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HYPOTHESES

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INFLUENCE OF BANKS' DEMANDS FOR SECURITY ON PERCENTAGE OF LOAN SANCTIONED FOR FARMERS UNDER: SERVICE AREA APPROACH (SAA)

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ABSTRACT

The Service Area Approach (SAA) was primarily introduced to provide credit to the farmers as crop loans, particularly to small farmers, to increase the agricultural produces and also to release them from the clutches of local money lenders. However, issue of credit under this approach by banks is not up to the demand made by the farmers. Moreover, farmers are asked to provide security / surety for getting the loan sanctioned though it is not mandatory under this scheme. Hence, in this paper, an attempt is made to identify whether banks' demands for security / surety do have any significant influence on volume (percentage) of loan sanctioned against loan requested for by farmers under SAA. To test the influence of banks' demand for security on percentage of loan sanctioned to farmers under SAA, the discriminant analysis technique is used. It is found from the results of the analysis that those farmers who had accepted to the bank people's demand to open fixed deposit account are likely to get sanctioned with more than 50 per cent of the requested by him under SAA.

KEYWORDS

Discriminant Analysis, Money Lenders, Rural Credit, Security and Service Area Approach (SAA).

INTRODUCTION

The Service Area Approach was primarily introduced to provide credit to the farmers as crop loans, particularly to small farmers, to increase the agricultural produces and also to release them from the clutches of local money lenders. However, it is unknown whether farmers are rescued from the clutches of village (local) money lenders after implementation of rural credit under SAA or not. Further, the beneficiaries are unhappy with banks' conditions for security and margins against issuing credit under SAA though only document required to lend the money under this plan is no due certificates from commercial banks other than lending bank. At the same time, there is a notion in the bankers' circle that the credit issued under this plan is used by the farmers for the purpose other than the purpose (like paying back earlier debt and family expenses) it is meant for. Therefore, an attempt is made to identify whether banks' demands for security / surety do have any significant influence on volume (percentage) of loan sanctioned against loan requested for by farmers under SAA, in this paper.

LITERATURE REVIEW

The concept of credit in agriculture has been known since the 17th century when peasants in China used rural credit in farm production to increase their income, and to improve their standard of living [Ming-te, 1994]. An issue of credit for agricultural development can improve income by enabling the undertaking of additional income-generated activities, and the rural households also can finance more consumption and have surplus finance available for further investments [Rosenzweig, 2001]. The credit facilities will help farmers purchase modern inputs such as high yielding varieties of seeds, fertilizers, and install irrigation to increase production [Chowdhury & Garcia, 1993]. For decades, rural credit has been primarily seen as promoting agricultural production by farmers and making rural progress possible growth in farm productivity [Panin, et al., 1996].

The Service Area Approach (SAA) was one of several initiatives taken by the Indian Government during the last 15 years to increase the lending by Rural Financial Institutions (RFIs). The Service Area Approach (SAA) was introduced in late eighties and since then it has served the purpose well. But there is a mismatch between the potential and actual lending under SAA. Borrowers are forced to go to the branch of designated RFI, even if they are not satisfied. In some states, the villages in the service area are too many. The private banks are not able to operate due to service area restrictions. The branches of non-service area RFIs have to wait and obtain no-objection certificate from the service area branch [Acharya, S.S., 2006].

Under the Reserve Bank of India instructions, banks issue loans up to certain amounts without any security other than the personal surety of the borrower and thereafter, against hypothecated assets created out of loans and/or mortgage of immovable property. In the background of not-so-good recovery performance in most of the rural financial institutions, the need to secure the loans by way of mortgage of real estate/land is strongly felt by a banker, particularly, when the amount of loan involved exceeds Rs.25,000/- or so [Sisodia, 2001]. The greater importance of term credit in the northern and eastern states reflected at once the weak long-term co-operative structure and the preference of commercial banks to lend against security [www.nabard.org/pdf/craficard/Chapter_04.pdf].

STATEMENT OF THE PROBLEM

Agricultural credit is one of the important interventions to solve rural poverty and plays an important role in agricultural development. Expanding the availability of agricultural credit has been widely used as a policy to accelerate agricultural and rural development. Particularly, small farmers need credit as capital for their agricultural activities, which is scarce resource for them, to improve their production. The provision of credit to such groups of farmers would help improve their livelihood. The Service Area Approach implemented in India one such provision to help small farmers. But, it is unknown whether rural credit delivery to the small farmers by implementing agencies, i.e., banks under SAA is in the right direction or not. Moreover, there is a notion among the affected communities (farmer community) that they are often ignored by the banks and after making persisting requests for the loan, the bankers insist for security. Therefore, this paper makes an attempt to address this problem.

OBJECTIVES OF THE STUDY

The following are the objectives for the present research work:

1. To empirically examined the distribution of farmers by percentage of loan sanctioned relative to loan requested under SAA by banks; and
2. To study the influence of banks' demands for security on percentage of loan sanctioned for farmers under SAA.

HYPOTHESIS

The followings are the null hypothesis for present research work:

1. There is no significant influence of collateral security on percentage of loan sanctioned relative to loan amount requested under SAA by banks.
2. Providing guarantor do not have significant influence on percentage of loan sanctioned relative to loan amount requested under SAA by banks
3. There is no significant impact of pledging of land under cultivation on percentage of loan sanctioned relative to loan amount requested under SAA by banks.
4. There is no significant influence of banks' demand to open fixed deposit account on percentage of loan sanctioned relative to loan amount requested under SAA by banks

METHODOLOGY

The data for the study were collected from primary sources. A multi-stage random sampling procedure was followed by selection of sample of borrower farmers. For selection of sample borrower farmers for the survey, Sivaganga district of Tamil nadu was selected as it was one of the high credit-intensive farmer blocks. Further, most of the commercial banks and co-operative banks were functioning across all six taluks, namely Devakottai, Ilayankudi, Karaikudi, Sivaganga, Tirupathur and Manamadurai in this district. In the next stage, the banks located in all six blocks, namely State Bank of India, Indian Overseas Bank, Primary Agricultural Co-operative Societies and Land Development Banks were selected for obtaining list of farmer borrower as on 2010-11. From the borrowers list provided by these banks, 620 borrower farmers were selected randomly. The distribution of the selected borrower farmers is given in Table I.

TABLE I: SAMPLE RESPONDENTS BY TALUKS OF SIVAGANGA DISTRICT

Taluk (Block)	Number of Respondents	% to Total
Devakottai	95	15.3
Ilayankudi	110	17.7
Karaikudi	90	14.5
Sivaganga	115	18.5
Tirupathur	85	13.7
Manamadurai	125	20.2
Total Sample	620	100.0

Source: Primary Data

The survey method was used to collect information from the borrower farmers. Interview schedules were used to collect information on the socio-economic profile of farmers, amount borrowed, percentage of loan sanctioned against requested, and surety / security demanded by the banks. The discriminant analysis was used as the econometric tool. The discriminant analysis was carried out by taking into account five items used for measuring the perception of the sample farmers about type of security demanded by the banks as variables in the independent set. The dependent variable is the farmer group based on the percentage of loan sanctioned against requested.

RESULTS AND DISCUSSION

Table II reports the distribution of sample farmers based on the percentage of loan sanctioned relative to amount of loan requested for by the farmers from the banks under SAA.

TABLE II: DISTRIBUTION OF RESPONDENTS BY PERCENTAGE OF LOAN SANCTIONED TO LOAN REQUESTED UNDER SERVICE AREA APPROACH

% Loan Sanctioned to Loan Requested	Number of Respondents	% to Total
Up to 25%	172	27.7
26% - 50%	300	48.4
51% - 75%	131	21.1
> 75%	17	2.7
Total Sample	620	100.0

Source: Primary Data

The loan sanctioned to loan requested was from 26 and 50 per cent for 48.4 per cent of the farmers. Following this, sanctioned amount to requested was up to 25 per cent for 27.7 per cent, 51-75 per cent for 21.2 per cent of the farmers. Only for few farmers (2.7% of the total sample), the banks have sanctioned 75 per cent of the requested amount. Hence, it is found that the sanctioned loan amount under SAA by the banks is not more than 50 per cent of the requested value for most of the farmers in the area under study. That is, credit under SAA by banks could not fulfill requirements of the farmers.

From Table III, which provides the discriminant functions produced by the discriminant analysis for percentage of loan sanctioned to loan requested with security aspects demanded by the banks, it is apparent that the first function with eigenvalue of 0.1275 and canonical correlation of 0.3362.

TABLE III: RESULTS OF DISCRIMINANT ANALYSIS FOR PERCENTAGE OF LOAN SANCTIONED TO LOAN REQUESTED WITH DEMANDS OF THE BANKS FOR SANCTIONING OF LOAN UNDER SAA

Function	Eigenvalue	Canonical R	Wilks' Lambda	Chi-Square	df	Level of Significance
0	0.1275	0.3362	0.8733	83.26**	15	0.0000
1	0.0108	0.1034	0.9846	9.54 ^{NS}	8	0.2987
2	0.0048	0.0691	0.9952	2.94 ^{NS}	3	0.4012

**Significant at 1% level; NS – Not significant

As other remaining two functions are insignificant, these functions are not valid for further interpretations. To know which among the four farmer groups based on proportion of loan sanctioned is best discriminated by the composite of independent variables, group centroid obtained from the analysis are shown in Table IV.

TABLE IV: MEANS OF CANONICAL VARIABLES (GROUP CENTROID)

Loan Sanctioned to Loan Requested	Function 1	Function 2	Function 3
Up to 25%	-0.3351	-0.0029	-0.0904
26% - 50%	-0.1044	-0.0165	0.0674
51% - 75%	0.5545	0.1116	-0.0262
> 75%	0.9594	-0.5391	-0.0733

From the observation of the group centroid of the first function, it becomes apparent that the farmer group with 75 per cent of the total requirement as sanctioned loan as well as the farmer group with 51-75 per cent of the sanctioned loan are best distinguished from farmer groups with sanctioned loan up to 25 per cent and 26-50 per cent. The group centroid of the first function further shows that the farmer groups with more than 50 per cent of the requested value have positive values whereas the farmer groups with 50 per cent and below of the requested value have negative values for first function. To identify the

security aspect (demanded by bank for sanctioning loan under SAA) which contributes more to sanctioning of loan, the standardized coefficients are used. Table V reports the standardized coefficient along with structure matrix for independent variables with first canonical function.

TABLE V: STANDARDIZED CANONICAL COEFFICIENTS AND STRUCTURE COEFFICIENTS OF STATEMENTS MEASURING DEMANDS OF THE BANKS FOR SANCTIONING OF LOAN UNDER SAA WITH SIGNIFICANT DISCRIMINANT FUNCTION

Variables	Function 1	
	Standardized Coefficients	Structure Coefficients
Bankers ask for collateral security	-0.0348	-0.0126
Bankers ask for guarantor	0.0097	0.0413
Demand pledging of land under cultivation	0.0717	0.1006
No due certificate from other banks	0.0746	0.0771
Demanding to open Fixed Deposit account	0.9919	0.9943

From the examination standardized coefficient, it is understood that 'demanding to open fixed deposit account' has high positive value for the first function. This suggested that a farmer was likely to get sanctioned more than 50 per cent of loan requested by him under SAA if he had accepted to the bank people's demand to open fixed deposit account. Based on the above findings all hypotheses except **hypotheses 4** are accepted.

CONCLUSIONS

From the inferences of the results of analysis of farmers opinion about percentage of loan sanctioned relative to amount of loan required and about banks' demand for security, it is concluded the volume of loan sanctioned was below 50 per cent for majority of the farmers. At the same time, it is concluded from the inferences of the results produced by discriminant analythat that the farmers who had accepted to the bankers demand to open fixed deposit account were sanctioned more than 50 per cent of the loan under SAA in the study region during 2010-11.

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