

## THE CREDIT DYNAMICS OF THE COASTAL POPULATION IN KANYAKUMARI DISTRICT

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### ABSTRACT

Finance is the life-blood of any organization. Unfortunately all the business concerns irrespective of its size have limited funds to carry out their day-to-day activities. So every sector requires sufficient credit for the development and growth of its organizations. The credit can be availed both from formal and informal sources. Usually the formal credit does not cater to the rural populace due to inadequate collateral security. Fishermen whose income is seasonal and irregular cannot approach banks for loans and advances except by pledging of their jewels. Since the access to formal credit is limited to the fishermen, they easily borrow loans and advances from the fisherman 'sangams' (Organization), fish traders, commission agents cum money lenders. The outcome is their income is very meager due to underprice, underweight and commission charged at the exorbitant interest rates. So after 60 years of planned economy, the Indian fishermen remain at the low rung of the social ladder. Results from 376 samples indicate that irrespective of the crafts they own, an average sample respondents economic position is low and they live in utter poverty with a hand to mouth situation. The fishermen who borrow loans and advances opt for this slow poison, which has a stranglehold on them throughout their lives. This paper presents a number of recommendations for policy interventions so as to redress this problem and to uplift the economic condition of the fisher folk who contribute 1.10 percent to the Gross Domestic Product (GDP) of the Indian economy.

### INTRODUCTION

Paucity of funds, financial crunch, scarcity of resources and capital rationing are the key issues to be discussed and deliberated among all the tycoons of corporate, academic circles and in the midst of policy makers. Without proper allocation of funds, no endeavour can be carried ahead. Finance becomes the life-blood of any organization. Everyone in the helm of affairs shows keen interest in raising and managing funds for the growth and development of an organisation. Unfortunately limitation of funds is a concern for every industry be it, from a multinational, national or domestic sector. In order to meet this challenge every firm is forced to borrow from external agencies, which provide credit services. Credit is the prime input to start any activity in the modern orbit. Becoming aware of this dynamics, the borrowers are willing to 'walk extra miles' for the growth of their organization and accept the terms and conditions which are imposed by the credit supporters. Fishing industry is not exempted from this state of affairs.

The income of the fishermen is always meager and fluctuating. Most of the times, their expenses exceed their income and they are unable to meet even the basic requirements. Due to cash deficit the fishermen are not able to meet their i) capital expenditure like purchase of boats, launches, nets and engines, ii) running expenses like repair of boats/ 'villams', nets and engine, ice, fuel and 'mattu' and iii) consumption expenditure like food, education, medicine and housing (Karmakar, et al: 2009). Their condition is very bad particularly at the ban period when they have no income to meet their needs. Notwithstanding the meager amount of ₹1000 offered by the government as subsidy, they live in abject poverty. It is self-evident that fishermen lead a hand to mouth life. Any



fisherman with a small amount of fixed capital cannot buy a mechanized boat. It is practically beyond the capacity of any fisherman to invest huge amounts without sufficient support from different credit sources (Sharma and Bose, 2008). Thus credit has been one of the most crucial inputs in the entire fisheries development programme as fish farmers are generally economically weak and lack adequate savings (Pandey and Rita Dewan: 2008). However, the banks do not cater to these increasing credit needs because the fisherfolk do not have any collateral security. As a result they land in the debt trap of the informal credit system comprising of money lenders, financiers, chit funds, borrowing from friends and relatives (Karmakar et al: 2009). They are forced to enter into a wheel of borrowing to satisfy their production and consumption purposes. This scenario is detected and supported by various researchers like Ingawale:1989, Senthilathiban and Selvaraj:1990, Ali:1990, Ramachandran:1991, Selvaraj: 1991, Bisoyi: 2005, Gupta and Pandit: 2007, Pazhani and Isabella: 2009. They state that fishermen, in general face cash deficit and most of them depend upon credit both from formal and informal sources. The absence of collateral security leads the fisherfolk to get loans and advances from informal credit sources at exorbitant interest rates.

### STATEMENT OF THE PROBLEM

Credit plays a pivotal role in the economic development of any developed and developing country. To strengthen the economy of a nation, many credit agencies like International Monetary Fund (IMF), World Trade Organization (WTO) and Asian Development Bank (ADB) come forward to finance the needy and assist them in procurement of both fixed and current assets. Fishing industry is not exempted from this. Being capital-intensive in nature, the fishing industry requires heavy outlay for purchasing of boats, nets, mechanization, and other accessories. Since the nature of their business is seasonal and not regular, the fisherfolk need credit to help them in their business and above all for their basic survival. Since the government does not allocate sufficient funds to this industry, the fishermen are forced to borrow loans from the credit agencies especially from the money lenders-cum-traders at exorbitant interest rates. The borrowing procedure is simple and convenient for the illiterate fisherman; but the consequence is disastrous wherein their income is low due to underpricing, underweight, high interest rate and commission charges. At this juncture, the following questions arise: What are the socio-economic conditions of the fishermen? Why do they go in for borrowing? What are the modes in which the borrowings take place? Which is the more exploitative type? Why is there a credit gap between formal and informal credit? Considering these questions the researcher has focused the study on "*The Credit Dynamics of the Coastal Population in Kanyakumari District.*"

### OBJECTIVES OF THE STUDY

The main objective of the study is to assess the credit dynamics of fishermen in the coastal villages of Kanyakumari District. In particular,

1. To study the financial viability of the fishermen households in the sample villages.
2. To analyze the credit requirements and sources of credit available to the sample respondents.
3. To discuss the credit gap among the sample respondents and offer suitable suggestions to eradicate the same.

### HYPOTHESIS

Based on the objectives of the study, the following hypotheses are framed and tested.

1. There is no significant difference between MPS and NMFS in terms of gross income, production expenditure, and net income.
2. There is no significant relationship between formal credit and informal credit

### PROFILE OF THE STUDY AREA

Kanyakumari District, the southernmost tip of Indian Peninsula, is divided into four taluks namely:



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Table 1 indicates that from the gross income, 62.18 per cent in MFS, 64.48 per cent in NMFS and 77.24 per cent in MBO is spent for production purposes. It is analyzed that major portion of their gross income goes for production expenses due to hike in fuel rates even if they receive subsidies from the Government of Tamilnadu. Hence it is evident that the sample respondents' net income is less and insufficient to meet the consumption expenses. Chi-square was used to test the relationship between MFS and NMFS in terms of gross income, production expenditure and net income since both the fishermen have same type of crafts.

**H<sub>0</sub>:** There is no significant difference between MFS and NMFS in terms of gross income, production expenditure, and net income.

Calculated chi-square value	0.3589
Table value	3.84
Level of significance	5 per cent.
Degree of freedom	1

Since the calculated value of  $\chi^2$  is less than the table value the hypothesis is accepted. Hence there is no significant difference between MFS and NMFS in terms of gross income, production expenditure, and net income.

### SOLVENCY

Solvency generally refers to the capacity or ability of the business to meet its short-term and long-term obligations. If a company is in a position to pay its long-term liabilities easily, it is said to possess long term solvency. If a company's financial position is strong to pay current liabilities, it is regarded as short-term solvency (Steven and Jabara:1988).

TABLE 2  
FINANCIAL STATUS OF SAMPLE FISHERMEN

Sl. No.	Particulars	Category			
		MFS	NMFS	MBO	CL
1	Total Assets	8,50,000	8,00,000	45,00,000	4,20,000
2	Total liabilities	513600	646700	2257300	387525
3	Net Worth (1-2)	336400	153300	2242700	32475
4	Solvency ratio (2/1)	60.42	80.84	50.16	92.27

Source: Survey data

Table 2 reveals that lower the ratio of total liabilities to total assets the solvency position is more satisfactory. The MFS have better solvency ratio (60.42 per cent) compared to NMFS (80.84 per cent). It is analyzed that the MFS are able to repay the loan, whenever produce is given in the 'nagaw' and their liabilities are reduced to a greater extent. The boat owner's solvency ratio (50.16 per cent) is good, due to fishing and non fishing assets. The solvency ratio of CL is 92.27 per cent and they live in abject poverty, since the financial status is very low



and they get income of a hand to mouth situation. So the following table depicts the economic conditions of the fishermen in the study area.

**TABLE 3**  
**CATEGORY -WISE CREDIT REQUIREMENTS PER ANNUM**

(Amount in ₹)

Sl. No.	Particulars				
		MFS	NMFS	MBO	CL
1	Production Expenditure	230200	236000	1867000	-
2	Consumption Expenditure	158000	152000	250000	98000
3	Total Expenses (A)	388200	388000	2117000	98000
4	Total Income (B)	370200	366000	2417000	79000
5	Cash deficit/surplus Position (B-A)	- 18000	-22000	300000	-19000

Source: Survey data

Table 3 lucidly explains the craft-wise credit requirements of all the categories of sample respondents. It is a clear proof that the economic conditions of the sample respondents are very poor, particularly those of the traditional fishermen. They face cash deficit constantly (MFS: ₹ 18000, NMFS: ₹ 22000, and CL: ₹ 19000/-) and MBO category of sample respondents show surplus to the tune of ₹ 300000/- due to the use of advanced technology. It is inferred that to meet the emergency needs and the lean season consumption expenditure, the fishermen borrow money from various credit sources both formal and informal.

**FISHERMEN'S BORROWING**

When the requirements of funds are greater than the income earned, the deficit is met through borrowing. The borrowing ability of the person is measured by the creditors' in terms of their repayment capacity and the disposal of their fish catch. The amount can be availed from two types of sources namely formal agencies and informal agencies. Formal agencies are those that grant loans against securities or guarantees while the latter offer loans based on goodwill and friendship. The following table presents the source-wise borrowing by the sample respondents.

**TABLE 4**  
**SOURCE- WISE AND CATEGORY- WISE BORROWING**

(Amount in ₹)

S.No.	Particulars	MFS	NMFS	MBO	CL
1	Commercial Banks	82000 (13.73)	84000 (12.36)	450000 (23.72)	45000 (11.24)
2	Fish Traders/ Money lenders	-	178500 (26.27)	1054000 (55.55)	-
3	Fisherman Sangam	42600 (7.13)	-	-	-



5	Friends and relatives	392000 (65.65)	3,30,400 (48.62)	3,00,000 (15.81)	2,33,000 (58.19)
6	Pawn brokers	25000 (4.19)	30000 (4.42)	-	12000 (3.00)
7	Other sources (NGOs and SHGs)	55300 (9.30)	56600 (8.33)	93300 (4.92)	35400 (8.84)
	<b>Total</b>	<b>597100 (100.00)</b>	<b>679500 (100.00)</b>	<b>1897300 (100.00)</b>	<b>400400 (100.00)</b>

Source: Survey data

Figures in parentheses indicate percentage

Table 4 indicates that the respondents borrow more from the informal sources (MFS: 86.27 per cent, NMFS: 87.64, MBO: 72.28 and CL: 88.76 per cent) than formal sources (MFS: 13.73 per cent, NMFS: 12.36, MBO: 23.72 and CL: 11.24 per cent). Informal agencies are preferred due to their easy accessibility, security relaxation and unlimited loan amount whereas the formal agencies like the banks are avoided due to the distance, cumbersome procedures and the indifferent attitude of the staff. It is also analyzed that the money lenders cum traders dominate the NMFS (26.27 per cent) and MBO (55.55 per cent) category of fishermen in giving credit, where as the MFS category of fishermen get loans and advances from 'jangams' (7.13 per cent) based on their activities. It is analyzed that out of 182 sample respondents 170 respondents received loans. It is not that the remaining 12 sample respondents are rich and that they did not need a loan. Rather, they were not eligible to get loans as their catch was poor.

A similar result is found in our study area too, confirming the other studies. The banks do not cater to the rural poor since they do not have proper collateral security. Thus, the respondents borrow from other sources like friends and relatives, pawn brokers, money lenders, NGOs and SHGs. It is understood that the highest or the lowest amount of borrowing depends upon the earning capacity of the fishermen and the availability of collateral security.

### CREDIT GAP

Credit gap is a technical term that is used by all the business personnel in the consumerist and materialistic world. In any concern, the credit requirements are higher than the funds available. The difference between the amount required and the amount borrowed from the bank is known as credit gap. Inadequate number of banks, absence of fisherman friendly policies, demands of collateral security and the limited bank loans are the major credit related problems in the study area. This leads to the problem of credit gap.

TABLE 5  
CREDIT GAP OF THE SAMPLE RESPONDENTS  
(Amount in ₹)

Category	Credit Required	Borrowings from formal sources	Credit gap
MFS	597120	82000	515120
NMFS	679500	84000	595500
MBO	1897300	450000	1447300
CL	400400	45000	355400

Source: Survey data



Table 5 shows category-wise credit gap of the sample respondents. It is inferred that there is a wide disparity in credit gap among the categories of fishermen, since they do not have proper collateral security to borrow loans from the banks. In such scenario, borrowing from the informal agencies seems the only way out. This is proved with the following hypothesis.

$H_0$ : There is no significant relationship between formal credit and informal credit

Calculated chi-square value	19.36
Table value	7.815
Level of significance	5 per cent
Degree of freedom	3

Since the calculated value of  $\chi^2$  is more than the table value the hypothesis is rejected. Hence the alternative hypothesis is formed as there is significant relationship between formal credit and informal credit, proving the hypothesis that the lack of formal credit system leads to informal credit borrowing.

#### FINDINGS

In light of the above discussion, it is evident that the fishermen in the study area are cash deficient and thus are forced to seek for loans and advances. The following findings succinctly state the present scenario and its consequences.

- Since the sample respondents do not have adequate income, they require credit for investments, working capital, consumption, repayment of loan, payment of interest, marriage, and repair and maintenance of houses. During the study period the required credit was 597100 (MFS), 679500 (NMFS), 1897300 (MBO), and 400400 (CL).
- MFS have only the medium and short-term loans (96.11 per cent and 3.89 per cent) with an average of 513600/-. NMFS have long term, medium term and short-term borrowings (27.60 per cent, 67.94 per cent and 4.46 per cent) with an average of 646700/-. MBO have long term, medium term and short term credit (82.13 per cent, 17.72 per cent and 0.15 per cent) and CL have long term, medium term and short term credit (19.35 per cent, 74.32 per cent and 6.33 per cent) with an average of 387525/-. The long term and medium term liabilities are the major reasons which keep the fishermen from the clutches of money lenders cum traders.
- The MFS have the better solvency ratio (60.42 per cent) compared to NMFS (80.84 per cent). The boat owner's solvency ratio is good as well (50.16 per cent). The solvency ratio of CL is 92.27 per cent which is very poor and they are the ones who are victimized to a greater extent due to both market and labour linked credit.
- The sample respondents repayment behaviour is good in banks (47.84) followed by fish traders (26 per cent), others (21.35), and fishermen 'rangam' (4.81 per cent). Promptness in repaying the loan is an important characteristic for a stable credit system.
- Once again, the category-wise sample respondent's repayment pattern is also better in formal credit (55.67 per cent) than informal credit (13.77 per cent). In general, the repayment in banks remains favorable because of the collateral security.



- It is clearly evident that there is lack of formal lending agencies (39 villages out of 47 villages having no banks) leading the fisherfolk to approach informal money lending agencies. Even in the presence of formal lending agencies the cumbersome procedural factors and that of security-pledges force the fishermen to have recourse to informal money lenders.
- Further, it is inferred that there is a wide disparity of credit gap in every category of fishermen, since they do not have adequate collateral security to borrow loans from the banks. The lack of formal credit system leads to informal borrowing which is the root cause for linked credit in the study area.
- The respondents borrow more from the informal sources (MFS: 86.27 per cent, NMFS: 87.64 per cent, MBO: 72.28 per cent and CL: 88.76 per cent) than formal sources (MFS: 13.73 per cent, NMFS: 12.36 per cent, MBO: 23.72 per cent and CL: 11.24 per cent).

### SUGGESTIONS

Based on the above findings the following proposals are made to redress the credit related problems of the fisherfolk

- The Government can institute 'Fisheries Co-operative Banks for Fishermen' in the coastal villages like that of 'Agricultural Co-operatives Banks' for farmers.
- The Government can strengthen the 'Fishermen Co-operative Societies' and 'Fisherymen Co-operative Societies', so that the schemes for fishermen community can be effectively and efficiently executed and benefited.
- The Government can launch large storage facilities in the fish landing areas for minimal rent so that the fishermen can preserve their catch without being exploited.
- The Government can offer subsidies to purchase outboard engines, gears, and crafts, through which their burden of cash-deficiency and debt can be reduced.
- The Government must influence the public and private sector banks to provide financial assistance to fishermen community to redeem them from the clutches of commission agents, cum money lenders. Existing banks must enhance credit possibilities for the fisherfolk with efficient and fisherfolk friendly policies. Security pledges in particular must be redefined creatively in the context of fisherfolk.
- The Government can provide loan waiver scheme to the fisheries sector like that of agricultural sector so that the fishermen need not borrow money for investment and production purposes in the face of natural calamities.

### CONCLUSION

The recent study conducted by NABARD states that though there is wide range of rural banks and commercial banks, the existing banking system, procedures and policies and loan products have failed to cater to the credit needs of the rural poor ( Rais Ahmad :2009). As a result the rural populace easily steps into the trap of moneylenders cum fish traders accepting their conditions and demands. The fishermen, whose very nature of occupation is being seasonal, unpredictable and perishable, leaves them to be cash-deficient and in need of credits to meet their investment, production and consumption requirements. Moreover it is ironic to see that out of 47 coastal villages only 8 villages have banking facilities in Kanyakumari district which requires immediate attention of the policy makers. Therefore the Government both at the Center and State should come forward to alleviate this situation of fishermen in the coastal area and provide them necessary funds and other subsidy which might improve the socio-economic condition of the fishermen.





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