CHAPTER - VIII

SUMMARY, CONCLUSION AND SUGGESTIONS

In the previous chapters, the data collected through schedules and secondary sources have been analysed with the help of different tools. In present chapter efforts have been made to present summary and inferences drawn from the study. The chapter also contains recommendations for improving the repayment performance and reducing the overdues among the rural people.

8.1 Summary and Conclusions

In India, agriculture has been the main source of country's economy and a very large proportion of its population is engaged in this primary sector and earning bread and butter for nearly two third of its population and contributes 18.5 percent towards the national income. It is an instrument of income and employment generation which contributes significantly to the total export of the country. The uneconomic size of holdings due to division and fragmentation, rapid growth of population which is dependent on agriculture more than the area available for cultivation, dependence on agriculture on vagaries of nature and famines, absolute technology etc. results in low productivity per farmer and per person. The employment opportunities in the rural areas are inadequate because of slow progress in small scale and cottage industries and scarcity of large scale industries in the rural areas.
Keeping in view the importance of agriculture sector and development of the rural people thereof, the Government of India has announced various productive and supportive measures like introduction of multi-agency approach, nationalization of banks, introduction of Kisan Credit Scheme, enhancing the flow of credit, etc. for modernization and mechanization of Indian agriculture, and for reducing the dependence of farmers for agricultural credit on informal sources. With the initiation of renewed process in the Indian economy, the government has given more emphasis for the growth and development of agriculture in the country's developmental strategy. Despite of the various steps taken by the government for the betterment of farming sector, the burden of debt is increasing year after year. The average debt per cultivator household increased to Rs. 12,535 in 2002-03 as compared to Rs. 363.70 during 1950-51.

Agriculture, being the mainstay of the people of Himachal Pradesh, plays an important role in the economy of the state. It provides direct employment to 69 percent of the total population of the state. More than twenty percent of the state domestic product comes from agriculture and its allied sector. However, it is largely a domain of small and marginal farmers and they account for more than 86 percent of the total land holdings. About 80 percent of the total cultivated area in the state is dependent on weather and it indicates that the agriculture is mainly rain fed. The agro-climatic and geographic conditions provide ample scope
for the development of horticulture in the state and have resulted in shifting of land use patterns from agriculture to horticulture in the recent years. Livestock is another prominent sector which contributes significantly in the economy of the state. But agriculture sector may not remain as viable proposition in the state due to decline in productivity because of traditional and primitive methods of farming by rural people. Modernization in farming is one of the important alternatives to make it viable one. Government of Himachal Pradesh is providing support for the development of this sector through various schemes and programmes. Various measures have been taken by the state government to ensure timely and easy availability of funds to the rural community creating a sound financial institutional credit infrastructure in the state. These institutional agencies, particularly co-operatives, commercial banks and Regional Rural banks, are playing a vital role in the development of the rural areas which is strengthening the agricultural base. The analysis reveals that here is maximum branch expansion of commercial banks after nationalization and the quantum of credit advance to agriculture and allied activities. The loan disbursement by these financial agencies has recorded a remarkable growth rate which reflects that they have done excellent job in financing agriculture and horticulture sector. In spite of such a happy note, it is observed that the overdues have soared up and getting heavier with the passage of time. This state of affair is not conducive for the efficient
management of financing institutions as well as rural community of the state.

The analysis of the socio-economic profile of the respondents reveal that the higher dependence of people on agriculture, preponderance of small holdings, low and uncertain rainfall, predominance of food crops, small area under irrigation and lack of regulated markets are the distinctive features of the agro-economic background of the study area. The analysis further reveals that there is a wide network of commercial banks in the sampled area from where the rural people can fulfill their financial requirements. The state has special significance in the context of hydro-power generation. There is no scarcity of electricity and all the villages in far-flung areas also receive adequate supply of electricity. Transport and communication facilities have improved considerably in the areas under study. No doubt that the infrastructure facilities have improved in the sampled districts, however, other agro-economic variables such as irrigation facilities, cropping pattern, size of land holdings, etc. act as constraints for carrying out agriculture and its allied activities on modern lines. These adverse factors clearly show the backwardness of the agriculture sector in the area under study. It is further observed that majority of beneficiaries of all castes are male and most of them are in either matriculate or below matric among all castes. The analysis in terms of caste structure reveals that majority of households belong to general caste followed by
scheduled castes and other backward castes. Most of the households in scheduled castes and other backward castes have less than 1 hectare land holdings while the respondents from general castes have 1-2 hectare and above 2 hectare land holdings are common.

Similarly majority of beneficiaries from all castes have irrigated land between 0 to 0.04 hectares only. It is evident from the analysis that majority of the beneficiaries from all castes have annual income between Rs. 30,000 to Rs. 60,000 or less than it. It is also inferred that majority of general and schedule caste beneficiaries have livestock between Rs.10,000 to Rs. 20,000 but majority of respondents of other backward castes have livestock below Rs.10,000. The total living standard assets in case of scheduled caste and other backward caste beneficiaries are between 2-3 lakh whereas in case of general caste respondents it is Rs. 3-4 lakh and even above Rs. 5 lakh. As far as family expenditures of the beneficiaries is concerned it is observed that in case of general beneficiaries these expenditures are between Rs.30,000 to Rs. 45,000 and in case of SC and OBC beneficiaries this is below Rs.15,000 per annum. On an average, majority of beneficiaries of all castes have borrowed amount from different commercial banks upto Rs.15,000 and majority of SC and OBC beneficiaries have borrowed for a period between 36-48 months whereas the general caste borrowers have got financial assistance for a short period as compared to other caste beneficiaries. Further, it is also observed that beneficiaries in majority
cases irrespective to their castes used their borrowed amount for unproductive purposes and hence, they are unable to generate sufficient income to support their families and to repay the borrowed amount and are in the category of defaulters. The outstanding amount in majority cases of all castes defaulters is between 75 to 100 percent or above the principal amount. The ratio of productive members to total family members among all castes is between 50 to 75 percent and it is higher in case of OBC/SC as compared to general caste beneficiaries. The analysis clearly indicates that school going children and females of the family help their guardians in earning some money for their daily expenses. It is also concluded that majority of beneficiaries are male and classification of beneficiaries in accordance with their age and occupation shows that majority of rural artisans are below 35 years, labourer between 45-55 years and majority of agriculturists, businessmen and service holders are in the age group of 35-45 years. The analysis reveals that majority of agriculturists and labourers are under matric, majority of businessmen and rural artisans are matriculate and majority of service holders are graduate and above. It is further concluded that majority of businessmen, service holders, labourers and rural artisans have adopted agriculture as subsidiary occupation but majority of agriculturists have chosen business as their subsidiary occupation. The analysis also shows that majority of service holder beneficiaries are the owner of 0.08 to 0.12 hectare irrigated land
as compared to other occupational status beneficiaries who have irrigated land upto 0.04 hectare. Similarly, majority of beneficiaries belonging to service holder and agriculturists' category has 1-2 hectares farm size whereas this is less than 1 hectare in case of other occupational beneficiaries. The analysis with regard to occupation of beneficiaries and their total annual income revealed that in case of majority of businessmen, laborers and rural artisans it is between Rs.60,000 to Rs. 90,000 and on the other hand this income is between Rs.30,000 to Rs. 60,000 and above Rs. 1,20,000 in case of agriculturists and service holder beneficiaries respectively. As regards to livestock, the majority which is more than half of the each occupational status have income below Rs. 20,000 which is used to fulfill their daily needs and also to generate additional income. Our survey reveals that a major chunk of businessmen and service holder beneficiaries have total living standard assets between Rs. 3-4 lakh or much above to it, whereas the agriculturist, labourers and rural artisans have these assts between Rs.2-3 lakh or even less to this in majority cases. However, labourers, agriculturists and rural artisans spend less than Rs. 30,000 per annum and businessmen and service holder beneficiaries spend Rs. 45,000 or above as family expenditure annually. The focus of the study in respect to the borrowings indicates that overwhelming majority of the agriculturists, labourers and rural artisans have borrowed below Rs.15,000 and in case of businessmen and service holders this amount
is Rs.45,000 and Rs.75,000 respectively. The main reasons for low level of borrowing by rural people except businessmen and service holder beneficiaries, has been the dominance of very small and marginal size of land holdings. It is also observed that the majority of the sampled agriculturists and rural artisans have used the borrowed amount for productive purposes and all other occupational status beneficiaries in majority used their loan for unproductive purposes. The study also reveals that the borrowers who are in service are paying loan instalments regularly whereas others in majority are defaulters. The study further reveals that regardless of occupation, majority of borrowers have outstanding amount ratio between 75 to 100 percent and they have productive members between 50 to 75 percent in their family.

The study of the sampled borrowers with regard to their farm size and demographic variables indicates that in majority cases they have less than 1 hectare farm size in their family irrespective of their sex, age, educational qualification, caste, irrigated land and nature of family (whether joint or nuclear). Further, the investigations revealed that total farm and non-farm income, total livestock with the family, period of borrowed amount and farm or total non-farm expenditure of the beneficiaries increases with the increase in farm size and vice-versa. The study also reveals that in majority cases the borrowers used their loan for unproductive purposes. The ratio of productive members to the
total family members is between 50 to 75 percent and they are defaulters and have overdues with different commercial banks irrespective of the ownership of farm-size. The study with regard to the extent of overdues in commercial banks reveals that there is a significant relationship between the age of the borrowers and overdue period. The overdue period is less, i.e., 12-18 months, in case of senior citizens as compared to other beneficiaries where this is above 36 months. This may be due to the reason that old person has realized the importance of repayment of loan. As far as the overdue period and sex is concerned it is found that there is no relationship between these two factors and the overdue problem is similar in case of male as well as female beneficiaries. The study reveals a significant relationship between the caste of beneficiaries and overdue period which shows that average overdue period is maximum in case of OBC’s and is followed by SC and general caste beneficiaries. Education level of the borrowers is significantly correlated with the period of overdue. Highly educated borrowers are fewer defaulters in number as compared to low educated borrowers. The reason is that better educational qualification positively affects the borrower’s ability in making rational use of credit and repayment of loans. The analysis also concluded that majority of service holders are non-defaulters and among other majority of beneficiaries have average overdue period over 36 months because service holder beneficiaries get regular and stable income after a period of one month whereas in other
cases there is uncertainty in earnings. Similarly, subsidiary occupation and overdue period are not independent but are correlated to each other. The finding of the study also proves that problem of overdue is almost similar for beneficiaries from nuclear family as well as joint family beneficiaries and there is no relationship between nature of family and period of overdue. Further, the problem of indebtedness is more serious among the borrowers having farm size between 1-2 hectares as majority of these borrowers have not made their repayment for the last three years or more. It is also observed that the incidence of overdue with regard to zones of beneficiaries have no relation and in all the zones majority of beneficiaries are defaulters and have overdue period over 36 months. As far as overdue period and income of beneficiaries is concerned, these two factors are found highly significant to each other and it is concluded that the overdue problem is more adverse among beneficiaries of lower income (farm and non-farm) group as compared to upper class income group beneficiaries. The overdue period and expenditure on family, household assets, farm and total living standard assets of the borrowers are highly significant to each other and it is concluded that lower the family expenditure, lower is the overdue period and higher the family expenditure, higher is the overdue period.

However, among non-defaulters, majority of beneficiaries are those who have no political background but average overdue period is minimum in case of beneficiaries having political background. The
overdue period and livestock held by the beneficiaries conclude that there is significant relationship between these factors and majority of defaulter beneficiaries in these groups have overdue period over 36 months. It is further observed that majority of beneficiaries (whether they have mechanical tools or not) are defaulter and in majority cases they have overdue period above 30 months.

The study further reveals that the tendency of default is more among the borrowers who have borrowed low amount of credit, i.e., less than Rs. 30,000 and the majority of defaulter beneficiaries having borrowed amount above Rs. 30,000 have overdue period upto 24 months. This is due to inadequate and untimely credit, low earning capacity or slackness among the borrowers having low amount to repay. The repayment performance is also not good among the borrowers who have taken loan at lower rate of interest. It indicates that people take low interest rate lightly and it leads to overdue problem in the majority cases. The repayment performance is somewhat better in case of those beneficiaries who have taken loan for a long period, which is 4 years or above and this situation is again adverse where the borrower has received financial assistance for a shorter period, because loan period and amount of loan instalment for repayment are inversely proportional to each other and hence, repayment performance is affected by the period of loan. Further, the study indicates that overdue period is less in case of those beneficiaries who have taken loan for house
construction and recreational purposes while it is more in other cases. This is because service holder and businessmen beneficiaries take financial assistance for house construction or for recreation purposes like purchase of vehicle, personal computer etc. The study makes another important observation that the incidence of overdues is less among the borrowers who have utilized the credit for productive purpose and quite high among the borrowers who put the credit to unproductive use. The diversion of credit towards unproductive use does not help in generating income and as a result the borrower turns out to be a defaulter. The repayment performance is better in case of those beneficiaries who feel that the borrowed amount is inadequate as compared to others who consider it to be adequate. The findings of the study also prove that the visits by the officers of the lending commercial bank for consultation and verification of the disbursed loan significantly affects the overdue period. It is observed that overdue problem is more serious in those cases where bank officers had not undertaken any visit or make only a single visit, and where bank officers undertake more than one visit for forgoing purpose the problem of overdue is less adverse. Further, the problem of overdues is more serious among the borrowers having high productive ratio (productive members to total family members) as majority of them have not repaid their loan instalments for last 36 months or more. This is due to less yield area where members of a family work only as their routine work or the
financially sound persons try to manipulate the overdues deliberately. The analysis of overdue problem and ratio of outstanding amount to the principle borrowed states significant relationship between these two variables.

The discriminate function analysis is designed to classify the borrowers into defaulters and non-defaulters and the defaulters into wilful and non-wilful defaulters. This has revealed that non-farm income, utilization of loan for productive/non-productive purposes, adequacy of loan, agriculture income, number of visits by officers of the lending commercial bank for verification and guidance, farm size, caste and percentage of irrigated land to the total farm size are the major characteristics which classify the borrowers into defaulters and non-defaulters. The non-farm income of the family helps in meeting the expenditure involved in modernization and mechanization of farming and increasing disposable income and consequently, a borrower repays the loan instalments promptly to the lending institution. With the misutilization of loan for non-productive purposes and in the absence of incremental income from the investment, the borrower turns out to be defaulter and the overdue with the lending commercial bank goes on accumulating. As the rural borrowers do not have resources of their own to invest along with the borrowed amount to take up the economic activities and it is quite likely that the inadequacy of funds may lead to diversion of borrowed funds to channels other than productive and
causes indebtedness. Farm income is subject to fluctuations due to erratic rainfall, low prices for the produce, lack of storage facilities, etc. As a result, the repayment capacity as well as borrower's attitude towards repayment is affected considerably. The repayment behaviour of the borrower is guided by his own attitude towards repayment and the lending institution. The borrower should not be harassed on non-repayment of the loan, but should be guided and motivated properly and number for visits should be made by lending officers for positive guidance to the use of loan and not for underhand considerations. It is also observed that Himachal Pradesh being a hilly state has less cropping area and a family has very small farm size as compared to their family members. Further it was also investigated that caste and farm size of the borrowers are correlated to each other and it is very clear that the land holdings of general caste borrowers is greater than the borrowers of scheduled caste and other backward caste beneficiaries. The proper irrigation facilities greatly help in raising the agricultural production and consequently generating the agriculture income. The irrigation facilities being poor have no chance in generating the sufficient income and hence, resulted in default. It is further observed from the analysis that family expenditure, total non-farm income, family size, period of the loan, visits by the officers of the lending commercial banks, age and occupation of the borrowers are the major characteristics classifying the defaulters into wilful and non-wilful defaulters. However,
among these, family expenditure, total non-farm income, family size and period of the loan with highest discriminating powers and the number of visits by the lending officers, age and occupation of the borrower with marginal discriminating powers contributes in classifying the defaulters into wilful and non-wilful defaulters. Thus, the discriminant function has been used to predict whether a borrower is likely to be a defaulter or non-defaulter and further, a defaulter likely to be a wilful defaulter or a non-wilful defaulter.

8.2 Suggestions

On the basis of findings of the study the following suggestions have been made. It is hoped that these suggestions and recommendations will prove helpful to policy planners and scheme executives to apply successfully for the improvement of recovery position and minimizing the quantum of overdues. On the basis of the results of the study, the following recommendations have been made:

1. The present study signifies that in case of small farm sizes the farmers do not get the fruitful prices because it is not viable for them to bring the harvest to the market due to small production. Consequently they are forced to sell their crops in the local markets at a lower rate. Therefore, Co-operative Marketing Societies should be promoted so that the farmers get an acceptable price for their harvest.
2. The study has revealed that borrowings have a positive and significant relationship with the amount of overdues or overdue period. Hence, it is very important to make a correct assessment of the repaying capacity of the rural people before the sanction of loan amount. Further, the study reveals that there are borrowers who are wilful defaulters. These wilful defaulters should be forced to repay the loans and be dealt with strictness.

3. One of the most important factors which increase the overdose, is the unproductive use of loan. This demands appropriate policy with regard to monitoring of credit utilization. The effective monitoring and post-credit follow-up action would ensure proper utilization and prompt repayment of loans.

4. The feeling among the borrowers that the state government waives off the borrowed amount and interest of the loaners leads to increase in the wilful default despite of good repaying capacity of the borrowers. Such type of malpractices should be avoided and only in case of deserving borrowers there should be some relaxation or compensation. The state government/management of the lending institutions should take appropriate steps to enhance recovery position.
5. Period of loan should be determined on the cash flow pattern of the household and it should be extended so that loaners can repay easily from their savings or earnings.

6. The study reveals that the problem of indebtedness is more acute among the farmers who are totally dependent on agriculture for their livelihood. It is also observed that the farmers who have taken loan for crop production are more prone to defaults. This is either due to low crop yield or unremunerative market price or inadequate availability of loan for raising crops. There is an urgent need to increase the area under irrigation in order to increase farm productivity. The ongoing work on water harvesting and storage tanks for providing irrigation facilities should be completed on war-footing. Further, more regulated markets should also be established particularly in rural areas. The government should fix support price for all the crops grown by the farmers in Himachal Pradesh. The support price must be revised after every crop season. While revising the support price, the prices of agriculture inputs should be taken into account. The efforts should be made to increase the income of the farmer by providing assistance to start subsidiary occupations, like dairying, poultry farming, horticulture, cottage industries, etc.
7. There is a large scope for starting units based on horticulture, forest produce based goods, herbal products, poultry, animal husbandry, sericulture etc. Taking into consideration the facts that majority of the rural households depends upon agriculture and allied activities in which the topography and agro-climatic conditions do not help in increasing the productivity, hence, substitute opportunities in the aforementioned area should be initiated.