

## CHAPTER V

### MICRO LEVEL STUDY OF THE UTILIZATION AND REPAYMENT BEHAVIOR OF THE BORROWER-FARMERS IN SELECTED VILLAGES

#### 5.1 Nature of Credit Need of the Farmers

Most of the Indian farmers are illiterate and poor and they are always in search of credit, even in some cases, they do not know why they want credit and what type of credit they need. According to the duration of credit, farmers' credit need is classified into three groups i) short-term credit ii) medium-term credit and iii) long-term credit. Farmers need short term credit for buying seeds, manures, fodder for animals etc. Such type of credit never exceeds a period of one year. Medium-term credit is needed by farmers for some improvements in land, agriculture implements, cattle etc. and such type of credit does not exceed five years. Again long term credit exceeds five years. Such type of credit is needed by the farmers mainly for purchasing additional plot of land, heavy farm technologies like power-tiller, tractor, thrasher etc.

Farmer's credit need is not only classified as per duration of credit, it may also be grouped into two as per the purpose of usage of credit. The two groups are – i) productive and ii) non-productive. The farmer needs loan to buy seeds, fertilizers, implements, etc, to pay government taxes and to make permanent improvements on land. All these loans are for agricultural operations. The latter, i.e., non-productive loan, includes celebration of marriage, birth and death, for litigation etc.

Generalization of any problem needs an intensive survey at a micro level of the problem-stricken people. We have already analysed different aspects of the problems in financing agricultural operations as a whole at macro level in

the district of Uttar Dinajpur in our earlier chapters. But if we want to draw any conclusion in general we have to make an intensive survey of the individual farmers. Their conditions, problems, behavior etc. are to be analyzed. In this chapter, we have done a micro level study of the problem with the help of primary data collected through field survey. Here we have dwelt with the need of the field survey, objectives of the survey and also the methodology adopted in our field survey. We have also analyzed the nature of repayment behavior of individual farmers on the basis of the data collected in the field survey in 2004.

## **5.2 The Need for the Survey**

In previous chapter we have seen that there are so many problems in financing agricultural activities in the district of Uttar Dinajpur. A field survey was felt necessary to verify how far the generalizations made in earlier chapters, are true. It is a fact that farm credit is a problem not only to the fund providers, but to the farmers also. Credit agencies deliver credit according to their rules, farmers use fund as per their own wishes. Generally the outcome is that both can not reach their target.

Our field survey targets at ascertaining the actual problems faced by the individual borrower-farmers in obtaining loan in different blocks of the district of Uttar Dinajpur and the tentative measures for the solution of the problems. Generalization of the problems of the individual farmers is not an easy task as the information gathered through field-survey is neither satisfactory nor sufficient to make a comprehensive study. So, it is natural that the conclusions arrived at on the basis of the data collected by the field survey may suffer from certain limitations. Considering these lacunae, we undertook an independent enquiry for the present study with the following objectives.

1. Evaluation of the economic conditions of the individual farmers in the district of Uttar Dinajpur and the occurrence of overdues of their credit.
2. Identification of the relationship of overdues with operational holdings, levels of education, age-group, size of loan, farmers's expectation about waiver of loan etc.
3. Finding out the causes for increasing overdues in agricultural sector.

We have tried to achieve the above objectives as far as possible by collection of data through field survey with utmost sincerity.

### **5.3 Methodology Adopted in the Field Survey**

First of all, we stratified the nine (9) blocks of the area under study into three strata according to the level of infrastructure of development consisting of irrigation facilities, railway communication, rural electrification, establishment of health centers, educational institutions, financial institutions, pucca roads, etc.

These three strata represent highly developed, moderately developed and least developed blocks respectively. Then two blocks from each strata have been selected randomly, i.e. altogether six blocks have been chosen. Next, two villages from each of these six blocks have been chosen randomly. We selected thirty (30) loanee households from each village comprising of fifteen (15) marginal farmers, eleven (11) small farmers and four (4) large farmers.

These 12 villages have been randomly selected from 6 blocks for the purpose of field investigation. Two villages from each block have been selected randomly, i.e., altogether twelve (12) villages were selected.

Category of Blocks

A) Highly Developed Blocks

- i) Raiganj, villages – Bindole and Gouri
- ii) Kaliyaganj, villages - Anandapur and Bochadanga.

B) Moderately Developed

- i) Islampur, villages -- Gobindpur and Kamalagaon – Sujali
- ii) Karandighi, villages - Bazargaon and Golapganj.

C) Least developed Blocks

- i) Chopra – Daspara and Lakhipur
- ii) Goalpokhar I – Bhamdabari and Jaingaon

After twelve (12) villages being selected on the basis of the list of the farmers a list of total 360 farmers, who took loan from either formal sector or from informal sector have been randomly selected (30 from each village, i.e. 30 x 12 = 360 farmers).

Finally, 360 farmers were interviewed one by one personally. Relevant information and primary data were collected from them through questionnaire (Appendix – I). The 360 borrower-farmers were personally interviewed in order to gather the knowledge of the view of the farmers about the problems of agricultural operations, particularly farm credit. Out of 360 loanee farmers, 248 farmers took loan from formal sector and 112 from informal sector. Only the borrower-farmers from formal sector (248) were considered in this *chapter*.

After detailed discussions with the borrower farmers they (248 farmers) were classified into two categories – defaulters and non-defaulters. From among 248 farmers, 148 (59.68 percent) borrower-farmers were considered to be defaulters and 100 (40.32 percent) borrower-farmers as non-defaulters. We

considered a borrower-farmer to be defaulter who has not repaid 50 percent of his loan even after the lapse of 3 years.

We interviewed 148 individual defaulting farmers about their financial conditions regarding repayment of loan. Accordingly, they were classified into – willful defaulter and non-willful defaulter. On the basis of the data available from each respondent it was found that 84 (56.76 percent) were willful and 64 (43.24 percent) were non-willful. Willful defaulters are those who, in spite of having sufficient financial ability to repay loan, never think of repaying the loan. Such type of default arises due to the loanee farmer's apathy to repay loan. The factors contributing to the attitude of the farmers not to pay loan are- influence of social and political groups, agents of the money lenders insisting the borrower-farmers not to repay loan in time arguing that today or tomorrow the Government will exempt agricultural credit, liberal attitude of the Government as lack of follow-up action etc

Non-willful defaulters are those borrower-farmers who can not repay loan due to the causes of low productivity, crop failure owing to natural calamities like drought, flood, hailstorm etc., general poverty and unforeseen household expenses etc.

#### **5.4 Importance of Selection of Variables**

Some relatively important variables influencing the repayment behavior of the borrower farmers have been selected to measure the repayment behavior of the borrower farmers. The importance of the variables selected for our study is explained in a nutshell as under :

##### **1. Category of farmers ( $x_1$ ) :**

The repaying ability of the loanee-farmers depends upon the size of the farmers. In our study farmers have been categorized into three : marginal, small and big. Farmers who have less than 2 acres of land have been considered to be

marginal, with above 2 and up to 5 acres of land are small and farmers having above 5 acres of land as big. The category of farmers seems to have a correlation with the repayment ability of the borrower farmers ;

## 2. Literacy ( $x_2$ ) :

Farmer's ability to read and write and the level of formal education he possesses will effect the manner in which the individual borrower farmers gather information and adjusts himself to the environment of banking. It may be hypothesised that possession of higher level of formal education may result in better use of farm credit and better repayment. Farmers, who can read and write and above that, are considered to be literates.

## 3. Age classification of farmers ( $x_3$ )

Age may be an important factor for inducing default among the borrower farmers. This variable has been taken into account to test the relationship of age with the repayment performance of the loanee-farmers.

## 4. Diversion of loan amount for other purposes ( $x_4$ )

Diversion of the loan amount for other purposes is a prime factor for default of loan. This has become a tendency on the part of the borrower farmers to divert the loan amount to the purpose for which the loan was not taken. Some borrower farmers divert the loan amount earmarked for agriculture purpose, to buy household items and also for family expenses. This, in turn, affects the repaying capacity of the borrowers to some extent.

## 5. Caste of the borrower-farmers ( $x_5$ )

Caste is an important variable because socio-psychological aspects are involved with caste which influences attitudes towards repayment of loans. It is observed that ownership of land has been more or less on the line of the social hierarchy. Farmers belonging to upper castes own larger portion of land and

other economic resources. Farmers who belong to depressed castes possess only a negligible portion of land. This pattern of land holding may have some influence on the repayment behavior of the borrower. Upper caste farmers have more ability to repay loan, whereas farmers belonging to depressed castes have low capacity to repay loans. In our study, upper caste includes Brahmin, Kayastha and rich Muslims. Depressed castes includes scheduled castes, scheduled tribes, OBC and poor Muslims.

#### 6. Expectation of waiver of loan ( $x_6$ )

The expectation of waiver of loan on the part of the loanee-farmers is an important factor to influence the repayment behaviour. Sometimes political parties, social organizations and community based groups raise demand for exemption of loan delivered to the farmers. Their false promise to protect the interest of the borrower-farmers in terms of realization of this demand may influence the repayment pattern of the borrower and thus defaults or overdues take place. Besides, the government sometimes grants waiver of loan or interest on loan in certain districts just before election, political gatherings etc. or after natural calamities like flood, cyclone etc. The borrower-farmer in other areas also think that they may be given same concessions and thus procrastinate to repay loan in time. So, false promise, inducements and announcements lead the borrower-farmers to postpone repayment of loan.

#### 7. Size of loan ( $x_7$ )

The size of loan is a factor to influence the repayment behaviour of the borrower-farmers. The defaults/overdues may increase with the increase of the size of loan. The more the amount of loan, the higher is the amount of overdues and vice versa. If the amount of loan is lower, it is advantageous to the farmers to repay the loan. The size of loan has been classified into two according to the

amount of loan. The two groups are (I) below Rs. 10,000 and (II) above Rs. 10,000.

### 5.5 Statistical Tools Used

We have used three type of statistical tools – I)  $\chi^2$  – Test (chi-square test) to judge the significance of relationship between the defaulters and non-defaulters and each of the seven variables causing defaults/overdues of the borrower-farmers.

ii) Spearman Rank Correlation Analysis and (iii) Kruskal-Wallis H-Test have been applied to test the relative importance of some selected factors responsible for identifying willful and non-wilful defaulters.

#### Test on Category of farmers ( $x_1$ )

Now, let us apply  $\chi^2$  test to understand the significance of association between the defaulters, non-defaulters, and the category of farmers.

**Table 5.1 : Defaulters and Non-defaulters in Relation to Category of Farmers.**

Category of farmers	Category of farmers			Total
	Marginal farmers	Small farmers	Big farmers	
Defaulters(X)	68	72	8	148
Non-defaulters(Y)	56	19	25	100
Total	124	91	33	248

Source : Field Survey

Taking the hypothesis that the defaulting farmers and their categories are independent, the expected frequency corresponding to the number of categories of farmers and the defaulting and non-defaulting farmers would be :

Group	fo	fe	fo-fe	$(fo-fe)^2/fe$
X <sub>1</sub>	68	74.0	-6.0	0.486
X <sub>2</sub>	72	54.3	17.7	5.770
X <sub>3</sub>	8	19.7	-11.7	6.949
Y <sub>1</sub>	56	50.0	6.0	0.72
Y <sub>2</sub>	19	36.7	-17.7	8.536
Y <sub>3</sub>	25	13.3	11.7	10.292

Where,  $\chi^2 = \Sigma(fo - fe)^2 / fe$   $\chi^2 = 32.753$

Fo = Observed frequency (5.991)\*

Fe = Expected frequency

Df (Degree of freedom) = (r - 1) (c - 1)

$$(2 - 1) (3 - 1) = 2$$

where, r = row, c = column.

\* The table value of  $\chi^2$  for 2 degrees of freedom at 5% level of significance = 5.991.

We see that the calculated value of  $\chi^2$  is 32.753 which is much higher than Table value being 5.991. It is highly significant. So, the hypothesis reveals that the repayment behaviour of defaulting and non-defaulting farmers depend upon the category of farmers.

### Test on Farmers Level of Education ( X<sub>2</sub> )

**Table 5.2 : Defaulting and Non-defaulting Farmers in Relation to Rtheir Level of Education.**

Defaulters and non-defaulters in relation to category of farmers.

Category of loanee farmers	Level of Education		Total
	Literate farmers	Illiterate farmers	
Defaulters(X)	58	90	148
Non-defaulters(Y)	57	43	100
Total	115	133	248

Source : Field Survey

On the basis of  $H_0 : \rho = 0$ , the expected frequency would be :

Group	fo	fe	Fo-fe	$(fo - fe)^2/fe$
X <sub>1</sub>	58	68.63	-10.63	1.646
X <sub>2</sub>	90	79.37	10.63	1.424
Y <sub>1</sub>	57	46.37	10.63	2.437
Y <sub>2</sub>	43	53.63	-10.63	2.107
Df= 1				$\chi^2 = 7.613$ (3.841)*

\* The Table value of  $\chi^2$  for 1 degree of freedom at 5 percent level of significance = 3.841.

The Table value of  $\chi^2$  for 1 degree of freedom at 5 percent level of significance is 3.841 which is much lower than the calculated value of  $\chi^2$  being 7.613. It stands highly significant. Hence, the hypothesis does not hold good i.e., this variable is influential to dominate the repayment behaviour of the defaulting and non-defaulting borrower-farmers.

### Age Group and Its Impact on Repayment Behaviour (X<sub>3</sub>)

**Table 5.3: Defaulters and Non-Defaulters in Relation to Borrower Farmer's Age.**

Category of borrowers	Category of farmers			Total
	below 35 yrs. of age	above 35-50 yrs. of age	50 yrs and above	
	Defaulters(X)	31	70	
Non-defaulters(Y)	39	23	38	100
Total	70	93	85	248

Source : Field Survey

On the basis of  $H_0 : \rho = 0$ , the expected frequency would be :

Group	fo	fe	Fo-fe	(fo - fe) <sup>2</sup> /fe
X <sub>1</sub>	31	41.77	-10.77	2.777
X <sub>2</sub>	70	55.5	14.5	3.788
X <sub>3</sub>	47	50.73	-3.73	0.274
Y <sub>1</sub>	39	28.23	10.77	4.109
Y <sub>2</sub>	23	37.5	-14.5	5.607
Y <sub>3</sub>	38	34.27	3.73	0.406
Df = 2				$\chi^2 = 16.961$ (5.991)*

The Table value of  $\chi^2$  for 2 degrees of freedom at 5 percent level of significance is 5.991 which is much lower than the worked out value of  $\chi^2$  being 16.961. The Table value of  $\chi^2$  for 2 degrees of freedom at 5 percent level of significance = 5.991. So, it is highly significant. It means that this variable is sufficiently strong to dominate the repayment behavior of the defaulting and non-defaulting borrower-farmers.

#### **Diversion of Loan for Other Purpose (X<sub>4</sub>) :**

**Table 5.4 : Defaulters and Non-defaulters in Relation to Diversion of Loan**

Category of farmers	Opinion			Total
	yes	no opinion	no	
Defaulters(X)	90	18	40	148
Non-defaulters(Y)	35	12	53	100
Total	125	30	93	248

Source : Field Survey

On the basis of  $H_0 : \rho=0$ , the expected frequency would be:

Group	fo	fe	Fo-fe	(fo - fe) <sup>2</sup> /fe
X <sub>1</sub>	90	74.60	15.4	3.179
X <sub>2</sub>	18	17.90	0.10	0.0005
X <sub>3</sub>	40	55.5	-15.5	4.329
Y <sub>1</sub>	35	50.40	-15.4	4.706
Y <sub>2</sub>	12	12.10	-0.10	0.0008
Y <sub>3</sub>	53	37.5	15.5	6.407

Where  $df = 2$   $\chi^2 = 18.662$   
(5.991)\*

\* The Table value of  $\chi^2$  for 2 degrees of freedom at 5 percent level of significance is 5.991 which is much lower than the calculated value of  $\chi^2$  being 18.662. The result is highly significant. So, the hypothesis does not hold good i.e., this variable is dominant to influence the repayment behaviour of the defaulting and non defaulting borrower-farmers.

### Caste of the Borrower Farmers (X<sub>5</sub>)

**Table 5.5 : The Defaulting and Non-defaulting Farmers in Relation to Their Caste**

Category of farmers	Caste of borrower-farmers		Total
	Lower caste	Upper caste	
Defaulters (x)	68	80	148
Non-defaulters (y)	39	61	100
Total	107	141	248

Source : Field Survey

On the basis of  $H_0 : \rho = 0$ , the expected frequency would be :

Group	fo	fe	fo – fe	$(fo - fe)^2/fe$
X <sub>1</sub>	68	63.85	4.15	0.270
X <sub>2</sub>	80	84.14	-4.14	0.204
Y <sub>1</sub>	39	43.14	-4.14	0.397
Y <sub>2</sub>	61	56.85	4.15	0.303

where Df = 1  $\chi^2 = 1.174$   
(3.841)\*

\* The Table value of  $\chi^2$  for 1 degree of freedom at 5 percent level of significance is 3.841 which is much higher than the worked out value of  $\chi^2$  being only 1.174. It is highly insignificant. So, the hypothesis holds good, i.e., this variable is not influential to differentiate the defaulting farmers from the non-defaulting farmers.

**Expectation of Waiver of Loan (x<sub>0</sub>) :**

**Table 5.6 : Defaulters and Non defaulters in Relations to Expectation of Waiver of Loan**

Category of farmers	Opinion			Total
	Agree	No opinion	Disagree	
Defaulters(x)	88	21	39	148
Non-defaulters(y)	40	13	47	100
Total	128	34	86	248

Source : Field Survey

On the basis of  $H_0 : \rho = 0$ , the expected frequencies would be :

Group	fo	fe	fo - fe	$(fo - fe)^2/fe$
X <sub>1</sub>	88	76.39	11.61	1.764
X <sub>2</sub>	21	20.29	0.71	0.024
X <sub>3</sub>	39	51.32	-12.32	2.957
Y <sub>1</sub>	40	51.61	-11.61	2.612
Y <sub>2</sub>	13	13.71	- 0.71	0.037
Y <sub>3</sub>	47	34.68	12.32	4.377

Where,  $df = 2$

$$\chi^2 = 11.771$$

The Table value of  $\chi^2$  for 2 degree of freedom at 5 percent level of significance = 5.991.

The Table value of  $\chi^2$  for 2 degree of freedom at 5 percent level of significance is 5.991 which is much lower than the worked out value of  $\chi^2$  being 11.771 percent. The result is highly significant. So the expectation of waiver of loan is a strong factor to influence the repayment behaviour of defaulting and non defaulting borrower farmers.

Size of loan (x<sub>7</sub>) :

**Table No. 5. 7 : Defaulters and Non-defaulters in Relations to Farmers Size of Loan**

Category of farmers	Size of loans		Total
	Loan below Rs. 10000/-	Loan above Rs. 10000/-	
Defaulters(x)	98	50	148
Non-defaulters(y)	63	37	100
Total	161	87	248

Source : Field Survey

On the basis of  $H_0 : \rho = 0$ , the expected frequencies would be :

Group	fo	fe	fo – fe	(fo – fe) <sup>2</sup> /fe
X <sub>1</sub>	98	96.08	1.92	0.038
X <sub>2</sub>	50	51.92	-1.92	0.071
Y <sub>1</sub>	63	64.92	-1.92	0.057
Y <sub>2</sub>	37	35.08	1.92	0.105

Where, df = 1

$$\chi^2 = 0.271$$

$$(3.841)^*$$

\* The Table value of  $\chi^2$  for 1 degree of freedom at 5 percent level of significance = 3.841 which is much higher than the worked out value of  $\chi^2$  being only 0.271. It is highly insignificant. This result shows that this variable is not able to influence the repayment behaviour of the defaulting and non-defaulting borrower-farmers.

### 5.5.1 Summary of the Survey at the First Phase

After the analysis of the seven variables with statistical tool ( $\chi^2$  Test) it is found that only two variables out of the seven are significant, i.e., these two variables – (i) caste of the borrower-farmers and (ii) size of loans, are not influential to differentiate the defaulting borrower-farmers from the non-defaulting borrower-farmers, the other five variables – (i) farmers' category, (ii) level of education (literacy) (iii) age – group of the farmers (iv) diversion of loan and (v) expectation of waiver of loan show significant association between the defaulting and non-defaulting farmers, i.e. these five variables are able enough to identify the defaulting farmers from the non-defaulting farmers.

The result of  $\chi^2$  Test (chi-square test) of the seven variables (from Table 5.1-5.7) are given as under :

**Table 5.8 : Results of  $\chi^2$  Test (Chi square test) of the Seven Variables**

Name of Variables	Degree of freedom	Significance level	Calculated value	Table value	Result
1. Farmers category	2	5 percent	32.753	5.991	Rejected
2. Farmers level of Education(literacy)	1	5 percent	7.613	3.841	..
3. Age group of farmers	2	5 percent	16.961	5.991	..
4. Diversion of loan	2	5 percent	18.662	5.991	..
5. Caste of farmers	1	5 percent	1.174	3.841	Accepted
6. Expectation of waiver of loan	2	5 percent	11.771	5.991	Rejected
7. Size of loan	1	5 percent	0.271	3.841	Accepted

Next, we are going to make an analysis of the correlation between the willful and non-willful defaulters with the help of some factors influencing the repayment behaviour of 84 (56.76 percent) willful and 64 (43.24 percent) non-willful defaulters of the same population as available in our field survey. The factors influencing 84 willful and 64 non-willful defaulters are as follows :

1. Crop failure due to natural calamities like drought, flood, hail-storm etc.
2. Liberal attitude of the Government/Credit agency in the follow-up measures
3. General poverty and unforeseen expenses like medical treatment, marriage, religious festivals etc.
4. Harassments faced by borrower-farmers in obtaining loan.
5. Expectation of waiver of loan. (Social and political organizations insist the borrower – farmers not to repay loan showing the cause that today or tomorrow the government will write off their debts).

**Table 5.9 : Frequency Distribution of Willful Defaulters (x) and Non-willful Defaulters (y)**

Category of Defaulters	Factors					Total
	1	2	3	4	5	
Willful defaulters (x)	3	13	4	17	47	84
Non-willful defaulter (Y)	19	5	25	8	7	64

Source : Field Survey

We would like to compute Rank Co-relation Co-efficient by ranking two sets of data for willful and non-willful defaulters because the data in Table 5.9 are ordinal in nature. This statistical tool will help us conclude if two groups of defaulters are not repaying loan due to the same reasons or not.

Now, let us compute the value 'ρ' (Spearman Rank Correlation) by taking :

X = Willful defaulters

Y = Non-willful defaulters

$$\rho = 1 - \left[ \frac{6 \sum D^2}{N(N^2 - 1)} \right]$$

Where, D = Difference between willful ( $R_1$ ) and non willful ( $R_2$ ) defaulters.

N = no. of pairs of rank

X	Y	$R_1$	$R_2$	$D(R_1-R_2)$	$D^2$
3	19	5	2	3	9
13	5	3	5	-2	4
4	25	4	1	3	9
17	8	2	3	-1	1
47	7	1	4	-3	9

$$\sum D^2 = 32$$

$$\rho = 1 - \left[ \frac{6(32)}{5(25 - 1)} \right] = -0.6$$

### 5.5.2 Findings and Discussions

The value of  $\rho$  shows that there is disagreement in the order of the ranks and they remain in opposite directions. We use rank correlation co-efficient to judge how far the rankings between the two sets of data agree with each other. If the result of rank Correlation is positive, it reveals that there is an agreement between the ranks. But we find that there is a negative Correlation between the factors identified in our field survey. Thus, it can be concluded that the reasons for which the willful defaulters and non-wilful defaulters do not repay their dues are not the same.

Again, to test whether two groups, i.e., willful defaulters and non-willful defaulters, have come from the same normal population or not, it would be better to apply Kruskal-Wallis H-Test since the data are not continuous. Kruskal-Wallis H-Test is calculated as under -

$$H = \frac{12}{N(N+1)} \left( \sum \frac{R_j^2}{N_j} \right) - 3(N+1)$$

Where, N = Number in all samples combined

$R_j$  = Sum of ranks in j sample, and

$N_j$  = Number in j sample

Data for H-test are furnished as under -

**Table No. 5.10 : H – Test from Scores Obtained by Two Groups**

X(N = 5)	Y (N = 5)
3(1)	19(8)
13(6)	5(3)
4(2)	25(9)
17(7)	8(5)
47(10)	7(4)
$R_j = 26$	$R_j = 29$

$$H = \frac{12}{10(10+1)} \left[ \sum \frac{(26)^2}{5} + \frac{(29)^2}{5} \right] - 3(11) = 29.498$$

### 5.5.3 Findings and Discussions

Now, with the comparison of the calculated value of 'H' with the table value (interpreted as  $\chi^2$ ) of  $H_{0.01} = 6.635$  at  $df = 1$  (degree of freedom) and 0.01 percent level of significance, we see that the calculated value is much higher than the table value. Hence, the H value is highly significant. This level of significance says that two samples (willful and non-wilful defaulters) have not come from the same population. This indicates that the factors which are more influential to the willful defaulters are – expectation of waiver of loan, harassments faced by borrower-farmers in obtaining loan, and liberal attitude of the government/credit delivering agency in the follow-up measures, and the factors which are more dominant to the non-wilful defaulters are general poverty and unforeseen social and religions expenses, crop failure due to natural

calamities like drought, flood, hail-storm etc., and, to some extent, expectation of waiver of loans.

## **5.6 Factors Responsible for Overdues**

While conducting the field-survey some important causes for overdues were identified. Those important causes are noted below:

### **5.6.1 Lack of careful analysis of the scheme**

When any farmer approaches to the branch manager for loan, the branch manager tells the probable borrower-farmer to collect some application forms for loan from the field supervisor or advance officer and then he gets all papers filled-up from else where. Sometimes it is observed that there is an agent in the premises of the bank for filling-up the papers for loan and that agent has close relation with the bank officials. The agent then makes all contacts with the bank in relation to the sanction of loan, and in return, he takes a certain amount as commission. The bank officials do not even carefully scrutinize the feasibility and variability of the scheme of loan submitted by that agent. Thus, without due pre-scrutinization of the scheme, the bank disburses loan completely depending upon the agent, and in some cases, the bank officials do not go to the door of the borrower-farmer. The relation between the banker and the borrower-farmer is not built up. Thus, many financially non-variable schemes are passed and financed, and the result is that repayment of loan is not made, and therefore, ultimately overdues increase.

### **5.6.2. Staff Problem**

It is true that most of the branches in rural areas of the district suffer from the shortage of staff. As the area of operation is vast, it becomes very difficult to the existing strength of the banking staff to supervise the loan portfolios. They have to remain with their routine work. They have to spend the whole working-hours with routine works.

### **5.6.3. Deficiency in the Follow-up Measures of Recovery of Loan**

The area under study has 93 branches of different banks including Gour Gramin Bank (RRB) and Co-operative Banks. These 93 branches have to cover 24,41,824 people of the district, i.e., every branch has to cover on an average 26,256 people. But, at the national standard every branch of scheduled commercial banks has to cover only 15000 people (Source : Economic Survey, 2002-03, Table 5.56). About 15-16 villages are to be covered by a single branch of bank and near about 33.77 sq. km. of area falls under each branch. In most cases the staff of the bank is not sufficient in number. Besides, most bank officials (Branch Manager, field supervisor, advance officer etc) can not visit the borrower-farmers houses for collecting overdues and also supervising the physical existence of the assets provided under bank loan due to lack of time. As a result, sometimes borrower-farmers dispose of the assets provided under bank loan. Since most of the employees of bank do not reside in the area (rural) of the branch, no social relation, what we find between the money lenders and the farmers, is built-up between the bank officials and the borrower-farmers. For the recovery of loan there should be a close relation in society (beyond the formal relation which is mainly confined to papers only) between the bankers and the borrower-farmers to make the borrower-farmers feel that they have to repay the loan. It is true that the bank officials do not try to make such relation with the borrower. As a result, the climate of follow-up and supervision of loan does not build up and naturally the amounts of over duce goes increasing alarmingly.

### **5.6.4. Verification of Credit Need**

It is a common phenomenon in our rural areas that wherever the farmers get information about any kind of loan, they rush to the bank to have it, even not knowing the fact if that type of credit they deserve or not. They apply for credit

and the branch manager without minute verification of the financial eligibility and the credit-need of the applicant farmer, sanctions loan to achieve the target of 'Agricultural loan' without going through the scheme in details. While discussing about recovery of loan with a branch manager of a scheduled commercial bank of the district, the branch manager told me that there was a constant pressure from the head office of the bank to achieve the target of 'Farm water management' scheme. Under this scheme, pump-set, digging of shallow tube-well etc. are financed by bank. Whenever farmer applies for this scheme, the branch manager sanctions loan without detailed scrutiny of loan papers due to the fear of stricture from head office. If credit is given without any plan for generating income therefrom, there is every possibility of overdues.

#### **6.5.5. Denial of Consumption Loan**

No bank under the area of study has yet sanctioned any loan for consumption purpose to the farmers. Bank is not in favour of sanctioning loan for consumption purpose as consumption loan generates no income, rather it worsens the recovery position of the bank. But what happens in reality is that whenever a farmer prays for consumption loan for household emergencies, he is refused, and he has to go the door of money lenders for getting loan for consumption, and thus, he is trapped in debt and exploited. If that farmer has taken any loan from bank, the repayment of the loan becomes very uncertain as that farmer becomes overburdened with the repayment of money lender's loan at an exorbitant rate of interest. Thus, overdues go on increasing.

#### **5.6.6. Local Bodies in Rural Areas and the Bank**

In rural Bengal, the role of Panchayats in the sphere of rural development, particularly, in terms of farm credit is very crucial. So, the members of the panchayats and the bankers should have a cordial relationship for the smooth running of bank. As many schemes for loan are sponsored by panchayats to the

bank, bank has to make liaison with panchayat for recovery prospect. But, in reality, it is observed that the members of the panchayats are not as active to motivate or insist the loanee-farmers to repay their loan as they are in sponsoring the name of the borrower-farmers. Most panchayat members are very indifferent to help the bank organize "Recovery Camp". Even it is seen that some panchayat members insist the borrower-farmers not to repay their bank loan with a view of fulfilling political interest. It is also seen that if the loan is not sanctioned in the tenure of the existing members, they do not take initiative to influence the borrower farmers to repay their loan/dues. They think that it is not their liability, it is the liability of the previous members of the Panchayats who recommended for loans. Besides, Panchayat members only see if the loanees are their political part or not, it is not if they are repaying the loan or not. Under such climate the recovery position can not be improved.

## **5.7. Summary**

In this chapter, the objectives, methodology and statistical tools used in the field survey of a sample population of 360 borrower farmers of the district have been discussed. Only 248 borrower-farmers taking loan from formal sector have been taken into consideration in this chapter, for the use of statistical tools. It is revealed from the survey that 5 out of 7 variables were significant in identifying the defaulting farmers from the non-defaulting farmers. Out of total 248 farmers, the percentages of defaulters and non-defaulters were 59.68 and 40.32 respectively. Again, among the defaulting farmers, 56.76 percent were willful and 43.24 percent were non-willful. There was also a negative correlation between the factors affecting willful and non-willful defaulters.

The various factors responsible for increasing overdues of farmers of this district have also been mentioned in this chapter.