CHAPTER-II

REVIEW OF LITERATURE

In the research, the review of literature has an important place, because it justifies the topic and field for the investigations, objectives and problems to be taken by the researcher. Moreover, it is helpful in discussing the results of the present study. Therefore, this chapter is devoted to the study of literature relating to the field of the study. The researcher has made an attempt to do the exhaustive review of literature pertaining to the researchers already made in the field of the role of Central Co-operative Banks (CCB) and Punjab National Bank (PNB) by the different renowned scholars and experts in India. Although sufficient literature directly related to Co-operative Banks is available yet there is lack of literature directly related to PNB. PNB is considered as a lead bank in Haryana and it has been assumed to follow the standard banking practices like other good Public Sector Banks (PSBs). The literature on PSBs, therefore, may act as a proxy to the literature on PNB. In other words this chapter deals with a detailed account of review of work done by researchers in the past in respect to the impact of bank credit taken from CCBs and PSBs on rural development as well as its impact on the income, investment, productivity, employment generation, agriculture and non-agriculture development, socio-economic development and living standard of the beneficiaries of different size and type of groups. The emphasis has been given in most of the studies mainly on the following head lines:

1. Impact of Bank Credit on Rural Development.

2. Problems in Recovery and Utilization of Bank Credit.

3. Future Credit Requirement for Rural Development.
Role of banking system in agriculture and non-agriculture finance as well as its impact on agricultural and socio-economic development and transformation of rural society has swelled the literatures since very beginning. As Assessment Survey and Evaluation Committee constituted by the government of India on I.A.D.P. (Indian Agriculture Development Programme) in 1965 reported that the farmers having the land holdings of above 2 hectares utilized 66 percent of total loan for agricultural purposes while in case of farmers with holding below one hectare and between 1 to 2 hectares it was 33 percent and 52 percent respectively. A study group appointed by the National Credit Council estimated in 1968 that during 1968-69 alone 30 percent of the total credit requirements for agriculture were met by institutional credit agencies. During 1971-72 co-operatives, which continued to be the main institutional source for rural credit, advanced loans to agriculture amounting Rs.779 crores to about 1.17 crore farmers. The All India Rural Credit Review Committee has estimated in 1971 that the total requirements of short terms credit as 2000 crores for 1973-74 of medium and long term credit as 2000 crores for entire fourth plan period. In 1971, central government setup small farmers development agencies and various projects for marginal farmers and agricultural labourers to lay stress on their development with provision of credit through co-operatives. At the outset we shall discuss the review of literature related to Co-operative Bank and Public Sector Banks. Some studies related to present studies are:

Antony, Valasamma (2004), revealed that the gross NPAs of nationalized commercial banks alone as reported in the Lok Shabha on 11-03-2003 were of Rs. 51470 crores while the gross NPAs for all the public sector financial institutions together stood as Rs. 71000 crores. The PNB appears with the second highest amount of NPAs of Rs. 4140 crores i.e., 14.77 percent of total

advances. It is a matter of great distress that even co-operative banks are groaning under the weight of mounting bad debts. By January 2003, NPAs of urban co-operative banks have stood 22 percent of the total advances. It has to be stated that Rs. 11471 crores of investor’s money has turned into NPAs in these banks.

The NPAs of commercial banks Rs. 54000 crores as on 31st March 2001, have been divided between the priority & non-priority sectors for Rs. 28525 crores (53.30%) and Rs. 25475 crores (46.70%) respectively. According to the report of the Parliamentary Standing Committee on agriculture, recovery of direct agriculture advances constituted 69 percent up to June 2001. NPAs in this sector were only 13.84 percent as against to 18.73 percent in SSI. NPAs in total priority sectors were reported 44.49 percent in comparison to 53.54 percent in non-priority sectors.

Erral (2002),² conducted a study that was based on the secondary data for the period 1969-97. The study concluded that profitability of the public sector banks in the decade of the 1990s was much lower than that of private sector banks and foreign banks. Net profits, as a percentage of working funds were 0.21 percent for the decade of the nineties for the public sector banks as a whole. The figure of the public sector banks is much lower than the 0.89 percent for private sector banks and 0.94 percent for foreign banks. The net profits of the nationalised banks were negative in 1992-93 and 1993-94, as they had to adopt the new norms of asset classification and income recognition.

For the private and foreign banks jointly the growth rate of operating expenses was 18.82 percent in the latter half of the 1990s compared to 10.32 percent for all the public sector banks. Moreover, the growth rate of working

funds (deposits) of the private and foreign banks jointly was 27.02 percent, which is higher than that of the public sector banks (14.58%).

During 1995-96, the share of public sector banks in total deposits was 85.43 percent, which has declined to 81.90 percent in 1999-2000. As far as the turnover per employee is concerned, it has increased 3.1 times for the nationalised banks, 9.3 times for the private banks and 4.4 times for the foreign banks during the decade (1990-2000). It has also pointed out that amongst commercial banks the employment growth rate for the period 1990-95 was recorded as 1.21 percent which was declined to -0.27 percent during 1995-2000 as they have sought to downsize.

The study also depicted that the efficiency of the public sector banks has declined during the 1990’s. Though the turnover/employee ratio of the public sector banks improved, the ratio for the private and foreign banks doubled relative to that of public sector banks. The profitability of the public sector banks has improved in comparison to the private and foreign banks, however, they have lost ground in their ability to attract deposits at favorable interest rates, in technological up-gradation, and in staffing and employment practices, which have implications for their long-term profitability.

Satyasai and Patil (2002),3 revealed that the National Bank of Agriculture and Rural Development (NABARD) was established as an apex body for rural credit. The bank submitted his report in July 2001. Evidence shows that increased demand for credit has driven people to borrow more from private moneylenders at high rate of interest. We are thus caught in a situation where the institutional credit agencies (supply side) do not respond adequately to the demand for credit and the clientele (demand side) does not have the desired access to it.

Chowdhury and Prabuddha (2001), conducted a study that was based on both of primary and secondary data. According to the objectives, a questionnaire was evolved and tested to collect the primary data from the respondents. The study revealed that co-operative banks have sanctioned 61 percent and 39 percent cases for agriculture and non-agriculture sectors out of total sanctioned cases respectively.

This study also indicated that the agriculture sector got 68.97 percent amount of the total sanctioned loans. The co-operative banks have also inherited an age-old discriminatory gender bias against the women. So they have sanctioned only a tiny amount as low as 12.01 percent of the total amount of loans sanctioned.

As far as defaulter in repayment is concerned, it has been noted that agriculture sector have 24.59 percent cases while in non-agriculture sector defaulted cases come out to be 51.28 percent. From the above comparison we can say that rate of defaulting is more than double in the non-agriculture sector than agriculture sector.

In the agriculture sector 54.10 percent respondents have repaid the total amount (lowest interest) of loan as against to 17.95 percents in non-agriculture sector. This breaks up the myth that loan recipients of agriculture sector are defaulters in repayment.

Kamesam (2001), revealed that as a significant part of the multi-agency approach to credit delivery in India, co-operative banks, both in the short-term and long-term structure held an important position especially in the rural credit scenario and have played a pivotal role in the development of rural credit over

the years. The geographical spread of the entire co-operative credit system covers over 74 percent of rural credit outlets and it has a market share of about 46 percent of total rural credit in the country, while its gross NPAs are 19.19 percent.

Shaban (2001)\(^6\) conducted a study that was based on secondary data for the time period 1969-97. The study revealed that since the nationalisation of major banks in July 1969, there has been tremendous growth in regional spread of bank branches, mobilisation of deposits and disbursement of credit. In June 1969, there were 8187 bank offices of commercial banks; they increased to 63534 in March 1997.

Southern region had about 36 percent of the total bank offices in India in June 1969, it declined to about 27 percent in March 1997. The share of western region which was about 24 percent of the total bank offices in June 1969, declined to 15 percent in March 1997. The northern, northeastern and central regions had a share of about 15 percent in 1969, which declined to about 13 percent in 1997. Their respective shares of total bank offices in India increased to about 16 percent in June 1969 to 21 percent in March 1997. In northern region, 21.70 percent of its total bank offices were rural bank offices in June 1969, it increased to 55.70 percent in March 1991 but declined to 50.70 percent in March 1997. Similar is the trend of growth of rural offices in almost all the states and UTs.

The total commercial banks deposits in June 1969 were Rs.4665 crores, it increased to Rs.49227 crores in March 1997. The share of rural deposits to the total deposits was only 3.1 percent in June 1969 at the national level. It increased to 15.50 percent in March 1991, but declined to 14.70 percent in March 1997. Thus in comparison to their shares of bank offices, the shares of the total

deposits of rural areas have been very small. This shows that the spread to bank offices has not been able to influence the deposit mobiliser to a greater extent in rural areas. Similar is the condition in almost all regions/states/UTs. The western region, the greatest mobiliser of total deposits, has only 7.3 percent of its deposits mobilized from rural areas in March 1997. The shares of rural deposits to the total deposits in northern, eastern, north eastern and central states/UTs have been generally higher than the shares of rural deposits in the western and southern states/UTs over the years.

The bank credit which was Rs.3609 crores at the national level in June 1969, increased 1.76 times by June 1973, 4.21 times between 1973 to 1991, 4.62 times between 1981 to 1991. But, in 1991 to 1997 it has increased only 2.72 times, showing a slow down in credit disbursement. The share of southern and western regions in March 1997 has reached to about 60 percent of the total credit advanced in the country. The share of northeastern region in the total credit advanced in the country has been below 0.01 percent over the years. It is just in contrast to the fact that Maharashtra alone has had a share of 25 percent on an average of the total credit advanced in the country by commercial banks over the years. In all the regions of the country, except northeastern and central regions, the shares of total credit disbursed in rural areas have been below 16 percent over the years. Of the total credit disbursed in western region, the share of rural areas has been well below 7.5 percent over the years and below 16 percent in southern and northern regions.

The study also depicted that credit-deposit ratio has in general declined over the years in India. In June 1969, the ratio was 0.77; it declined 0.57 in March 1997. The highest credit-deposit ratio in June 1969 was in southern region (0.95), it declined to 0.76 in March 1997. The lowest credit-deposit ratios have been in northeastern states, followed by the states of eastern and central
regions over the years. The rural credit-deposit ratios have consistently improved till 1991, but have slackened in 1997. The credit-deposit ratio was 0.37 in 1969, increased to 0.60 in 1991, but declined to 0.45 in 1997. The rural credit-deposit ratios in the states/UTs of western and southern regions have generally been higher than the states/UTs of the other regions. In all the regions, the credit deposit ratio in rural areas has improved over the years but in central region it has shown a declining trend. In almost all the states/UTs, except southern region, the credit-deposit ratio in rural areas has been below 0.50 in March 1997.

Satpal (2001)\(^7\) conducted a study that was based on secondary data as well as primary data. The study revealed that most of the customers were dealing with the bank directly and most of them; both in urban and rural areas have opened their saving accounts. No facility of gift cheque and traveler’s cheque had been availed to the customers. Locker facility was also available to only some respondents.

Only 45 percent respondents were availed the business and other loan services. As 60 percent of the respondents have faced difficulty in opening their accounts, 67 percent respondents in urban areas and 45 percent in rural areas were dissatisfied regarding passbook entries. In the urban area only 46 percent respondents reported that bank employees welcome them with a smile. For the staff of rural area branches deserves congratulations. Only 25 percent respondents in rural areas were satisfied with the availability of information counter in the bank. In the urban areas 67 percent respondents had a complaint regarding non-arrangement of immediate payment when they required it. Most of the respondents were not satisfied with the time, which bank employees take in withdrawing the money. 84 percent respondents reported that proper punctuality & availability of bank staffs was proper.

Baiju and Gabriel (2000), revealed that the most crucial factor that governs the performance of banks is spotting their non-performing assets close to 16 percent of loan made by Indian banks are NPAs which was around 23 percent in 1991. This is very high as compared to the corresponding 5 percent in the banking system of advanced countries. In India, external factors like raw material shortage, price escalation, power shortage, industrial recession, excess capacities and natural calamities like flood and accidents have also contributed to the mounting NPAs in the books of banks. Figures for the year 1998 revealed that public sector banks in India has 84 percent of their advances in the form of standard assets while the doubtful assets came to 9.10 percent, ultimately 16 percent of the advances were declared as NPAs. For the purpose of analysis, numbers of banks with gross NPAs percentage of 5 or below (International Standard) have been categorized as “very good”. Banks with gross NPAs percentage of 16 (National Average) or less but above 5 have been categorized as “good”. Banks with gross NPAs percentage above 16 percent but below 20 percent have been categorized as “bad”. Banks with gross NPAs of 20 percent and above have been categorized as “worst”. While PNB’s net NPAs were 9.57 percent in 1998 and 8.56 percent in 1999. Among the 19 nationalized banks none of the banks were graded as “very good” and 10 and 6 banks was categorized as “worst” in the years 1996 and 1998 respectively. Among the nationalized banks 11 banks that met the Capital Adequacy Ratio (CAR) of 8 percent in the year 1996 and 18 banks met the CAR in year 1998.

The main reason of high NPAs in India, has been that the borrowers borrow for one purpose and utilise for another, so that repayment is bound to be affected, a strong banking culture where diversion of funds and default in

repayment will never be tolerated even to the smallest possible extend, ought to be developed. Recruiting of proposals and monitoring of usage should be more stringent for huge loans as they contribute to a major chunk of our NPAs.

Shivamaggi (2000), revealed that on the whole, it has to be admitted that the Indian policy-makers have not been able to arrive at a banking structure and operational system which suit the credit and saving needs of agriculturist and at the same time promote modern agriculture. But the overall annual agricultural growth rate, which was 5.2 percent in the eighties, fell to 2.6 percent in the nineties. In the case of food grain the annual growth rate has fallen from 3.4 percent to 1.7 percent during the same period. It is pertinent to note that between 1992-97 only 8 percent of the total public investment devoted to agriculture and the actual investment in this sector fell about 40 percent short of the planned level.

The development strategy adopted and the increasing diversification and commercialization of agriculture and allied activities underline the need for the rapid development of rural infrastructure and a large flow of credit. Though there is a multi-agency set up for rural banking, nearly 45 percent of rural credit comes from co-operatives. But the commercial banks are an important source of credits; nearly they meet 49.20 percent of rural credit and the primary credit societies hold the key to success.

The policy makers are now focusing on technology led banking system in the rural sector. This requires a restructuring of cooperatives to enable them to meet the challenges of the competition. It also requires a change in mindset. While; progressive farmers have no difficulty in obtaining credit from the commercial banks. Credit for the poorer households is the real problem. One recent development under the leadership of NABARD and Non-Government

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Organisations (NGOs) is the formation of informal, Self-Help Groups (SHGs) broadly on the model of the 'grameen banks' of Bangladesh. The mutual trust reflected in the SHGs working is in tune with the true spirit of cooperation.

Tara Nair (2000),\textsuperscript{10} conducted a study that was based on secondary data. The study revealed that one of the major objectives of the nationalization of Indian Commercial Banks (in two spurts in 1969 & 1980) was to improve the flow of formal institutional credit into rural households, especially to the poor, thus relieving them from the burden of usurious debt. The RBI stipulation subsequent to nationalization that Commercial Banks (CBs) should earmark at least 40 percent at their advances for the priority sectors (of which 18 percent for agriculture and 10 percent for weaker sections) was an important step in the direction of asserting the developmental role of banks. In addition, they launched the largest ever anti-poverty programme.

Bank credit in the rural sector is increasing from 156 crores in 1969 to 33031 crores in 1998. The targets for anti-poverty are achieved to a extent mainly because the banks have been compelled to do so. The formal sector's thrust even within the priority sector lending frame-work has been on productive activities, where as the poor (large majority of whom are landless and non-cultivators) need credit mainly for financing income-consumption gap or tiding over occasional crises and emergencies. Obviously, the need, terms and modes of delivery do not match. This could well be the reason for the increased dependence of rural people, more markedly of the non-cultivators, on informal credit sources like traders, contractors and moneylenders.

\textsuperscript{10} Nair, S. Tara (2000), "Rural Financial Intermediation and Commercial Banks (Review of Recent Trends)", \textit{Economic and Political Weekly}, Vol. 35, No. 5, pp. 299-06
Satyasai and Badatya (2000), conducted a study that was based on secondary data. The study revealed that Rural Credit Co-operative Institutions (RCCIs) have emerged as one of the key players in the field of rural credit. In the long term structure accounting for more than two-thirds of the rural credit outlets throughout the country. Out of the total credit disbursed during the year 1996–97, the share of co-operatives was 49 percent, i.e., about half of the total credit disbursed. The share of commercial banks and regional rural banks jointly was 51 percent. In other words, co-operatives still constitute a dominant segment of the rural credit market.

Out of the total working funds of PACS, owned funds that accounted for about 42.10 percent in 1950-51 declined to 20.50 percent in 1994-95. During the period the owned funds for DCCBs and SCBs also decreased, but marginally from 14.10 percent to 10.10 percent and 11 percent to 9.6 percent respectively. This continuous decline in the share of owned funds in the total resources of the institutions has become a cause for concern. It obstructs their attempt to become self-reliant. In view of the ever-increasing demand for rural credit, augmenting the share capital and thus strengthening the owned funds is strongly warranted.

The share of borrowing in the working funds of PACS has gone up from 46.90 percent in 1950-51 to 58.10 percent in 1994-95. During the period, the shares of borrowings in the total resources of DCCBs and SCBs have also gone up from 17.60 percent to 26.30 percent and 24.80 percent to 32.50 percent respectively. Cost of the co-operative structure per Rs.100 of loans at PACS level was lowest for Haryana as Rs.4.90 and highest for Bihar as Rs.79.90. The estimates of cost inefficiency indicated that Andhra Pradesh is operating at highest level of inefficiency incurring costs 2.34 times followed by Madhya

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Pardesh incurring cost 2.21 times. Haryana, west Bengal and Utter Pardesh are in the higher runs of the costs efficiency.

In some cases the co-operatives are totally under the control of the registrar of co-operative’s societies of the state. Such regulations created obstacles in the proper management of the institutions, thus stifling initiative different levels. Added to this, the increasing political interference also has adverse implications for loan discipline. The recovery performance as percent to demand for DCCBs at all India level was 70 percent. Bihar and Punjab are at the two extremes with recovery 11 percent and 89 percent respectively.

The aggregate NPAs of CCBs estimated 17.80 percent of their outstanding loans and advances as at the end March 1998. Out of 254 reporting CCBs, 132 have NPAs between 5-20 percent and 91 above 20 percent of the outstanding loans and advances. Study also shows that there has been continuous decline in the share of owned funds in the total resources of the institutions. The deposit mobilised by higher tiers in the short-term structure are mobilised by way of statutory deposits from lower tiers rather than deposits mobilised through their own efforts. There is a serious imbalance in the growth of resources vis-à-vis lending among different tiers. The growth at the level of PACS has decelerated faster compared to that of the other two tiers. The co-operative system in general failed to perform its functions; a few success stories here and they’re notwithstanding.

Bhagawati (2000)\(^\text{12}\) revealed that the proportion of deposits from the rural areas has been shrinking, while metropolitan centers have been increasing. The priority lending proportion has gone down slightly. The proportion of current deposits in banks has gone down, while savings deposits have gone up. The non-performing assets ratio is coming down primarily because assets are increasing

at a high rate due to high rate of growth of deposit liabilities. A good portion of NPAs is connected with industry and with priority lending. Since the prime lending is falling sharply.

There were discussions on the profitability and productivity of banks. The entry of new banks like the UTI bank, the closing down of certain existing branches of old banks and poor consumer services, the functioning of new types of rural financial institutions to cope with the problem of interlinked credit and exploitation of agricultural labours requires the setting up of a general equilibrium model involving labourers, landlords and rural financial institutions. Though the promotion of small savings and share holdings by landlords, these institutions it was suggested, could make themselves self-sufficient and lead to payment of efficiency wages to workers.

Puhazhendhi and Jayaraman (1999),13 conducted a study that was based on secondary data. The study revealed that credit will continue to play a crucial role in securing the objectives of high growth rate, doubling of food grain production in the next decade, eradication of poverty and unemployment, especially of women, development of rain fed areas on a watershed basis, etc. There is found a declining trend in the priority sector lending, whose share had declined from a peak of 49 percent to 41.70 percent in March 1997. Credit acts as a facilitator and it performs the important function of providing the farmers with the requisite control over resources affecting production. The annual growth rate of food grains during the last three decades worked out to 2.67 percent. Optimum use of material inputs, especially irrigation and fertilizers is a necessary condition for improving the production and productivity of crops. The share of area irrigated by wells (tubewells and other wells) in the net irrigated area

increased from 38.10 percent in 1970-71 to 52.90 percent in 1992-93, mainly due to bank credit. It is difficult to establish a direct relationship between credit and output as the former facilitates the adoption of technology and the level of inputs usage that in turn directly influence the production performance. The promotion of the rural non-farm sector through credit has come to be increasingly recognised as an alternative to providing employment and income generation, due to the failure of agriculture sector to absorb the rapidly increasing labour-force in the rural areas. The growth rates computed for the two periods indicated that like in the case of agricultural loans, there was a deceleration from 14.30 percent (1973 to 1982) to 12.60 percent (1983 to 1995). Accordingly, the estimated credit demand for agricultural development can be placed at Rs.46000 crores in 1997-98 and Rs. 54300 crores in 2002-03. The estimated credit flow in the terminal year of Eighth plan (1996-97) was of the order of Rs.26000 crores. Hence, the additional resources gap will be Rs.20000 crores in 1997-98 and Rs.28300 crores in 2002-03.

Rajeev and Sharmistha (1998), conducted a study that was mainly based on primary data. The results were based on a pilot survey. It is noteworthy that in 1977-78, West Bengal was among the six-states where credit per hectare ranged between Rs.110 and Rs.178, where as the same for other states like Kerala was (Rs.343) followed by Tamil Nadu (Rs.341) Punjab (Rs.273) and Haryana (Rs.234). The study revealed that land reform induced a redistribution of land holdings in favour of small and marginal farmers; an efficient credit system benefiting the small and marginal farmers is an important prerequisite for growth in agricultural production. Even though all the rural credit survey

committees have repeatedly argued for a strong institutional credit base, especially for the weaker sections.

The study also depicted that it is a fact that the private moneylenders have mostly met the bulk of the rural credit. However, that accounted only for 7.30 percent of the total estimated credit requirement of the agriculture sector, the rest of which was met by the village moneylenders. A decade later, a survey taken up by the Reserve Bank of India (RBI) clearly pointed out that credit from co-operative societies had increased from 3.10 percent to 15.50 percent but the private moneylenders still remained a principal source of credit. In the study, 27 percent of the households took loans from the commercial banks; 85 percent took loans from co-operative banks; 85 percent of the households depend on non-institutional sources; 82 percent took both institutional as well as non-institutional credit.

Village moneylenders and landlords (who are non-traders) also remained a source of credit. However, the study further depicted that 90 percent of there credits are non-agricultural, mainly consumption loans for marriage etc. The dominant position of the moneylenders after independence was due to two basic facts: the weak financial position of most of the borrowers and requirements of credit in small amount for urgent but unpredictable needs, to which the moneylenders had completely adapted. The co-operatives and the government supplied credit for specific purposes, whereas the requirements of the borrowers were largely for family purpose. Also, it is important to note that the top 15 percent of the households mops up 50 percent of the total credit. However, in this area, loans from the co-operative banks seem to be much more widespread only 15 percent of the households are not covered by these credit facilities. In addition, the positive aspects of the co-operative banks revealed a need to take a fresh look at the co-operative movement in order to bring about essential changes and strengthen this type of financial institutions.
Satyasai and Viswanathan (1998), conducted a study that was based on secondary data. The study revealed that the co-operative system in the country needs restructuring in view of the changing demand pattern for rural credit, higher expectations from the co-operatives which are expected to provide quick and quality service and to enable them to be viable and vibrant. A review of the experience of Andhra Pradesh (1986-87), found that the flow of short-term and long-term loans is higher during the post-integration period than what would have been possible had there been no integration. The ratio between short-term and long-term loan, which averaged at 1.3 during the post-integration period.

During the 15-years period, the co-operative system in the state incurred losses in the aggregate and the losses mounted overtime. The study showed that the recovery levels did not grow at the same pace as the demand. As a result, the overdues as a proportion of demand increased from an average level of 43 percent in the pre-integration period to about 50 percent in the post-integration period. This trend may have to be ascribed largely to the Agricultural and Rural Debt Relief (ARDR) scheme, which shows its impact on recovery. But, bad debts of the co-operatives in absolute terms as well as relative to working capital and loans outstanding showed declining trend.

Agrawal, Puhazhendhi and Satyasai (1997), conducted a study that was based on secondary data. The study revealed that marginal and small farmers are still dependent on non-institutional sources for as much as half of their credit needs. Out of the total short-term credit disbursed, share of co-operative decline from 87 percent in 1973-74 to 60 percent in 1994-95. During this period the share of commercial banks increased from 13 percent to 34

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percent. In terms of outstanding credit the share of commercial banks increased from about 18 percent to about 60 percent during 1973-74. During the same period, share of co-operatives declined from about 82 percent to about 33 percent.

The formal credit institutions in 1994-95 have covered about 36 percent of the cost of inputs. However, farmers have to depend on other sources of credit including own savings to meet two-thirds of the cost of material inputs. So that in the 21st century, market driven economy with capital-intensive technology may prepare increased demand for credit in agriculture and rural development. While on the other hand, Rural Financial Institutions (RFIs) may assign lower priority to rural credit that is believed to endanger their viability. This situation may lead to restricting the reach of credit to the poor. Further, re-emphasising the priority sector lending will provide for higher share of credit to rural poor. A fundamental rethinking about the rural credit organisation may have to be done.

Mujumdar (1997),17 conducted a that was based on secondary data. The study revealed that Public Sector Banks (PSB) defaulted on the priority sector target of 40 percent of net bank credit and also on the sub-target of credit to agriculture of 18 percent. The share of priority sectors advances declined from nearly 41 percent in the pre-reform period to some 37 percent in 1995-96. The credit–deposit ratio of rural branches, which had risen above the targeted level of 60, declined to lower than 48 in 1996. Commercial banks have account for about 40 percent of the total institutional credit to the rural sector. Co-operative financial institutions and Regional Rural Banks (RRBs) contribute about 55 percent and 15 percent of total institutional credit to the rural sector.

The incremental deposits of non-banking companies between March 1994 and March 1995 were around Rs.50,000 crores, as compared to some Rs.47,000 crores of incremental deposits of scheduled commercial banks during the same period. In 1995-96 of the incremental deposits of scheduled commercial banks of some Rs.70000 crores, nearly 40 percent was deployed in government securities. That is how, the investment deposit ratio for scheduled commercial banks soared to nearly 41 percent at end July 1997, while the prescribed incremental SLR was only 25 percent. This means commercial banks resources are being siphoned off from productive sectors to promote government consumption. This is indeed a travesty of commercial banking. Investment in government securities offers a soft option to public sector banks because the yield of 14 percent on a zero risk and zero transition cost investment saves them the botheration of processing a large number of loan applications for small loans, monitoring repayments and taking the risks involved. Similarly, lending to NBFCs is another ‘soft option’ open to banks. Banks lend to NBFCs in bulk at relatively high rates of interest.

In June 1997 there RBI was constrained to tighten the prudential reserve norms of NBFCs. NBFCs that were maintaining 5 percent of their deposits in government securities were required to maintain 7.5 percent and 10 percent of the deposits in these securities with effect from January and April 1998 respectively.

Satish and Gopalakrishna (1997), 18 studied a sample of commercial of bank branches in four districts of Maharashtra to analyse the profitability of rural commercial bank branches. In the branches, in the study area, the composition of savings, current and fixed deposits accounts on an average, was in the proportion

of 40 percent, 8 percent and 52 percent respectively. The cost of deposits in a
typical rural branch in the area works out to 7.2 percent.

The rate of interest charged by rural branches on various types of advances
varies from 11.5 percent to 18 percent (excluding DRI/staff advances). However,
the average yield on advances worked out to only 8.3 percent in respect of a
typical rural branch on account of respondence of low yielding advances and
presence of high proportion on non-performing assets. Further anlaysis revealed
that this is due to loss of income on account of high proportion of non-
performing assets; poor yield on advances from a large share of low yielding
advances and low volume of business. The study also shows that the rural
financial markets, which can have a series of unfavorable consequences, like
poor distribution of loan, low repayment discipline and political interference.

Roop Chand (1996), 19 conducted a study that was based on primary data.
The primary data were collected with the help of structured three types of
questionnaires from beneficiaries/loanee, employees and officers. The study
revealed that maximum number of beneficiaries was satisfied with the
‘procedure of making the member of co-operative societies’ In case of DCCB
Faridabad and minimum was in case of DCCB Gorgoan. In total 87.5 percent
respondents were found happy with this procedure. While only 9 percent
beneficiaries got the annual reports of the co-operative societies of which they
were the members. In case of DCCB Faridabad only one beneficiary got it,
whereas in case of DCCB Mohindergarh 8 members got the annual report. This
was not a good thing on the part of co-operative societies and banks.

Regarding the cheques and passbook maintenance, the position was very
much satisfactory in case of DCCB Faridabad, Gorgoan and Rewari. The
position was bad in case of the area of DCCB Mohindergarh where 70 percent

beneficiaries showed their dissatisfaction over it. Out of present members 72.5 percent members were found interested to stay as member of the co-operative society and branches.

Surender (1995), conducted a study that was based on an intensive field-study of three villages and three PACS selected from an agriculturally developed district of Haryana. The study revealed that co-operative credit is a monopoly of the rich and the dominant persons of a village had hardly any validity in the villages studied. As per the official information, a majority of the active members in the three PACS were the non-agriculturists (57.21%) and the small farmers (26.47%). The big farmers, owning more than seven acres of land, constituted 16.31 percent. Significantly many members of the PACS (42.30%) had dead accounts.

Devi Lal, the leader of Lok Dal during his election campaign in 1986 promised waiving of all institutional loans on getting elected to power. So Mr. Sobha Ram borrowed hoping that there would be no need to return the amount. Incidentally, his loan was not waived and he had to repay it. Moreover, for the big farmers borrowing from PACS was ‘status-degrading’. The secretary of PACS had this to say on the issue: For a Chaudhury to be indebted to PACS is an insult. They would not mind borrowing from a bank or from an Arhtia but being indebted to PACS is as bad as mortgaging one’s land to a moneylender. These values are particularly strong among the big landowning farmers. The big farmers who borrowed from PACS, instead of using the credit, lent the amount to labourers at a monthly interest rate of two or three percent. Besides generating additional returns, this assured them of the labour supply during the peak seasons.

An important observation of the study was that many respondents were no longer members of PACS nor did they borrow from them. Though farmers owning up to 25 acres were members of PACS a large extent, around half of them were inactive. The most significant factor behind this development was the bureaucratisation of the PACS and the prevailing corruption in them. Respondents reported charges of corruption more frequently. Thus, it can be concluded that there is an inverse relationship between corruption and participation.

All complaints of corruption in PACS were against the secretaries and none against the managing committee or the president. Whenever the members borrow from the PACS they have to pay a bribe of Rs. 10 to Rs. 50 to the secretary. If the borrower refuses the bribe, the secretary delays the loans and creates other bureaucratic hurdles. The secretaries take advantage of the creditors' inability to repay the loan in time. Over period of time paying bribe becomes a routine. Some respondents had to waste four to five days in getting a loan from the PACS. There were many formalities and if one has to bribe the secretary, the whole process becomes very cheap.

Many respondents did not borrow from PACS because they did not want to get involved with 'official agency'. Small and marginal farmers expressed apprehensions that if they were unable to repay the loan in time, the police would arrest them or their land would be confiscated. Some feared losing their credit worthiness on joining the PACS. The villagers prefer their indebtedness to remain a secret. However, this is not possible. Some find it insulting that the secretary, in presence of other villagers, should ask them to return the loan. This damaged their prestige and discouraged them from borrowing again.

A majority of small/marginal and medium farmers, who need credit for investment in crops, did not see the PACS as a viable alternative to informal sources such as Arhtias. The obvious reason for this is an absence of any kind of
co-operative movement from below. PACS do not function as participatory co-operative institutions. Their image is more of a small-scale commercial bank. The new system did weaken the control the rich and powerful in the village had on the institution but it also alienated the rest. Bureaucratisation not only led to depoliticisation and corruption but also discouraged participation of those it was supposed to serve.

Hari Babu (1994),\textsuperscript{21} conducted a study that was based on primary data as well as secondary data. The study revealed that in the field of dairy loan, bank has made a drastic change and loan facilities were provided to small and marginal farmers and weaker sections of rural society, which increased income and employment. If these section of society having so many constraints pertaining to agricultural lending, corrupt practices at branch level leads to mis-utilisation by the borrowers. Recovery position of bank was poor during 1991-92, it was to the tune of 47.50 percent. The cause for poor recovery performance were to folds the borrower and bank branch level. Percentage irrigated area was also higher during borrowing situation. It was 68.99 percent while during non-borrowing, it was 64.53 percent. It was due to bankers loaning facilities provided for private source of irrigation i.e. installations of pump sets and private tubewells.

Distribution of total loans for different purposes on the sample households showed maximum in the case of milch animals being 43.06 percent and for crop loan it stood at 36.52 percent. The study also clearly indicated that there was higher investment on total inputs during borrowing situation in comparison to non-borrowing. Therefore input-output ratio recorded as 1:1.45 during non-borrowing situation from crop production as a whole while during borrowing situation it stood as 1:1.55.

The level of employment, income and standard of living of the households during borrowing situation was higher. There was 105.66 percent increase in employment during borrowing over non-borrowing on marginal households, for small and large households it stood at 19.71 percent and 27.31 percent respectively. In this way, Lead Bank lending positively affected level of employment during borrowing situation.

There had been an increase of 36.23 percent during borrowing situation over non-borrowing in total farm business income. This was the highest being 45.36 percent on marginal households due to the fact that this group of the households had very low number of milch animals during non-borrowing situation. Thus the standard of living of the sample households was better during borrowing situation as compared to non-borrowing situation due to the generation of more family employment and income after availing credit facilities from Lead Bank.

It has been observed that there is unnecessary delay in delivery of loan, insufficient recovery, inadequate credit supply, no provision of consumption loan, unauthorised charges at different level and unsympathetic attitude of branch level official with the poor rural people. The credit advanced for irrigation structure was helped in increasing the area under irrigation, which in turn resulted in increasing the intensity of cropping and adoption of high yielding varieties. The level of investment and resources use have also been higher on the borrower farms as compared to non-borrower farms which resulted in higher production, productivity and income on the borrower farms.

Chinnappa (1992),\textsuperscript{22} revealed that the co-operative bank do not put up the appearance of banks and they are conducting their business the same old

outmoded way without attractive counters, name boards and charts exhibiting the rates and better margin of interest available on deposits than the commercial banks still people think that there is no safety in depositing the money with the co-operative, though there is insurance cover for the deposits like the other commercial banks. Therefore, the co-operative banks should realise that the creditability of the commercial banks lies in their decent appearance of which they are lacking. Moreover, proper service to the customers is wanting in the co-operative banks and there appears to be "don't bother me" attitude with the bank staff. The customer loses his confidence in approaching the bank to avail of its services and help his funds. It may not be a surprise to say that majority of the public is not aware of the banking business undertaken by the co-operative banks like the issue of drafts, bills, business, overdrafts facilities, acceptance of all kinds of deposits with cheques facilities, and the higher rate of interest on deposits and lesser rate of commission charged for the issue of drafts than the commercial banks. With all these constraints the co-operative banks are not in a position to mobilise deposits and build up their own funds.

In the central co-operative bank, a large number of members in the managing committee had themselves defaulted in the repayment of dues. So that bank could not take any action against them. These banks are supposed to be autonomous in character but it is more so on paper than in practice.

Singh (1990)\textsuperscript{23} conducted a study that was based on primary and secondary data. The study revealed that as far as the crop loan scheme is concerned, it was found that the bank could not achieve its own targets. It achieved only 44.06 percent of its own target during the said period of five years. Year wise analysis in respect of minor irrigation scheme showed a declining trend of achievement from year to year. When we saw the overall performance of the bank in respect

of farm equipment, in aggregate, the bank achieved 128.50 percent of own targets during the said period.

In the financial assistance to the farmers regarding plough animals is concerned, it was found that the aggregate performance of the bank in this field is not so good, bank could achieve only 34.6 percent of its targets in all the five years. In case of land reclamation and vehicles for transportation of agriculture inputs and outputs, dairy farming and sheep/goat breeding bank achievements are good as 79.6 percent, 87.17 percent and 101.06 percent respectively. The bank could not achieve its target in respect of loan for installation of biogas plants. Its overall achievements were only 4 percent, which shows a complete failure of the scheme.

Upadhyay (1989),24 revealed that having a multi agency approach to rural credit, the credit needs of the rural households are to be meet by the banking system. In-spite of the fact that their have wide spread banking operations, the strong hold of moneylenders in the rural areas still exists. Though amount of credit to rural areas has increased by nearly 80 times, however only 14 percent of rural households were, so far, covered.

Malhotra (1989)25 said in RBI Newsletter that rural development is prime national objective and credit is one of the important inputs for achieving the goal. Institutional credit, which formed only 4 percent of the total credit in the rural sector, has now increased to over 62 percent.

A.S. Rana (1988) conducted a study that was based on secondary and primary data. The study revealed that the modern commercial bank, on their part, which were expected to undo the evils of indigenous bankers and moneylenders under the control and supervision of central banking had developed monopolistic and oligopolistic tendencies and more often ignored rural areas. It shows that the share of deposits and advances of rural sector was not only quite low but their deposits had been used as advances to urban sector at the cost of advances to agricultural sector and weaker sections of rural areas.

The study further exhibited that 40 percent of the sample population could not get access to institutional finance at all and is totally dependent upon conventional village moneylenders. There was only 10 percent of the member of weaker section who did not depend on moneylenders for their credit needs. Only 43.92 percent of the sample population could secure loan from nationalized banks, which by any standard is not adequate though it is not a bad start. On an average borrow more than 55 percent of their total debt from private moneylenders.

The role of nationalized banks in respect of the dilemma of poverty has broadly been observed to be positive. But in case of the dilemma of poverty it has been found to be positive only for the cultivators and negative for agriculture labourers. The analysis further revealed that wrong practice of nationalized banks is also responsible, to a certain extent, for their failure to become an efficient alternative source to moneylenders. Moreover, there are personal factors also, which encourage the (weaker sections) households to borrow from moneylenders instead of borrowing from nationalized banks.

Tripathi (1988)\textsuperscript{27} revealed that credit is a basic input for any development programme. This is particularly true for rural development, which aims to improve the standard of living of rural people as well as increase agricultural productivity.

Maheshwari (1987)\textsuperscript{28} conducted a study that was based on secondary and primary data. The study revealed that overall direct finance to agriculture of (20) nationalized banks were 12.9 percent at the end of March 1985 i.e. much behind the target (40\%). Moreover, individually only 3 banks could technically achieve the target by the said date. The overall percentage of weaker section credit to priority sector for all the (20) nationalized banks taken together was only 21 percent at the end of March 1985. The overall percentage of credit to weaker sections to net credit was only 8.5 percent. Thus, on this count, out of the nationalized banks only five banks could achieve the target. The overall rural Credit Deposit ratio for these banks was 58.90 as on that date. Only 8 of the 20 banks could achieve this target.

Regional disparities as regards distribution of priority sector credit are continuing. Of course, they have narrowed down over a period of time. The states in North-Eastern and Eastern regions though have about 26 percent of the country’s population got only 13 percent share in the priority sector credit at the and of Dec.1984. While the states in the Southern region that comprises of about 24 percent of the country’s population got more than 37 percent share of the priority sector credit as on that date. The same sort of disparities exists in respect of each segment of priority sector credit.


Manju (1985)\textsuperscript{29} conducted a study that was based on primary data for the period of 1981-84. The study revealed that PNB has failed in accomplishing the primary objectives for which the credit was actually meant. The reasons responsible for the situation were severals. The management of the bank seems to be worried only about the achievement of quantitative targets. The follow up machinery as devised by the bank for supervising the actual use of loans is weak.

Royal Commission on Agriculture (1926)\textsuperscript{30} remarked, “The Indian peasants are born in debt, live in debts, dies in debts and be quea the debt.”

\textbf{Conclusion:}

There is lack of sufficient literature related to the area of present study. Though a number of studies have been carried out so far relating to recovery of loans, credit delivery, impact of loans on incomes and employment of rural areas, operational problems etc. in respect of Public Sector Banks and Cooperative banks. Yet the literature lacks a comparative study of the performance of PNB and CCB in the context of aforesaid variables. The present study intends to fill up this gap with the purpose of comparing the performance of CCB with the PNB, a leading Public Sector Bank, which is also a lead bank in Haryana so as to suggest improvements in their practices of CCB.
