CHAPTER VII

SUMMARY OF FINDINGS AND SUGGESTIONS

INTRODUCTION

Rural economic development will, in future, require large funds for investments in projects and schemes. Such investment funds could flow uninterruptedly from the banking channel only if recoveries are forthcoming on due dates. Whereas it is accepted at all hands that the repayment of loans should be out of incremental income generated by the use of credit. The credit institutions will have to insist on beneficiary that 'loan instalments must be repaid in time and regularly so as to recycle credit'. In this connection all the credit institutions including Governments will have to develop a system or philosophy of conduct and principle to be practised jointly, through an agreed action programme.

PACBs occupy a dominant place in Indian economy regarding agricultural credit. They mainly deal in short term, medium term and long term loans. This study is confined to short and medium term loans only. Short term loan are granted mainly for crop production. This may be repaid by the member borrowers after the harvest of the crop. If they do not repay it with in the due date, the loan amount is called as overdue. If they repay the loan in the due date it is called 'collection' for the PACB and 'Repayment' for the members.
Defaulter means a member borrower who has not repaid the loan amount within the due date. Further, defaultees may be wilful and non-wilful. Those who have not repaid the loan, having the capacity to repay, are called wilful defaulters. If any member borrower is not able to repay the loan, due to genuine reasons, they are called non-wilful defaulters.

The present study has been undertaken to study the problem of collection and repayment. The problem has been studied at two levels. One is at the PACB level i.e. the collection of loan by PACB in Salem District and the other is at member borrower level. Besides studying the repayment performance of member borrowers, the reasons for default have also been studied. An attempt has also been made to classify the members into defaulters and non-defaulters and further defaulters into wilful defaulters and non-wilful defaulters.

This study in Salem District of Tamil Nadu has been undertaken with the following main objectives.

i. To study the extent of collection of loans by sample CCBs in Salem District

ii. To study the extent of collection of loans by PACBs and factors influencing such collection.
iii. To study the repayment performance of sample member borrower and

iv. To classify the member borrowers into defaulter and non-defaulter and further defaulter into wilful and non-wilful defaulters.

Since Salem District in Tamil Nadu ranks first in the state in the recovery of loans, it was selected for the study. A sample of 38 PACBs and 300 member borrowers have been selected using stratified random sampling method. A sample of 153 non-defaulters and 147 defaulters have been identified as per the data provided. Further these 147 defaulters have been classified into 81 non-wilful and 66 wilful defaulters.

The data were collected from the records of CCBs, PACBs and personal interview with member borrowers selected for this study.

The different analytical procedures used in the study were correlation coefficient, multiple regression analysis, chi-square test and discriminant functional analysis. The following is the summary of the findings.

FINDINGS

The co-operative movement in India has helped the farmers in terms of farm activities and other non-farm activities also. The PACBs functioning at the base level have progressed well in all aspects such as membership and issue of loans. The growth of their loan recovery during the period 1989-90 to
1993-94 was spectacular. The progress made by co-operative institutions in Tamil Nadu was appreciable and comparable to that of the progress made by the co-operatives of some of the co-operatively progressive states in India.

i. The percentage of collection of dues by CCBs was only 52 in 1989-90 in Tamil Nadu. During the year 1993-94, the dues collection increased to 79.1 percent.

ii. During the year 1993-94 the short term and medium term loans issued to adi-dravidars amounted to Rs.44.54 crores and Rs.13 crores respectively.

iii. Interest free loans are issued to adi-dravidars at Rs.250 per member.

iv. The Government introduced the system of issuing green cards to those who repaid their loans to co-operatives promptly with a view to facilitate them to get immediate loan.

v. Under the 1993-94 rabi season, Rs.6.66 crores have been issued to the farmers whose crops have been affected by the natural calamities.

vi. To enable the DCCBs and PACBs get themselves financially sound, the Tamil Nadu Government extended share capital assistance of Rs.175 lakhs during 1993-94 as against the amount of Rs.98.87 lakhs during 1989-90.

vii. There is a proposal to establish 9 more CCBs in Tamil Nadu.
COLLECTION OF LOANS AT THE LEVEL OF PACB

The collection of loans by PACBs in India shows an increasing trend. The percentage of collection of loan has increased in 1990-91 when compared with previous years. It is also noted that the percentage of collection of loans by PACBs in Tamil Nadu is higher than that of all India averages in all the years. The 'collection' in Salem District got with distinction in Tamil Nadu over the past years. This clearly explains the good recovery performance of the PACBs in the district.

COLLECTION OF LOANS BY SAMPLE PACBS AND FACTORS INFLUENCING COLLECTION

The collection of loans by PACBs in Salem District is good enough. Efforts have been made by PACBs to collect the loan amount from the member borrowers, promptly. The various factors are identified and related with the dependent variable 'collection'. The following hypotheses have been formulated and tested in the study.

i. Literacy among members promotes collection.

ii. Area covered under commercial crop promotes collection.

iii. Distance between PACB and member borrowers affects collection.


v. Link with CCB by PACB promotes collection.
The repayment performance of the sample member borrowers has been studied with the help of chi-square test. The following variables have been identified to be influencing the repayment performance of the member borrowers significantly.

i. Number of family members engaged in agriculture.

ii. Literacy of the member borrower

iii. Distance between member borrower's residence and PACBs.

iv. Land holding of the member borrower

v. Agricultural yield.

vi. Household expenditure

vii. Net income of the member borrower

viii. Area covered under commercial crop.

The above findings lead one to the conclusion that repayment performance of the borrowers is based on the variables listed above.
CLASSIFICATION OF SAMPLE MEMBER BORROWERS INTO DEFAULTER AND NON-DEFAULTER

This study makes a classification of member borrowers into non-defaulters and defaulters. The total number of non defaulters are 153 and defaulters 147.

The following 16 variables are identified to be influencing repayment performance of the member borrowers discriminating them into defaulters and non-defaulters.

i. Age

ii. Family size

iii. Education level

iv. Income from other source

v. Family expenditure

vi. Size of land holding

vii. Percentage of irrigated area

viii. Amount of loan borrowed

ix. Utilisation of loan

x. Percentage of area under cash crop

xi. Urban contact
xii. Knowledge of co-operative credit

xiii. Marketing facilities

xiv. Economic motivation

xv. Attitude towards co-operative credit

xvi. Socio-economic status.

The following 6 variables have been found to be the discriminating variables in the analysis in the order of priority as to defaulter and non-defaulter.

i. Amount of loan borrowed

ii. Utilisation of loan

iii. Percentage of irrigated area

iv. Family expenditure

v. Size of land holding and

vi. Socio-economic status.

Further 147 defaulters are classified as non-wilful defaulters (81) and wilful defaulters (66) respectively. To discriminate between these two groups, Discriminant analysis has been used. It was found that the following variables are influencing the member borrowers significantly in classifying them as non-wilful and wilful defaulters.

i. Urban contact
ii. Knowledge of co-operative credit

iii. Family expenditure

iv. Family size

v. Percentage of irrigated area.

It is observed that the efficiency of the model with least number of variables, which discriminates the borrowers into defaulters and non-defaulters is found to be 50.33% whereas the model with least number of variables which discriminates the defaulters into non-wilful and wilful defaulters is 63.95%. The highly significant F statistic of Mahalanobis $D^2$ for these two discriminant functions prove to be the success of the experiment. The average score of non-defaulter ($Z_1$) and defaulter ($Z_2$) is the discriminating factor. This can be used as an analytical tool by co-operative credit agencies before loans sanctioned to the member borrowers.

SUGGESTIONS TO IMPROVE 'COLLECTION' OF LOANS BY PACBS

i. It is found if the literacy among member borrowers are more, the amount of 'collection' is also more. Therefore it is suggested that PACBs while granting loans must take note of literacy of the member borrowers so that they can easily collect the loan amount.

ii. It is noted that if the PACBs covering more area under commercial crop, they can collect the loan amount very easily out of sale of the
agricultural produce through the marketing societies. Member borrowers may be advised to cultivate more commercial crop than food crop.

iii. Credit may be related to higher productive efforts of beneficiaries applying improved package of practices with improved technology.

iv. Short-term credit for agriculture may be related to the realistic scale of finance and investment credit be based on technical parameters in order to avoid either over-financing or under-financing.

v. Loan proposals may be sanctioned promptly in order to ensure timeliness of use of credit which is necessary for securing optimum production.

vi. Cost of inputs and assets may be disabused directly to suppliers as far as possible in order to avoid misutilisation.

vii. Cash component in the scale of production finance should be realistic and not exaggerated.

viii. Appraisal of the proposal for loan should be made thoroughly before sanction.

ix. In advance of due dates soon after harvesting season borrowers may be issued notices for repayment of dues/instalments.
x. List of borrowers to be contacted for making recovery by field staff may be prepared at branch level.

xi. Appropriate relief in genuine cases to affected member borrowers on account of damage of crops may be granted.

xii. During crop failures due to natural calamities etc., the credit institutions may, quickly extend conversion / rescheduling facilities.

xiii. A separate cell may be created for undertaking continuous and effective supervision and recovery, if the collection is less than 50% of the demand.

xiv. Blockwise special recovery campaign in association with officials of concerned Government Departments may be organised by the CCBs.

xv. Organisational structure both at the controlling offices and field level should be geared up for maintaining constant touch with the member borrowers and creating a climate of recovery.

xvi. Recovery performance of each PACB should be reviewed by the controlling offices with a view to issuing them instructions and guidance.

xvii. Board of Directors should be constituted for the PACBs through election.
xviii. The political interference is an important hurdle for the recovery of loans by PACBs. These political elements should be kept away from the management of PACBs. The members should be educated property so as to make them not to believe the election promises in this regard and in the utility of prompt repayment of loan in all possible ways.

ACTIONS TO BE TAKEN BY GOVERNMENT

i. Government of India should emphasise the state Government, the need for their launching special recovery drives to improve the recovery position in the respective states.

ii. Government of India may prevent the state Government in writing off overdues of loans and dissuading the credit institutions from taking coercive measures against non-wilful defaulters.

iii. State Government may organise seminars for the representatives of co-operative voluntary organisations working for rural uplift, farmer's associations and thus build up socio-political climate in favour of recovery throughout the country.
IMPROVING REPAYMENT PERFORMANCE OF MEMBER BORROWERS

i. It is found that when number of persons of the family engaged in agriculture, their repaying capacity increases due to increased income. Therefore persons not engaged in agriculture may be advised the need for engaging in agriculture and thereby repayment of loan leads to further loan in future also.

ii. Proper education among member borrowers leads to repayment of loan promptly.

iii. If the distance between PACB and residence of member borrower is long, repayment of loan is less. Therefore monthly / weekly collection centres may be operated in each village.

iv. While sanctioning loan, due consideration may be given with reference to land holding of member borrowers. This enables the PACBs to get back the loan out of more income earned from large land holding.

v. It is found that income from agriculture constitutes an important place for repayment of loan. Therefore adequate price for the produce may be fixed through agricultural regulated markets. Instead of selling the produce in the open market, the member borrowers may sell through these markets and promptly repay their loans.
vi. It is found that when household expense increases repayment capacity of the member borrowers decreases. Therefore members may be advised to reduce their unnecessary household expenses and thereby they can repay their loan to some extent, if possible at concessional rates.

vii. Due to increased cost of cultivation and related expenses, repayment performance may be affected. But the study reveals that there is no such relation between the cultivation expense and repayment of loan. In otherwords, whatever may be the cultivation expenses, member borrowers who are interested in repaying the loan, have repaid. In order to make them repay the loan fully, the members may be provided with subsidised agricultural implements, fertilisers and other essential goods.

viii. When net income of the member borrower increases, repayment performance also increases. Those members who are earning income other than agriculture, are able to repay their loan very easily. Therefore, member borrowers and their family members are advised to engage themselves in earning income from other sources and by reducing their household expenses.

ix. The member borrowers can concentrate more on cultivating commercial crops than on food crops, because commercial crops will fetch more income than food crops. They can cultivate both
commercial crops and food crops to meet their repayment of loan and personal consumption respectively.

Apart from the above suggestions, the following programmes may be followed for repayment purpose.

i. To give publicity to the low interest charged by the PACBs

ii. The farmers should feel free to express their opinions about the PACBs and their activities

iii. Segregation of wilful and non-wilful defaulters and proper coercive step should be taken against wilful defaulters on a selective basis.

iv. It should be enforced that member borrower is not eligible to contest in elections if he is in default of loans

v. Compulsory recovery of loans from the sale proceeds of produce.

vi. Seizure of the harvested produce by PACB, for the purpose of recovering the long pending loans from the member borrowers.

vii. Publishing the names of defaulters in the leading newspapers in the area.

viii. It is suggested that the PACBs can make use of discriminant functional analysis to determine whether a member borrower would be a defaulter or not and to know if a defaulter would be a wilful defaulter or non-wilful defaulter.

ix. Proper marketing facilities for the agricultural produce will make the way for prompt repayment of loan due to fair price for the produce.

x. Knowledge of co-operative credit among member borrowers may be inculcated through co-operative education programmes.
xi. The member borrowers, being the owners of the PACB should be encouraged to deposit their surplus funds in the society.

xii. Above all, a sense of responsibility should be created among member borrowers that non-payment of loans would affect the smooth working of the PACB and thereby would ultimately affect them.

CONCLUSION

The PACBs as agents of change have crucial role to play in rural development. They may, therefore, take active steps both in the matter of improving the quality of lending for rural development projects and recovery of loans. This may lead to recycling of funds. The PACBs should be aggressive in rationalising their policies and procedures and building up effective organisational arrangements. Concerted measures are, therefore needed to widely disseminate the message of 'development through credit' with emphasis on repayment ethics in the right perspective in order to reverse the growing trend of disinformation among rural beneficiaries. Socio-economic and psychological factors are responsible in promoting repayment performance of member borrowers. Classification of member borrowers to defaulters and non-defaulters and further the defaulters into non-wilful and wilful defaulters will help the PACB in sanctioning loans to new member borrowers. It is expected that this study will enable the PACBs to collect their loans from the member borrowers and also help the member borrowers to repay their loans promptly.