	50.0	1.6
15-20	34.8	2.7
20-25	1.4	36.2
25-30	0.0	0.3
> 30	0.3	38.2
All	100.0	100.0

Source: NSSO, *Household Indebtedness in India*,  
All India Debt and Investment Survey (January-  
December 2003), NSS 59<sup>th</sup> Round, Report No.  
501, 2005.

**INDEBTEDNESS OF FARMERS IN MULLANKOLLY  
PANCHAYAT OF WAYANAD DISTRICT**

*By*

**S. NATARAJA SUBRAMANIAN**  
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**THESIS**

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## ABSTRACT

The study entitled "Indebtedness of Farmers in Mullankolly Panchayat of Wayanad District" was conducted with the following objectives:

- (1). To assess the extent and magnitude of indebtedness of farmers in Mullankolly Panchayat of Wayanad district.
- (2). To identify the reasons for the indebtedness of the farmers.

Both primary and secondary data were used for the study. Primary data was collected from 90 farmers of Mullankolly Panchayat through conducting a survey by administering a pre-structured schedule. Farmers were classified into small, medium and large. The list of farmers was collected from three banks (i.e. Canara Bank, Co-operative Bank and North Malabara Gramin Bank) of the Panchayat. The sample size included 90 respondents i.e., 30 borrowers from each bank at random, of which 20 were defaulters and five were non-defaulters or prompt payers. Twenty officials (including secretaries and BoDs) from each bank were also interviewed to collect information on the effectiveness of the loan recovery system of the banks. Secondary data on selected performance indicators of the banks which were collected from books and accounts and annual reports of the above three banks were also used for the study. Statistical tools like Average Annual Growth Rate (AAGR), simple averages, percentages, simple growth rate, chi-square test, efficiency index, priority index and bi-variate tables were used for the analysis.

The analysis of the overdue amount of the selected banks revealed that during the reference period, Co-operative Bank of Mullankolly Panchayat (Co.BMP) had the highest amount of overdues. Profits of all banks eroded due to provisioning for accumulated overdues. Ca.BMP has shown the best performance in terms of lower overdues and higher profits when compared to the other banks. There has been an increase in the demand for agricultural loans as well as non-agricultural loans in all the banks, especially the scheme loans and non-farm loans respectively. Along with the increase in demand, the contribution of the overdues of non-agricultural loans to the overdues was also increasing tremendously in the case of Co.BMP and NMGBMP, whereas the contribution of the overdues of agricultural loans to the overdues was increasing tremendously in the case of Ca.BMP. The overdues above four years were growing tremendously over the years for Co.BMP and NMGBMP

whereas Ca.BMP has the highest amount of overdue in the age group of indebtedness of 1 to 2 years.

The study found that in non defaulters' case majority of the borrowers belong to monthly income group of more than Rs.10000 category (56.7%). In low, medium and high defaulters case, majority of the farmers belong to income group of below Rs.5000 i.e. 50 percent, 57.1 percent and 60 percent respectively. This may be due to the reason that majority of the farmer defaulters belong to farming community. Their major source of income is agriculture and agriculture has become a loss making proposition in the area year by year because of the price fluctuations in the market for their produce.

The reasons for growing volume of indebtedness were multifarious in nature. The defaulters were of the view that inadequate income, fixation of unrealistic dues, lack of access to consumption loans, diversion of income, misutilisation of loans, ill health of borrowers and family members, faith in loan waiver policy and defective loan policies resulted in non-repayment of the loan amount. Since the loan repayment mechanism of these banks were not linked to the salary deduction scheme, it led to greater chances of willful default. Those borrowers who received adequate income had a tendency for conspicuous consumption which added to the magnitude of willful default. Misutilisation of loan amount was least in Ca.BMP, which indicates the presence of effective supervision and monitoring mechanism in the bank. From the inter-bank comparison on the effectiveness of the present loan recovery management system, it was found that Ca.BMP showed an outstanding performance in this regard, whereas NMGBMP revealed to be the least efficient bank.

According to the officials and employees of three banks, the reasons for poor recovery included poor member relations, lack of modern management techniques and absence of Management Information System, lack of staff training programme, lack of infrastructural facilities, inadequate quality of work environment and ineffective legal machinery for recovering dues from the borrowers. As a remedial measure to minimise overdue, legal machinery has to be made effective and legal action should be imposed on defaulters promptly. The suggestion shows that the analysing credit worthiness of the borrowers is the important thing from bankers' point of view. They were of the opinion that coercive action against willful defaulters would be an essential element for a better recovery system. Formation of special recovery cell has also been emphasised. Identification of the beneficiaries by the bank field level functionaries, incentives for prompt repayment, formation of special recovery cell using the existing staff and Board of Directors are the other suggestions suggested by the three bank officials. The banks must therefore perceive that

prolonged existence of this disease is not beneficial to the organisation and a strong mechanism to check this menace has to be created.

