## CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

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CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1. INTRODUCTION

*The world needs a society where co-operation and not exploitation is the order of the day. I have no doubt that a day will come when the entire world will be a large co-operative society*. - Jawaharlal Nehru.

The idea of co-operation took concrete shape in India for the first time in 1904 when Co-operative Credit Societies Act was passed to combat rural indebtedness and to provide credit. Since then the co-operative movement has made progress specially in the fields of agricultural credit, supply of farm inputs, processing and marketing. The aim of credit co-operatives was to increase the efficiency and economic viability of the co-operatives and in this direction, assistance was extended to equip the co-operatives in important fields like finance, organisation and trained personnel. In the global scenario, as a change has occurred in the strategies of management and administration of banking institutions particularly in the lending practices and operation during the last two years with all the existing lacunas, the role of co-operative credit system in the country still occupy a prominent place in catering to the credit
requirements of the rural, urban and semi-urban population in the country, considering the total banking and market wise, these co-operative credit in rural India. Co-operative credit institutions account for more than 50% share in the institutional credits being provided for agricultural and rural development. About 70% of loans provided by the co-operatives issue production credit while the reset dwelt in the area of investment credit. As far as the rural community is concerned, the co-operative credit net work is unparalleled in terms of the economic upliftment in addition to 46,988 rural and semi-urban branches of bank, 55,398 rural credit outlets, the co-operatives are enormously deciding the rural financing sector numbering 1,07,639 outlets, the bulk of them being formed as the primaries.

During the month of March 1998, there were approximately 92000 village level Primary Agricultural Co-operative Banks (PACBs), 367 district central co-operative banks with only 12,000 branches and 28 State Co-operative Banks (SCBs) with about 800 branches providing primarily short-term and medium-term credit in the country. Similarly, there is a long-term structure consisting of 19 State Co-operative Agricultural and Rural Development Banks (SCARDBs) with 1500 branches and 745 Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) with about

Promod Lata Jain, Co-operative Credit in Rural India, RBI, Bulletin, Jan. 2000, Vol.33, p.77
700 branches. The urban credit system is made up of 1653 urban co-operative banks with 4951 branches in the country.²

All these co-operative institutions have been managerially competing with other existing banking institutions such as the commercial banks, Regional Rural Bank and private sector banks which are discharging related type of business operations contained to the rural and urban areas. At this juncture, the co-operative credit institutions have to adopt a scientific approach on deposit mobilisation and lending practice. These credit co-operatives have to prove their competitiveness within the total credit system and eventually cope-up with the aggressive external environment.

The urban co-operative banking system in India presently constitutes nearly about 9.4% in number which comprise of 18.75% membership which contributed to 22.86% of the total working capita of all co-operatives in India.

In the banking sector of the Indian economy, the urban banks comprise of primary (urban) co-operative banks and non-agricultural co-operative societies which include thrift and credit societies. These co-operative institutions primarily cater to the banking needs and credit requirements of the lower and middle income class people comprising of small entrepreneurs, artisans, small traders/businessmen, factory workers, salaries class as well as

² Tamil Nadu Journal of Co-operation, Nov. 2000
other self employed person etc. in urban, semi-urban and rural areas. The main objective of these banks is to quantitatively and qualitatively promote the thrift and self-help among the members, at the same time pursue collection of deposits from the public (in respect of urban banks) to augment resources for the continuous supply of credit to their members. More importantly these urban co-operative banks have an intense local feel, enjoy greater confidence of the local people and have promoted an effective instrument of economic development of the people particularly those riddled with limited means and economically socially weaker section of the community. Managerially, the urban co-operative banks are not only self-managed, but also self-reliant and shining in extending personalised services to their clients. Additionally, these urban banks are eminently suitable for filling up the existing credit inadequacies in urban and semi-urban areas at comparatively lower cost of operation.

Salem urban area people need for housing construction, housing alteration, house extension, jewel loan, consumer buying, siruthozil started growth and development of provided by loans and performing on urban co-operative banks. Salem district in Salem, Shevapet, Ammapet, Subramaniya nagar, Attur, Sankari, Thiruvalluvur, Omalur with eight urban co-operative

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banks doing on very well. The Salem district in urban co-operative bank & 8 banks 26 branches performing is very well on customers. Urban co-operative banks cater to the financial need of with machine, doctors, engineers needing machine and instruments, S.S.I., Processing and cash credit.

**TABLE NO.1.1**

PERFORMANCE OF URBAN CO-OPERATIVE BANKS IN SALEM DISTRICT

(December 2000)

(Rs. in Lakhs)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Bank</th>
<th>Jewel Loan</th>
<th>Agri. Loan</th>
<th>Business Loan</th>
<th>Housing Loan</th>
<th>Fixed deposits savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Salem</td>
<td>3069</td>
<td>450</td>
<td>324</td>
<td>202</td>
<td>14.992</td>
</tr>
<tr>
<td>2.</td>
<td>Shevapet</td>
<td>808</td>
<td>78</td>
<td>30</td>
<td>26</td>
<td>5.403</td>
</tr>
<tr>
<td>3.</td>
<td>Ammapet</td>
<td>744</td>
<td>226</td>
<td>8</td>
<td>13</td>
<td>4.035</td>
</tr>
<tr>
<td>4.</td>
<td>Subramaniya Nagar</td>
<td>290</td>
<td>61</td>
<td>5</td>
<td>18</td>
<td>2.720</td>
</tr>
<tr>
<td>5.</td>
<td>Attur</td>
<td>355</td>
<td>348</td>
<td>1</td>
<td>41</td>
<td>4.531</td>
</tr>
<tr>
<td>6.</td>
<td>Sankagiri</td>
<td>338</td>
<td>282</td>
<td>-</td>
<td>16</td>
<td>2.197</td>
</tr>
<tr>
<td>7.</td>
<td>Thiruvalluvur</td>
<td>77</td>
<td>9</td>
<td>2</td>
<td>12</td>
<td>.555</td>
</tr>
<tr>
<td>8.</td>
<td>Omalur</td>
<td>23</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>185</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>5404</strong></td>
<td><strong>1455</strong></td>
<td><strong>371</strong></td>
<td><strong>334</strong></td>
<td><strong>34618</strong></td>
</tr>
</tbody>
</table>

Source: 47th All India Co-operative weekly celebration, Bulletin.

Salem district Salem Urban Co-operative bank is doing very well and got award for best performance at the state level. All India co-operative weekly celebration in the deposit collected loan issued and branches opened this bank has been placed first in Tamil Nadu. In Tamil Nadu any only this

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urban bank paid 20% dividend. In 8.3.99 started a women's small trade loan plan. In this plan benefits for men and women trading in flower, fruits, vegetables, cut-piece dress, beauty cosmetics, small shop etc. on a small scale are eligible to get loan. Under this plan, loan is advanced without security but with surety for repayment for loan. In this plan many women's benefit improvement by economy.

2. STATEMENT OF THE PROBLEM

The importance of co-operative credit is most of the Indian farmers were in the clutches of rural money lenders because of financial difficulties and indebtedness that they had to face poverty as a result of widespread famines and drought and money lenders often ill-treated the debtors this reduced the co-operative credit.

During the period under review, several steps were taken to evolve solutions to the manifold problems faced by the co-operative structure and generally to promote the flow of agricultural credits in the country. The agricultural credit policies pursued laid particular stress on the following:

1. Eradication of the disparities between different sections among the farmers by giving a deliberate slant in the credit policies in favour of the small and economically weak farmers.

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2. Rectifying imbalances observed in the distribution of credit by reorganising strengthening the co-operative credit structure and at the same time inducting the commercial banks to fill in the credit gaps.

3. Rehabilitation of weak co-operative banks;

4. Enforcing the production-oriented system of lending to effect qualitative improvement in the disbursement and utilisation of credit.

5. Eliminating factors impeding the smooth flow of credit and also initiating steps to accelerate the credit flow and;

6. Providing incentives to the co-operative banks to make them collect more deposits and depend less on the Reserve Bank for their credit requirements.  

The study revealed that the overdues of co-operative credit institutions in the country were on the high side, particularly at the level of central co-operative banks and primary agricultural credit societies.

"Urban banks do good to the society not only by means of lending the urban population but also by means of encouraging the urban middle and lower class to save money. As they may not like to keep deposit accounts with other banks for their small amounts, they can have deposit accounts with their urban banks".

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6 Pramod Lata Jain, Cooperative Credit in Rural India.
An important development in urban co-operative banking was the survey undertaken by the Reserve Bank in 1958-59 with the object of studying the pattern of financial resources of urban banks. Part played by urban banks in financing small-scale industries, the outlets for their investments and factors underlying the success or failure in their working. The urban co-operative bank developed by economic development much attention had been paid to the promotion of agricultural co-operatives, industrial co-operatives and various rural co-operatives in India.  

Urban co-operative banks also help other types of co-operative societies, such as those for fishers, dairying and housing societies. The problems of middle class people, including the small trader, professional men, salaried employees etc, have also been taken care by urban banks. so as to develop the potentialities of development in the institutions calling to their needs.

The growth and development of urban banks are not uniform thoughout the country. The urban banks are concentrated in states like Maharashtra, Gujarat, West Bengal, Andhra, Karnataka and Tamil Nadu. There are two aspects in the imbalance, namely, the urban banks are not organised and developed in all the states and in states where these banks are organised they

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7 Jalal, R.S., Rural Co-operatives in India.
tend to concentrate only a few urban centres. There are various socio-economic and political causes for the imbalances in the growth of urban banks.\(^8\)

Committee on co-operative urban banks has mentioned the following as reasons for the unsatisfactory progress of urban banks in the sphere of small industries finance:

i. Competition from commercial banks.

ii. Insufficient interest on the part of Urban banks to provide finance.

iii. Lack of assistance from state co-operative banks.

iv. Legal impediments in the way of admitting firm and companies.

v. Lack of potential for growth of small scale industries in certain areas.

This situation creates the following questions to be probed in -

i. What is the performance of the Salem urban co-operative bank?

ii. What are the factors influencing the performance of the Salem urban co-operative bank.

This study is an attempt to find answers to the above questions in Salem urban co-operative bank in Salem area.

\(^*\) Nakkeeran, S, Urban Co-operatives in India.
3. REVIEW OF LITERATURE

The following are some of the studies related to the present study.

The All India Rural Credit Review Committee (1969) was appointed by the Governor of the Reserve Bank for reviewing the supply of rural credit in the context of the fourth plan in general and intensive agricultural programme in particular. The committee was headed by B. Venkatappiah, member, planning commission. The reorganisation of rural credit in the Reserve Bank, involving the establishment of an agricultural credit board, the setting up of a small farmers development agency in each of a number of selected districts throughout the country; the creation of a rural electrification corporation which among other things is to benefit undeveloped areas with an agricultural potential; the formulation of a more active and much bigger role for the agriculture refinance corporation; and the adoption of various measures for ensuring the timely and adequate flow of credit for agriculture through co-operation and commercial banks. These are among the highlights of the recommendations of the review committee.  

Co-operative credit may be divided by agricultural credit and non-agricultural credit. In those days all the urban credit societies including the urban banks were described as non-agricultural credit societies.

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9 Mathur, B.S., Co-operation In India.
A study of Justice R. Sengottuvelan on “The spirit of urban co-operation” (Tamil Nadu) was made in 1982. The main findings of the study are:

The efficiency of an urban bank depends on its achievement in the following spheres:

1. Deposit mobilisation
2. Issue of loans
3. Finance to small scale industries
4. Co-operative spirit in the context of the affairs of the institution.

M.B. Patil in his study, the urban co-operative banks in Karnataka mentioned that urban co-operatives came as a ray of hope to the entrepreneurs of small means, cottage and small scale industries, artisans and self-employed people.

Karnataka is one of those states in the country which has a very large number of urban co-operative banks. As can be seen from the following table No.2 Karnataka is the third state to have the largest urban co-operative banks, Maharashtra being first and Gujarat the second. Karnataka has 16.2% of the total urban co-operative banks in the country.
TABLE NO.1.2
NUMBER OF URBAN BANKS AS ON 1979

<table>
<thead>
<tr>
<th>S&gt;No.</th>
<th>Particulars</th>
<th>Number</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>All India</td>
<td>1143</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Gujarat</td>
<td>261</td>
<td>22.8%</td>
</tr>
<tr>
<td>3.</td>
<td>Maharashtra</td>
<td>321</td>
<td>28.1%</td>
</tr>
<tr>
<td>4.</td>
<td>Karnataka</td>
<td>194</td>
<td>16.2%</td>
</tr>
<tr>
<td>5.</td>
<td>Tamil Nadu</td>
<td>127</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

Source: 6th State level conference of urban co-operative banks, Tamil Nadu.

Another study “To some extent it is also the result of the relatively less active interest taken in the comparatively better off sections of the community, i.e., the middle class, including the artisan and the small trader, the professional man and the salaried employee. There has been, further, a lack of recognition of the potentialities of the institutions catering to their needs”.

The Maharashtra committee on problems of urban co-operative banks laid down certain order of priorities for urban banks lending. Accordingly, loans must be disbursed on the following order:

i. Small scale and cottage industries, self employed persons, other professionals and transport operators.

ii. Consumer co-operative societies.

iii. Trade and commerce.

iv. Consumption loans, loans for consumer goods, housing loans and loans to educational institutions.
Another study on "The Maharashtra committee on problems of urban co-operative banks found that the concentration is generally in one of the following forms:

1. Loans to directors of the bank.

2. Loans to joint family business house and members of the same family obtaining loans in their individual capacity.

3. Loans to members of the same family or families doing various businesses under different names and styles with different permutations and combinations in the partnership between themselves.

4. Loans to direct or near relations of the directors as partners in various firms.

5. Loans to a number of inter-related families.

6. Loans to a group/groups of individuals/firms.

4. SCOPE OF THE STUDY

In this study the approach is made to review the service rendered by the society to its members and users.

5. OBJECTIVES OF THE STUDY

The objectives of this study are as follows:

i. To study the progress of co-operative credit in general.

ii. To study the progress of urban co-operative banks in India and Tamil Nadu.
iii. To study the progress and working of the Salem urban co-operative bank.

iv. To study the factors influencing member identification by the Salem urban co-operative bank.

v. To study problems faced by urban co-operatives in general and Salem urban co-operative banks; and problem faced by borrowers.

vi. To offer suggestions for achieving a higher degree of a study of performance of the Salem urban co-operative banks by members.

5. HYPOTHESES

The main hypotheses to be examined on Urban Co-operative Banks in this study are:

i. Urban Co-operative Bank has achieved a substantial growth in disbursement of credit to the people in town areas.

ii. The proportion of short-term borrowing is substantially higher than MT and LT borrowings.

iii. The relative share of weaker section in the urban co-operative banks has constantly gone down.

iv. As a result of technological development, credit needs of the urban area people are growing.
6. OPERATIONAL DEFINITIONS

(i) Co-operative Credit

The co-operative credit has a special place in agriculture finance. This study is expected to reveal in detail the utilisation and effects of co-operative credit (ST, MT and LT) on the borrowing farmers. The present work is an analytical survey of the impact of co-operative financing institutions i.e., Primary Agricultural Co-operative Societies (PACS) and Land Development Banks (LDBs) in the field of agriculture.

(ii) Urban Banks

Urban bank is a co-operative institute started in towns and semi-urban areas to issue credit to SSI and non-agriculture purposes.

(iii) Members

The study covers 'A' class member. The term 'members' are eligible for all types of loans and they enjoy all the rights prescribed in the by laws.

(iv) Personal Factors

This term has been used to mean the socio-economic characteristics of the members such as income and marital status.

(v) Knowledge of Co-operation

Member's knowledge of the principles and practice of co-operation with Salem urban co-operative banks.
(vi) Member - Identification

The member identifying himself with the society, which is reflected in his desire to make efforts for promoting the interest of the society and in his well.

(vii) Member - Satisfaction

The satisfaction of the member with the services, working and management of the urban bank, the degree of satisfaction is reflected in his opinion on these aspects of the society.

7. METHODOLOGY AND THE TOOLS

For this study both primary data and secondary data were collected. A questionnaire has been prepared and used by the researcher to collect primary data from the sample society. In addition to such primary data, special officer and the managers were also involved by the researcher.

8. INTERVIEW - SCHEDULE FOR MEMBERS

This interview schedule has been used for collecting data from the sample members. Scales of member's knowledge of co-operation, identification and satisfaction have been administered through this schedule, to measure the respective variable (Appendix).

The another study is an empirical research based on the secondary data. The data were collected from the annual reports, bye-laws of the Salem urban
co-operative bank, published articles, journals and the reports available with the following institution:

a. The Salem District Central Co-operative Bank.

b. The Salem District Co-operative Union Ltd.

c. Joint Registrar of Co-operative Societies.

d. The Salem Urban Co-operative Banks.

e. Sri Sarada College Library.

Data were collected for 10 years from 1989-90 to 1998-99 in the various aspects of the working the Salem Urban Co-operative Bank Ltd. The percentage of increase or decrease of the amount of the various parameters of growth were computed and the inferences of the working of the Salem Urban Co-operative Bank were drawn there from.

9. PERIOD OF THE STUDY


10. SAMPLING

There are eight urban co-operative banks with 26 branches in Salem. Salem urban co-operative bank was selected because it is the one bank* biggest one. The researcher had made use of convenient sampling, such as interviewing 80 members whom she happen to meet at the bank. The
managers introduced the researcher to the respondents and this created enough rapport between the researcher and the respondents. Random selection of the members has not been possible as there was no sample frame in the study unit.

11. PLAN OF ANALYSIS

The data collected were arranged in concise and logical order and thus they were tabulated. A part of them was arranged in statistical tables. Statistical tools like Karl Pearson’ co-efficient of correlation, ratio analysis and chi-square test, were used to analyse the data to make meaningful interpretation.

12. PILOT STUDY

A Pilot study was undertaken for getting insight into the subject matter of study. For the Pilot study, one branch and 10 members were selected. On the basis of the findings of the Pilot study the design of the study was modified and hypotheses were formulated.

13. QUANTIFICATION AND MEASUREMENT OF VARIABLES AND CONSTRUCTION OF SCALE AND INDEX

Scaling technique was adopted for measuring the variables. Dependent and Independent variable - The dependent variable of the study is ‘identification’. The independent variables whose influence on the dependent variables were studied include:
(a) Personal factors: Gender, marital status, age, education, occupation, income.

(b) Institutional factors: (i) member identification, (ii) member satisfaction, and (iii) knowledge of urban co-operative bank.

All the above variables i.e. from (i), (ii) and (iii) were measured through their respective scales applied during personal interviews.

14. CHAPTER SCHEME

This study is made up of six chapters. The first chapter deals with the design of the study, scope and objective of the study, hypotheses, sampling, methodology and the tools, operational definitions, period of study, plan of analysis and scales.

In the second chapter, the co-operative credit in India and Tamil Nadu are discussed.

In the third chapter the progress of urban co-operative banks during the period of study has been described at two levels, India level and Tamil Nadu.

In the fourth chapter, Introduction and objectives of Salem urban co-operative banks, the workings and progress of Salem urban co-operative bank, growth and performance appraisal of Salem urban co-operative banks' profitability and others are discussed.

Fifth chapter includes the factors influencing the Salem urban co-operative banks Ltd. on certain variables related to the members.
Last chapter deals with the problems of urban co-operative banks, findings and suggestions for improving the performance of urban co-operative banks.

"The goal of co-operation is to make men with a sense of both individual and joint responsibility so that they may raise individually to a full personal life and collecting to a full social life".

- Dr. Fauguet.