

Analysis of Default in Repayment of Agricultural Credit Disbursed by Banks in Kerala

Dr. Sujesh. C. P

Associate Professor of Commerce
RSM SNDP Yogam College, Koyilandy

Abstract

Agricultural sector remains a major sector as it contributes towards many spheres of the economy to a large extent. One of the major concerns of the Government is to impart the needed facilities for the development of the sector including financial assistance. Consequently, banks at national and state levels have been disbursing huge amount of credit to the agricultural sector so as to have proper utilisation in the agricultural sector. A total of Rs.12,54,762 crore was disbursed by banks in the country towards agricultural sector during the year 2018-19, which was 14 percentage more than the target fixed for the year. However, the mounting overdues and high NPA level in agricultural credit is a major concern on the part of the banks. Even though the amount of agricultural credit disbursed by banks and other financial institutions has been increasing year after year, the repayment of the same is not so prompt. Diversion of credit for some other non-productive purposes, low income from agricultural operations and crop failure due to natural calamities contribute to the problem. There is a need for analysing in detail the level of default in repaying the agricultural credit availed by the borrowers from banks as well as the reasons of the same. Only by identifying the same, the bankers can ensure recycling of credit, which is very much essential for the productivity and profitability of the agricultural credit. All the stakeholders comprising, agricultural borrowers, lenders of agricultural credit, Governments, and the society at large are held responsible for the evils prevailing in agricultural sector, and varied strict sense of measures are to be implemented.

Keywords: Agricultural Credit, Bank, Borrower, Repayment, Default.

Introduction

Agriculture is the backbone of our economy and development of this sector deserves to be accorded a very high priority in any scheme of resource utilisation for general economic development. General economic development requires agricultural development either to proceed or to go hand in hand with it. The role and significance of agriculture can be judged from its contribution to the different spheres of the economy, comprising of the contribution in growth of national income, provision of food and nutrition, providing raw materials to industries, contribution to international trade, contribution to capital formation, generation of employment, contribution to domestic trade, and development of economic infrastructure. The statistics reveals that the amount of agricultural credit disbursed by the banks has been increasing year after year. An amount of Rs.12,54,762 crore was disbursed by banks to the agricultural sector in the country during the year 2018-19, which was 14 percentage more than the target fixed for the year.

The performance in agricultural lending is generally evaluated on different basis and one prominent among them is the repayment performance on the part of the agricultural borrowers. The repayment performance on the part of the borrowers is the most crucial force, which will affect profitability as well as recycling capacity of the agricultural credit disbursed by the banks. Even though there is a positive sign in the amount of agricultural credit disbursed by banks, the repayment performance of the same is not so favourable due to diversion of credit for some other non-productive purposes, low income from agricultural operations and crop failure due to natural calamities. An in-depth analysis as to the level of default in repaying the agricultural credit availed by the borrowers from banks as well as the reason of the same is a major concern for the policy makers. Thus, the bankers can ensure recycling of credit, which is very much essential for the productivity and profitability of the agricultural credit.

Significance

There exists a positive trend in the disbursement of agricultural credit by banks in the country and it has resulted in the development of the agricultural to a great extent. However, the statistics shows that the performance in agricultural credit is not free from defects, one crucial among them is the problem associated with repayment performance of the credit. Heavy default on the part of the borrowers leading to mounting overdues, high level of Non-Performing-Assets, less profitability and productivity is a major seen prevailing in the agricultural credit system. In order to have better repayment performance in agricultural credit, stringent operative measures at different levels need to be initiated to ensure proper repayment of

agricultural credit. Against this background, an attempt is made to examine the repayment performance of agricultural credit availed by the agricultural borrowers in the State of Kerala.

Objectives

The main objectives of the study are noted below;

1. To analyse the level of default made by the agricultural borrowers in repaying their agricultural credit,
2. To compare the default committed by the agricultural borrowers on different basis, and
3. To analyse the reasons for default in repayment of agricultural credit.

Review of Literature

Sankaraiah and Narendrakumar (2012) find that the small and marginal farmers have repaid their loan to the amount of 34.39 percent and 38.54 percent respectively, while large farmers repaid 63.42 percent of their total loans. The small, marginal and large size farmers have overdues to the tune of 65.61 percent, 61.46 percent and 36.58 percent respectively. The borrowers who repaid the loans were 41.67 percent, while 58.33 percent of borrowers were not repaid their loan amount. Sirajudeen (2012) remarks that with regards to both investment and production credit there exist defaulters in repayment of the credit. Ratanlal Godara and others (2014) finds that among the farmers who pay loan on time are 70 percent of small, 47 percent of medium, and 53 percent of large farmers. Medium farmers have larger share in over dues than large farmers followed by small farmers. Sakshi Sharma (2015) states that the ratio of Non Performing Assets in agricultural credit has been increasing steadily over the past few years. It also reveals that the recovery of agricultural advances is about 75 percent during the past few years and it needs to be improved further.

Methodology

The study is analytical in nature and which uses mainly primary data, which was collected from the borrowers of agricultural credit with the use of a well-structured interview schedule. The Technique of Stratified Random Sampling was adopted for the selection of sample borrowers. In the beginning, the whole State of Kerala was divided in to three strata by considering the geographical entity, namely, northern, central and southern regions. From each stratum one district was selected at random and suitable sample size was taken by giving equal representations to the three groups of banks selected for the study, namely, commercial banks, co-operative

banks and regional rural banks. A total 450 agricultural borrowers were selected by giving equal representation to each region and each group of banks by using appropriate statistical equations. For analysing the data, different mathematical and statistical tools like, Mean, Percentage, Rank, ANOVA and Chi-square Test were used.

Results and Discussions

The analysis results of default made by the borrowers in the repayment of agricultural credit are narrated below.

1. Default in Repayment of Credit

The borrowers are to repay the agricultural credit availed by them as per the stipulations contracted with the banks. Otherwise the banks will be forced to take measures to recover the same, which will adversely affect the agricultural operation. The borrowers' repayment performance is measured by analysing whether there exists any default or not on their part. The default in repaying the credit is analysed bank wise, category wise, and region wise as follows.

1.1. Bank Wise Default in Repayment of Credit

The bank wise repayment performance as per Table1 states that a major part of the borrowers (54.44%) made default, of which commercial bank occupies the top position (60.67%), followed by RRBs (53.33%) and co-operative bank (49.33%). The 'P' value as per Chi-square test is 0.136, which is greater than 0.05, hence the null hypothesis is accepted at 5% level of significance and therefore, it can be concluded there exists no significant association between the type of banks and the default made by the borrowers in repaying the credit.

Default in Repayment	Name of the Bank			Total	Chi Square	P Value
	Com. Bank	RRB	Co-op. Bank			
Default	91 (60.67%)	80 (53.33)	74 (49.33)	245 (54.44)	3.996	0.136
No default	59 (39.33)	70 (46.67)	76 (50.67)	205 (45.56)		
Total	150 (100)	150 (100)	450 (100)	150 (100)		

Table 1. Bank Wise Default in Repayment of Credit

1.2. Category Wise Default in Repayment of Credit

The farmers' category wise analysis with regard to the default (Table 2) in repayment of credit discloses that, out of the defaulters (54.44%), more defaulters are from small category (64.77%) than medium (36.89%) and large categories of farmers (37.88%). The Chi-square test applied (P=zero) reveals that there is significant association between the categories of farmers and the default in repaying the agricultural credit availed by the borrowers.

Default in Repayment	Category of Farmers			Total	Chi Square	P Value
	Small	Medium	Large			
Default	182 (64.77%)	38 (36.89%)	25 (37.88%)	245 (54.44%)	32.171	0.000
No default	99 (35.23%)	65 (63.11%)	41 (62.12%)	205 (45.56%)		
Total	281 (100%)	103 (100%)	66 (100%)	450 (100%)		

Table 2. Category Wise Default in Repayment of Credit

1.3. Region Wise Default in Repayment of Credit

The default in repayment of the credit is analysed region wise also and its result (Table 3) reveals that default was made mainly by borrowers of southern region (89.33%) and the borrowers who made default is 41.33% in northern region and 32.67% in central region. The Chi-square test result substantiates that there exists significant association between the three regions and making of default in repaying the credit by the borrowers.

Default in Repayment	Name of the Region			Total	Chi Square	P Value
	Northern	Central	Southern			
Default	62 (41.33%)	49 (32.67%)	134 (89.33%)	245 (54.44%)	32.171	0.000
No default	88 (58.67%)	101 (67.33%)	16 (10.67%)	205 (45.56%)		
Total	150 (100%)	150 (100%)	150 (100%)	450 (100%)		

Table 3. Region Wise Default in Repayment of Credit

2. Reasons for Default in Repayment of Credit

The Table 4 narrates the rank wise reasons for the default in repayment of credit for the three types of banks specifying the mean values. From the Table, it is clear that the foremost reason for default in repayment of credit considering all banks together is the 'expectation of waiver off'. The other two important reasons are 'destruction of crop' and 'low yield or income from agriculture' respectively. However, the three important rank wise reasons for default in case of commercial banks are 'low yield or income from agriculture', 'expectation of waiver off', and 'destruction of crop', whereas the rank wise reasons for default of RRBs and co-operative banks are almost the same, which are 'expectation of waiver off', 'destruction of crop', and 'huge family expense'

Reasons for Default	Mean Values				F value	P value	Action
	Com. Bank	RRB	Co-op. Bank	Total			
Heavy Interest Burden to Money Lenders	3.84 (9)	3.89 (8)	3.75 (3)	3.83 (8)	1.623	0.198	Accept
Low Yield or Income from Agriculture	3.19 (1)	3.68 (4)	3.75 (3)	3.54 (3)	14.766	0.000	Reject
Unsuitable Repayment Norms	3.82 (8)	3.86 (7)	3.84 (6)	3.84 (9)	0.161	0.851	Accept
Expectation of Waiver Off	3.34 (2)	3.19 (1)	3.51 (1)	3.35 (1)	3.136	0.044	Reject
No Follow-up by the Bank	3.72 (5)	3.89 (8)	3.80 (5)	3.80 (7)	3.105	0.046	Reject
Destruction of Crop	3.38 (3)	3.45 (2)	3.65 (2)	3.49 (2)	3.377	0.035	Reject
Huge Family Expense	3.49 (4)	3.63 (3)	3.65 (2)	3.59 (4)	1.831	0.161	Accept
Diversion of Credit	3.73 (6)	3.80 (5)	3.76 (4)	3.76 (5)	0.401	0.670	Accept
Difficulty to Go and Pay	3.99 (11)	3.95 (10)	3.91 (8)	3.95 (12)	3.455	0.032	Reject
Delay in Receiving Sale Proceeds	3.84 (9)	3.95 (10)	3.91 (8)	3.90 (11)	2.555	0.079	Accept
Repaying Old Debt	3.78 (7)	3.81 (6)	3.75 (3)	3.78 (6)	0.224	0.800	Accept
Wilful Default	3.88 (10)	3.91 (9)	3.85 (7)	3.88 (10)	0.414	0.662	Accept

Table 4. Bank and Rank Wise Reasons for Default in Repayment (ANOVA)

(The figures in brackets represent ranks)

In order to verify whether there exists any significant difference in all the reasons for default among the banks under study, the test of ANOVA is used. As stated in the Table the 'P' values for the reasons, 'heavy interest burden to money lenders', 'unsuitable repayment norms', 'huge family expense', 'diversion of credit', 'delay in receiving sale proceeds', 'repaying old debt', and 'wilful default', are more than 0.05. It exposes that there exists no significant difference among the borrowers of the three group of banks as to the reasons for default in repayment of credit. However, with regard to all other reasons for default, there exists significant difference among the borrowers of the three groups of banks since the 'P' values are less than 0.05.

For the reason, 'low yield or income from agriculture', commercial banks have the mean value of 3.19, which is less than other banks, hence more borrowers of commercial have noted it as a main reason for default as compared to other groups of banks. The mean value of the RRB for the reason, 'expectation of waiver off', is 3.19 which is less than other banks, hence more borrowers of RRBs have affected by this reason for default in repayment of agricultural credit they had enjoyed than the borrowers of other groups of banks.

With regard to 'no follow-up by the bank' as a reason for default, the commercial banks have the least mean value (3.72), therefore, it can be concluded that more borrowers of commercial banks have affected by this reason for default in repayment of credit than the borrowers of other categories of banks. 'Destruction crop' as a reason for default also differs between the borrowers of the banks. The co-operative banks have the mean value of 3.65, which is higher than other banks; hence the least borrowers of them noted it as a reason, for default than the borrowers of other banks. The calculated mean value of co-operative banks for the reason, 'difficulty to go and pay', is lesser (3.91) than other banks, indicates that more borrowers of co-operative banks have noted it as a reason for default as compared to other groups of banks.

Objectives

Agricultural credit is considered as a back bone for agricultural operations since majority of the populations is depended mainly on it directly or indirectly. The proper channelisation as well as recycling of agricultural credit can be ensured only with better repayment performance of credit without default. The study reveals that repayment performance of agricultural credit is not satisfactory as there is default in repayment at varying levels on the part of the borrowers. The reasons of the same comprises personal, natural and also of credit facilitation nature. Therefore, the agricultural borrowers and lenders are to be inculcated as to the significance of

agricultural credit so as to have better performance in the credit system. Moreover, the Government has to initiate urgent steps to ensure the standard performance to reap the benefit of agricultural credit as well as agricultural endeavour.

References:

1. Amarjith Singh., Sadhu, A. N., and Jasbir Singh. (2013). *Fundamentals of Agricultural Economics*. Himalaya Publishinh House, Mumbai.
 2. Gupta, S. L., and Gupta, H. (2012). *Business Research Methods*. Tata Mcgraw Hill Education India Pvt. Ltd., New Delhi.
 3. Misra, S. K., and Puri, V. K. (1996). *Indian Economy- Its Development Experience*. Himalaya Publishing House, Mumbai.
 4. Omprakash, V., and Kalaimohan, A. (2013). *The Impact of New Agricultural Technology on Income and Employment of Farmers in Thanjavur District*. *Southern Economist*, 52 (2).
 5. Praveen Kumar. (2017). *Redefining Agricultural Growth*. *Kurukshetra*, 65 (5),
 6. Rakesh Mohan. (2006). *Agricultural Credit in India- Status, Issues and Future Agenda*. *Economic and Political weekly*, 51 (11),
 7. Reserve Bank of Indial, Annual Report, 2010- 2019.
 8. Sekhar, K. C., and Lekshmy Shekhar (2015). *Banking Theory and Practice*. Vikas Publishing House Private Ltd., Noida.
 9. Sirajudeen, M. (2012). *A Comparative Study of the Working of Financial Intermediaries in the Agricultural Development of Kerala*. Thesis, University of Kerala.
 10. Yashbir Singh Shivay., and Anshu Rahal. (2013). 'Agriculture Gets Jump', *Kurukshetra*, 61(5).
-