

REPORT OF A STUDY ON MEMBERS INDEBTEDNESS IN CO-OPERATIVES

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CHAPTER IV

FINDINGS AND SUGGESTIONS

The study on “Member Indebtedness in Co-operatives” was taken up for National Federation of State Co-operative Banks Ltd by Agricultural Co-operative Staff Training Institute, Thiruvananthapuram. The study has the following objectives,

1. To assess the extent of indebtedness of members in PACS with reference to the State of Kerala.
2. To examine the indebtedness of Scheduled Caste members in Cooperatives.
3. To suggest the measures to reduce the indebtedness by the members to cooperatives.

The Study covered the districts of Thiruvananthapuram, Alappuzha, Ernakulam, Idukki and Palakkad. The Report is presented in to four chapters. The first chapter introduces the concept and explains the methodology. The second chapter brings about the credit movement in Kerala. The third chapter presents a detailed analysis of the data collected from 220 respondents in Thiruvananthapuram, Alappuzha, Ernakulam, Idukki and Palakkad districts. The findings and suggestions are presented in the fourth chapter.

The districts wise data has been analyzed in terms of profile, ownership of land, source of income, expenditure, savings, loans borrowing from other agencies , diversion of loans, repayment period and income frequency. The caste wise analysis of the five districts was undertaken separately and presented in chapter three. The findings and suggestions are presented in the fourth chapter. The Primary Agricultural Co-operative Societies in each district was selected based on the discussion with District Co-operative Banks/Joint Registrar of Co-operative societies. Totally 28 taluks were covered and 2 societies in each taluk based on good and better performance were taken. The sample members covered was 5 in each society and total sample size was 280. The respondents were interviewed based on a Pre-Structured questionnaire. The questionnaire elicited information relating to the profile, occupation, income, expenditure, loan details, overdue, borrowing from other agencies, loan diversion, and income and loan repayment frequency. The collected data was analyzed in terms of percentages and statistical tools such as Mean, Standard Error, Median, Mode, Pearson Correlation and Mutli - Linear Regression.

Findings;

1. 6 District Co-operative Banks had more than 60 branches while 6 District co-operative Banks had more than 50 branches. The districts of Wayanad, Kasargode and Palakkad have less than 50 branches. The District Co-operative Banks of Trivandrum, Ernakulam, Thrissur and Kannur had a deposit of more than 5000 crores but the CD ratio of the bank excluding Thrissur was in the range of 40 to 47 percent. Idukki and Wayanad had the highest CD Ratio while the lowest ha Palakkad and Kannur. The PACS in Kerala used the word 'Bank' though RBI has been advising not to use the word 'Bank'. Recently the Registrar of Co-operative Societies issued a circular that the PACS to be registered in future should not use the word 'Bank'.
2. The analysis on surplus and investment management of DCBs revealed the following
 - (a) Lower CD ratio
 - (b) Average use of lendable resources is 60 to 75 percent
 - (c) Keeping more funds in Non SLR investments
 - (d) The average NPA on loans and advances given to PACS 0.2 to 5.6 percent
 - (e) The average NPA on loans & advances extended to individuals is 11 to 14 percent
 - (f) The average rate of interest on loans and advances is ranging between 8.5 to 11 percent
 - (g) The deposit of PACS in DCBs ranges from 65 to 67 percent
 - (h) The percentage of costly deposits in DCBs is 90 percent; i.e CASA deposits only 10 percent
3. The PACS are functioning under different nomenclature. They are engaged in banking and non banking activities. They have diversified business activities. Three districts have more than 150 PACS and seven districts have more than 101. PACS in Idukki district which has 73 PACS has the highest number of branches and its C.D ratio was more than 100 percent. The lowest C.D ratio was in Ernakulam and Thrissur districts.
4. A comparison of the districts reveals that there is no variation among the four districts more than 60 percent are male in the age group of 45 to 60, having primary education, nuclear type of family, concrete and tiled house, possessing TV, fridge, and source of drinking water is well.

5. In all the districts excepting Idukki the respondents had cultivated and uncultivated land. In Idukki district 48 percent cultivable land. There was no variation across the districts in respect of salary income, average consumption expenditure, ceremonies, savings and loans. In the case of Idukki district the amount of loan outstanding is below Rs.1 lakh while the other districts it was above Rs. 4 lakhs.
6. In all districts the respondents have taken loan from nationalized banks. In Thiruvananthapuram and Alappuzha districts they have also taken loans from Micro Finance Institutions. The reason for diversion of loan in Ernakulam and Alappuzha districts was ceremonies and house maintenance. In Idukki district it is observed there is no diversion of loans. The income frequency and repayment frequency revealed that in Thiruvananthapuram and Ernakulam it matched on a monthly basis while in Alappuzha and Idukki it matched on daily basis. In all the districts the attitude of respondents towards repayment of co-operative loans was positive.
7. A comparison of the district category wise revealed that in Thiruvananthapuram the education level was secondary and above for general and OBC while in Idukki it was primary. In the case of SC in Thiruvananthapuram and Alappuzha and Idukki districts it was secondary education while in Ernakulam it was primary.
8. In general and SC category agriculture is the main occupation in Thiruvananthapuram, Ernakulam and Idukki districts. However in Alappuzha district agriculture was the main occupation for OBC. In all the districts for all the categories it was nuclear type of family. The income and expenditure for the general category was the highest followed by OBC in Thiruvananthapuram, Ernakulam and Idukki district. In the case of Alappuzha it was highest for OBC. As far as savings is concerned it was higher for general category in Thiruvananthapuram and Idukki district. In the case of Ernakulam and Alappuzha district the savings was higher for OBC. Further it was observed that the savings was very low for SC in Thiruvananthapuram Ernakulam and Alappuzha, while it was slightly higher in Idukki district.
9. The loan amount borrowed and outstanding was higher in Thiruvananthapuram, Ernakulam and Idukki for general category. In Alappuzha district it was higher for OBC. As far as the diversion of loan is concerned it was high in Thiruvananthapuram and

Ernakulam district for general category and in Alappuzha district it was for OBC. The income and repayment frequency on monthly basis matched in Thiruvananthapuram, Ernakulam and Idukki district for general category. In Alappuzha district for OBC it matches on monthly basis. As far as the attitude of the members towards Cooperative is concerned it was positive in all districts for all categories.

10. The maximum amount of loans has been availed by the OBC category followed by general. The percentage of beneficiaries availing loan among SC category was the lowest. Majority of the members had primary education followed by Graduation. Agriculture was the main occupation of the respondents. However the loans availed was used for non agriculture purpose. Majority of the respondents had a nuclear family thereby posing a restriction on the number of earning member. The respondents mainly spend for consumption purpose followed by ceremonies and vehicle expenditure. It is also observed that the respondents spending more than Rs.12, 000, spent on mortgage and land. All the respondents maintained SB Accounts in PACS. Majority of the respondents have availed loans exceeding Rs.4 lakhs. The loans taken by respondents were diverted for house maintaining and ceremonies. There is mismatch of income with repayment period. There is not much variation in the expenditure among General, OBC and S.C category. There is not much variation in income, expenditure and savings of respondents. A change of 1 percent in income will increase the expenditure by 63 percent and savings will increase by 10 percent. This will automatically lead to indebtedness.

The findings in respect of PACS are given below:

- i. All PACS are mobilizing costly deposits
- ii. The rate of interest on loans and advances are high
- iii. The best rated members do not prefer to take loan from PACS
- iv. The share of agricultural credit is below 20 percent
- v. Much of the loans granted to individuals are not based on worthiness. These loans ultimately become overdue. The overdue loans will be rescheduled, sometime may come under One Time Settlement, repayment may also be delayed for

availing the benefit under loan waives scheme. Ultimately the liability of the loan continues for a long period. The members don't have relief from these liabilities and it will be with debt trap from which are may not relief in the long run. Really the members of co-operatives are forced to fall in debt trap of their own organization.

- vi. A major portion of the loan is disbursed for consumption purposes. The loans to the production sector will ensure a smooth recovery. The poor CD ratio of DCBs is also an indicator of compulsion to provide more loans by DCBs.
- vii. The loan recovery system of PACS is dependent on Government machinery
- viii. The loan decisions are taken by Board of Directors who does have any deposit or any business dealings with the bank as a stakeholder.
- ix. The governance structure of PACS promotes loans to individuals who do not have credibility.
- x. The general public is more interested to keep their deposits in PACS. The reason being the higher rate of interest, income tax benefits etc.
- xi. Cost of loan escalates in Co-operatives because of ARC filing, arbitration activities. The invigilators observed that at least 25 percent of the loanees have undergone the ARC filing, arbitration cases for loan repayments.
- xii. The classification of societies is based on the deposit collection and the organization attuned their operations in accordance with deposit mobilization. The membership and members are not a concern for any decision making in PACS of Kerala. Since the organization's focus shifted to protect the interest of depositors, the transactions of members with their institution are running on bargaining mode.
- xiii. The PACS at the lowest level of the Credit structure is offering a high rate of interest on deposit compared to DCB and KSCB. It is also understood that some of the PACS in Kerala do not follow the interest rate prescribed by the RCS and charge slightly higher to attract more deposits.
- xiv. The study clearly proves that the rate of interest charged by the PACS for the same purpose is higher than the rate of interest charged by DCB/KSCB. All the three institutions in the credit structure are able to provide more and more

consumption loans. These types of loans add pressure to the borrower and thereby he becomes indebted and ultimately falls in debt trap.

Suggestions

- The PACS needs to take efforts to educate the member belonging to OBC and forward category in respect of repayment culture.
- The PACS need to devise a foolproof monitoring system so as to ensure that the loans are not directed for non agricultural purposes.
- Since the scope is limited to fewer members the PACS needs to introduce multifarious income generating activities amongst them.
- It was observed during the field survey that the SB Account is not operated regularly. The CASA deposit of PACS is very low. Hence PACS need to promote the saving account of members and make it active.
- The loan availed is used for non-productive purposes. The PACS need to promote loans for productive purpose.
- The Board of Directors of the co-operatives need to play a proactive role in ensuring the repayment of loans.
- The PACS need to formulate deposit scheme so that they can provide loans for purpose such as house maintenance and ceremonies.
- The PACS needs to match the income with loan repayment frequency as in the case of Micro Finance Institutions (MFI) and Small Payment Bank.