1.1 INTRODUCTION

Agriculture occupies a dominant place in the Indian economy. The well-being of the people of India largely depends on the progress of agriculture. Agriculture is the world’s greatest producer and credit is the basis of production. The Royal Commission on Agriculture 1928, has observed that co-operatives are “the best hope of rural India”.¹

Majority of the rural people are not able to meet their day-to-day requirements from their own sources of income not only for productive enterprises but also for improving their economic condition. Therefore, they have to depend on various financial agencies for getting funds for making investments. Organized institutional credit had hardly played its role for the farming community during the early years².

Co-operatives occupy an important place in India’s rural economy, in terms of their coverage of population and their share in the total supply of agricultural inputs, including credit. Thus, co-operative credit is the hope of the farmers to provide the basis of prosperity and the opportunity to meet the demands of the twenty first century.

Co-operatives are also envisaged as an instrument for implementing many important policies like agricultural credit, market intervention and so on.

Co-operative banks are organized and managed on the principle of cooperation, self-help and mutual help. They function with the rule of “one member, one
vote” and on a “no profit, no loss” basis. They generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts).

Co-operative movement is quite well established in India. “The first legislation on co-operative was passed in 1904. In 1914, McClagen Committee envisaged a three tier structure for co-operative banking namely, Primary Agriculture Credit Societies (PACS) at the grass root level, Central Co-operative Banks (CCBs) at the district level and State Co-operative Banks (SCBs) at the state level or apex level” 3.

In this context, it is worthwhile to examine critically the development of credit structure in rural India. Having made significant strides in the field of rural credit through its short and long-term structures, co-operative banking continues to play a crucial role in the dispensation of credit for agriculture and rural development. “Though commercial banks after nationalization and later on regional rural banks have entered the rural areas, co-operative banks still continue to enjoy an important place in the rural credit scenario”4.

Keeping in view the importance of co-operative banks, several committees from the All India Rural Credit Survey Committee to the latest Vaidyanathan Committee have stressed the need for a major role for co-operatives in providing credit and allied services in the rural sector.

At present, there are 372 DCCBs working in India having 13181 branches5.
Central Co-operative Banks act as the intermediary agency between the PACBs and SCBs and the money market. They are formed, at the district level, by federating the primary agricultural co-operative banks located in the same area.

CCBs, besides being leaders of the co-operative movement at the district level, act as balancing centre and provide the needed credit requirements of PACBs and all other co-operative institutions in the district. “In many views the position of Central Co-operative Banks is of crucial importance to the co-operative credit structure”\(^6\).

The DCCBs, since their inception, have been acting as a spokesman not only for the PACBs in a district but also for other kinds of co-operative institutions in a district. Even though DCCBs play a dominant role in mopping up small savings and providing credit facilities to farmers in the rural areas, the economic reforms and liberalization process in India have paved the way for these banks to facing the severe competition from both the domestic and foreign players.

“As on March 31, 2010, there are 23 DCCBs with 733 branches functioning in the state of Tamil Nadu. They have mobilized a total deposit of Rs.1137025 lakhs with total loans and advances of Rs.1690595 lakhs”\(^7\).

The selected District Central Co-operative Banks are the three key banks among the 23 of its kind functioning in Tamil Nadu.

There have been several studies on various Central Co-operative Banks functioning in Tamil Nadu. But, no study has so far been conducted collectively on the
performance evaluation of Tirunelveli, Tuticorin and Virudhunagar District Central Co-operative Banks.

Hence the researcher has made an attempt to analyse the performance of District Central Co-operative Banks in select districts of Tamil Nadu.

1.2 STATEMENT OF THE PROBLEM

The Indian banking industry has come a long way from being a sluggish business institutions to a highly productive and dynamic entity. This transformation has been largely brought about by the impact of liberalization and economic reforms that allowed bank to explore new business avenues rather than generating revenue from convenient streams. Thus, co-operative banks have now become one of the viable institutions for agriculture credit, which will strengthen agriculture and pave the way to raise agriculture production.

The co-operative banking system in India has a widespread and elaborate organizational structure. The objective of co-operative banking is to create enduring and sustainable financial institutions, that is responsive to the credit needs of the weaker sections. The financial health of a large number of co-operative credit institutions is extremely fragile. Agricultural production in the state of Tamil Nadu mainly depends on the timely assistance to the farmers in the form of short-term credit for cultivation purposes and medium-term credit for allied activities.

The select District Central Co-operative Banks are facing competition from commercial banks, regional rural banks and money lenders in mobilizing deposits from
the public and providing credit to the agricultural sector. The major portion of the central co-operative banks’ lendable resources is deployed for farmers through primary agricultural co-operative banks for agricultural operations. Central Co-operative banks also undertake social banking activities such as financing weaker sections of the community like the Scheduled Castes and Scheduled Tribes and granting loans for the self employment of rural youth and the like.

“The system and procedures followed in co-operative banks play an important role in taking sound credit decisions, and in providing quick and efficient customer services, best house keeping, effective supervision and control”

NABARD’s inspection of co-operative banks during 1998-1999 has identified deficiencies such as high level of Non-Performing Assets (NPAs) and overdues, high transaction costs, low margins, poor quality of loan appraisal, inadequate internal checks and balances and the like.

Under the liberal environment, the RBI has introduced prudent financial parameters to be made applicable to co-operative banking structure. An analysis of the functioning of co-operative banks shows that a large number of co-operative banks are not fulfilling the prudent financial requirements as envisaged by the RBI. Also co-operatives suffer often on account of excessive state government interference leading to slow pace of changes in co-operatives including achievement of adequate governance, compared to other rural financial institutions.
It is imperative on the part of the central banks to strengthen their internal resources like owned funds and deposits, particularly in view of the fast expansion in lending which has taken place in recent times.

The co-operative credit institutions have been regarded as the most effective instruments for contributing to the growth of agriculture and rural development in India by fulfilling the spelt out objectives. The co-operatives will be able to fulfill their spelt out objectives only when better environment is created for co-operatives, when a freedom of operational autonomy is extended to the co-operatives.

Despite the presence of an extremely wide network of rural bank branches of Central Co-operative Banks, which have implemented specific poverty alleviation programmes aiming at creation of self-employment opportunities through bank credit for almost two decades, a very large number of the poorest of the poor continue to remain outside the fold of the formal banking system.

The existing banking policies, systems and procedures and deposits and loan products are not well suited to meet the most immediate needs of the poor. What the poor really need is a better access to these services and products rather than the subsidized credit.

Thus, there is a need to give a boost to the co-operative spirit to achieve a transparent co-operative policy. This would enhance the opportunity for co-operative banks to function as business enterprises with social mission.
Since District Central Co-operative Banks in Tirunelveli, Tuticorin and Virudhunagar have been offering different deposit schemes and providing several loans for depositors and loanees, this study is vital to analyse the financial performance of these banks in respect of their deposit mobilization and the extent of their lending.

1.3 REVIEW OF LITERATURE

There is a large and growing volume of literature of varying quality in the field of bank credit. Survey of literature strengthens the hypothesis. It is a major part of methodological strategy. In this context, it is necessary to mention the contribution made by a few people with reference to the working of co-operative banks.

One of the earliest studies in this direction was made by the All India Rural Credit Survey Committee (1954). The committee found that the system of crop finance assumed new significance by 1948-49 when the co-operative credit in the Bombay State was reorganized with the active support of the co-operators of the state. The committee noted that under the new arrangement, the reorganized Bombay State Co-operative Bank and the Central Financing Agencies, together with the Primary Credit Societies, were expected to provide short-term finance to all credit-worthy agriculturists. Instead of fixing credit limits on the basis of land securities, special attempts were made to provide short-term finance on the basis of crop acreage and to link the time of repayment to the harvesting season, as was suggested by the committee.
C.Srinivasa Sastry\textsuperscript{10} (1959) in his article pointed out that the co-operative movement in India has witnessed almost an exponential growth in recent years. The happy interaction between the co-operatives and the political leadership has largely contributed to this growth.

Singh Hira\textsuperscript{11} (1963) pointed out major portion of the total credit went to ceremonies and domestic consumption and that only a small portion was used in ways for which the loan was borrowed. He suggested that the Government may devise a scheme to check whether the fund is fully utilized for the betterment of agriculture and rural economy.

V.Tirupati Naidu\textsuperscript{12} (1968) in his book titled, “Farm Credit and Co-operatives in India”, reviews the progress of the co-operative credit movement in India. He emphasizes the need for measuring business efficiency and economic viability and improving the business of co-operative institutions.

The Government of Tamil Nadu\textsuperscript{13} (1972) published a manual titled, “The Tamil Nadu Co-operative Manual”, discusses the working of various co-operative societies in Tamil Nadu. A brief account of central co-operative banks and their working are also given in this manual.

The Reserve Bank of India\textsuperscript{14} (1973) published a book entitled, “Developmental Role of State and Central Co-operative Banks” that analyses the developmental role of state and central co-operative banks. It identifies the developmental aspects of co-
operative banks such as mobilization of resources, deployment of resources, loan policies and procedures, management and administration.

The National Institute of Bank Management\(^{15}\) (1975) had conducted a survey of depositors in 1974. The survey had revealed that delay in opening new accounts, collection of local and outstation cheques, updating pass books and so on formed the majority of the complaints. Carelessness in writing entries in the pass book and failure to intimate maturity of fixed deposits were two other grievances brought forth by the survey. According to the same survey, more than 90 per cent of the customers were satisfied with the behavior of the staff members. The survey also pointed out that only about five per cent of the customers took the trouble to lodge a complaint about unsatisfactory service in banks.

V.Pancras\(^{16}\) (1978) in his article bearing the title, “Funds Management in Co-operative Banks”, deals with the daily procedures and actions related to funds management in central co-operative banks.

C.M.Rajan\(^{17}\) (1978) in his article with the title, “Central Co-operative Banks”, explains the promotional measures and intensive efforts of central co-operative banks in Tamil Nadu.

National Federation of State Co-operative Banks Limited\(^{18}\) (1979) published an “Accounting Manual” which provides detailed information about the internal working of central co-operative banks.
Satyasundaram\textsuperscript{19} (1981) in his article, “Rural Banking: Monitoring Credit Utilization”, has stated that monitoring supervision and follow up of a credit assume great importance because of the present stress on advances to priority sectors. Banks have to adopt a more realistic approach for preventing borrowers to utilize and divert funds for unauthorized purposes.

G. Krishnamoorthy and P. Parameshwaran\textsuperscript{20} (1985) in their article titled, “Deposit Mobilization by Central Co-operative Banks in Andhra Pradesh”, reviews the growth of deposits of central co-operative banks in Andhra Pradesh.

O.R. Krishnaswamy\textsuperscript{21} (1985) in his article entitled, “Performance Budgeting in District Central Co-operative Banks”, highlights the key result areas of performance of the co-operative organizations.

N. Namasivayam\textsuperscript{22} (1986) in his study, “Performance Evaluation of Ramnad District Central Co-operative Bank Limited”, discusses resources mobilization, resources development, recovery performance and matters relating to problems of recovery in respect of beneficiaries, PACBs and the bank.

J.P. Singh, M.L. Chakaravarthy and M.L. Atibudhi\textsuperscript{23} (1986) in their book, “Rural Banking”, have examined the performance of various institutional and non-institutional agencies in the field of rural credit and have concluded that the direct finance disbursed for agricultural operations by Institutional Agencies, Co-operatives, Scheduled Commercial Banks, Regional Rural Banks and State Government together aggregated Rs. 6143 crores in 1985-1986 and the aggregate level of
outstanding of all institutional agencies as on June 1981, stood at Rs.13,229 crores.
The co-operatives have played a significant role in meeting the credit needs of the
farmers. They have suggested that NABARD should exercise a significant influence on
the working of these institutions in the country.

V.Rengasamy\textsuperscript{24} (1987) in his thesis, “Performance Evaluation of Tamil Nadu
State Co-operative Bank Limited”, has analysed the performance of Tamil Nadu State
Co-operative bank in terms of deposit mobilization, loans and advances, profitability
and overdues.

S.G.Hundekar\textsuperscript{25} (1989) in his study, “Zero Base Budgeting in Urban Co-
operative Banks”, has stated that the urban banks have to practice zero-base
budgeting in order to survive by improving their performance.

Srinivas\textsuperscript{26} (1990) in his micro-level study, “Organization and Management of Co-
operative Banks”, examined some select weak central co-operative banks in Andhra
Pradesh. The main objectives of his study were to examine the problems involved in
the organizational structure and to evaluate the performance of management of the
bank in relation to its objectives and goals. The study confined itself to a 13 year period
from 1968-1969 to 1980-1981 and to the management of the central co-operative
banks.

U.S.Sohani\textsuperscript{27} (1991) in his article, “Industrial Restrictions and the Role of
Merchant Bankers”, revealed the import of the process of economic liberalization,
deregulation and globalisation for the Indian Banking and Industrial Sectors. The
package of radical reforms was initiated and spelt out in order to restore the banking industry back to health as part of economic liberalization. His study attempted to explore the need for reforms.

Vijayan Ban (1991) presented a paper, “Banking for Better Profitability” and suggested the following:

a. Banking policy and credit policy should be isolated.

b. Frequent changes in Government policy on industry, agricultural trade and corporate sectors should be minimized.

c. Research departments in banks should be strengthened.

D. Ganeshwar Rao (1992) in his article, “Work Technology of Co-operatives”, reiterated that the work technology needed to be improved in co-operative banks as measures of efficiency of operations, economy in expenditure and improvement in customer services.

B.Ramachandra Rao (1993) conducted a study on “Ranking of Bank on the Basis of Service to the Public”. It revealed that the ranking of banks was made solely on the basis of year and figure. This has developed a tendency to build up only window-dressed deposit figure by all the banks. All other factors including the quality of loan assets are neglected. Finally, it suggested that each bank should be rated on several other factors, so that good services and efficiency could be developed.

S.S.Sissodia (1993) in his article, “Co-operative Movement : Trends and Challenges with Special Reference to New Economic Policy”, has stated that co-
operatives have not been accorded due recognition in the new economic policy. He feels that there is an erosion of the role of co-operatives as a balancing factor between public and private sectors.

G.Ojha\textsuperscript{32} (1994) in his article, “Strategy for Recovery Management”, has analysed the reasons for the poor recovery of agricultural advances of District Central Co-operative Banks and State Co-operative Banks. He has stated that in the case of district central co-operative banks about 18 per cent to 22 per cent of their working capital is blocked by way of overdues. In many district central co-operative banks the amount of overdues has exceeded the owned funds, leading to the problem of maintaining liquidity. He has suggested that the recovery strategy should focus on chronic overdue areas for recovery measures through recovery campaign and village level meetings and seminars.

S.Reddy and R.C.Reddy\textsuperscript{33} (1994) attempted to appraise the performance of District Central Co-operative Banks in Andhra Pradesh. Secondary data were used and the performance of the bank were verified with the help of selected indicators such as membership, share capital, branch expansion, deposits, borrowings, advances and recovery. It is found that the deposit potential of the area has not been fully exploited by the bank and for many years the target has not been achieved. Hence, there has been a considerable increase in the external borrowings. The lending performance is also not satisfactory. The growth rate of the overdues is far higher than that of outstanding loans.
C.S.Venkiteshwaran\textsuperscript{34} (1994) in his article, “Primary Agricultural Co-operatives: The Challenges Ahead”, has stated that overdues have impaired the system by making the primaries and, in turn, the central co-operative banks, ineligible for fresh credit or refinance. The denial of access to credit has become a constraint in their lending capacity, liquidity, profitability and solvency of central co-operative banks. Further, he has also stated that the co-operative agricultural credit has fallen short of the right quantity and failed to reach the right people. However, he concludes that the co-operatives have a great future.

R.S.Mani\textsuperscript{35} (1996) in his thesis titled, “Effectiveness of Audit in Central Co-operative Banks – A Study with Reference to Tamil Nadu”, has dealt with the organizational setup of co-operative audit in Tamil Nadu. He has analysed the co-operative audit and administrative practice in central co-operative banks.

V.Rengasamy and A.Subbiah\textsuperscript{36} (1996) in their article, “An Analysis of Sector-Wise Allocation and Achievement of Priority Sector Lending Under the Lead Bank Scheme in Kamarajar District in Tamil Nadu”, by using Wilcoxon Signed – Rank Test. According to them, there is no significant difference between allocation and achievement percentage of all priority sector lending in Kamarajar District during the period between 1985 and 1994.

M.R.Shollapur\textsuperscript{37} (1996) in his article, “Analysis of Effectiveness of Credit Disbursement”, examined the need for effectiveness in credit disbursement by the
intermediary tier of co-operative credit structure of the Belgaum District in Karnataka State.

B.A.Countinho\(^38\) (1997) in his article titled, “Action Perspective for the Co-operative Credit Structure”, has stated that the co-operative banks hold the key in providing credit facilities in agricultural financing even to-day. Being the major source of finance, the co-operative banks need to give a serious thought to develop their grass root base to cater to the entire requirement of the rural population by developing their own resources and recovery channels. He has concluded that profits of the primary agricultural co-operative societies, district central co-operative banks and state co-operative banks could contribute to augment the resource position. The entire structure from the national federation to the primary agricultural co-operative societies would become significantly more vibrant in providing the agricultural sector with a reliable service-oriented finance organization.

Peat Marwick\(^39\) (1997) in his survey, “Best Bank 1977”, analyses credit card services with the performance of various banks. For the purpose of this research, 84 banks were taken and composite ranking techniques were employed. Parameters like net profits, non-interest income, capital adequacy, average working funds deposits, operating expenses, interest income, interest spread, profitability and productivity ratios were taken up for the study.

V.Rengasamy and A.Subbiah\(^40\) (1997) in their article, “Role of Kamarajar District Central Co-operative Bank in financing to Agricultural Sector”, have analysed the role
of Kamarajar District Central Co-operative Bank in providing finance to the agricultural sector under the lead bank scheme in the district. They have concluded that of the total finance provided to the agricultural sector in the district, the share of Kamarajar DCCB is commendable, when compared to the other financial agencies in the district.

C.S.Murthy in his article, “Salvaging the Pride of Credit Cooperatives: A Strategy to Improve Recoveries”, has analysed the problem of overdues in primary agricultural co-operative societies. He has stated that “over dues adversely affect the borrowers and they can no longer get cheap credit”. He has concluded that if co-operatives are to ensure high rate of recoveries, they should adopt the methods employed by money lenders like co-operative coercive methods. If credit co-operatives expect the borrowers to repay the loans promptly, the loans should be provided on time in adequate quantity. Defective loan policies impair borrowers’ ability to repay.

B.Niranjan Raj in his article, “Some Analytical Tools for Effective of PACBs”, states that the success of the co-operatives is dependent on sub-factors such as self-reliance, optional deployment of available funds, extent of member satisfaction and patronage and economic viability. He provides some scientific measures to evaluate the performance of PACBs. They are the ratio of membership share capital to total share capital, debt equity ratio, credit to loan able funds ratio, stock turnover ratio, turnover per employee, volume of business per branch, ratio of borrowing members to total members and ratio of interest spread to total income. He finds in his study that in Kerala, some PACBs deployed high cost funds in low yields
lending. He also points out that many of PACBs in the state were utilizing either the deposit money or borrowed funds from DCCBs for meeting their increasing running costs.

S. Ravivarma and B. Bhagawan Reddy⁴³ (1998) in their study, “An Evaluation of the Performance of DCCB, Chittor, Andhra Pradesh, Before and After its SWCCDS”, have evaluated the performance of DCCB, Chittoor, Andhra Pradesh before and after the introduction of the Single Window Co-operative Credit Delivery System (SWCCDS) in the state which is the first of its kind in the country. Under this system, long-term, medium-term and short-term loans are issued by DCCBs to PACBs under one roof in the integrated DCCBs. This system was introduced in Andhra Pradesh from April 1, 1987. The main objective of the study was to review the progress and performance of DCCBs in respect of the capital structure, loan operations, recovery and over dues. The study reveals that the share capital, reserve funds, deposits, borrowings and working capital are relatively higher after the inception of SWCCDS. As a result, the capital base of the bank has considerably gone up.

V. Rengasamy and R. S. Mani⁴⁴ (1998) in their article, “Audit Classification: Banking Benchmarks”, have analysed the procedures for audit classification of central co-operative banks based on their performance under several heads such as levels of overdues, number of defaulting societies, observance of seasonality discipline, maintenance of reserves, maintenance of cash reserves, maintenance of liquid assets, operational efficiency, profit earned, and efficiency of management. They have stated
that the central co-operative banks may be classified as A, B, C or D category according to their performance under audit.

M.R.Shollapur\textsuperscript{45} (1998) who conducted a study titled, “A Case Study of Central Co-operative Banks at Belgaum District in Karnataka”, analysed the pattern of distribution of the branches on the basis of geographic location, profitability and integrated pattern of distribution of branches.

B.Subramaniyam\textsuperscript{46} (1998) in his article entitled, “Co-operative Credit Structure: A Perspective for 2000 AD”, has stated that all are not well with the co-operative credit structure. He has also stated that the co-operatives have failed and the co-operative credit institutions could not play an effective role in achieving their objectives. He has concluded that even in the post-liberalization era “problem issues pertaining to the short-term co-operative credit structure have not been addressed”. The new economic reforms initiated in India did not really aim at the revitalization and revamping of the co-operative credit institutions.

M.Swaminathan\textsuperscript{47} (1998) in his article, “Customer Services in Co-operative Banks”, has emphasized the need for satisfying genuine and legitimate needs of the farmers in providing loans at the right time and in the right manner. Though commercial banks and the co-operative banks have improved their customer services, still there is a wide gap between the aspirations of the customers and the services provided.
The former Indian Prime Minister, Atal Bihari Vajpayee\(^48\) (1999) in the National Seminar on “Best Performing Co-operative Banks”, has stated that Governments would come and go but the culture of co-operation should continue to grow forever.

D.L.Creado\(^49\) (1999) in his article, “Professionalism in Co-operative Credit Institutions”, has stated that accountability and responsibilities are conspicuous by their absence in the management of co-operative rural credit institutions. He has stressed the need for an all out “attitudinal change” to bring about professionalism in the management of co-operatives. He has stressed the importance of work culture and value systems in co-operatives to ensure institutional interest and customer focus. Unless the co-operatives are “member driven” institutions, the question of business ethics and professionalism will remain a pipe dream.

D.K.Das\(^50\) (1999) in his study, “Financial Performance Evaluation through Ratio Analysis: A Case Study of Nawanagar Co-operative Bank Jamnagar in Gujarat”, took a period of five years commencing from 1993-1994 to 1997-1998 for study. For the evaluation of the bank, a number of ratios were formulated under four major categories namely, operational ratios, profitability ratios, productivity ratios and solvency ratios. After a detailed analysis, it was concluded that capital base needs to be strengthened by increasing the membership, which has remained stagnant for the last five years. He also suggested that the bank should hire professionals in order to give a new dimension to its functioning.
Enugandula Chandrashekar, G.V.KrishnaRao and I.Narendar (1999) in their article, “Performance of the Karimnagar District Central Co-operative Bank (KDCCB) in Andhra Pradesh an Economic Analysis”, have analysed the performance of the Karimnagar District Central Co-operative Bank by using various ratios such as solvency ratio, liquidity ratio and profitability ratio.

P.Krishna Reddy, B.Ramachandra Reddy and P.Venkateshwaralu (1999) in their article, “Gaps in Co-operative Bank Financing for Agriculture”, have stated that most of the central co-operative banks, which have been in existence for over several decades, are still not self-sufficient to finance their members. They have pointed out that the problem of recovery of loans in central co-operative banks is getting worser year after year. According to them, the present situation in co-operative credit system calls for a through understanding of the causes for over dues and the problems of agriculture financing. They have concluded that it is an established fact that timeliness and sufficiency of credit to the farmers has never been achieved in the present credit delivery system.

K.N.Palleri, H.S.Vijayakumar and L.K.Wader (1999) in their article, “Management of Funds by Karnataka Central Co-operative Bank for Lending to Agricultural Sector”, have analysed the Karnataka Central Co-operative Banks’ for Lending to Agricultural Sector and the compound growth rate for lending, deposits and credit to agriculture.
S.Dharmarajan (2000) in his article, “Improving Operating Efficiency – Significant Task Before Co-operative Banks”, has stressed the need for improving operating efficiency in co-operative banks. He has concluded that in order to make the co-operative banks internally efficient, productive and competitive, they should draw strategies relating to expansion of business, product diversification and the like. They should adopt innovations in the business operation by introducing new financial instruments, services and practices.

Y.C.Nanda (2000) in his article, “Role of Banks in Rural Development in the New Millennium”, has explained the role of banks in rural development and the impact of credit on rural development.

V.Rengasamy (2000) in his article, “Structured Reforms in Co-operative Banking”, has analysed the organizational structure of the co-operative banking system in India and the three-tier structure as a contributing factor for the high transaction costs. The restructuring of the organizational set-up is one of the options available for improving the viability of the co-operative banking system.

P.Chellasamy (2001) in his thesis, “A Study on Primary Urban Co-operative Banks in Madurai District”, has analysed deposit mobilization and lending performance of primary urban co-operative banks in Madurai district. He has also analysed the financial performance and the factors influencing profitability of the primary urban co-operative banks in Madurai District.
T.S. Devaraja (2001) in his study, “Performance Evaluation of Sarada Mahila Co-operative Bank Limited in Mysore City of Karnataka”, has taken various indicators or parameters to analyse the performance such as number of societies and members, deposits, loans and advances, working capital and overdues.

B.K. Jain (2001) in his study, “Urban Co-operative Banks in Pune District: An Overview and Analysis of their Performance”, had extended coverage in terms of membership, deposit and loan operations and resultant credit deposit ratio, quantum of profit earned and the sources and application of working capital and its inter-relationship with profitability ratios.

G.S. Kamat (2001) in his article, “Productivity Challenge Before Co-operative Banks”, has identified the various potential areas for improving productivity in co-operative banks through cost reduction.

N.V. Namboodiri (2001) in his study titled, “Economics of Scale and Scope of District Central Co-operative Banks”, explored the cost relationship of DCCBs. He has applied a multi-product cost function to reveal the cost of structure of these banking institutions and economics of scope for future expansion in their banking operations.

R. Thanikodi (2001) in his thesis, “Performance of Madurai District Central Co-operative Bank Before and After Bifurcation”, has analysed the deposit mobilization and loans and advances before and after the bifurcation of the bank concerned. He has also analysed the working capital before and after bifurcation. The financial
performance of the central co-operative bank has been analysed through ratio-analysis.

V.Rengasamy and R.L.Ramnath\(^{63}\) (2002) in their article, “Madurai District Central Co-operative Bank and Agricultural Sector Financing: MWW Test”, have analysed the performance of Madurai District Central Co-operative Bank in financing agricultural sector. They have concluded that the performance of Madurai District Central Co-operative Bank is better when compared to the performance of other financial agencies in agricultural lending in Madurai District.

Malhotra Rakesh\(^{64}\) (2003) in his article, “Performance of RRBs Effect of the Umbilical Cord”, has studied the spread of regional rural banks and analysed branch network, profitability in RRBs based on financial ratios like interest expenditure as percentage to income, accumulated losses as percentage assets, gross non-performing assets and working capital management as performance indicators.

Sathya Swaroop Debasish\(^{65}\) (2003) in his article, “Service Quality in Commercial Banks : A Comparative Analysis of Selected Banks in Delhi”, has explained that bank offers tangible services like loan schemes, interest rate and kinds of account and the intangible services like the behaviour and efficiency of staff, speed of transaction and the right ambience.

Ayenew Belay, K.S.Suhag and ArunKumar\(^{66}\) (2004) in their article, “The Performance of Primary Agricultural Co-operative Credit Societies in Haryana”,
discussed the trend and growth in the size of operation, pace of deposit mobilization and analysed the sources of working capital and its effective utilization.

R.Gopalsamy\(^{67}\) (2004) in his article, “Performance Evaluation of Virudhunagar District Central Co-operative Bank Limited”, has analysed the deposit mobilization, loans and advances and financial performance through co-efficient of variation, correlation and ratio analysis respectively. Also, he has concluded that the bank played an important role in the development of co-operative banking and co-operative movement in Virudhunagar District. It is performing its functions well and can be called the true guardian of the movement.

K.Alagesan and S.Rajamohan\(^{68}\) (2005) in their article, “Innovative Rural Credit in the State Bank of India”, pointed out that agri-gold loan, crop loan, dairy plus, tractors plus, kisan credit card, kisan gold card, land purchase schemes and marketing loan are the loans usually granted.

L.D.Hathai and C.Sen\(^{69}\) (2006) in their article, “The Kisan Credit Card Scheme an Overview”, explained that KCCS is an innovative mechanism for facilitating access to short-term credit to farmers. It has gained popularity from 27 commercial banks, 378 co-operative banks and the 196 Regional Rural Banks (RRBs) across the country. Co-operative Banks accounted for 58.5 per cent KCCS followed by commercial banks (31.5%) and RRBs(10%). A total of 435.6 lakh KCCS were issued and cumulative credits amounting to Rs.1,11,459 crores were sanctioned upto September 30, 2004.
S.K.Lopoyetum\(^7\) (2006) in his research study, “Working Capital and Profitability Analysis of Pudukottai District Co-operative Bank, Tamil Nadu: A Study”, emphasized the importance of working capital management linked to the profitability performance of this district central co-operative bank. He has presented the crucial factors, practices and operational features of working capital management and how it has impacted on the profitability and financial performance of the bank by using ratio analysis.

Throat\(^7\) (2007) in his article, “Viable of PACBs”, revealed that least attention was paid to the quantitative aspects of credit resulting in loan defaults and erosion of repayment of loans. The ultimate result was distributing growth of overdue, which not only hampered the recycling of scarce resources but also affected the viability of Primary Agricultural Co-operative Banks (PACBs).

N.Aggrawal and M.Gupta\(^7\) (2008) in their study, “Multi-level, Multi-dimensional Model of Services Quality”, have attempted to show the result that service quality of foreign banks and new private banks is comparatively much better than that of Government banks. The reason is that these banks have operated in a select market and offered select service. Added to this, their customer service has also been exemplary.

V.Maheswari and K.Govindarajan\(^7\) (2009) in their article titled, “Customer Service in Banks: A Micro Study”, contended that with the involvement of both the foreign and local banks, the competition is at its peak. Mere augmentation of the
product is not enough to be competitive in the market. Enhancing the service quality is also essential. There are abundant opportunities present in the market. It needs only continuous upgrading and customer orientation to be able to avail those opportunities to a great extent. The same is true for banking industry because ‘quality counts in services too’.

K. Surya Rao\(^7\) (2009) in his study, “Performance of Co-operative Banking – A Study of DCCB Eluru, Andhra Pradesh”, discussed the trend and growth in size of operations profitability, productivity, solvency and operational efficiency of the DCCB Eluru.

Usha Arora, Bhavana Vahisht and Monioa Bansal\(^7\) (2009) in their study, “An Analytical Study of Growth of Credit Schemes of Selected Banks”, has compared the performance of select banks, in terms of disbursement and non-performing assets of credit schemes, for the last five years. A positive relationship is also found between total loan disbursement and non-performing assets outstanding of selected banks. This paper is divided into two parts. In the first part, bank-wise as well as year-wise comparisons are done with the help of Compound Annual Growth Rate (CAGR), Mean and Standard Deviation and in the second part, a positive relationship is found between total loan disbursement and non-performing assets outstanding of selected banks with the help of a correlation technique.

Vimi Jham and Kaleem Mohammed Khan\(^7\) (2009) in their study, “Customer Satisfaction and its Impact on Performance in Banks: A Proposed Model”, have
evaluated on the basis as sales and profit before interest and tax (PBIT) of bank, is dependent on customer satisfaction, which was evaluated taking into consideration the various services provided by the bank were divided into three categories namely, traditional facilities, multi-channel banking and internal marketing. The relationship between bank performance and customer satisfaction was found to be positive. Thus, it can be concluded that performance of the banks is linked to customer satisfaction.

G.Venkatashaamil and K.Vijayarani (2009) in their article, “Co-operative Banks, Crop Insurance and Farmers Welfare”, have stated that the co-operative society has to take the place of the money lenders and provide cheap loans to the farmers for productive purposes. Even though many types of co-operative societies have since been started particularly, for the artisans and others, the most common form of such societies deal in rural credit. The need of the hour is to strengthen the co-operative movement in India so that it can influence the structure of Indian economy and shape in the right direction of socialist democracy. They argue that there is no doubt that “Co-operative Movement has failed in India but it must succeed”.

Chander Ramesh and Chandeljai Kishan (2010) in their article, “Financial Viability of an Apex Co-operative Credit Institution – A Case Study of the HARCO Bank”, have analysed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters.
A. Krishnan (2010) in his article, “A Study of Customer Services in Madurai District Central Co-operative Banks Limited”, has made an attempt to analyse the opinion of the individual and institutional customers towards the kinds of services offered by the MDCC Bank. After an in-depth analysis, the researcher has concluded that most of the customers were really satisfied with the services of the MDCC Bank.


M. Jayasree and R. Radhika (2011) in their article, “Non-performing Assets: A Study of Scheduled Commercial Banks in India”, have analysed the trends in non-performing assets of Indian Banks and makes a comparison of Public Sector Banks, Old Private Sector Banks, New Private Sector Banks and Foreign Banks. Also, they have attempted to establish relationship between net profit and NPAs and total advances.

A. Kavitha (2011) in her article titled, “An Analysis of the Growth of Deposits of Selected District Central Co-operative in Tamil Nadu”, has identified that the growth rates of selected DCCBs have shown a mixed trend in terms of deposits. Hence, there is a need for revolutionary and practical reforms such as Removal of Restrictive
Provisions, Infusion of Professionalism and Revival Financial Package to increase operational efficiency.

A. Kavitha and A. Subbiah\textsuperscript{83} (2011) in their article, “Strengthening Co-operative Banks through Corporate Governance”, have suggested that strong corporate governance can truly be a source of strength to build inherent co-operative structure and standup for co-operative banks to convert challenges into opportunities.

A. Kavitha and A. Subbiah\textsuperscript{84}(2011) in their article, “Performance of District Central Co-operative Banks (DCCBs) in India”, have also recommended that the co-operative banks should be backed by democratization, depoliticisation and decentralisation so as to make them more competitive.

Michael Tschopel\textsuperscript{85} (2011) in his article, “The Members Value – Strategy of Co-operative Banks”, has suggested that membership is one of the core elements of co-operative governance and considered as a success factor for co-operative banks. Therefore, a strategic alignment related to membership can support co-operatives to create values for their members. An adequate member value – strategy may help financial co-operatives to achieve micro-economic competitiveness and to ensure economic sustainability with its positive social effects. Thus, the conditions, contents and consequences of that kind of strategy have to be validated by theoretical research and practical application.
K.V.N. Prasad and D. Maheswara Reddy (2011) in their article, “Performance Evaluation of Public Sector Banks in India: An Application of CAMEL Model”, have necessitated to examine the performance of public sector banks that is 26 banks during the study period from 2006 to 2010. Also, their study is based on 26 ratios of the variables such as capital adequacy, asset quality, management efficiency, earnings quality and liquidity.

1.4 SCOPE OF THE STUDY

This study is mainly planned to evaluate the performance of District Central Co-operative banks in select districts of Tamil Nadu including Tirunelveli, Tuticorin and Virudhunagar Districts. The performance of these banks are analysed with regard to their deposit mobilization, lending, financial and profitability performance.

1.5 OBJECTIVES OF THE STUDY

The objectives of the study are:

- To trace the history of the growth and performance of Tirunelveli, Tuticorin and Virudhunagar District Central Co-operative Banks Limited (DCCBs) in India and Tamil Nadu.

- To analyse the deposit mobilization pattern and growth of DCCBs in select Districts of Tamil Nadu.

- To analyse the lending performance of DCCBs in select districts of Tamil Nadu.
• To analyse and compare the financial and profitability performance of select 
  DCCBs in Tamil Nadu.

• To offer suitable suggestions on the basis of the findings of the study.

1.6 OPERATIONAL DEFINITION OF CONCEPTS

1.6.1 State

The State refers to the Tamil Nadu State.

1.6.2 Nation

The Nation refers to India.

1.6.3 Banks

Banks refer to Tirunelveli, Tuticorin and Virudhunagar Districts Central Cooperative Banks Limited.

1.6.4 Year

Year means financial year commencing from 1\textsuperscript{st} April and ending with March 31\textsuperscript{st} in the next year.

1.6.5 Short–term Credit

Short–term credit is a credit made available for a period of 12 to 15 months for meeting the cost of seasonal agricultural operations such as expenditure on seeds, manure, implements and marketing.
1.6.6 Medium-term Credit

It is granted for a period of 15 months to five years and meant for consolidation of holdings, reclamation of land, digging of ordinary wells and repairing old ones, constructing drains in the fields and purchase of carts, bullocks, and the like.

1.6.7 Long-term Credit

It is granted for a period between five years and 20 years. This is extended for the purpose of redemption of land, repayment of old debts, digging of wells and reclamation of jungle lands.

1.6.8 Liquid Resources

Liquid Resources refer to the assets to be kept in cash or in easily realizable securities to meet the demands of the depositors. District Central Co-operative Banks are statutorily required to keep 3 per cent of their total deposits in the form of cash and 25 per cent in approved securities.

1.6.9 Non-Performing Assets

Credit facilities in respect of which interest or installment of principal is in arrears for more than six months.

1.6.10 Owned Funds

Owned funds means the aggregate of paid-up share capital, reserves and other funds.

1.6.11 Working Capital
The total of all items appearing on the liabilities side of the balance sheet of the bank excluding the contra items and accumulated losses, if any.

1.6.12 Operating Profit

Operating profit refers to net profit before provisions and contingencies.

1.6.13 Interest Rate Spread

Banks purchase funds at one interest rate, which represents their “cost of funds”, and they lend funds at another interest rate. The difference between the interest earned and interest paid represents their “yield on Assets”. The difference is interest rate spread.

1.6.14 Act

Act, in this study, means the Tamil Nadu Co-operative Societies Act, 1983.

1.6.15 Rules


1.7 HYPOTHESES OF THE STUDY

In this study, the following hypotheses are framed:

- There is no significant difference in the growth rates of the fixed deposits at Tirunelveli, Tuticorin and Virudhunagar DCCBs Limited in Tamil Nadu during the period under study.
There is no significant difference in the growth rates of the savings deposits at Tirunelveli, Tuticorin and Virudhunagar DCCBs Limited in Tamil Nadu during the period under study.

There is no significant difference in the growth rates of the current deposits at Tirunelveli, Tuticorin and Virudhunagar DCCBs Limited in Tamil Nadu during the period under study.

There is no significant difference in the growth rates of short-term loans at Tirunelveli, Tuticorin and Virudhunagar DCCBs Limited in Tamil Nadu during the period under study.

There is no significant difference in the growth rates of medium-term loans at Tirunelveli, Tuticorin and Virudhunagar DCCBs Limited in Tamil Nadu during the period under study.

There is no significant difference in the growth rates of long-term loans at Tirunelveli, Tuticorin and Virudhunagar DCCBs Limited in Tamil Nadu during the period under study.

There is no significant difference in the growth rates of total loans at Tirunelveli, Tuticorin and Virudhunagar DCCBs Limited in Tamil Nadu during the study period.

1.8 PERIOD OF STUDY

This study covers a period of 11 years from 1999-2000 to 2009-2010.
1.9 METHODOLOGY OF THE STUDY

The present study is primarily based on secondary data. Data relating to deposits, lending and financial and profitability performance of the banks have been collected from their annual reports, occasional papers of NABARD, brochures, press releases, RBI bulletins, journals, magazines, books and websites. Necessary information, required for the study, has also been obtained from personal interviews with officials of those banks.

1.10 PLAN OF ANALYSIS

The data are analysed by using appropriate statistical techniques such as Growth Rate, Trend Analysis, Compound Growth Rate, Co-efficient of Variations, Co-efficient of Correlation, Multiple Regression, Mann-Whitney-Wilcoxon Test, Kruskal-Wallis Test and Friedman’s test.

1.11 SCHEME OF THE REPORT

The report has been organized and presented in six chapters.

The first chapter deals with the introduction and design of the study comprising introduction, statement of the problem, review of literature, scope of the study, objectives of the study, period of the study, operational definition of the concept, methodology of the study, tools for analysis and chapter scheme.
The second chapter examines the genesis and growth of DCCBs in India and select DCCBs in Tamil Nadu. Further, the second chapter analyses branch expansion of DCCBs, growth of total deposits of DCCBs source-wise, loans and advances of DCCBs, total share capital, borrowings and reserves of DCCBs in Tamil Nadu and India.

The third chapter deals with deposit mobilization of the banks. It projects the deposit mobilization strategy, analysis of various types of deposits and their comparison with those of all District Central Co-operative Banks in Tamil Nadu.

The fourth chapter analyses loans and advances of the banks type-wise and sector-wise. Also, lending performance of these banks has been compared with the overall performance of CCBs in Tamil Nadu.

The fifth chapter analyses the components of owned funds, sources of borrowings, debt-equity ratio, factors affecting interest rate spread and profitability of the banks.

The sixth chapter presents a summary of the findings and suggestions.
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