



## EXTENT AND TYPES OF DEFAULTERS IN AGRICULTURE SECTOR OF HARYANA: A CASE STUDY

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### ABSTRACT

*The research paper brings out the salient features of the repayment habits, extent of overdues, types of defaulters and causes of default of the farmers and agriculture labour households. Repayment of debt by the farmer in stipulated time is a primary factor and it helps the farmers in reducing their indebtedness and further makes them eligible for fresh credit. On the contrary, unproductive utilization of credit coupled with irregular repayment or non repayment of loan within its stipulate time has certain depressing effects on the entire structure and organization of credit institution as it dilutes the entire loaning structure. Credit institutions become defunct which is harmful to both sides and may bring the society on the verge of liquidation. The relatively low income earned from agriculture, high domestic expenditure and big family size were found to be some of the important causes for the non repayment of agriculture debt.*

### Introduction

The fixed capital loans provided by commercial banks are paid back at harvesting time or six monthly by the borrower and as the same in respect of working capital loans of co-operative societies and commission agents. However, the milch cattle and poultry loans etc. are paid back monthly by the borrowers. The root factor of deciding the recovery period is the productivity of

the cause of the loan itself.<sup>1</sup> The crop loan is realized soon after the harvest is marketed because it has given the financial strength to the farmer to enable him to repay loan. But other loans are repayable after certain period as in that case start up period is allowed to enable the farmer to repay the loan.

## **Review of Literature**

The problem of overdues and non-timely repayment in rural financing had become so acute as to threaten its very usefulness. This attracted the attention of research- workers who tried to analyse the problem of overdues from different angles and for different regions of the country with a view to find out remedies to curb its growth.

Reddy and Kumar (1982) revealed from their study that the percentage of repayment by small farmers, marginal farmers and agricultural labours were 77.91, 69.60 and 58.56 percent respectively. It clearly indicated that the size of holdings were negatively correlated with repayment performance.<sup>2</sup>

Singh and Upadhyay (1984) studied the recoveries of regional rural banks operating in Bihar and reported that loan recoveries in RRBs declined continuously during the period 1978-80. The reasons for declining or low loan recoveries were inadequate arrangement for recovery in bank branches and the shortage of funds with the borrowers to repay the loans either due to crop failure or undue expenditure on marriage acrimonies or other social functions or illness of family members. Inadequate follow up by banks for repayment and willful default were also important reasons for declining loan recoveries in RRBs.<sup>3</sup>

Chand, Ramesh and Sindhu (1985) classified 75 borrowers of co-operative credit societies in Sadhar Block of Ludhiana district (Punjab) on the basis of different and Socio-Economic characteristics. Discriminant function was used to know the relative importance of different variables in regard to their power to discriminate between defaulters and non-defaulters. The result indicated that the higher values of ratio of dependent in the family, capital

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<sup>1</sup> Gupta Umesh Chandra (1991), "Agriculture Finance in India" Anmol Publication New Delhi p. 283.

<sup>2</sup> Reddy, C.R. and Kumar D.V.S. (1982). "The Impact of RRBs, Credit on Farm Economy," Rural India, 45 (406): 122-25

<sup>3</sup> Singh R.K. Pond Upadhyaya, K.M. (1984) "A study of Loan Recovery of RRBs in Bihar" Financing Agriculture, 16(2) pp. 37-39.

expenditure and total borrowing placed for the borrowers into the defaulter group and vice-versa; where as, higher level of education contributed towards non-defaulters. Similarly, the defaulter with higher level of education, higher ratio of dependent in the family, high consumption expenditure and net cash income were more prone to useful default and reverse was true for non- defaulters.<sup>4</sup>

Sahu (1997) in his study regarding the repayment of Dairy loans financed under IRDP in Muraul Block in the district of Muzaffarpur, has found that dairy being profitable enterprise should be encouraged in order to enable diversification of the farm business by providing proper and adequate supply of production credit, so that the beneficiaries may adopt this business on scientific and commercial lines. The lending institution, may before lend-use the prediction criteria on he the basis of significant factors which will enable them to know the category to which the prospective borrowers belongs and this will reduce the risk they run in lending to the new borrowers.<sup>5</sup>

### **Sampling Design**

A sample of 500 households was selected by using a Multistage Stratified Random Sampling Technique.” To begin the entire district of Sonapat was stratified into the following four Tehsils:

1. Sonapat
2. Gohana
3. Gannaur
4. Kharkhoda

These four Tehsils have 323 inhabited villages, 32 villages were selected among the universe by using random sampling technique. The selected sample was further divided in four tehsils under study using proportionate method :

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<sup>4</sup> Ramesh Chand and Sidhu, D.S. (1985) “Characteristics of Agricultural credit in Punjab- A discriminate Function Approach”, Indian Co-operative Review, XXII (3) pp. 251-62.

<sup>5</sup> Sahu-Bahram (1987), A study on Repayment on Dairy loans financed under IRDP (Block Maraul, District Muzaffarpur) – Internet.

## Selection of Sampled Villages

Tehsil	Total villages	Proportionate selected village
Sonepat	139	14
Gohana	80	8
Gannaur	60	6
Kharkhoda	44	4
Total	323	32

Source: District Statistical Table, 2005.

To collect the data, the indebted households were broadly divided into two categories viz. farmer and agricultural labours.

The category comprising 'farmers' was further sub-divided into four categories i.e. 'marginal farmers', 'small farmers', 'medium farmers' and 'large farmers'.

Marginal	Upto 2.5 acres
Small	2.5 to 5 acres
Medium	5.0 to 10 acres
Large	Above 10 acres

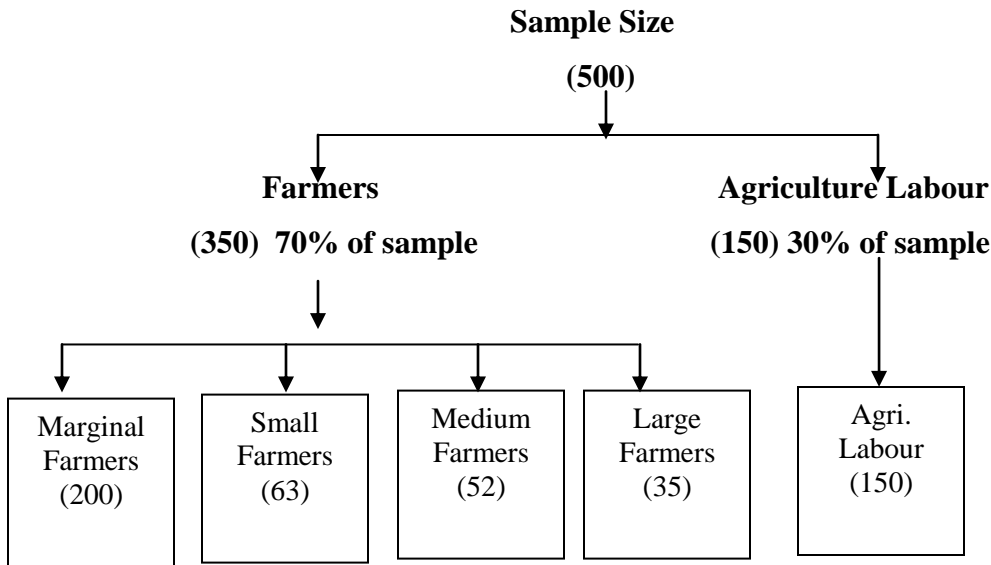
### The category 'Agriculture labour' includes

A person considered to be an agricultural labourer, if he/she engages in one or more of the following agricultural occupations in the capacity of a manual labour and earns more than 50 percent of his/her income from them:

- a) Farming
- b) Dairy farming
- c) Raising of livestock, bees or poultry etc.

For collection of sample, 350 farmers and 150 agricultural labours were selected. This selection was based on the proportion of farmers and agriculture labour to the sample selected in the existing districts.

## Selection of Sample



- (ii) To select the ultimate units, i.e. the farm households, a 'Proportionate Random Sampling Technique' were used. In the first place, all the indebted households in each of the 32 villages selected under the two stages Random Sampling Technique above, were divided into the four categories according to the size of land holdings by ownership:

## Mode and Course of Repayment

Repaying capacity of the borrowers refers to the surplus left with the borrowers after meeting farming and family expenses and it gives an idea about the possibilities of loan recoveries. For the present purpose, capacity to repay is measured in terms of difference between total income and total expenditure. Credit institutions are interested in getting their money back from loans. As repayment alone insures the effectiveness of the institution operations, the course and mode of repayment assumes high significance in financial system. The whole money is taken back in lump-sum or in installments depending upon the maturity period of loans. Therefore, it shall not be out of place to describe the maturity pattern of agricultural loan, which very much depends upon the cause of loan.

**Table 1****Rate of Interest, Mode of Repayment on Different Types of Credit provided by different Credit Lending Institutions**

Sr. No.	Credit lending institution	Types of loan	Rate of Interest	Installments	Duration of Repayment
1	Commercial Banks	Fixed capital	8.50 to 12%	Half yearly (harvesting)	5
		K.C.C.	7 %	Half yearly (harvesting)	Half yearly (harvesting)
2.	Co-operative Societies/Banks	Fixed capital	12%	Monthly	5 years
		Working capita	10%	Half yearly	6 months
3.	Government	Milk animal	8.5%	Monthly	5 years
4.	Money lender	All type	12 to 36%	Wish to Borrower	As wish
5.	Commission Agents	Working and All type	24%	Harvesting	6 months
6.	Relatives/ Friends	All type	As wish	Wish to lender	or wish

Table 1 shows the rate of interest, mode of repayment and nature of installments as various types of loans provided to the lonees by the formal and informal sectors. The rate of interest 8.5 percent on government scheme with subsidy. The rate of interest varied from 8.5 to 12 percent on fixed capital and Kisan credit cards of commercial banks also the subsidy 3 percent of regular repayment of the credit on Kisan Credit Card. The co-operative societies charged 12 percent rate of interest on fixed capital such as poultry, dairying, piggery etc and charged 10 percent on working capital such or cash or kind loans. The rate of interest varied 12 to 36 percent of the money lender and 24 percent of the commission agents. The rate of interest charged by the relatives/ friends depends on their mercy.

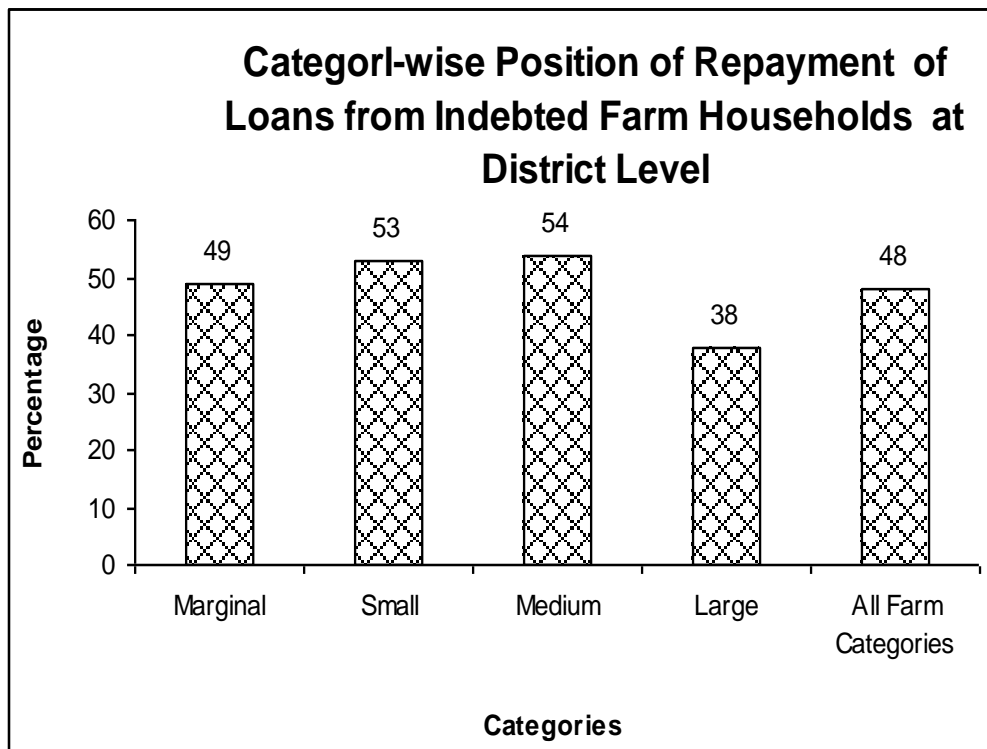
The fixed capital loans provided by commercial banks are paid back at harvesting time or six monthly by the borrower and as the same in respect of working capital loans of co-operative societies and commission agents. However, the milch cattle and poultry loans etc. are paid back monthly by the borrowers. The root factor of deciding the recovery period is the productivity of

the cause of the loan itself.<sup>6</sup> The crop loan is realized soon after the harvest is marketed because it has given the financial strength to the farmer to enable him to repay loan. But other loans are repayable after certain period as in that case start up period is allowed to enable the farmer to repay the loan.

**Table 2**  
**Category-wise and Agency-wise Position of Repayment of Loans from Indebted farm Households**

Percentage of Repayment in Respect of Demand							
Categories of the farmers	Agencies						
	C.B.	Co-ops	Govt.	M.L.	CA	Relatives/Friends	All Agency
Marginal	48	48	70	20	32	33	49
Small	63	47	69	26	22	26	53
Medium	58	49	70	19	16	31	54
Large	42	28	–	46	12	33	38
All farm categories	52	44	70	23	20	27	48

Source: Field Survey.



**Fig. 1**

<sup>6</sup> Gupta Umesh Chandra (1991), "Agriculture Finance in India" Anmol Publication New Delhi p. 283.

Table 2 shows the recovery position in agricultural loans in the district of Sonapat ranged from 44 percent to 70 percent in formal sector and 20 to 27 percent in informal sector. Within the category in respect of repayment, the best performance was given by medium farmers where the percentage of repayment to demand is 54 percent. The situation is alarming in large farmers category where this percentage was as low as 38 percent. When we compare this situation with the expenditure pattern of the large farmers above 50 percent goes for the non-productive purposes. At the district level the recovery of loans to demand is 48 percent. It means that the repayment position is not evidently far from satisfaction. Mishra, Gupta and Sehgal (1983) opined that the recovery percentage was more in small farms than in the large farms.<sup>7</sup>

**Table 3**

**Category-wise and Agency-wise position of Overdue of Indebted Farm Households**

(Defaulted Amount in Rupees)

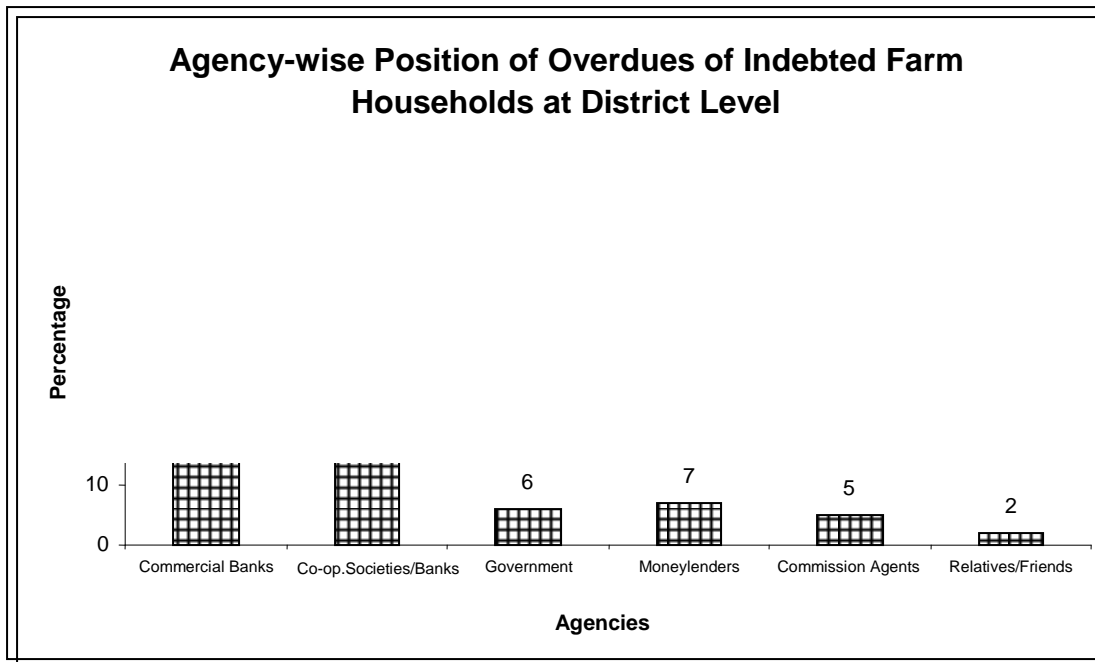
Categories of the farmers	Agencies							
	C.B	Co-ops	Govt.	M.L.	C.A.	Relatives/ Friends	All agencies	%age of Total
Marginal farmers	383869	1115060	184680	154200	175400	14000	2027209	47
Small farmers	179000	293500	69500	48000	70000	50000	710000	16
Medium farmers	307000	407000	6000	36000	—	—	756000	17
Large farmers	300000	440500	—	70000	—	17500	828000	20
All farm categories	1169869 [27]	2286060 [53]	260180 [6]	308200 [7]	245400 [5]	81500 [2]	4321209 [100]	100

Source: Field Survey

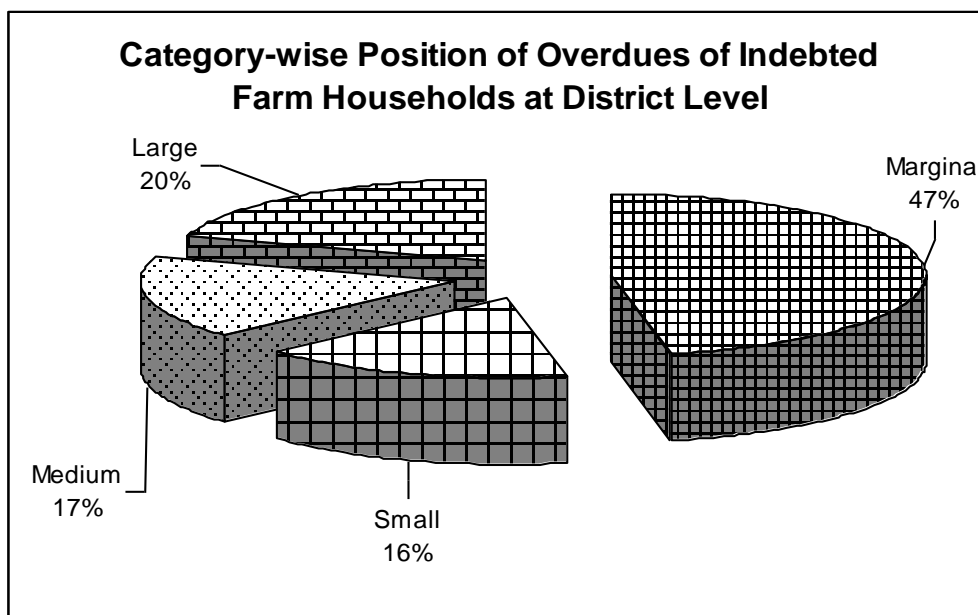
Note: Figures in the brackets shows the percentage.

<sup>7</sup> Mishra R.S., Gupta, S.K. and Sehgal, K.K. (1983) "Working of Farmers Service Society in Japalpur District (MP) with reference to Farm loans," Indian Co-operative Review, 21(2) pp. 217-21.





**Fig. 5.3**



**Fig. 2**

The table 3 shows the category-wise and agency-wise position of overdues of indebted farm households at district level. The last column of the table shows that the defaulted amount is highest i.e. 47 per cent of the total overdues in case of marginal farmers and lowest i.e. 17 per

cent, in case of small farmers class. The table further reveals that the highest defaulted amount i.e. 53 per cent of the total overdues is in co-operative societies/banks. The study reveals that the main reason behind this default was that no action taken by co-operative societies/banks against defaulters. The study further reveals that the minimum number of defaulters rests with relatives/friends categories. Pandey and Singh (1981) reported that repayment of loan was the combination of ability to repay (i.e. net income) and willingness to repay.<sup>8</sup>

## Types of Defaulter

A defaulter may be defined as one who does not repay his dues within the time stipulated for repayment. There are two types of Defaulters viz., genuine defaulters and willful defaulters. Genuine defaulters are those who are unable to pay the institutional dues due to the genuine reasons e.g. crop failure, death of animal, natural calamities etc. willful defaulter are those who have sufficient surplus left with them and are able to repay the loans but knowingly and deliberately they do not repay or they have no intention to repay the dues. The study covers only financial institutions not informal institution or private institutions.

**Table 4**  
**Category-wise and Agency-wise type of Defaulter for Sample Farm Households**

(Figures in absolute number)

Categories of the farmers	Agencies														
	Commercial Banks					Co-operative Societies/Banks					Government				
	Willful defaulter	Non-Willful defaulter	Reschedule	Regular	Not Borrow	Willful defaulter	Non-Willful defaulter	Reschedule	Regular	Not Borrow	Willful defaulter	Non-Willful defaulter	Reschedule	Regular	Not Borrow
Marginal	21	22	3	71	83	34	39	66	48	14	17	15	–	95	73
Small	7	6	5	27	18	8	7	26	17	5	7	5	–	16	35
Medium	8	4	2	30	8	10	5	16	10	11	1	–	–	–	51
Large	6	–	1	27	1	6	–	14	12	3	–	–	–	–	35
All farm categories	42	32	11	155	110	58	51	122	86	33	25	20	–	111	194

<sup>8</sup> Pandey, U.K. and Singh I.J. (1981) "Risk and credit Management in Changing Agriculture". Indian co-operative Review, 9(1). Pp. 91-103.

Total no. of Sample Surveyed - 350															
Percentage of Total	12	9	3	44	32	17	14	35	25	9	7	6	–	32	55

Source: Field Survey

The defaulter position might be different in different agencies and categories of the farmers. One can have an idea about the defaulter position of loans in different agencies and categories of the farmer from table 4. One can see from table 5.29 that commercial banks have the highest 44 percent loners households are regular as against 25 percent of the farmers irregular/ repayment defaulter in which 12 percent are willful and 9 percent are non willful defaulter and only 3 percent farmers who reschedule their loans during natural calamities. The co-operative societies have the highest 35 percent of farmers who reschedule their loans at the time of Rabi and Kharif and on the other side 31 percent farmers are defaulters. The government have 32 percent farmer are regular repayee and 7 percent, 6 percent are willful, non-willful defaulter respectively. Balishter (1983) found that the repayment capacity of small farmers was lesser compared to medium and large farmers.<sup>9</sup>

#### **Consequence of Delinquency and Default:**<sup>10</sup>

The persistent high level of overdues have adversely affected the liquidity position of the financial institutions. Overdues result in blocking of funds and choking of credit channels at all levels. Von Pischke (1977) has analysed the consequences of delinquency and default with respect to SFCI as follows:

- i) Poor collection performance deprives the SFCI of funds for relenting, reinforcing the need to ration credit stringently and to rely on the treasury or external sources of funds for new lending. The repayment from borrower no longer becomes important source of funds and heavy dependence upon such external sources may limit SFCI's capacity for self-reform.
- ii) Poor collection performance has its shattering effect on the morale of the staff. Perennial massive default problems sap the will to succeed. Pessimism. Fraud occurs more often.

<sup>9</sup> Balishter (1983) "Evaluation of Repayment capacity of Farmers," Indian co-operative Review, 21(1) pp. 90-93.

<sup>10</sup> Kindo K. Trivines (1992). *Credit Delinquency in India*, Punthi Pustak, Calcutta, pp. 119-128.

- iii) Heavy default implies that loan discipline required by public sector lenders is weak. This discourages private lending as well, because security cannot be easily realized or prosecution of defaulters cannot be carried through. As a result, the overall size and number of loans are constricted.
- iv) Poor collection record over a long time leads to lender-borrower alienation over time. this adversely affects the knowledge and intimacy of the borrowers required to obtain higher collections within the borrower's ability to pay.
- v) The poor collection performance permits delinquency transfer, given the time value of money, especially in low interest rate regimes delinquent amounts which are never recovered constitute a gift given by the lender to the borrower encouraging more borrowers to enjoy such gifts.
- vi) The lender is not the only one who suffers when his portfolio contains loans in arrears. The borrower in arrears may be forced to sell some of his assets to meet his obligations but the sale may impair his abilities to operate at a profit forcing him to sell more of his assets may be ending up with the sale of his farm.
- vii) Besides lenders and borrowers, other parties are also likely to suffer because of the lender's bad debt and borrower's default. The disposable fund of the lender gets diminished by delinquency, depriving some credit-worthy applicants while other may be subjected to delays in loans.
- viii) If farm credit programmes get closely identified with Government, the poor collection performance undermines the power of the Government in rural areas as a rural developer. It demonstrates that Government is unwilling or unable to enforce contracts and laws.
- ix) Government credibility is jeopardized and poor administration, characterized by lack of will, imposes of cost on the rural community in terms of inflexibility of administrative response and in terms of barriers to access of public services constricted by enterprising individuals within the public service.

- x) Loans default also increases the cost of credit. Lender's administrative costs in terms of deployment of extra staff; transport cost of visit to defaulters, hiring collection agents, correspondence, legal expenses etc. increases over and above the normal operations. The costs of collection at times exceed the collection itself.
- xi) There is social cost of collection of arrears as well. This is in terms of tendency for collection activities to occupy the lender's staff and clog his decision making machinery. The time and effort to devote to long range planning, design of more efficient accounting and information channels and contemplation of or experimentation with other activities aimed at tapping the rural market for financial activities are surrendered for arrears collection.
- xii) Another social cost is the ill-will between debtor and creditor. Public sympathy often moving in favour of debtors, the creditor has to rise 'hard' measures like 'army' or 'police' to collect arrears. The litigation procedure entail another social costs.

### **Conclusion and Suggestion**

Credit from financial institutions for agriculture & allied activities and rural development is an innovation in India. As adequate information is essential to its adoption in the social system, banks may provide such information to the farmers which might be interesting, useful and profitable to them. It is also necessary to create a general awareness amongst the people about the various schemes of the government and then to see that people take advantage of those schemes. This will also help in bringing about a desirable change in attitude towards bank and economic motivation of the people. To sum up the study, some positive suggestions are enumerated hereafter, are advanced for better recovery of agricultural loans keeping the satisfactory contact with the agricultural world.

### **Abbreviation**

C.B-Commercial Bank, Co-ops- Co-operative Societies, C.A.- Commission Agent, Govt.- Government, M.L.- Money Lenders

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