

Effects of Loan Exemption on Credit Operation:

A Study on Three TCCAs of Bogra

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Executive Summary

1. Introduction

- 1.1 It is a normal practice of the loanees specially who take agricultural loan from institutions like banks not to feel obligated to repay the loan money. Because the loanees create pressure upon the Government for exemption of their loan and Government sometimes exempt it with a view to achieving political benefit. Under such circumstances in 1992 Government made a declaration of exempting interest accrued on individual agricultural loan of TK. 5000 in BRDB upto December, 1992.
- 1.2 All agricultural loans upto TK.5,000 were exempted by the Government except BRDB's KSS loan. In BRDB, exemption was allowed only for interest not for the principal amount. This declaration for exemption has caused some adverse effects on the effective operation of BRDB credit programme. The present study was undertaken to examine the effects of loan exemption on credit operation in KSSs under TCCAs of BRDB.
- 1.3 The study was conducted in three TCCAs —Sherpur, Nandigram and Dhunat of Bogra district representing A,B, and C categories respectively. Ten percent of the loanee cooperators, not less than ten from each of the three KSSs under those three selected TCCAs were chosen randomly for data collection. The field work in respect of data collection was done mostly by three Research Investigators of RDA under direct supervision of the Researcher during March and April of 1999.

2. Findings

- 2.1 The age of the loanee KSS members varied from 46 to 65. A large number of them were affiliated in the cooperative society as members for long 16 to 21 years or more. The literacy rate of the respondents including those who could sign only was 82%. Majority of them belonging to the group of the double profession are engaged in farming as main occupation. Most of the KSS members under study area had large family size having 5 to 6 members. Their average land holding was 3.85 acres and the household income of the majority members was TK. 3,000 per month.
- 2.2 In compliance with the principle of Sonali Bank (loan giving agency of BRDB), crop loan was disbursed among the respondents under study area for ten times and a large majority (24.45%) took crop loan for three times followed by 17.78% for two times. The distribution of individual loan per time ranged from TK. 1,650 to TK. 3,160.
- 2.3 Out of nine KSSs, only two got crop loan for ten times (maximum) followed by eight times taken by another two societies. Average size of the individual loan was TK. 4,500.
- 2.4.1 Sherpur, Nandigram and Dhunat TCCAs under study area distributed TK. 401.18 lakh as crop loan from their inception and in terms of volume of amount Sherpur was at the top.
- 2.4.2 A good number of respondents (41%) were found not to repay their loan on time and their overdue loan in terms of principal amount stood at a range from TK. 1001 to TK. 2000.
- 2.4.3 From examination of the relevant records it was found that the highest amount of overdue loan in respect of principal was in

Nandigram and the lowest in Dhunat though the number of KSSs as well as number of members varied from TCCA to TCCA. Variation of overdue loan happened because of loanees' loan operational behaviour.

- 2.5 As a reason behind overdue loan 75% of the respondents expressed that crop loan was not repaid in time with a view to getting benefit of exemption and 100% KSS managers mentioned that the loanee people waited for Government's declaration in favour of exemption. Similar opinion was passed by TRDOs. According to them loans were not repaid intentionally although the loanees had sufficient financial strength.
- 2.5.1 Government declared exemption of the interest on crop loan for BRDB-KSS up to TK. 5,000 intending to give opportunity to the loanees for repayment of the principal amount in 10 installments, with two installments in each year. It is evident that out of 11 TCCAs in Bogra district only one failed to repay its loan in full of Sonali Bank.
- 2.5.2 Findings show that out of 11, only one TCCA was competent to recover all the dues (100%) from its primary societies while others could not. As all the primary societies of TCCAs were not able to repay their loan in full by 30th June, 1999 (Scheduled time), the TCCAs were compelled to cover up the shortage from their own fund at the time of repayment to Sonali Bank with an intention to avail the benefit of exemption. As a result in Bogra district the TCCAs got exemption benefit of TK. 288.50 lakh by spending a fund of TK. 183.44 lakh.
- 2.5.3 On repayment of first installment under this exemption programme the loanees were eligible for fresh loan without fail in case of effective demand. The study reveals that out of 90

respondents, 31 did not receive any fresh loan. Because they were not eager to have further loan. A great majority of 39 (66%) received loan for one time followed by (14%) for four times and thus the distribution of fresh loan was made for seven times (maximum). Average amount of fresh loan per head per time ranged from TK. 2,776 to TK. 3,430.

- 2.5.4 The percentage of recovery of fresh loan at its maturity was found to be varied from 52% to 100%. It indicates that the recovery position of fresh loan under exemption programme was not so satisfactory.
- 2.5.5 Regarding effectiveness of the loan exemption, two sorts of remarks—positive and negative were passed by two groups of loanee: 'Exemption has lessened the load of expenditure to a great extent' by 48% (highest positive remarks) and 'exemption leads to delay in repayment of loan' by 33% (highest negative remark)