



Causes of Co-Operative Credit Default

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ABSTRACT

A wide range of factors influence the level of default of the agricultural credit institutions. Although defaults are commonly attributed to adverse weather conditions, particularly to droughts/ floods, their basic causes lie much deeper and range from the non-viability of the agricultural occupation itself in some cases, lack of the forward/backward linkages, infrastructural facilities, services which support agriculture, the socio-political environment in which the credit institutions are functioning to legal and their Government support available to the agricultural credit system, besides adverse weather conditions, affecting the output of crops, particularly in the rain fed areas. Default is often the results of combination of various factors which lead to cooperative default, under both the categories are discussed in the present study.

A major portion of short and medium term agricultural credit in YSR district is canalized by primary Agricultural Credit Societies (PACS). Therefore, a detailed investigation of the working of some of the PACS has been taken up. The period of the study extends up to the cooperative year ended June, 2015. The present study is to analyse the problems of cooperative NPAS at different levels of cooperative credit organisation in YSR district. For this purpose an intensive study of 18 PACS has been taken up. Based on the inductive investigation of the sample societies, division wise NPAS and examined the causes of cooperative credit default.

KEYWORDS : Default, NPAs, Adverse weather etc

INTRODUCTION

A wide range of factors influence the level of default of the agricultural credit institutions. Although defaults are commonly attributed to adverse weather conditions, particularly to droughts/ floods, their basic causes lie much deeper and range from the non-viability of the agricultural occupation itself in some cases, lack of the forward/backward linkages, infrastructural facilities, services which support agriculture, the socio-political environment in which the credit institutions are functioning to legal and their Government support available to the agricultural credit system, besides adverse weather conditions, affecting the output of crops, particularly in the rainfed areas. There are external factors over which the credit institutions have little or no control and for their mitigation they have to depend entirely on the Government and its agencies. The other causes of default which are internal to the credit institutions themselves are inadequate supervision over credit, unsound lending policies and procedures and unsatisfactory management of the credit institutions. Default is often the results of combination of various factors which lead to cooperative default, under both the categories are discussed in the present study.

OBJECTIVES OF THE STUDY

The specific objectives of the study are (i) to describe the default at different levels of cooperative credit organization; and (ii) to analyse the category-wise default and the sum defaulted.

HYPOTHESES

The following hypotheses have been formulated to test their validity.

- There is no significant difference in nature and extent of default between different sample societies located in different divisions; and
- There is no direct relationship between farm size and default.

SAMPLE DESIGN AND SIZE

A major portion of short and medium term agricultural credit in YSR district is canalized by primary Agricultural Credit Societies (PACS). Therefore, a detailed investigation of the working of some of the PACS has been taken up. The period of the study extends up to the cooperative year ended June, 2015.

To cover the wide range of population spread over the district, a two stage sampling has been adopted. Selection of PACS formed the first stage and selection of defaulters and non-defaulters the second

stage. Firstly, of the 63, 65. And 65 PACS in Rajampeta, Kadapa and Jammalamadugu divisions respectively, 18 societies, viz (10 per cent) from each division were selected.

In the second stage, in order to probe into the causes of default at the individual borrower's level the list of all the defaulters and non-defaulters from 18 PACS was obtained and post stratified into three groups viz. small farmers upto 2.5 hectares); medium farmers (between 2.5 hectares to 5 hectares); and large farmers (above 5 hectares). Further, two defaulter and one non-defaulter member from each of small and two non-defaulter members from the large farmers group have been chosen from each Society. In all, 144 defaulter and 72 non-defaulter members have been selected.

DIVISION-WISE NPAS OF SAMPLE PACS

The present study is to analyse the problems of cooperative NPAS at different levels of cooperative credit organisation in YSR district. For this purpose an intensive study of 18 PACS has been taken up. Based on the inductive investigation of the sample societies, division wise NPAS are computed and are shown in Table-1.

Table – 1 : Division-wise NPS of Sample Societies, 1993-94

Rs.in lakhs

Division	Amount of Loan Outstanding	Amount OF NPAS	Percentage of NPAS to Outstanding
Rajampeta	14.31	108.08	77.02
Kadapa	98.05	83.42	85.08
Jammalamadugu	64.25	55.17	86.49
Total	302.61	246.67	81.51

Source : Sample data

The level of NPAS to outstanding in Rajampeta, Kadapa and Jammalamadugu and district as a whole was 77 per cent, 85 per cent, 86 per cent and 82 per cent respectively. Just as in the case of the district, state and national level, NPAS to outstanding are higher than NPAS to demand in the sample societies of the district. This is a circular and cumulative causative phenomenon. Category-wise NPAS are presented in table 2.

Table No.2
Rs.in lakhs

Division	Small Farmers	Medium Farmers	Large Farmers	Total
Rajampeta	30.42	31,78	45.88	108.08
Kadapa	19.97	25.73	37.72	83.42
Jammalamadugu	14.71	16.32	24.14	55.17

Source : Sample data

It is evidenced from the Table-2 that a huge amount of NPAS are prevailing in the case of large farmers in all the divisions. ANOVA computed for the data and the results are given below.

Source of Variation	Sum Squares	Degree of Freedom	Mean Squares	F-Value
Between Category	37.11	2	18.56	0.615*
Between Divisions	467.29	2	233.65	0.741**
Residual/Error	120.73	4	30.18	55.17

F-table value = 6.944 * Not significant at 5% level ** Significant at 5% level

It is dear from the ANOVA table that there is a significant difference in default of sample PACS among three divisions, hence the null hypothesis is rejected. But in the case of categories i.e. small, medium and large farmers there is no significant difference in the extent of default.

EXTENT OF DEFAULT AT DEFAULTER LEVEL

With a view to arriving at an estimate of default at the farm level, 216 borrowers were interviewed. Out of 216,144 were defaulters and their distribution on the basis of level of default is indicated in Table 3.

Table - 4 : Category-wise Defaulters and Sum Defaulted

Category	Defaulters	Wilful defaulters	(3) as % of (2)	Defaulters Default	Wilful Defaulters	(6) as % of (5)	Average amount overdue	
							Defaulters	Defaulted
1	2	3	4	5	6	7	8	9
Small	36 (25)	1 (1.17)	2.8	70421 (8.3)	1654 (0.4)	2.3	1956	1654
Medium	36 (26)	7 (12.1)	19.4	178942 (21.2)	35337 (8.2)	19.7	4971	5048
Large	72 (49)	50 (86.2)	69.4	594903 (71.5)	393655 (91.4)	66.2	8263	7873
Total	144 (100)	58 (100.0)	40.3	844266 (100.0)	430646 (100.0)	51.0	5863	7425

Source : Sample Data

Note : Percentage in Parentheses

CAUSES FOR DEFAULT: BORROWERS PERSPECTIVES

There is a multiplicity of causes for loan default. The classification of causes is also quite varied. The causes of default are set out into six categories as shown in Table 5.

Table - 5 : Category of Defaulters and Amount Defaulted

Category of Default	Defaulters	Percentage	Amount Defaulted	Percentage
Defects in farm production	29	20.14	102566	12.15
Variability in income	26	18.06	167252	19.81
Defects in the credit organisation	15	10.42	100608	11.92
Attitudinal Conditions	21	14.58	167176	19.80
Misallocation	23	15.97	152177	18.02
Miscellaneous	30	20.83	152177	18.02
Total	144	100.0	844266	100.00

Source : Sample data

Table - 3
Defaulters and the Sum Defaulted (with Interest as on 30.6.2015)

Size of Loan Rs.	Number of Defaulters	Amount Defaulted Rs.	Percentage of Defaulters	Percentage of Amt. Defaulted
0-2500	33	55035	22.9	6.5
2500-5000	37	144621	25.7	17.1
5000 - 7500	42	259252	29.2	30.7
7500-10000	13	112091	9.0	13.3
10000 and above	19	273267	13.2	32.4
Total	144	84266	100.0	100.0

Source : Sample data

It may be noted that the amount defaulted increases with the size of the loan contracted increases (r=0.70). this is but natural, 23 per cent of defaulters account for only 6.5 per cent of amount defaulted in the size group of Rs.0-2500, 29 per cent of defaulters are in the size group of 5000-7500 defaulted 31 per cent, but in the last size group (10,000 and above) 13 per cent of defaulters defaulted 32 per cent. Average amount defaulted by 144 defaulters works out to Rs.5863. There is a skewed distribution in the amount defaulted is explicitly clear. The coefficient of Skewness is 0.2124 and C.V. = 66.68.

The number of willful defaulters to total defaulters increases with the size of holding (r=0.99) and willful defaulters default as percentage of defaulters default is also increasing with the size of holding (r=0.99) (see table 4). 25 per cent of small farmers account for 8.3 per cent of default and 0.4 per cent of amount willfully defaulted, 25 per cent of medium farmers account for 21.2 per cent of default and 8.2 per cent of amount willfully defaulted. 50 per cent of large farmers had a share of 71 per cent of default and 91 per cent of amount willfully defaulted. There is a positive relationship between the size of holding and level of default (r=0.95) and level of willful default default (r=0.90). Hence, the hypothesis viz., there is no direct relationship between farm size and default is rejected.

a) DEFECTS IN FARM PRODUCTION

Poor productive conditions of the farming enterprise often make it difficult to repay. This defect is also expressed in terms of "non-viable farm units", which often refers to the small size of farms. The implication is that farmers are unable but willing to repay 1. The sample data discloses a high correlation between low incomes and defaults. Defaulters had much lower average yields in irrigated rice fields (two-thirds of the national average) and the reasons given for the lower yields included, among others, either a lack of adequate irrigation or waterlogging, inadequacy or unavailability of inputs on time, and poor extension services. With inadequate incomes borrowers may use loan funds for their subsistence, or where they have used it for cultivation purpose any increased income may still be used for subsistence needs rather than the repayment of loans. The data show that defects in farm production was one of the major factors to which 20 per cent of the respondents attributed their defaults and the default amount was 12 per cent.

b) VARIABILITY IN INCOMES

The farmer may be unable to repay his loan in a particular season owing to crop failure due to natural calamities or the destruction of a crop by

theft, fire or other hazards. His inability to repay may also be caused by a sudden fall in prices or the unmarketability of his produce. Farmers in this category are normally able and willing to repay. Defaults in this category are thus abnormal and presumably temporary. 18 per cent of the defaulters had not repaid owing to crop failure, their defaulted amount was 20 per cent. The agricultural statistics on crops during these seasons indicate a lower rate of failure than that implied in the interview results. It is likely that the farmers' tendency not to accept responsibility for their delinquency is a major reason for attributing defaults to this reason.

c) DEFECTS IN THE CREDIT ORGANISATION

The farmer in this category is able to repay and willing to do so, but since the organisation giving credit does not pressure him to repay, he does not. The farmer may believe that he will neither suffer penal interest rates nor endanger his subsequent borrowing by his default; loopholes which enable a defaulter to borrow subsequently and abandoning attempts to collect earlier defaults would support this belief. Sometimes the staff of the credit agency itself might even encourage borrowers not to repay. Deficiencies in the credit organisation accounted for 10 per cent of defaulting borrowers, their default amount being 12 per cent. It is significant that 8 per cent of defaulters opined that they would have returned the loaned funds if cooperative officials had not been indifferent, taking no active steps to recover loans. A further 2 per cent defaulters said that they did not return funds because they felt cooperative societies may not further finance to them.

d) ATTITUDINAL CONDITIONS

Farmers who do not want to repay loans despite their ability to repay fall into this category. They often consider Government funds as grants rather than loans. This cause is generally closely linked

with defects in the credit organisation's policies, such as abandoning efforts to collect unpaid debts under earlier schemes and the lack or weakness of any sanctions on borrowers who do not return loans. 15 per cent of the defaulters felt no obligation to repay their default amount was 18 per cent. These defaulters stated that they considered loans as outright grants, expected the defaults to be written off.

e) MISALLOCATION

The use of funds for purposes other than those for which the loan was intended can interfere with repayment. Some persons may have invested loan proceeds in other activities which have proved a failure; or even if, successful, there may be a lack of liquid funds to repay on time. Other misallocations include the use of borrowed funds for ceremonial needs, a sudden illness or death or repayment of loans to the other sources. About 18 per cent of the loan amount was not repaid because 16 per cent of the defaulters had used the money for unauthorised expenditure such as unforeseen expenses connected with an illness or death, legal and ceremonial expenditure, settlement of debts from other sources, or for other activities which were either not profitable or illiquid.

f) MISCELLANEOUS

Other reasons not easily categorised accounted for about 21 per cent of defaulters and 18 per cent of default amount. They did not indicate any specific reason which compelled them to default in repayment of dues to the credit agencies. This is infact a "Don't know" category; some of these could be cases of "willful" defaults, political interference is also included in this category.

Table – 6
Classification of Defaulters by Size of Borrowing

Size of Borrowing	Number of Defaulter						Total
	Defects in farm production	Variability in incomes	Defects in the credit organization	Attitudinal conditions	Mis-allocation	Miscellaneous	
0-2500	14	5	2	2	2	8	33
2500-5000	10	8	4	1	5	8	36
5000 – 7500	1	8	5	8	10	10	43
7500-10000	3	2	1	5	1	1	13
10000 and above	-	3	3	5	5	3	19
Total	29	26	15	21	23	30	144

Source : Sample Data

Table 6 sets out the particulars of factors contributing to default by size of borrowing 78 per cent of defaulters come from the ranks of borrowers of less than Rs.7500 and the remaining 22 per cent of borrowers sums above Rs.7500. Chi-square (X^2) test is applied for the data to test the association between size group and causes of default. The X^2 calculated value (39.57) is greater than table value (31.4) at 5 per cent level for 20 degrees of freedom. So, there is an association between the size of borrowing and the causation of default.

SUGGESTIONS FOR COMBATING DEFAULT AND NPAS

The Directorate of Institutional finance in each state should be strengthened. It is necessary that a multi-disciplinary team of experts undertake study of long-term of the agricultural sector and develop projects which will provide the necessary linkages and supporting services. There has been a growing tendency to use agricultural credit as an instrument for achieving short term populist objectives. Government measures such as write off of agricultural dues, concessions/relief announced by political functionaries from public platforms, stay orders on legal processes of recovery, disbursement of loans /assets at the hands of political dignitaries in loan melas etc., have vitiated the recovery climate. Central as well as State Governments should evolve a concrete policy for recovery of agricultural dues and take a firm and objective view in respect of 'wilful defaulters'. Mass Programmes for disbursement of loans such as 'Loan Melas' should be stopped as they have deleterious effects on the functioning of credit agencies.

References

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