

A Study on Lending and Recovery of Agriculture Loan Practices At PACCS, Puducherry

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ABSTRACT

This study aims to explore the lending and recovery practices of Primary Agricultural Credi Cooperative Societies (PACCS), focusing on their impact on financial health and performance. The primary objective is to evaluate the overdue loans, their influence on the overall financial status of PACCS, and the measures taken by these institutions to recover such loans. The research investigates how overdue loans affect the liquidity, solvency, and profitability of PACCS, and the consequences of high loan default rates on their ability to operate sustainably. Additionally, the study examines the various recovery methods employed by PACCS, such as follow-ups, legal actions, and cooperative community-based interventions, assessing their effectiveness in reducing non-performing assets.

A key component of this study is the evaluation of the factors leading to loan defaults, which can include borrower reluctance, external economic factors, and ineffective recovery strategies. By analysing these factors, the study identifies patterns in lending that contribute to financial instability within PACCS. Furthermore, it assesses the role of financial education and advisory services provided to borrowers as a potential means to reduce defaults and enhance repayment rates. Based on the findings, this study provides a set of recommendations aimed at improving lending procedures, strengthening recovery practices, and ensuring that PACCS remain financially healthy and sustainable. These recommendations could involve the implementation of more robust credit assessments, better borrower engagement programs, and the adoption of technology-driven solutions for monitoring loan performance and recovery. Through this comprehensive analysis, the study seeks to contribute to the development of more effective lending practices in rural credit institutions, promoting financial inclusion and rural economic development.

KEYWORDS: Financial health, sustainability, liquidity and solvency, loan recovery strategies

1. INTRODUCTION OF THE STUDY:

Agriculture plays a crucial role in the Indian economy, providing livelihood to a significant portion of the population. To sustain and enhance agricultural productivity, farmers require timely and adequate financial assistance. Primary Agricultural Cooperative Credit Societies (PACCS) serve as a vital link in rural credit delivery systems by providing loans to small and marginal farmers. These societies, established at the village level, aim to support farmers in purchasing inputs such as seeds, fertilizers, and machinery, and in meeting other financial needs. The study of lending and recovery practices at PACCS provides critical insights into their efficiency, sustainability, and impact on the agricultural sector. This project

examines the lending and recovery mechanisms employed by PACCS, with a focus on understanding the challenges faced by both borrowers and the society and refer to the process of provide loans to farmers and ensure their repayment.

Lending involves assessing farmers' creditworthiness, determining loan amounts, and setting terms like interest rates and repayment schedules to support agricultural activities such as purchasing seeds, equipment, or improving infrastructure. The primary goal is to help farmers enhance productivity and meet their financial needs for farming. Recovery involves collecting loan repayments from farmers according to the agreed-upon terms. It includes monitoring repayment schedules, sending reminders, and taking necessary actions, such as legal proceedings, in cases of default. Effective recovery practices are crucial to maintaining the financial stability of lending institutions, ensuring that funds can be reinvested in future loans, and supporting the sustainability of the agricultural credit system. It evaluates loan disbursement procedures, the effectiveness of repayment systems, and the strategies adopted to minimize defaults. Additionally, the study identifies the socio-economic impact of PACCS on rural development and suggests measures for improving credit accessibility and recovery rates

OBJECTIVES:

- To examine financial health of PACCS by analyzing loans overdue. • “
- To evaluate the effect of loan default rate on financial performance.
- To review the methods employed by PACCS for recovering loans.
- To suggest improvement for enhancing PACCS lending and recovery practices

2. REVIEW OF LITERATURE

R Mohana, K Karunakaran (2024), “A Study On Agricultural Co-Operative Credit Society”

Agriculture largely stands for the prosperity of the Indian economy. According to Census 2011, about 68.8 percent of the people live in rural areas and their livelihood depends on agriculture either directly or indirectly. The share of agriculture and its allied sectors in the Gross Domestic Product (GDP) is 14 percent in 2011-12. The sector has got the potential to achieve higher growth rates and also be an engine of growth, so that growth in other sectors and the overall growth rate of the economy can be achieved

Fakhrul Wahab Majid JamalKhan, Muhammad YarKhan, Rukhshanda Mushtaq (2023), “The impact of climate change on agricultural productivity and agricultural recovery evidence from a developing economy”

Agricultural loans are critically linked with agricultural productivity. Agricultural productivity has a significant dependency on climate contingencies. This motivates us to explore the impacts of the climate change on recovery of agricultural loans caused by losses in agricultural productivity. Using panel data from 82 districts of Pakistan over a period of 21 years, i.e., 2000–2020, we estimate the sensitivity of agricultural productivity to climate change in each district. Using these sensitivities, we then apply Panel-Corrected Standard Errors (PCSE) Regression to estimate whether climate change sensitivities of agricultural productivity have any impact on the recoveries of agricultural loans across the sampled districts. We find that the impact of climate change on agricultural loan recoveries is asymmetric. Specifically, negative sensitivities to climate change result in lower recoveries, while positive sensitivities led to enhanced loan recoveries. Our study is unique as it provides evidence of the impact of climate change on agricultural productivity as well as loan recoveries in a set of districtlevel data. We built a unique climate change index to measure the level of climate change and also introduced a framework to measure climate change sensitivities of agricultural productivity in our sample districts. We believe that this novel approach is an addition to the existing literature on climate change. We suggest

that while devising agricultural and credit policies the governments and banks must consider investing in educating the farmer's on climate change adaptation strategies

Dr. R Karuppaiah (2022), "A Study on the Growth of Primary Agricultural Cooperative Credit Societies in Tamil Nadu" The Agriculture has a crucial role in the Indian economy. Institutional and non-institutional sources of agricultural loans exist in India. Institutional credit cooperatives play a significant role in the provision of finance to the agricultural sector. The formation of these societies dates back to 1904 when the first Cooperative Credit Societies Act was passed. The objective was to provide cheap credit to the farmers in order to relieve them from the clutches of money lenders are thought to be the foundations of the overall cooperative structure. The PACCS continue to be the main source of agricultural credit to the farmers in rural areas. The present analysis is based on secondary data from the years 2011-12 to 2020-2021. The data on number of societies, number of members, share capital, deposits, borrowings, working capital, loans issued, and over dues etc., were gathered from various websites and publications. This paper deals with the growth of primary agricultural cooperative credit societies in Tamil Nadu.

Johnson N J (2020), "An Analysis of Short-term, Medium-term, and Long-term Lending at PACCS" It focuses on short-term (ST), medium-term (MT), and long-term (LT) loans. The study reveals that ST loans consistently formed the majority of the total loans, peaking in 2014, but have since shown a declining trend. Meanwhile, MT and LT loans have been on the rise, indicating a shift towards longer-term financial commitments. The percentage of borrowing members to the total fluctuated significantly, with notable drops in 2012 and 2013 and peaks in 2016. This fluctuation, alongside the steady increase in both loan outstanding and overdue amounts, highlights the dynamic borrowing environment and the challenges in loan repayment. The findings emphasize the need for PACS to adapt lending policies to balance loan issuance with sustainable repayment practices, ensuring financial stability and meeting the evolving needs of member

Deshmukh, R. & Patil, A (2017), "Socio-Economic Determinants of Loan Repayment in PACCS" This study delved into the socio-economic factors influencing loan repayment behaviors among PACCS borrowers. Using detailed field surveys, the authors identified key factors such as education level, landholding size, and access to non-farm income as significant determinants of repayment performance. The research highlighted that smallholder farmers often faced challenges in meeting repayment deadlines due to unstable agricultural incomes and limited financial literacy. The authors recommended tailored loan products based on borrowers' repayment capacities and crop cycles. They also emphasized the role of financial literacy programs in empowering borrowers to manage their finances effectively. Additionally, the study proposed a participatory approach to loan recovery, involving community leaders and local influencers in encouraging timely repayments. This approach was found to foster trust between borrowers and PACCS, improving recovery outcomes.

3. RESEARCH METHODOLOGY SAMPLING PLAN:

3.1 Population

The population for this study comprises more than 500 customers of the Primary Agricultural Cooperative Credit Society, Murugapakkam in Pondicherry who have been involved in the process of getting loans

3.2 Sample

Sample is the process of selecting a subset of individuals from a population to estimate the characteristics of the entire population. The sample size is the number of observations used to make these estimates. The

samples are taken from the customers of PACCS

3.3 Sample size and time

For this study, a sample size of 103 respondents have given their response for analyzing the PACCS’s lending and recovery of loan practices in Pondicherry and the period taken for the research is one month.

4. DATA ANALYSIS AND INTERPRETATION:

CORRELATION ANALYSIS

Null Hypothesis (H₀) - There is no significant relationship between factors contributing to delay in loan repayment and their percentage

Alternative Hypothesis (H_a) - There is a significant relationship factors contributing to delay in loan repayment and their percentage.

PARTICULARS	FACTORS CONTRIBUTE TO DELAY IN LOAN REPAYMENT	PERCENTAGE OF LOAN REPAYMENT
Pearson Correlation	1	-.010
FACTORS CONTRIBUTE TO DELAY IN LOAN REPAYMENT Sig. (2-tailed)		.922
N	103	103
Pearson Correlation	-.010	1
PERCENTAGE OF LOAN REPAYMENT Sig. (2-tailed)	.922	
N	103	103

INFERENCE: It is inferred that Pearson correlation coefficient of -0.010 between "Factors contributing to delay in loan repayment" and "Percentage of loan repayment," indicating an extremely weak negative relationship. With a p-value of 0.922, which is much greater than the significance level of 0.05, this relationship is not statistically significant.

RESULT: Based on a sample size of 103 respondents, we conclude that there is no significant relationship between the factors contributing to delays in loan repayment and the percentage of loan repayment, and the null hypothesis (H₀) is accepted.

4.2 CHI SQUARE:

Null Hypothesis (H₀) - There is no significant relationship between handling customers of PACCS in default loan and customer support provided by PACCS.

Alternative Hypothesis (H_a) - There is a significant relationship between handling customers of PACCS in default loan and customer support provided by PACCS.

HANDLING CUSTOMERS OF PACCS IN DEFAULT LOAN

PARTICULARS	Observed N	Expected N	Residual
Providing restructuring options	26	25.8	.3
Legal actions	26	25.8	.3
Involves recovery agents	20	25.8	-5.8
Other	31	25.8	5.3
Total	103		

CUSTOMER SUPPORT PROVIDED BY PACCS

PARTICULARS	Observed N	Expected N	Residual
Very satisfied	16	25.8	-9.8
Satisfied	32	25.8	6.3
Neutral	33	25.8	7.3
Dissatisfied	22	25.8	-3.8
Total	103		

Test statistics

PARTICULARS	HANDLING CUSTOMERS OF PACCS IN DEFAULT LOAN	CUSTOMER SUPPORT PROVIDED BY PACCS
Chi-Square	2.359 ^a	7.796 ^a
df	3	3
Asymp. Sig.	.501	.050

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.8.

INFERENCE: The chi-square analysis reveals the relationship between how PACCS handles customers in default loans and customer support provided. For "Handling Customers in Default Loan," the Chi-Square value is 2.359 with a significance level (p-value) of 0.501, indicating no significant relationship since the p-value is greater than 0.05. However, for "Customer Support Provided by PACCS," the Chi-Square value is 7.796 with a p-value of 0.050, suggesting a marginally significant relationship.

RESULT: There is no significant relationship between the factors of handling customers in default loan and the customers support provided by PACCS.

4.3 ANOVA ANALYSIS:

Null Hypothesis (Ho) - There is no significant relationship between recovery method used in PACCS and challenges faced during recovery

Alternative Hypothesis (Ha) - There is a significant relationship between recovery method used in PACCS and challenges faced during recovery

Descriptives:

RECOVERY METHODS USED IN PACCS

PARTICULARS	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Lack of borrower cooperation	34	2.56	.991	.170	2.21	2.90	1	4
Legal actions	32	2.84	.723	.128	2.58	3.10	1	4
Ineffective recovery processes	69	2.69	1.148	.103	2.27	3.10		
Other	5	2.00	1.000	.447	.76	3.24	1	3
Total	103	2.66	.976	.096	2.47	2.85	1	4

Test of Homogeneity of Variances

RECOVERY METHODS USED IN PACCS

Levene Statistic	df1	df2	Sig.
6.381	3	99	.001

ANOVA

RECOVERY METHODS USED IN PACCS

PARTICULARS	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.631	3	1.210	1.282	.285
Within Groups	93.476	99	.944		
Total	97.107	102			

INFERENCE: The anova analysis inferences that the relationship between recovery methods used by PACCS and challenges faced during recovery. The test of homogeneity of variances, with a Levene's Statistic p-value of 0.001, indicates that the assumption of equal variances is violated. Despite this, the ANOVA results show an F-value of 1.282 and a significance level (p-value) of 0.285, which is greater than the threshold of 0.05.

RESULT: There is no significant difference in between recovery methods used by PACCS and challenges faced during recovery. Therefore, H_0 is accepted.

5. FINDINGS:

- The correlation analysis between the "Factors contributing to delay in loan repayment" and "Percentage of loan repayment," indicating an extremely weak negative relationship. With a p-value of 0.922, which is much greater than the significance level of 0.05, this relationship is not statistically significant. Based on a sample size of 103 respondents, we conclude that there is no significant

relationship between the factors contributing to delays in loan repayment and the percentage of loan repayment, and the null hypothesis cannot be rejected.

- The chi-square analysis evaluates the relationship between how PACCS handles customers in default loans and customer support provided. For "Handling Customers in Default Loan," the Chi-Square value is 2.359 with a significance level (p-value) of 0.501, indicating no significant relationship since the p-value is greater than 0.05. However, for "Customer Support Provided by PACCS," the Chi-Square value is 7.796 with a p-value of 0.050, suggesting a marginally significant relationship. This implies that while the handling methods for customers in default loans show no statistical significance, customer satisfaction levels in support provided are somewhat influenced by the methods employed.
- It is inferred that the relationship between recovery methods used by PACCS and challenges faced during recovery. The test of homogeneity of variances, with a Levene's Statistic p-value of 0.001, indicates that the assumption of equal variances is violated. Despite this, the ANOVA results show an F-value of 1.282 and a significance level (p-value) of 0.285, which is greater than the threshold of 0.05. This suggests there is no statistically significant difference in challenges faced across the different recovery methods used. Therefore, the null hypothesis (no significant relationship) is not rejected. The results imply that the type of recovery method does not significantly impact the challenges faced during recovery.

CONCLUSION:

The findings reveal a complex landscape of loan repayment behaviors and recovery challenges for PACCS. With a predominant younger demographic and a balanced gender distribution, PACCS can enhance inclusivity by offering tailored financial products and services suited to different age groups and genders. Repayment patterns vary significantly, with many borrowers struggling with unexpected expenses and insufficient income. These insights highlight the need for targeted financial literacy programs and flexible repayment plans. Furthermore, dissatisfaction with repayment processes and loan term affordability points to the importance of improving transparency and communication to strengthen borrower relationships and enhance overall satisfaction. In terms of recovery methods, while legal actions remain a core strategy, there is a growing preference for borrower-friendly approaches such as debt restructuring and alternative repayment options.

The effectiveness of recovery processes can be improved by addressing the primary challenges, particularly a lack of borrower cooperation. The strong support for technology adoption suggests an opportunity for PACCS to modernize loan management and recovery operations. To foster long-term improvements, PACCS should focus on streamlining recovery efforts, improving customer support, and adopting more flexible loan terms and credit evaluation methods. These steps, alongside leveraging digital tools, will optimize both loan management and recovery processes, ultimately leading to better financial performance and enhanced borrower engagement.

Reference:

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