FINDINGS, CONCLUSION AND SUGGESTIONS
Chapter - 5

FINDINGS, CONCLUSION AND SUGGESTIONS

5.1 Introduction

In India the Rural Credit Market is a diversified and complex subject. Since the institutionalization of agricultural credit till today, the continuance of the problem of poor recovery created adverse climate for the banks. The populist schemes and programmes of the Government of India and the State Governments bred the recalcitrant and wilful defaulters, who are generally, have the capacity to repay and not the will to do. They are always at the advantageous position in the RCM. For instance, the World Bank/NCAER Survey found that access to institutional credit was poor and skewed in favour of large holdings. It is apparent that the financially excluded constitute a significant share of the population especially amongst the low income groups in India. The AIDIS 2002 survey showed that 111.5 million households had no access to formal credit. About 17 million households were indebted to moneylenders. It also showed that lower the asset class or income, higher the degree of Financial Exclusion. The big landlords and the higher income groups enjoy lions share in the rural credit. This observed phenomenon may be attributed, inter alia, to the “risk aversion” tendency of the bankers towards small and marginal farmers as against the large farmers, who are better placed in offering collaterals. After availing
credit they become wilful defaulters, as they know how not to repay the loans. This study analyzed this problem among the members of PACBs in a holistic manner in the Cauvery delta region and found implementable strategies are need of the hour to arrest the problem of wilful default and to strengthen the functions of PACBs. The specific findings of the study, chapter wise, are presented in this chapter.

5.1.1 Demand and Supply of Agricultural Credit in Nagapattinam District

1) GLC at National Level: From the beginning in 1904 till late 80's, cooperatives enjoyed lions share in rural credit. Thereafter, the role of commercial banks has been strengthened in rural credit market. This trend was largely due to

a) Expansion of branch network by CBs and RRBs in rural areas.

b) Providing horticulture and other term loans to big land lords only by CBs.

c) Providing agricultural loan by pledging jewels by CBs

d) Large scale failure of PACS

2) GLC at State Level: Similar trend is witnessed at Tamilnadu State level also Sector wise analysis of GLC at State level indicates that the share of agriculture formed about 55 to 57 per cent of the Total Priority Sector advances during 2004-05 to 2006-07. The share of
Crop Loan was 84 per cent, 80 per cent and 85 per cent of the disbursements under the Farm Sector during the same period. While crop loans showed a positive growth in absolute terms, the term loans registered a negative growth of 15 per cent during 2006-07, a matter of concern with regard to the capital formation in agriculture sector.

3) GLC in Nagapattinam District: Generally there was an increasing trend in the total GLC to agriculture from Rs.15209.55 lakh to 45000.21 lakh during the period between 2003-04 and 2007-08 in Nagapattinam district. However, the increase was not in commensurate with the national trend in total GLC flow to agriculture. This was because the loan absorption capacity of agriculture has not been changed in this district. Because the net area shown has been continuously dominated by Paddy and other millets which mainly depend upon the water flow from the river Cauvery.

4) Agency wise GLC in Nagai: Agency wise analysis of GLC at Nagapattinam District level showed that the share of PACBs was about 4 per cent in 2003-04, which had increased to 10.62 per cent in 2007-08 in crop loans. Due to heavy NPAs, the PCARDBs had stopped lending business since 2005-06.
5) Micro Finance: At all India level during 2007-08, bank loan of Rs.4,227.58 crore was disbursed to 7,39,875 SHGs (including repeat finance of Rs.1,685.60 crore to 1,86,883 existing SHGs) vis-à-vis Rs.6,570.39 crore disbursed to 11,05,749 SHGs during 2006-07. The agency-wise disbursements revealed that, commercial banks accounted for 42 and 48 per cent of the SHGs credit linked and bank loan disbursed, respectively, followed by RRBs and cooperative banks. The average loan disbursed per SHG was amounted to Rs.57,139 during 2007-08 compared to Rs.59,420 during 2006-07.

6) Agency-wise Savings and Loans Outstanding of SHGs: During 2007-08, NABARD extended refinance of Rs.1,615.50 crore under the programme. SHGs maintained savings outstanding of Rs.3,512.71 crore with the banks as on 31 March 2007. The recovery performance of SHGs too reflects a high percentage of recovery. As on 31 March 2007, of the 290 banks, 73 per cent banks’ reports showed recovery of more than 80 per cent in respect of their SHG portfolio.

7) Progress under MFI-Bank Linkage Programme: It was found that recognizing the growing role of MFIs as institutions other than banks engaged in providing financial services to the poor, the banking sector too has been extending loans to MFIs for on-
lending to SHGs. MFIs in India have emerged in four organizational forms, viz., NGO, MFIs, non-profit Section 25 NBFC-MFIs, cooperative MFIs and for-profit NBFC-MFIs. During 2006-07, bank loan amounting Rs.1,151.56 crore was disbursed to 334 MFIs taking the total loans outstanding to Rs.1,584.48 crore to 550 MFIs as on 31 March 2007.

8) SHG-Bank Linkage Programme in Tamil Nadu: It was found that Tamil Nadu was ranked second in the country, after Andhra Pradesh, in SHG-Bank Linkage programme. Wide network of NGOs, encouraging support of banks, support of Government agencies etc., were found to be reasons for the widespread expansion of the programme in Tamilnadu.

9) SHG-Bank Linkage Programme in Nagapattinam District: It was found that the SHG-Bank linkage gained momentum and there were about 11265 SHGs organized in the district, which were promoted by various NGOs. It was found that PACBs in this district were also showing keen interest in linking SHGs with bank credit.

5.1.2 Business Operation of PACBs

1) Outreach of PACS: In India the PACS functioning at grass root level have direct contract with the agriculturists and meet the financial requirements of 12.5 crore members as on 2007-08.
2) Outreach of PACS In Tamilnadu: It was found that there were 4508 PACBs functioning at grass root level under the leadership of 24 DCCBs. Out of this 1455 PACBs are alone viable and only 669 PACBs are alone running their business with profit.

3) Outreach of PACS In Nagapattinam District: It was found that there were 119 PACBs as on 31\textsuperscript{st} March 2008. Out of these only 94 PACBs were viable and only 6 PACBs were running their business with profit. Among the sample PACBs, only 3 were having own building while the remaining were being run in rental building.

4) Membership: It was found that the average member per PACB in Nagapattinam district was 2487 in 2003-04, which has decreased to 2415 during the year 2007-08. The PACBs wise analysis showed that the membership position was below district average in Venkidangal, Narimanam, Porayar and Marthur North PACBs. As the number of revenue villages covered by the Mannampandal PACB was high, the membership position was also high in this PACB compared to other PACBs during the study period.

5) Share Capital: It was found that the trend in the share capital position of sample PACBs have not shown any commendable progress during the study period. The average share capital per bank in 2003-04 was Rs.18.33 lakh, which has increased to
Rs.19.82 lakh at the end of the study period. The individual bank wise analysis also showed that the performance of PACBs with regards to share capital mobilization was uneven during the study period. Since the share capital contribution was linked with loan operations, this sort of unevenness could not be averted.

6) Reserve Fund: It was found that the average position of Reserve Fund in sample PACBs during the year 2003-04 was Rs.23.49 lakh. This position had increased to Rs.25.80 lakh in 2006-07 and came down to Rs.23.93 lakh in 2007-08. Though the position of Reserve Fund at Narimanam PACB was comparatively better than other PACBs, the total amount of the Reserve Fund came down from Rs.42.10 lakh to Rs.35.64 lakh during the study period.

7) Deposit: It was found that the Government of Tamil Nadu directed the PACBs not to accept the deposits when majority of the PACBs failed to repay the matured deposits to the depositors. Only those PACB which were having the own fund of Rs.25 lakh and above were alone permitted to accept the deposits from the public. Hence, It was found that the sample PACBs were also could not accept the new deposits. The deposits available with them were only unmatured fixed deposits. Hence, the average deposits available with them had come down from Rs.43.21 lakh to Rs.36.83 lakh during the study period. Only in Kondal PACB the
position of the deposits was increasing from Rs.42.60 lakh to Rs.48.25 lakh as the Government permitted this PACB to continue their deposit business.

8) Borrowings: It was found that the average amount borrowed by a sample PACB from DCCB was Rs.30.25 lakh in 2003-04. This trend came down to Rs.29.60 lakh in 2007-08. The individual bank wise analysis showed that except Kondal and Thiruvoimur the other PACBs stood with district trend. This was due to poor recovery at borrowers’ level.

9) Working Capital: It was found that only in Mannampandal, Thiruvoimur and Marthur North there was increase in the position of working capital. However, the trend was uneven. The district average trend also had negative trend upto 2006-07. The unevenness of the working capital position of sample PACBs were due to;

a. PACBs inability to mobilize share capital from members (without linking with loan) so as to strengthen their owned fund.

b. Inability/ineligibility of sample PACBs to mobilize the deposits from the members and non-members.

c. Depending on DCCBs for working capital had become normal business life.
10) Investment: It was found that except office buildings and godowns sample PACBs have not created any assets. Compared to other sample PACBs the investment position at Manampandal PACB was better. However, the trend in the investment position of the sample PACBs as a whole was not appreciable.

11) Working and Functions of PACS: It was found that in Tamilnadu, only few PACBs which were having owned funds of Rs.25 lakh and above were alone permitted to accept deposits from the members and non-members. As seen earlier among the sample PACBs only Kondal PACB is eligible to accept deposits and all other PACBs confined their activities to distribution of loans and inputs.

12) Loan Operations of Sample PACBs: It was found that, more than 90 per cent of the total loan had been given for crop cultivations by the sample PACBs. The average loan issued by per sample PACB was Rs.42.92 lakh in 2003-04. This has increased over the year and stood at Rs.48.15 lakh at the end of the study period. Due to larger area of operation the total loan issued by the Mannampandal PACBs was comparatively high. Further there was no significant and positive trend observed in the loan operation of the sample PACBs. This was because of the increasing trend in overdue loans.
13) Recovery: It was found that the Government loan waiver policies have worsened the recovery climate. The total recovery of loan against demand was less than 10 per cent in the entire sample PACBs. In fact, the trend in the recovery had become worse at the end of the study period.

14) Overdue / NPA: It was found that in Tamilnadu the loan portfolio of PACBs have not been totally changed from overdue related discipline to NAP related discipline. For majority of PACBs the classification of their loan assets based on NPA norms have been a distant reality. In the case of sample PACBs it was found that the position of overdue was increasing year by year in the sample PACBs. On an average, per bank overdue was Rs.116.06 lakhs in 2003-04, which has grown to 290.29 lakhs at the end of the year 2007-08. The individual bank wise analysis shows that the position was serious in Mannampanda PACB.

5.1.3 Socio-Economic Conditions of Wilful Defaulters

1) Age: It was found that majority of the respondents in wilful default category stood in the age category of 36-50, whereas majority of the non-wilful defaulters stood in the age category of 50 and above. Majority of the respondents in non-wilful defaulters category had long association with PACB as they were the only institutional sources of borrowings for the small and marginal
farmers. Majority of the sample respondents in the wilful defaulters’ category were in the middle age group. As democratic management is negated for cooperatives banks in Tamilnadu for about more than three decades, the younger generation might not have sensitized on the importance of cooperative form of enterprises. Hence, they become wilful defaulters.

2) Sex: It was found that the sex-wise distribution of the respondents showed no significant variation between defaulters category. The figures pointed out that sample PACBs had not lent loans to women members or not admitted women members. However on the basis of the directions of the Government of Tamilnadu, PACBs have been actively involved in the promotion of women SHGs in their area of operation. Though the composition of women members in the total membership of PACBs was less, they have become members of PACBs through their SHGs.

3) Community: The community wise distribution of the respondents found that both the category of the defaulters spread across the community though the respondents from the other backward community was slightly higher than other community. This might be attributed to fact that the social banking policies of the Government of India and State Government have created an environment wherein the repayment of bank loan by the borrowers
had not been made mandatory. Hence it was found that all sections of the community expecting waiving of bank loans become defaulters.

4) Education: It was found that literacy level was high among the wilful defaulters category. Respondents with no formal education were around 30 per cent in Non-wilful defaulters category. Hence it is revealed that people with low literacy level become Non-wilful defaulters and vice versa.

5) Marital Status: Regarding marital status of the respondents it was found that there was no significant variation among the defaulter category. Majority of the respondent in both the category were married.

6) Family Type: It was found that majority of the respondents in wilful defaulters category stood at nuclear family category whereas majority of the respondents in non-wilful defaulters category stood at joint family category. Joint family system promotes mutual help, sociability, friendliness, value system among the members and cooperatives also represent the above said values. People living in joint family system may find relationship between the two systems. However, in case of wilful defaulters though they had the capacity to repay the loan they lack willingness which might be due to the family system to which they
belong. The nuclear family system lacks the opportunity to promote these values among the individuals.

7) Family Size: Family size of the respondent influences income and expenditure pattern. It was found that though the non-wilful defaulters had the willingness to repay the loan lack the capacity to repay due to increasing family expenditure, as majority of the non-wilful defaulters family size was more than 9 and above category.

8) Mass Media Exposure: It was found that majority of the respondent in wilful defaulters category had regular to exposure to mass media, while majority of the respondents in non-wilful defaulters category had occasional exposure to mass media.

9) Change Agents: It was found that all the respondents in the wilful defaulters category had frequent contact with change agents, which might had helped them to get all benefits under various Governments programmes. In case of non-wilful defaulters it is heartening to note that majority of them were not having frequent contact with change agents, though they know the functions of these agencies in their villages.

10) Membership: It was found that all the respondents in the wilful defaulters category had transaction with commercial banks. Further, more than 78 per cent of them had been members of
PCARDB, while only 5 per cent of them had been maintaining the membership with SHGs. The reverse was the trend in the case of non-wilful defaulters. It was found that majority of the respondent of non-wilful default category had association with SHGs only.

11) Duration of Clientele: It was found that majority of the respondents of wilful defaulters category had been member of the PACB only between 4-6 years while more than 90 per cent of the respondent of non-wilful defaulters category had been member of the PACB for about more than 10 years. In the same way more than 98 per cent of the respondents in non-wilful defaulters category had 4-6 years of association with the SHGs. It also found during the study that in a family more than one person was made the member of the PACB or PCARDB or SHG. This was purely to increase the borrowing capacity of the family.

12) Membership in Social Organizations: It was found that majority of the respondent in wilful defaulters category had association with political parties.

13) Primary Occupation: It was found, around 50 per cent of the respondent in the wilful defaulters category agriculture was the primary occupation. For the remaining Non-Farm Sector, Government Service and self employment were primary occupation.
14) Secondary Occupation: It was found that for about 49 per cent of the sample respondent in the wilful defaulters category, agriculture was the secondary occupation and in majority of the cases all of them were absentee landlords. In the case of respondents in the non-wilful defaulters category non-farm activities like dairy, weaving, brick making etc., were secondary occupation.

15) Type of House: It was found that majority of the respondent in the non-wilful defaulters category lived either in hut or tiled houses. As agriculture was their way of life both farm and residential buildings were one and same for this segment of the population. However, majority of the respondent in the wilful defaulters category lived in terraced houses.

16) Land holding: It is evident from the study that in majority of the cases small and marginal farmers constituted the non-wilful defaulters. At the same time all the sample respondent in the wilful default category were holding more than 5 and above acres of the land. This trend revealed that there is high correlation between size of the land holding and nature of default.

17) Cropping Pattern: It could be inferred that there was slight market orientation exist among the sample respondents of wilful defaulters category in their cultivation practices. Subsisting farming was the way of life for the respondents in the non-wilful
defaulters category, i.e., for majority of them paddy was the principle crop.

18) Marketing of Agricultural Produces: It was found that the majority of the respondents in the non-wilful defaulters category village trader was the major marketing channel while for the majority of the respondents in the wilful defaulters category, traders at Mondy centre was the major marketing channel.

19) Annual income: It was found from the study that for majority of the respondents in non-wilful defaulters category the annual income ranged between Rs. 12,000-24,000, whereas for majority of the respondents in wilful defaulters category the annual income was more than Rs. 75,000.

20) Expenses: To coincide with the trend in the income, the expenditure pattern of the sample respondents showed that there was wide gap between expenditure pattern of wilful defaulters and non-wilful defaulters.

21) Indebtedness with Institutional and Non-Institutional Agencies: It was found that majority of the sample respondent depends on the both institutional and non-institutional agencies for borrowings. However the dependence was at high level among the non-wilful defaulters.
22) Types of Non-Institutional Agencies: It was found that among the non-institutional agencies the role of money lender in rural credit was dominant. The rate of interest charged by money lender was between 24 per cent and 46 per cent per annum in the study area. Due to accessibility, friendliness and proximity to rural borrowers they dominated rural credit market. During the interactions held with the change agents, it was found that the emergence of SHGs had significantly reduced the volume of transaction of money lenders during the recent past.

23) Nature of Indebtedness: The present study found that ancestral debt was the only reason for more than 20 per cent of the sample respondents in non-wilful defaulters category for their indebtedness. However, for the remaining both ancestral debt and current debt constituted the total debt burden. In the case of sample respondents in wilful defaulters category there was no burden of ancestral debt.

24) Causes for Indebtedness: It was found that farm expenses were the major cause for indebtedness among the sample respondents in non-wilful defaulters category, while expenditure incurred towards the construction or renovation of houses were the cause of indebtedness among sample respondents in wilful defaulters category. As the rate of interest in agricultural loan with the
PACE was very cheap, the sample respondents in wilful defaulters category might had resorted to this source of finance for house constructions.

25) Borrowings from Institutional Agencies: It was found from this study that in the study area also farmers were exposed to multiple sources of institutional finance.

26) Loan Amount Borrowed: The loan distribution practice of PACBs is directly linked with size of land holdings. It was found that in the case of sample respondents in wilful defaulters category majority of them borrowed more than Rs.1,00,000 from PACB. If all these high end borrowers remain defaulters to the PACB, the position of NPA at all levels of cooperative credit structure increasing at higher rate.

27) Utilization of loan: It was found that majority of respondents in non-wilful defaulters category fully utilized the loan for which it was sanctioned to them. The reverse was the case of majority of the sample respondents in wilful defaulters category. It was found that diversion of agricultural credit either for productive or unproductive use was one of the menace of rural credit. Lack of supervision on the end use of credit, politicization of rural credit system, absentee land lords and target oriented approach of the
institutional agencies were found to be reasons for diversion of loan for other purpose in the study area.

28) **Reason for Full utilization:** As the small and marginal farmers depend only agriculture for their livelihood majority of the sample respondents in non-wilful defaulters category opined that expecting good yield from investment was the prime reason for full utilization of loan. Whereas, in the case of majority of the sample respondents in wilful defaulters category, availability of loan in time was the prime reason for full utilization of loan.

29) **Reasons for Diversion of loan:** Drought, higher rate of inputs, unexpected expenses, increase in consumption expenses, delay in getting loans and other reasons compelled the borrowers to divert the loan.

30) **Reason for Default:** There were several reasons found in the study area for not repaying the loan amount by the borrowers. Drought, Irrigation expenses, Farm/business expenses, heavy consumption expenses, unexpected expenses, insufficient income, no additional income, expectation of loan waiver, no pressure from bankers, nobody asked to repay, other reasons such as loss in business and the attitude of not to repay were the reasons stated by the borrowers for not repaying the loan.
31) Waiver Scheme: It was found that all the sample respondents in wilful defaulters category and majority of the respondent in non-wilful defaulters category availed benefits under waiving scheme.

5.2 Conclusion

Rural Credit Market has been more complex after the introduction of New Economic Policy in India. At macro level the while cropping pattern in highly skewed towards cash crops, the proportion of finance made available for agriculture had showed negative growth and capital formation on agriculture was also affected due to dominance of short term credit in the total farm credit disbursed. During the same period the share of cooperatives in the total GLC showed declining trend and majority of the PACS become operating unviable. At State level also the share of PACBs in rural credit market had showed negative growth, majority of the PCARDBs, which have been established for the provision of investments credit have become dormant.

The function of PACBs across the country shows mixed trend. While the successful PACS have emerged as multi purpose institutions for their stakeholders, others restricted their functions only to disbursement of audit as per the direction of State Governments. In the case of Tamil Nadu more than three decades all the PACBs are managed by Government officers as Special Officers, negating cooperative democracy, which is considered to be essential element of any
cooperative enterprise. While analyzing the function of sample PACBs, it was found that all of them fall in line with the trend at State level. Because of their uni functioning, their business viabilities have been eroded and they virtually depend upon DCCB for working capital.

On the demand side of the agricultural credit Wilful default has been emerged as major menace, which affected the interest of small and marginal farmers and regular repayers. During the field study it was observed that the percentage of wilful defaulters in the total defaulters of the PACBs remains more or less equal, while the total amount due to PACB from wilful defaulters was high. From the forgone analysis it is cleared that the big farmers and the landlords remained as wilful defaulters, while the small and marginal farmers constituted non-wilful defaulters.

The wilful defaulters were characterized by better education, better community status, high level exposure to mass media, contact with change agents, cliental with all type RFIs, association with political and caste organization, market oriented and commercial cropping, fully depending on institutional agencies, diversion of institutional loans for other purposes, availing benefit under waiving scheme etc., And on the other hand the non-wilful defaulters were characterized by small size of land holdings, subsistence form of living, lack of subsidiary occupation, lack of contact with change agents and exposure to mass media etc.,
Since PACBs are the only institutional agencies for small and marginal farmers the sample non wilful defaulters had long association with PACBs. The observation made during the field study as well as interaction held with officials reviewed those attain characteristics contributed to growth of wilful default in rural credit were the waiving policy of State Government, politicizations of cooperative movement, absent of democratic management and lack of knowledge about cooperatives among the younger. Hence, this is right time that a policy environment must be created to arrest the problem of wilful default and save the credit structure.

5.3 Suggestions

5.3.1 SHG–Bank Linkage Programme

The SHG-Bank Linkage Programme, which was started as a pilot project in 1992, made a tremendous success in India, by organizing 2.7 million SHGs as on 31st March 2007. Both in farm and non-farm credit this model have recorded more 90 per cent recovery and facilitated the borrowers to grow as entrepreneurs. There is growing awareness among the public on this model and almost all NGOs have started to organize SHGs and given credit link with banks. PACBs have better access to this banking market. The sample PACBs may devise strategies to form SHGs in their area operation and extent broad base their banking operations through these SHGs. It is to be noted here that sever field
level studies found SHGs have arrested the problem of wilful default in rural credit.

5.3.2 Joint Liability Groups

PACBs in Tamilnadu with the active guidance of NABARD have promoted JLGs among the farmer members. The model has created a joint venture between banks, borrowers and the corporate and ensures better results to all. Sample PACBs should organize more such JLGs and here after all the crop loans should be disbursed either through JLGs or KCCs.

5.3.3 Resource Based Managements

Any business plan of PACB should be based on the resources in its area of operation. If this livelihood approach is followed, it will ensure success to the business of PACBs. Hence, while devising Annual Credit Plans, PACBs should prepare their own Potential Credit Plans based on the resource endowments of their area operation on the models of Potential Credit Plans of NABARD.

5.3.4 Diversifying the operations of PACBs

The liberalized economic system opened new vistas for banking operations in the country. Banking, trade, and insurance are friendly linked with each other by the information technology. This is the right time that the sample PACBs must devise suitable strategies to broad base
their operations covering areas like, insurance, agency business, sale of non-controlled articles, management of knowledge management centers, etc., based on the needs of its clientele base.

**5.3.5 Implementing the recommendations of Task Force in its full form**

The Task Force for the Revival of Cooperative Credit Institutions (ST) has given implementable action plans for the revival of cooperative credit institutions. The Government of Tamilnadu accepted its recommendations and special Ordinance was issued on 21 October 2008. Since then the nomenclature of the PACBs remains as PACS. For recapitalization process, Special Audits were completed at DCCB and PACBs level also. With this same vigor and enthusiasm the Government should implement all the recommendations of the Committee for the revival of the entire short term cooperative credit structure in Tamilnadu. This Policy support alone will ensure future for these institutions. Because only those members who have the real need / interest in the development of PACB alone could continue as a member. The ghost members could not hold any position in the PACB as they are the recalcitrant and wilful defaulters.
5.4 **Scope for further Research**

Based on the findings of this present study, the scope for further research are highlighted hereunder

1) A study on the impact of SHGs on the credit functions of PACBs

2) A study on the linkages between PACBs and CBOs

3) A study on the feasibilities of JLGs in non-credit business of PACBs

4) A study on the feasibilities of establishing linkages between the PRIs and PACBs