

Causes for over dues in Banking Sector: An Empirical Study

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Abstract

One of the most disquieting features of the agricultural credit structure in India is the incidence of ever increasing over dues. The high level of over dues 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 over dues of the agricultural credit institutions. Although defaults are commonly attributed to adverse conditions, particularly droughts/floods, their basic causes line much deeper and range from the non-viability of the agricultural occupation itself, in some cases, lack of the forward-backward linkages and infrastructural facilities and services which support agriculture, the present paper discusses the Category of Defaulters and the Amount Defaulted in canal area and non-canal area

.Key Words: over dues, Defaulters and Defaulted amounted.

Objective of the study

To study the causes for over dues in Kurnool District.

Methodology and Sampling

The 75 branches of Andhra Pragathi Grameena Bank in Kurnool District are divided in two groups, canal area and non-canal area. There are 37 branches in the canal area and 38 branches in the non-canal area. A random sampling of 10 percent of the total branches namely 8 branches in all was taken.

150 farmers who borrowed loans from the bank during 2019-20 are selected randomly with probability proportional to the size sampling method (PPS sampling method) from the 8 sample branches and pre tested schedules were canvassed among them and the relevant data was collected.

Causes for over dues

There are multiplicities of causes for loan default among small rural farmers. The classification of causes is also quite varied. The data collected from the sample investigation regarding defaulters has been

summarized into six categories. Table 1 exhibits the categories of defaulters and the amount defaulted in both the canal and non-canal areas.

Each of these categories of causes for default among the sample beneficiaries is briefly analyzed.

1. Defects in Farm Production

Poor productive conditions in agriculture have made the farmers default on the loan amount. The defect in farm production is expressed in terms of “Non-viable Farm Units”. This implication is that farmers are willing to repay the loan amount but are unable to do so. The reasons for their default are several; lack of adequate irrigation facilities, water logging, inadequacy or non-availability of inputs in time, and extension service. Defects in farm production in the canal area account for 21.95 per cent of the defaulters and 13.04 per cent of the loan amount was defaulted. In the non-canal area the percentage of defaulters for the same reason was 25.45 and 23.34 per cent of the loan amount was defaulted.



Table-1, Category of Defaulters and the Amount Defaulted

Sl. No	Category of default	Canal Area				Non – Canal Area			
		No. of defaulters	Percentage of defaulters	Amount defaulted Rs.	Percentage of amount Default	No. of defaulters	Percentage of defaulters	Amount defaulted Rs.	Percentage of amount default
1.	Defects in Farm Productive	9	21.95	1,26,240	13.04	14	25.45	2,67,240	23.34
2.	Variability in incomes	8	19.51	1,73,530	17.93	10	18.18	3,36,530	29.39
3.	Defects in the credit organization	5	12.20	96,400	9.96	7	12.73	1,47,300	12.87
4.	Attitudinal conditions	6	14.63	63,260	6.54	9	16.36	74,650	6.52
5.	Misallocation	7	17.07	2,68,100	27.70	7	12.73	1,97,400	17.24
6.	Miscellaneous	6	14.63	2,40,210	24.82	8	14.55	1,21,840	10.64
Total		41	100	9,67,740	100	55	100	11,44,960	100

Source: Field Data

Table 1(A)

ANOVA for Categories of Amount Defaulted

Source of variation	Degree of freedom (d.f)	Sum of squares (SS)	Mean of Squares (MS)	F values	F. Critical value
Category of amount defaulted	3	226.375	75.4583333 3	1.22779661	9.276628
Area	1	378.125	378.125	6.15254237 3	10.12796
Error		184.375	61.4583333 3		

* 5 per cent level of significance

Source: Table 1

Table 1(A) shows that there is a significant difference between category of amount defaulted and between the canal and non-canal areas at 5 per cent level of significance.

2. Variability in Incomes

The farmers may be unable to repay their loans during a particular season because of crop failures, natural calamities, the destruction of crops by fire and other hazards. Their inability to repay may also be caused by a sudden fall in prices, or the unmarketability of their production. Farmers in this category were unable though willing to repay the loan amount. In the canal area this category accounted for 19.51 per cent of defaulters and 17.93 per cent of the amount defaulted. In the non-canal area, the defaulters were 18.18 per cent and the loan amount defaulted was 29.39 per cent.

3. Defects in Credit Organizations

Since organizations giving credit do not pressurize farmers to repay the loan amount in time and promptly, they tend to believe that they may not have to pay penal interest, nor endanger their subsequent borrowing by their default. From the same institution sometimes the staff of a credit agency might even encourage its borrowers not to repay. Defects in the credit organizations account for 12.20 per cent of the defaulters and 9.96 per cent of the loan amount defaulted in the canal area. In the non-canal area, for the

same reason 12.73 per cent were defaulters and the loan amount defaulted was 12.87 per cent comparatively much less than in the canal area.

4. Attitudinal Conditions

Farmers who do not want to repay the loans despite their ability to repay fall into this category. They consider government funds as grants rather than loans. This cause is closely linked with the defects in the credit organization policies. In the canal area 14.63 per cent of the defaulters belonged to this category and the percentage of the loan amount defaulted was 6.54. In the non-canal area the defaulters were 16.36 per cent and the loan amount defaulted was 6.52 per cent.

5. Misallocation

The use of funds for purposes other than those from which the loan amount was intended can interfere with repayment. Some persons may have invested the loan proceeds in other activities, which either failed or even if successful, there may be a lack of liquid funds with them to repay on time. Some of the misallocations of borrowed funds are use of funds for ceremonial needs, medical expenses due to sudden illness, or death or repayment of loans raised earlier from other sources. In the canal area this category accounted for 17.07 per cent of the defaulters and 27.70 per cent of the loan amount defaulted. In the non-canal area, this category accounted for 12.73 per cent of the defaulters and 17.24 per cent of the loan amount defaulted.

6. Miscellaneous

In the canal area 14.63 per cent of the defaulters and 24.82 per cent of the loan amount defaulted belonged to this category. In the non-canal area 14.55 per cent of the defaulters and 10.64 per cent of the loan amount defaulted belonged to this category. They did not indicate any specific reason which compelled them to default in repayment of dues to the credit agencies. This is, in fact a “don’t know” category. Some of the default could be caused by “willful default”, political interference is also a possible cause included in this category.

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