CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION

Co-operative credit has a great role to play in promoting rural development. The primary agricultural co-operative banks (PACBs) advance short term and medium term loans to their members in their areas of operation. With the advent of new techniques in agriculture, the cash requirements of the farmers to purchase inputs went up perceptively. Hence to cope up with the modern technology credit plays an important role in developing agriculture. PACBs constitute a very important segment in the institutional framework for providing agricultural credit. They are the kernel of the co-operative movement in India. They are started with the object of providing cheap credit to the agriculturists in order to free them from the clutches of the rapacious moneylenders.

Agricultural credit may be explained as "amount of investible funds made available for the purpose of development of farm productivity". ¹ These societies are like foundation on which the whole co-operation edifice is built"-Townsend committee. ²

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² Mathur B.S. Co-operation in India, Sahitya Bhawan, 1977, Agra, P.217.
Credit co-operatives have made a remarkable progress during the last four decades. In the co-operative credit structure the Apex Co-operative Bank and the Central Co-operative Banks (CCBs) act as balancing centres of finance for agriculture. When credit is granted, it must be collected promptly by the PACBs and to be repaid by member borrowers to be eligible for further borrowing. The proportion of rural population served by PACBs was as high as 79% in Himachal Pradesh followed by Punjab (73.9%) Maharashta (62.7%) and Tamil Nadu (62.3%). In the states if U.P., Tamil Nadu, Kerala, Punjab, Madhya Pradesh, Maharashta, Orissa and Bihar 95% to 100% of the villages are covered by the PACBs.

Poor recovery performance by the co-operative banking sector continues to be one of the major problems of its functional operations and it also affects the prospects of further lending to the needy sectors. Recovery of loans in time is a primary factor of the PACBs in planning the loaning structure. If the loan instalment becomes overdue the entire loaning structure gets diluted and weak. When funds are kept rotating, any loaning function of the PACBs can gear up successfully. The co-operative credit vis-à-vis that from other agencies rests on the ground of its criteria when it fulfils the following objectives.

i. Economic betterment of borrower and

ii. Promoting and aiding economic development of the nation.

3 All India Rural Credit Review Committee Report, 1969, P.169.

A study by P.T. George and others on 'Repayment performance by farmers in Chengalpet District' (Tamil Nadu) was made in 1984. The main findings of the study are:

i. Family size influences repayment performance of defaulters and non-defaulters.

ii. The low caste (SC/STs) farmers are comparatively better repayers than middle (BC/MBC) and high caste (FC) farmers.

iii. Old age farmers are more prompt in repayment than young farmers.

Balister in his study 'Primary Agricultural Co-operative credit in Utt Pradesh; their progress, performance and problems' made in 1984, found overdues to be alarming with the increases in overdue from Rs. 43.17 lakhs in 1950-51 to Rs. 10150.24 lakhs in 1978-79 due to lack of efforts in collection of loans.

Rao, B.S made "A study on the flow of credit by Primary Agricultural Development Bank in Uttar Pradesh- a case study". This study stressed the:

i. importance of credit to agricultural sector;

ii. Proper supervision over the utilisation of loan amount; and

iii. the reason for the overdues of members.

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Another study 'An enquiry into the extent and causes of overdues in the agricultural credit societies in Kadanad Panchayat area' was made by R. Sivalingam. This study revealed that overdues were due to various factors. The main factors are

i. Crop failure;
ii. Borrowings from village moneylenders and
iii. Size of family.  

Recovery problem in co-operative credit institutions can be solved to a considerable extent evolving what may be described as 'built-in-checks'-production based and produce realised. The problem of non-recovery of farm loans not only affects the interests of the defaulters but also the borrowers who are prompt in repayment, creditors and the co-operative movement itself.

STATEMENT OF THE PROBLEM

Though the PACBs have been developed, there are some problems like lack of timely disbursement of loan, inadequate loan and procedural formalities. Among these problems, there is also a need for prompt recovery of loans by PACBs and the repayment of loans by member borrowers.

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From the point of view of the members, overdue loans will result in shortage of credit. With the result that some members have to go without credit and mounting overdues lead to liquidation of the PACBs.

Therefore it is necessary to ensure the recovery performance by co-operatives and repayment by member borrowers and to find out the reasons for the recovery or non-recovery of the farm loans by these credit institutions. Hence the study is a fact finding one to know the following:

i. The extent of collection of loans by CCBs.
ii. The extent of collection of loans by PACBs and factors influencing such collection.
iii. The repayment performance of member borrowers and the factors influencing such repayment.

SCOPE OF THE STUDY

The present agricultural credit structure in India has several sources and agencies engaged in extending credit to the rural people. Some agencies are in the organised sector and some others are in the unorganised sector. Similarly some agencies are engaged in providing credit directly to the farmers and others are engaged in indirect financing. Since co-operatives are the oldest and the most predominant farm credit institutions in India dealing with agricultural finance, they are selected for this study.
This study is confined to collection of loans by PACBs since they are base level financing agencies operating in the villages. It also covers the repayment performance of member borrowers in addition to co-operative credit by CCBs. This research study covers only short term and medium term loans provided by the PACBs. The loans provided by other farm financing institutions like Nationalised Banks and Regional Rural Banks do not come under the purview of this study. The factors influencing repayment of loans by members borrowers are also investigated.

The relation between the factors identified and the repayment performance is studied with a view to find out factors promoting or affecting the repayment performance.

Further this study also aims at classifying the borrowers into defaulters and non-defaulters and further the defaulters into wilful and non-wilful defaulters on the basis of socio-economic characteristics of member borrowers.

OBJECTIVES OF THE STUDY

The objectives of this study are as follows

i. To study the progress of co-operative credit in India, Tamil Nadu and Salem District.

ii. To study the performance of collection of loans by PACBs and sample CCBs in India, Tamil Nadu and Salem District.
iii. To study the extent of collection by PACBs and factors influencing such collection.

iv. To study the repayment performance of the sample member borrowers.

v. To classify the member borrowers into defaulters and non-defaulters and further defaulters into wilful and non-wilful defaulters based on socio economic factors.

vi. To offer suggestions for improving recovery of loans by PACBs and CCBs.

HYPOTHESES

In tune with the third objective of the study, the following hypotheses have been formulated for this study:

i. Literacy promotes collection: When literacy among the member borrowers is high, the extent of collection of loans by PACBs is also high.

ii. Area under commercial crop promotes collection: When the area covered by PACBs under commercial crop is large, collection of loan is also high.

iii. Distance affects collection: When the distance between the residence of members and PACB is more, collection is low and vice-versa.

iv. Coverage of land by PACBs affects collection: If the land area covered by PACB is more, collection will be low and vice-versa.

v. Link with CCB promotes collection by the PACBs.
In tune with the fourth objective of the study, the following hypotheses have been formulated for this study.

i. There is significant relationship between number of members of family engaged in agriculture and repayment performance.

ii. When literacy among the members is more, repayment will also be more.

iii. The distance between the residence and the PACB of member borrowers increases, repayment performance decreases and vice-versa.

iv. When land holding of the member borrower increases, repayment performance also increases.

v. There is significant relation between agricultural yield and repayment of loan.

vi. Household expenditure affects repayment: When the household expenditure increases, repayment decreases and vice versa.

vii. There is significant relation between cultivation expense and repayment of loan.

viii. When net income increases, repayment of loan also increases and vice-versa.
ix. Area covered under commercial crop promotes repayment: If the area under commercial crop is more, repayment of loan is also more.

OPERATIONAL DEFINITIONS

PRIMARY AGRICULTURAL CO-OPERATIVE BANKS

These banks are operated at the village level for agricultural credit. They are under the control of central co-operative banks of the district. They are also called 'Primaries' and sometimes 'credit societies'.

SHORT TERM AND MEDIUM TERM LOAN

These loans are given by PACBs to enable the farmer members to cultivate a crop. The amount of loan is fixed according to the scale of finance prescribed for different crops. Short term loans are provided up to one year and medium term loans up to three years.

COLLECTION

The PACBs issue loans of various types to their members. They have to recover these loans from the member borrowers so as to meet their commitments to DCCBs and in order to lend again to the members during the next season. This recovery of loans by the PACBs is referred to as collection. Collection of loans by PACBs is the dependent variable for this study. A
'collection index' has been constructed for each sample PACBs for the purpose of analysis.

REPAYMENT PERFORMANCE

Repayment performance refers to the repayment behaviour of member borrowers. This performance has been analysed by taking various independent variables that are explained in chapter V.

DEFaulTER

A member borrower who did not repay the loan within the specified and extended time is defined as defaulter.

NON-DEFaulTER

A member borrower who was prompt in repaying the loan within the specified time is called as non-defaulter.

WILFUL DEFaulTER

A member borrower who does not repay the loan even though he has sufficient repaying capacity is a wilful defaulter.
NON-WILFUL DEFAULTER

Non-wilful defaulter is one who does not have sufficient repaying capacity to repay the loans and has personal reasons.

URBAN CONTACT

The extent of contact with urban areas by member borrowers. This is taken into account in terms of frequency and purpose of visit of nearby town/cities.

KNOWLEDGE OF CO-OPERATIVE CREDIT

The extent of knowledge of the members relating to co-operative credit. This has been measured through a scale, by name knowledge of co-operative credit scale. The scale contains questions relating to the various aspects of co-operative credit. The correct answers were given scores. The total of the score is knowledge of co-operative credit score. This score was computed for every respondent.

ECONOMIC MOTIVATION

Economic motivation refers to the member borrowers perception and attitude towards increasing his income. This motivation has also been measured by a scale similar to the one explained above for knowledge of co-operative credit.
ATTITUDE TOWARDS CO-OPERATIVE CREDIT

Attitude towards co-operative credit means the attitude of the member borrowers as to their positive or negative disposition towards co-operative loans. This attitude has been measured by a scale similar to the one explained above for knowledge of co-operative credit.

SOCIO-ECONOMIC STATUS

It refers to a member borrower's status in his community as measured by caste, formal education, land possessed, house owned, farm power and annual income. This variable was also measured by a scale similar to the one explained above for knowledge of co-operative credit.

METHODOLOGY AND TOOLS

This study is based on survey method with primary and secondary data collected from member borrowers through personal discussion and using an interview schedule. Data relating to PACBs were collected from the records of banks and personal interview. The data relating to CCBs were taken from the records of CCBs office. Personal discussions with member borrowers, officials of SDCCB and employees of PACBs were also made.
The following tools were constructed for collection of data

i. Data sheet for CCBs (Appendix I)

ii. Schedule for sample PACBs (Appendix II)

iii. Interview schedule for the member borrowers of the PACBs (Appendix III)

**SAMPLING SCHEME**

Multi stage sampling scheme was followed. First at the district level Salem district has been selected, because it ranks first in collection of loan by District Central Co-operative Bank (DCCB). The district also happens to be the one in which the researcher serves and resides. Secondly all the ten divisions in the district have been selected following census method. 38 PACBs in the 10 divisions were selected at random.

Table 1.1

**LIST OF PACBS SELECTED FOR THE STUDY**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Division</th>
<th>Branch of the PACB</th>
</tr>
</thead>
<tbody>
<tr>
<td>i</td>
<td>Attur</td>
<td>1 Narasingapuram</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 Manchini</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 Thammampatty</td>
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<tr>
<td></td>
<td></td>
<td>4 Veerganur</td>
</tr>
<tr>
<td>ii</td>
<td>Rasipuram</td>
<td>5 Kakaveri</td>
</tr>
</tbody>
</table>
### LIST OF PACBS SELECTED FOR THE STUDY (contd)

<table>
<thead>
<tr>
<th>S.No</th>
<th>Division</th>
<th>Branch of the PACB</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>6 Singalanthapuram</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7 Namagiripet</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8 Mullukurichi</td>
</tr>
<tr>
<td>iii</td>
<td>Valapadi</td>
<td>9 Valapadi</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10 Belur</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11 Ethapur</td>
</tr>
<tr>
<td>iv</td>
<td>Omalur</td>
<td>12 Omalur</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13 Karuppur</td>
</tr>
<tr>
<td></td>
<td></td>
<td>14 Deevatipatty</td>
</tr>
<tr>
<td>v</td>
<td>Velur</td>
<td>15 Mohanur</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16 Paramathy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>17 Pothanur</td>
</tr>
<tr>
<td></td>
<td></td>
<td>18 S.Palapatty</td>
</tr>
<tr>
<td>vi</td>
<td>Tiruchengode</td>
<td>19 Mallasamudram</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20 B.Komarapalayam</td>
</tr>
<tr>
<td></td>
<td></td>
<td>21 Elachipalayam</td>
</tr>
<tr>
<td>vii</td>
<td>Sankari</td>
<td>22 Vaikundam</td>
</tr>
<tr>
<td></td>
<td></td>
<td>23 Edapadi</td>
</tr>
<tr>
<td></td>
<td></td>
<td>24 Poolampatty</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25 Konganapuram</td>
</tr>
<tr>
<td>viii</td>
<td>Salem</td>
<td>26 Vembadithalam</td>
</tr>
<tr>
<td></td>
<td></td>
<td>27 Gajalnaickenpatty</td>
</tr>
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</table>
LIST OF PACBS SELECTED FOR THE STUDY (contd)

<table>
<thead>
<tr>
<th>S.No</th>
<th>Division</th>
<th>Branch of the PACB</th>
</tr>
</thead>
<tbody>
<tr>
<td>28</td>
<td>Mallur</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>Veerapandy</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Chinnathirupathy</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Muthugapatty</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Nallipalayam</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Erumapatty</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Konur</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>Pachal</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Nangavalli</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>Mecheri</td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>Navapatty</td>
<td></td>
</tr>
</tbody>
</table>

Next at the members level 10% of the total number of members in each division have selected using simple random method. The list of total number members and sample selected divisions are given in Table 1.2.
Table 1.2

NUMBER OF SAMPLE MEMBERS SELECTED AND POPULATION OF PACBS IN SALEM DISTRICT

<table>
<thead>
<tr>
<th>S.No</th>
<th>Division</th>
<th>Total membership</th>
<th>Sample member borrowers selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Attur</td>
<td>344</td>
<td>34</td>
</tr>
<tr>
<td>2</td>
<td>Rasipuram</td>
<td>329</td>
<td>33</td>
</tr>
<tr>
<td>3</td>
<td>Valapadi</td>
<td>215</td>
<td>21</td>
</tr>
<tr>
<td>4</td>
<td>Omalur</td>
<td>334</td>
<td>33</td>
</tr>
<tr>
<td>5</td>
<td>Velur</td>
<td>293</td>
<td>29</td>
</tr>
<tr>
<td>6</td>
<td>Tiruchengode</td>
<td>314</td>
<td>31</td>
</tr>
<tr>
<td>7</td>
<td>Sankari</td>
<td>276</td>
<td>28</td>
</tr>
<tr>
<td>8</td>
<td>Salem</td>
<td>447</td>
<td>45</td>
</tr>
<tr>
<td>9</td>
<td>Namakkal</td>
<td>306</td>
<td>31</td>
</tr>
<tr>
<td>10</td>
<td>Mettur</td>
<td>156</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>3011</td>
<td>300</td>
</tr>
</tbody>
</table>

COVERAGE OF PERIOD

Data relating to loan collection of PACBs have been collected covering a period of five years from 1989-90 to 1993-94. Data relating to repayment performance of the member borrowers have also been collected from 1989-90 to 1993-94. Loan operations of CCBs have been collected for 5 years ending 1993-94.
A 'Collection' index was formulated by taking PACBs and member borrowers to identify the independent variables that influence the dependent variable 'Collection'. PACBs have to recover loans from the member borrowers so as to meet their commitments to the District Central Co-operative Banks and in order to lend again to the member borrowers during the next season. This recovery of the loans by the PACBs is referred to as 'Collection'. 'Collection Index' has been constructed for each sample PACBs for the purpose of further analysis.

'Repayment' refers to the repayment of loan by member borrowers to the PACBs taking nine factors into account, which are explained as independent variables that influence the dependent variable 'repayment performance'.

The following factors are found to influence the dependent variable 'collection' as to PACBs. These variables have been categorised for further analysis.

i. Literacy level.
ii. Area covered under commercial crop
iii. Distance
iv. Coverage of land by PACBs
v. Link with CCB by PACBs
The following factors are found to influence the dependent variable 'repayment performance' of members. These variables have been categorized for further analysis.

i. Number of family members engaged in agriculture.
ii. Literacy among member borrowers.
iii. Distance between PACB and member borrowers.
iv. Land holding
v. Agricultural yield
vi. Household expenses.
vii. Cultivation expenses
viii. Net income
ix. Area under the cultivation of commercial crop

The following factors are taken into account from the members to study the default or non-default of loan. Variables I to X have been categorized and that XI to XVI have been measured through their respective scales. (Appendix IV to IX)

i. Age
ii. Family size
iii. Education level
iv. Income from other sources
v. Family expenditure
vi. Size of holdings
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.

FRAME WORK OF ANALYSIS

The general plan of the analysis ranges from simple descriptive statistics and chi-square test of hypotheses to multiple regression and discriminant functional analysis.

To study the extent of collection by PACBs and factors influencing such collection, chi-square test has been employed. Correlation coefficients between the dependent variable 'collection' and independent variables have been calculated. Then multiple regression analysis have been explained to know the extent of variance of the independent variables. The regression equation has been fitted finally with the help of regression coefficients of the significant variables, so as to estimate the dependent variable in terms of independent variables.
Chi-square test has been employed to study the relation between the identified independent variables and the repayment performance of the member borrowers.

Discriminant functional analysis is used to classify the borrowers into non-defaulters and defaulters and further the defaulters into wilful and non-wilful defaulters on the basis of socio economic and psychological characteristics of the member borrowers. The importance of the variables with regard to their power to discriminate between defaulters and non-defaulters and between wilful and non-wilful defaulters has been studied with the help of discriminant function.

Mahalanobis $D^2$ statistic is used to measure the distance between the two groups. In order to delete the non-significant variables for discriminant functional analysis, stepwise regression analysis have been employed.

**CHAPTER SCHEME**

The thesis consists of the following chapters

In the first chapter, the design of the study covering objectives, hypotheses, sampling design, methodology adopted, tools used and framework of analysis has been discussed.
The second chapter contains the progress of co-operative credit in India, Tamil Nadu and Salem District.

The third chapter reviews the collection of co-operative credit by the CCBs in India, Tamil Nadu and sample CCBs.

The fourth chapter deals with the extent of collection of loans by PACBs and factors influencing such collection.

The fifth chapter contains the repayment performance of sample member borrowers.

In the sixth chapter, sample members are classified as defaulters and non-defaulters and again the defaulters into wilful and non-wilful defaulters by making use of discriminant functional analysis.

The seventh chapter covers the summary of findings with suggestion to improve collection.