CHAPTER - I

INTRODUCTION AND DESIGN OF THE RESEARCH
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INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION

Co-operation has been the very basis of human civilization. The inter-dependence and the mutual help among human beings are the basis of social life. It is the lesson of universal social history that man cannot live by himself and for himself alone. The spirit of association is essential for social life and human progress. Since the beginning of human society individuals have found advantage in working together and helping one another; first in foraging, then in hunting, later in agriculture and still in manufacture.

However, the innumerable forms of co-operative action in socio-economic life are the result of co-operative instinct and the innate corporate feeling among human beings. The spontaneous co-operation that flows from social feeling, coupled with the economic rationale of synergistic effect of collection action, has let to the genesis of formal co-operation. More systematic, continuous and deliberate efforts to promote the same had been attempted from time to time.
The Roots

The roots of formal co-operation can be traced to ancient times. Instances of co-operative effort could be found in the ancient India, China, Egypt and Babylonia in agriculture and crafts. In ancient India there were guilds for weavers, metal workers etc. Co-operative Societies were found among ancient Greeks in the form of artisan societies, irrigation societies, burial benefit societies and religious and cultural associations. History records the organization of first Credit and Savings Bank in China for the purpose of enabling devout Chinese to defray the expenses of their pilgrimage. Crop protection against incendiarism and theft was another incentive for some sort of co-operative organisation. In Roman era, ‘collegial’, a type of co-operative craftsmen organization came into prominence.

During the middle ages the co-operative idea was transformed from religious informal institution into a more formal business institution. The roots of formal co-operation may be traced to three sources: (1) medieval European guilds (2) mutual self-help association of early industrialization period (3) social experiments of Utopian Socialists and other co-operative leaders.

History of Co-operation

Various countries have adopted co-operation as a solution to the economic problems of people with limited means. In this regard each country is famous for a particular type of co-operative societies. United Kingdom promoted consumer movement. Denmark is famous for dairy co-operatives, while Germany is famous for credit co-operative movement. India’s prime objective is to eradicate rural indebtedness caused largely on the dependence of agriculture. The report submitted by Sir Frederick Nicholson, in 1892, Indian country saw the birth of rural co-operative societies. Subsequently in 1901, a committee headed by Sir Edward Law, which includes Sir Frederick Nicholson as one of its members recommended the introduction and promotion of co-operative credit societies. For this purpose, a separate legal enactment to regulate and confer special privileges on these co-operatives was thought of.

The Co-operative Credit Societies Act, 1904, as a Central Law, was enacted. During the years that followed, there was rapid growth of Co-operatives in India. The need to form non-credit Co-operatives also arose and several Co-operatives were sought to be formed for purposes other than credit. In that circumstance a law to protect such societies was also found necessary. As a result, “The Co-operative Societies Act, 1912, replaced the Co-operative Credit
Societies Act of 1904”. The new Act permitted the registration of non-credit societies, such as, consumer co-operatives, marketing co-operatives, production and sale societies etc.

Consequent on introduction of Montagu-Chelmsford Reforms in 1919, “Co-operation” became a state subject (provincial subject). Thus, various States in India, which were previously called provinces, enacted separate laws to regulate the functioning of co-operatives in their States. For those co-operatives, the area of which extends more than one State, a separate Act which at present is called ‘Multi State Co-operative Societies Act, 2002’ enacted by the Government of India, came into force. Thus, Andhra Pradesh Co-operative Societies Act, the Karnataka Co-operative Societies Act, etc. came into force. Though democratic member control, autonomy and independence are the essential features of co-operatives enshrined in the co-operative principles, in practice, the co-operative movement in India, has become a State sponsored movement.

The modern concept of co-operation confirms to the view that it is a special mode of doing business and a distinct type of business organization. According to Warbasse: “It is a kind of business and social action which may go on side by side with profit business and with political Government using their currencies supplementing
each of them, and expanding as its efficiency proves its justification. Co-operation is applied to the solution of a variety of economic activities. The universality of co-operation is widely acclaimed by everybody, as it is capable of being applied to a wide range of activities such as production, distribution, banking, marketing, housing, insurance, etc. Co-operation seeks to remedy the economic inequality and the evils of concentration of income and wealth and thereby prevents the exploitation of the weaker sections by the stronger. It promotes distributive justice and seeks to establish a fair balance among different factors of production and economic relation.

C.R.Fay has defined co-operative society as "an association for the purpose of joint trading originating among the weak and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of membership, share in its rewards in proportion to the degree in which they make use of their association". H.Calvert defines co-operation as "a form of organization wherein persons voluntarily associate together as

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human beings, on the basis of equality, for the promotion of economic interests of themselves".5

Prof. Paul Lambert defines, "a Co-operative society is an enterprise formed and directed by an association of users, applying within itself the rules of democracy and directly intended to serve both its owner members and the community as a whole".6

Prof. O.R.Krishnaswami defines co-operation as "a voluntary and democratic association of human beings based on the equality (of opportunity and control) and equity (of distribution) and mutuality for the promotion of their common interests as producers and consumers".7

Farmers need all kinds of finance like short term, medium term and long term to make their agricultural operations successful. Long term finance has certain distinctions over other kinds of finances. Assets creation and permanent improvements in farm could be possible only by the use of long term finance. The long term finance is required for the following purposes:

1. To make the holding economically viable
2. To provide permanent irrigation facilities
3. To liquidate the rural debts

4. To mechanise agricultural operations

5. To reclaim land

6. To make new lands fit for cultivation

7. To make viable the small and marginal farmers

8. To encourage plantation crops

Need for Land Mortgage/ Land Development Banks/PCARDB

The modern co-operative movement was officially launched only in the year 1904 with the passing of the Co-operative Credit and Thrift Societies Act, by the Central Government. The Act was revised and broad-based in 1912 and 1919. When co-operative became the State subject, different laws were passed in different States. Since then, several primary credit societies came all over India. They provided short, medium and long term credit to the farmers for productive purposes. But experiments in long term credit by village co-operative credit societies miserably failed. Defaults were common and overdues mounted up without any timely action. Societies themselves could not tap long term finance involved questions relating to title, valuation of property, assessment of repaying capacity, etc. Again, for long term investment, commercial banks were considered as an unsuitable credit agency due to composition of their funds accruing through deposits mostly payable
on demand or at short notice. The agency of indigenous bankers also dealt in money lending. But their meagre resources did not permit them to invest their funds for long periods. Besides, they charged high rates of interest and demanded principal and interest back in one instalment. They also lacked friendly and sympathetic approach needed for long term financing to cultivators.

Hence, there arose the need for special type of credit institutions generally called “Land Mortgage Banks / Primary Co-operative Agricultural Rural Development Banks”.

IMPORTANCE OF THE STUDY

The Reserve Bank of India constituted, a committee in March 1973 under the chairmanship of K. Madhava Das to undertake a thorough examination of the various aspects relating to the working of PCARDBs to identify specific problems of areas where there was need for improvement and to suggest remedial measures.

Considering the federal and unitary structure of land development banks existing in different States of India, the committee felt that both had their own merits and demerits and did not call for any immediate change.

Referring to norms of viability, the committee has observed that the norms cannot be applied uniformly to all States. Further the
norms may undergo changes from time to time. This may happen due to shrinkage of loaning business for minor irrigation works, which is one of the major items of financing by land development banks, or due to lack of positive efforts by the banks to locate alternative avenues of profitable investment. Subject to various limitations and assumptions, each primary land development bank should have minimum loan business of Rs.35 lakhs in order to function as a viable unit.

While considering the feasibility of entrusting the dispensation of long term credit to primary credit societies as agent of the land development banks, the committee felt that this will not be a workable proposition taking into consideration the possible extra strain on the primaries. But the committee emphasized the need for effective coordination between the short term and long term co-operative credit structure. The State Government should take steps to reorganize the weak or dormant primary agricultural credit societies, central co-operative banks and primary land development banks. Land development banks should make suitable modifications in their loan policies and procedures to ensure that the prospective borrower has already an access to adequate production credit from his local primary credit societies.
The committee further felt that a long term solution to the problem of coordination lies in the complete integration of two structures and for this purpose a viable society at the village level is inevitable. It has called for a change in the structure and functioning of the existing primary agricultural societies. The committee has recommended integration of the credit structure in six States viz. Assam, Himachal Pradesh, Jammu and Kashmir, Pondicherry, Tripura and West Bengal to play an effective role in meeting the credit needs of cultivators. With regard to other States, the Committee has suggested that earnest efforts should be made by the respective State Governments and the institutions to implement the recommendations in all earnestness for effective coordination.

SCOPE OF THE STUDY

This study is concerned with the borrowers of PCARDB only. It does not concern itself with either the agricultural sector or the agriculturists who are not borrowers of PCARDB. Similarly the approach to the concept of utilization is from the borrower’s point of view.

Co-operative movement in India began in 1904 and the PCARDB was established in 1929. Emphasing on rural credit the Act provided for the formation of credit societies. These societies
paved the way for the formation of co-operative banks. The PCARDB in India has grown in size and volume. A special feature of PCARDB is of its two-tier structure viz.

i) Central Agricultural Rural Development Bank (CARDB)

ii) Primary Co-operative Agricultural Rural Development Bank (PCARDB)

PCARDB made only a limited progress during the first plan period. They are functioning at Village/Tehsil level. They attract deposits from member borrowers and non-members and promote thrift and self help. The main function is to get funds from CARDBs which in turn will lend to farmers.

The scope of the study involves the lending policy of PCARDBs in Salem and Namakkal Districts. The main classification of loans is short term, medium term and long term. The bank gives preference to improvement of agricultural lands and methods of cultivation, digging of new wells, purchase of pump sets, tractors, sprinkler, agricultural machineries, land reclamation, construction of farm house and cattle shed. Diversified loans towards purchase of mini dairy buffalow, mini dairy cow, sheep rearing, conventional cow and goat.

The general public in the Select Districts for this study are making use of the service of the bank at low rate of interest fixed by
the bank. The loans are given only to members for useful purposes by mortgaging jewels and properties. This study confined to utilisation of long-term loans borrowed by the farmers of the Select Districts.

STATEMENT OF THE PROBLEM

The co-operative movement was started in India in the year 1904. Beginning of the 20th century brought cheers to Indian economy and agriculture by the starting of co-operatives. It is needless to state that India was under the British rule then. Even during the close of the 19th century from 1800-1899, there was large discontent and despair among agriculturists. The British government was not considering the genuine welfare of agriculturists but for the threat to their rule in India. Already the nationalist movement demand for independence and the stubborn shouting of ‘Quit India’ under the congress leadership all came as an eye opener to the British administration. The ryots were revolting against the British government. Agriculturists at that time were hard hit by mounting rural indebtedness, borrowings at high rate of interest from moneylenders and indigenous bankers. The woes of the agriculturists were as follows:-
1. Increased pressure on land due to lack of employment opportunity, which led to sub-division and fragmentation of land holdings. With successive sub-division cultivation was becoming uneconomical.

2. They were hit by continuous drought and failure of monsoon.

3. Money lenders and indigenous bankers charged higher rates of interest, adopted to cheating practices, such as making higher amount in the records than the actual amount lent, manipulation in accounting, getting signature in white paper, not recording part payments in the promissory note in their books of accounts. These were only a few of the many ills with which they were suffering.

4. Forced sale of the produce, immediately after harvest when there will be a glut in the market, that too at a disastrously low price for the loan given.

5. Expropriation of the land for the loan amount.

6. Absence of institutional arrangement for lending.

The main objective of the PCARDB is to grant loans to their members for the development of their land at low rate of interest. The additional capital input supplied by PCARDBs was used into the farming operations to increase the productivity of land and hence the yield per acre increased resulting in generating additional
income. As the amount of loans are generally large and as the benefit out of the improvement effected with the bank loan is spread over long period, the farmer borrowers are allowed to repay part of loans after every harvest and this cycle goes on rotating smoothly till there is a normal crop.

If a borrower is unable to repay his loan instalment it may be termed as overdue against loan. There was an increasing trend with PCARDB in their overdue position due to crop failure, drought, flood and similar other reasons. Due to high overdue, banks become not eligible for further loans and their operations suffer a set back.

Hence this study necessitated the utilization of PCARDB by borrowers in terms of credit facilities by all means.

REVIEW OF LITERATURE

A few of the previous literatures referred herein are as follows:

The advent of modern technology and spread of improved techniques and practices in farming have brought in their walk the need for sizable expansion of term credit\(^8\). Moreover, in to-day's world of specialization, credit is considered to be a way of life and it is increasingly felt that credit is essential to the maintenance of

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\(^8\) Srinivasan, V.P., 'Financing Rural Development' Papers and Proceedings of the workshop cum seminar on RAD.Ed.Waheeduddin Khan, NICd, Hyderabad, 1972, P 207.

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efficiency in the agrarian sector. According to Kuthria the demand for credit has arisen not only due to the seed fertilizer revolution but also due to the increased demand for traditional inputs as well.

Though credit is required for the purpose of modern as well as traditional inputs, the same is not available within the agrarian sector.

The agricultural sector has to depend on outside finance due to its inability to create surplus. This is evidenced by the fact that agriculture has not yet effectively crossed the boundaries of subsistence farming and employed as a business oriented system. Therefore the farmers cannot expect their capital needs to come from savings because their income from farm operation is not sufficient even to provide for the necessaries of life. It is increasingly felt that, at a subsistence level of agricultural economy, it is difficult to break out the vicious circle by traditional methods of agriculture low production, and shortage of capital.

Ramakishnan is of the view that the co-operative movement has been acknowledged as an instrument towards achieving the socio-economic transformation of Indian economy, focussing mainly on the life of the rural people living in remote villages. In the

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institutional credit delivery system of the country, the co-operative credit institutions have a place of pride. But the system has both internal and external factors causing deficiencies. The internal factors responsible for the deficiencies are: inadequate resource base, high transaction costs, lack of business diversification, mounting overdues and lack of professionalisation of management. On the external factor, control by State Governments, NABARD, RBI, supersession of Management Committees, over indulgence in public distribution system operation cause deficiencies in the system. So he suggested restructuring of the co-operative rural credit delivery system by integrating short term and long term credit structure. But this was not considered as a useful suggestion by the Agricultural Credit Review Committee headed by Khusro¹¹.

Shanmugasundaram used physical conditions of work, environment conditions of work, incentives and motivator and organizational climate as important factors to determine the quality of work life in a co-operative bank. He found that the perception of organisation climate dimensions by the supervisors and clerks were significantly corrected. But they significantly differ in their perception on two dimensions of organizational climate viz. pay and

benefits and training and developments. In the light of his findings, he made the following suggestions:

Overall organizational climate should be improved by paying special attention to the dimensions of participative management, recognition and appreciation and training and development. Organisation should attempt to satisfy certain groups of employees like younger employees, employees working at the branch offices and employees at lower categories in order to improve their perception of organizational climate of the employees, especially at the supervisory category should be involved in formulating and implementing policies and strategies of the management – the managerial and personnel policies and practice should be modified in relation to the expectations of the employees\(^\text{12}\).

According to Picard, “to respond to the needs of their members in an economic environment where international competition is intensifying, co-operatives are setting up new legal structures”.

A constant commitment to information exchange and training will enable co-operatives to develop their capital stock, their self financing capabilities, which in conjunction with access to external

sources of capital, will safeguard the future of co-operatives and ensure that their control remains in the hands of their shareholders\textsuperscript{13}.

Sivaprakasam studied the deputation of Government Officers to Co-operative Banks in Tamil Nadu. He found that frequent change in the appointment of Special Officers in a short period was a common practice. This indicated the absence of proper planning in the placement of Government Officers on deputation and lack of clear-cut policy on the part of the Government while deputing officers. As a result it was not possible for the officer deputed to concentrate more on the development activities of the Bank. A significant finding of his study was that majority of the employees of the banks did not favour the idea as they felt that the practice of deputation was against the principle of co-operation. Lack of commitment on the part of the deputationists, lack of banking knowledge among the deputationist, delay in policy and decision making were the reasons attributed by them for not favouring deputation. On this basis, he concluded that deputation of Government Officers for certain key positions in the co-operatives was conducive to their efficient functioning. So he advocated the

withdrawal of these officers in a phased manner and simultaneously takes steps to select new candidates and train them\textsuperscript{14}.

Sharma evaluated the functions of NABARD and stated that NABARD was established to provide financial support for the promotion of agricultural and small scale industries. It should be conscious of the challenges that the co-operatives have to manage and so it should take all the initiative to: reorganize the primary agricultural credit societies on the basis of viability, rehabilitate the Central Co-operative Banks, help co-operatives to tackle their overdues position, reduce interest rates on short term agricultural loans and ensure management of the co-operatives in a professional manner\textsuperscript{15}.

Bhaskar Barur says “major issues confronting the Agricultural Credit System have to be examined. Major issues like investment on agricultural credit strategies – value addition and employment generation, regional imbalance in the availability of credit, rural infrastructure, purchasing power, incomes of the rural population have to be addressed. The impact of such issues can be solved with remedies like bringing down the ceiling upto which the lower rate of interest apply, integration of self help groups and non-government


organisation in to the fold of co-operative movement, fine tuning transport system so that delivery of credit is timely”\textsuperscript{16}.

Commenting on rural credit, Srinath pointed out “it has to vibrate with potential for development. Credit is entry point for keeping the resources in an economy. Activating the rural financial market in the right manner offers tremendous scope for long term development of economy of the country. The elaborate rural credit structure that has been built in the country over the last fifty years suffers from many serious drawbacks. There is no single major solution that can resolve all of them. Wholehearted and drastic restructuring of the existing system is however necessary if it is to serve its purpose, apart from mobilization of local resources – human and capital”\textsuperscript{17}.

Murthy and Durga studied the need for restructuring institutional credit to agricultural sector for achieving equity and efficiency. They studied that the fundamental policy of the government was to pump in credit to support the sectoral growth of agricultural credit realization of the fact prompted to go for multi-agency approach.


\textsuperscript{17} Srinath, A.R., Revitalisation of credit system for rural development, The Co-operator, Vol XXXVI(12) 6, Dec 98, PP 243-245.
So they suggest that there is a need to reorganize the credit structure in such a way that it will increase equity and promotes efficiency. The reorganization would mean them achieving homogeneity of membership. This was found to be one of the reasons for the success of co-operatives in Bangladesh as well as the co-operative institutions in Western India\textsuperscript{18}.

Shukla conducted a study on Agricultural Credit flow pattern in to the rural areas with the objectives of examining the extent to which credit flows in to the rural areas and particularly into agricultural sector, finding out whether the entry of commercial banks brought about larger deposit mobilization, identifying the occupational groups within rural areas which contributed towards deposits, evaluating the role of Land Development Banks, Primary Agricultural Co-operative Societies and Commercial Banks and ascertaining whether such a pattern of intermediation jeopardized the interest and goals of rural development\textsuperscript{19}.

The role of NABARD in agricultural credit in areas likes refinance credit planning and other areas like institutional development research and development cannot be exaggerated.

\textsuperscript{18} Murthy, C.S. and Durga, C., “Restructuring Institutional Credit to agricultural sector for equity and efficiency”, Indian Co-operative Review, Vol XXXVI(2) Oct 98, P 171-177

\textsuperscript{19} Tara Shukla “Agricultural Credit Flow: Conduct or intermediation”, Financing Agriculture, Vol II (2) April-June 1998 PP 3-5.
Rural financial institutions have to give top priority in certain areas of instance, keeping in mind the changing economic scenario\textsuperscript{20}.

While examining the profile of agricultural borrowers from commercial banks, Regional Rural Banks and Co-operative Credit Societies emerge in Dakshina Kannada District of Karnataka, Bhat found that majority of the farmers who borrowed from the commercial banks and other institutions were small farmers\textsuperscript{21}.

Bapna emphasized that efficiency factor was a major input in rural banking. It is improved by reducing the rate of turnover by providing better and attractive service conditions, improving policies and systems of management, better training and motivation to employees, etc. The results indicated a declining trend of recovery and meagre profits\textsuperscript{22}.

Sethi indicates that in the busy season, there is a heavy demand for the funds while in the slack season, the demand for the bank funds is not so heavy as compared to the busy season. The most notable feature of the aggregate deposits in the post nationalization period is the percentage increase in the time deposits which constitutes the real savings of the community. He concludes

\textsuperscript{22} Bapna, M.S., Regional Rural Banks in Rajasthan, Himalaya Publishing House, Delhi 1989, P.326.
that significant growth has been recorded in all the important
directions of scheduled commercial banks business in the post
nationalization period, further a significant increase has also been
recorded in the quantum of food advances and other advances\textsuperscript{23}.

Mehrotra analysed about the role of financial institutions and
financial inputs in the development of Uttar Pradesh. This study
shows that the rate of monetary expansion (implying a certain rate of
inflation) affects the portfolio choices of the asset holders. This in
turn affects the rate of savings and hence the rate of investment,
which has consequences for the economic growth in the system.
Mehrotra suggests that banks may be more actively involved in
advancing credit to rural areas and change the criteria relating to
advancement of loans\textsuperscript{24}.

Rao reveals that the estimated marginal value productivity for
working assets is higher on big farmers than on small farmers and
higher for borrower than for non-borrowers. No significant variation
in the marginal productivity of working assets is observed among
farm types and their respective size groups. The result indicates that
degree of under-utilization of capital in operating expenses is higher
on dairy and crop farms than on general farms. A high degree of

\textsuperscript{23} Sethi, T.T., Progress of Nationalised Commercial Banks in India, Agra University, Agra,
1982, P 335.
\textsuperscript{24} Mehrotra, P.N., Role of Financial Institutions in Economic Development of Uttar Pradesh,
University of Allahabad, Allahabad, 1979, P 449.
positive correlation is found between investment in operating expenses and credit\textsuperscript{25}.

Bandyopadhyay reveals that the loan contracts, which do not explicitly mention the rate of interest, carry much higher implicit rates when calculated, than those, which do mention the rate. The existence of monopoly profit as the major explanatory factor for the high rate of interest probably negativates the view that the extension of cheap public loan in the under developed rural areas is likely to be ineffective in reducing the rural rate of interest because of the existence of high risk premium and administration costs of lending\textsuperscript{26}.

Sinha reveals that the total credit needs, only 22 percent in Bhojpur district and 13 percent in Rohtak district are met by the co-operatives, leaving a credit gap of 78 percent and 83 percent respectively. The state of affairs offers a tremendous scope for the rural bank to make brisk business and fill the credit. He suggests that an institution of this nature can make steady progress only if there is a whole hearted co-operation of state government’s extension machinery and people’s active participation\textsuperscript{27}.

\textsuperscript{26} Bandyopadhyay, A.K., Analysis of Agricultural Credit, University of Delhi, Delhi 1981, Ph.D. Thesis, P 169.
Reserve Bank of India assessed that on an average, Regional Rural Bank (RRB) had (by the end of 1978) advanced directly a total loan of Rs. 3.35 crores to about 42,000 borrowers at the rate of about Rs. 800 per account, indicating thereby preponderance of small borrowers. The overall rate of growth in income is quite impressive. The gross income per RRB increased from barely Rs. 3 lakhs in 1976 to Rs. 40 lakhs in 1978. The gap between income and expenditure of RRB is quite small signifying that RRBs are nearing the break-even point\(^{28}\).

Mishra emphasizes that big farmers need credit for increasing existing production and technological changes to be made in agriculture. Small and marginal farmers need credit for working capital and they are unaware of banking facilities and they are victims of money lenders. Landless labourers are in acute need of credit because for consumption and production\(^{29}\).

Mehta revealed that the macro level lead bank scheme has been able to lesson the regional disparities in the different districts of Rajasthan. A district wise comparison indicated that the performance of Udaipur district was the best-132 percent more than the target. In Chittorgarh district the achievement rate was only 83.3

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\(^{28}\) Reserve Bank of India, Viability of Regional Banks, Commerce, August 1981, P 232.

percent. The yearly achievement rate regarding the amount of finance provided shows a continuously increasing trend\textsuperscript{30}.

Mohanan revealed that the operation of Small Farmers Development Agency (SFDA) in Cannanore district has been burdened with certain inconsistencies. Practically, all activities were super imposed on farmers, neglecting their own willingness to nurture such ventures. There is strong and positive correlation between total income and many other variables, such as irrigated area, food crop income, dairy income, non-farm income and value of non-farm asset in respect of both minor irrigation works group and non-beneficiary group. In terms of the criteria of viability set forth, a greater proportion of beneficiary groups become viable. He suggested that amount of loans advanced may be based on realistic estimates of investment and production credit needs for different farming classes depending upon suitable production plans and SFDA may provide an effective organic link between banks and small farmers\textsuperscript{31}.

Desai revealed that there was no institutional agency in the area to cater the needs of farmers till 1958 and the procedures adopted by the banks for giving advances to various sector were not


suited for the purpose of agricultural finance. Hardly any farmer has
taken benefit of the services rendered by commercial banks; but
co-operative played a dominant role. He suggested that commercial
banks might provide credit to potentially viable cultivators and
might keep a close watch on utilization of production and
developmental credit\textsuperscript{32}.

Kumar suggested the need of fair administration and
strengthening the coordination between government agencies and
financial agencies and for small farmers, credit may be accompanied
by other complementary extension services ensuring fair prices for
farm output and facilitating marketing of agricultural commodities
etc\textsuperscript{33}.

**OBJECTIVES OF THE STUDY**

The objectives of this study are as follows in line with those
mentioned in the statement of the problem.

i) To study the progress of PCARDBs in India, Tamil Nadu
   and the Select Districts.

ii) To study the utilization of PCARDBs in Salem and
    Namakkal Districts by borrowers.

\textsuperscript{32} Desai, D.D., Banking Finance for Agricultural Production and Marketing, University of

\textsuperscript{33} Kumar Keswal, Institutional Financing of Agriculture in Nainital District with special
iii) To study the relationship of the personal and socio-economic factors of the borrowers with their utilization of respective PCARDBs.

iv) To identify the factors influencing utilization of PCARDBs by borrowers.

v) To assess the defaulters and non-defaulters (regular) in the loan repayment.

vi) To offer suggestions for achieving a higher degree of utilization of PCARDBs by borrowers.

OPERATIONAL DEFINITIONS OF THE CONCEPT

i) **Utilisation**: The dictionary meaning of the term ‘utilisation’ is ‘to make use of’, ‘to put to use’ or ‘to make useful’. Generally this term is used to denote making use of some goods, services or facilities. In this study, the term ‘utilisation’ has been used in connection with the use of PCARDB by their respective borrowers in getting the credit facilities. This study has measured the borrowers through the amount of loans borrowed, among other things.

ii. **PCARDB**: A special feature of PCARDB is its two tier structure namely PCARDB and CARDB. The PCARDB are functioning at village level by providing loans to farmers as medium term and long
term. In this study these banks are referred as Primary Co-operative Agricultural Rural Development Bank.

iii. **Borrowers:** This term is used to mean the members who have borrowed loan from PCARDB for agricultural purpose.

iv. **Personal Factors:** It means the socio-economic characteristics of the members such as sex, caste, income, education etc.

v. **Institutional Factors:** The various aspects of relationship between the borrower and PCARDB such as shareholding and period of membership.

vi. **Member Identification:** The member identifying himself with the bank. This is reflected in his desire to make efforts for promoting the interest of the bank and his willingness to act together with other members of the bank.

vii. **Borrower Satisfaction:** The satisfaction of the borrower with the services, working and management of the bank. The degree of satisfaction is reflected in his opinion on these aspects of the bank.

viii. **Socio-economic Status:** Borrower status in the community as measured by his caste, land holding, formal education, value of properties owned, annual income and his association with other institutions.
ix. **Occupational Status:** This term has been used in this study to mean different status levels among borrowers in terms of small, medium and large farmers category.

**GEOGRAPHICAL COVERAGE**

Salem District is one of the prominent and fast developing Districts in Tamil Nadu in the field of business and famous for Salem Steel Plant. It is also one of the most religious and educational centre in the State, where people of different religion, caste and creed are living.

Namakkal District, is a newly formed District in the year 1996 and Namakkal has become the District head quarter. Its unique feature is transport body building and poultry farming. Due to the importance in the history of Tamil Nadu, the researcher selected his study area as Salem and Namakkal Districts.

**STUDY PERIOD**

Data relating to ten years from 1994-1995 to 2003-2004 have been collected from PCARDBs. These ten years happened to be the last full ten years for which data were available at the time of data collection.
LIMITATIONS OF THE STUDY

1. The present study covers a period of ten years from the point of view of PCARDB in Salem and Namakkal Districts only.

2. The research has been conducted on long term loans only.

3. This study is made on the part of the borrowers about their utilization of PCARDBs.

4. The hypotheses framed and tested being related to the Select Districts only and not applicable to other Districts.

SAMPLING SCHEME:

The sample respondents have been selected from the Districts of Salem and Namakkal. The following steps are adopted for sampling.

i) Total number of villages and number of villages covered by PCARDBs were identified.

ii) Based on the above step, total number of members and number of regular borrowers were classified.

iii) For this study, a total of 300 respondents were drawn from Salem and Namakkal Districts by division-wise and branch-wise by adopting multistage sampling and by using stratified random sampling at different stages.
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<th>Block</th>
<th>Total No. of Villages</th>
<th>No. of Villages covered by PCARDB</th>
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<tr>
<td><strong>I. Salem District</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attur</td>
<td>139</td>
<td>133</td>
</tr>
<tr>
<td>Kadayampatty</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Mettur</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Omalur</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Salem</td>
<td>273</td>
<td>241</td>
</tr>
<tr>
<td>Sankari</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>Total (A)</td>
<td>607</td>
<td>569</td>
</tr>
<tr>
<td><strong>II. Namakkal District</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mohanur</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Namakkal</td>
<td>104</td>
<td>95</td>
</tr>
<tr>
<td>Namagiripet</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Rasipuram</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Tiruchengode</td>
<td>107</td>
<td>104</td>
</tr>
<tr>
<td>Vennandur</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Velur</td>
<td>49</td>
<td>49</td>
</tr>
<tr>
<td>Total (B)</td>
<td>416</td>
<td>404</td>
</tr>
<tr>
<td><strong>Overall total A+B</strong></td>
<td>1023</td>
<td>973</td>
</tr>
</tbody>
</table>

In order to study the utilization of credit facilities of PCARDB, the total number of members and regular borrowers were drawn from the records of PACRDB as follows:
### TABLE 1.2
TOTAL NO. OF MEMBERS AND REGULAR BORROWERS

<table>
<thead>
<tr>
<th>I. Salem District</th>
<th>Total no. of Members</th>
<th>No. of Regular borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attur</td>
<td>19492</td>
<td>400</td>
</tr>
<tr>
<td>Kadayampatty</td>
<td>13706</td>
<td>310</td>
</tr>
<tr>
<td>Mettur</td>
<td>14220</td>
<td>265</td>
</tr>
<tr>
<td>Omalur</td>
<td>36907</td>
<td>440</td>
</tr>
<tr>
<td>Salem</td>
<td>17242</td>
<td>375</td>
</tr>
<tr>
<td>Sankari</td>
<td>26312</td>
<td>240</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>127879</strong></td>
<td><strong>2030</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>II. Namakkal District</th>
<th>Total no. of Members</th>
<th>No. of Regular borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mohanur</td>
<td>3611</td>
<td>75</td>
</tr>
<tr>
<td>Namakkal</td>
<td>5367</td>
<td>115</td>
</tr>
<tr>
<td>Namagiripet</td>
<td>7953</td>
<td>185</td>
</tr>
<tr>
<td>Rasipuram</td>
<td>12873</td>
<td>195</td>
</tr>
<tr>
<td>Tiruchengodue</td>
<td>22027</td>
<td>200</td>
</tr>
<tr>
<td>Vennandur</td>
<td>6661</td>
<td>110</td>
</tr>
<tr>
<td>Velur</td>
<td>4980</td>
<td>170</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63472</strong></td>
<td><strong>1050</strong></td>
</tr>
</tbody>
</table>

From the above table we infer that out of total number of members, 1.61% are regular borrowers from the bank on an average in the Select Districts for this study.

A multi stage sampling technique has been followed. First of all, total number of members and number of regular borrowers were
collected. Based on this, sample respondents were selected from each block consisting of various branches.

**TABLE 1.3**
SAMPLE BORROWERS FROM EACH BLOCK

<table>
<thead>
<tr>
<th>Block</th>
<th>No. of Regular Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Salem District</strong></td>
<td></td>
</tr>
<tr>
<td>Attur</td>
<td>40</td>
</tr>
<tr>
<td>Kadayampatty</td>
<td>30</td>
</tr>
<tr>
<td>Mettur</td>
<td>25</td>
</tr>
<tr>
<td>Omalur</td>
<td>45</td>
</tr>
<tr>
<td>Salem</td>
<td>35</td>
</tr>
<tr>
<td>Sankari</td>
<td>25</td>
</tr>
<tr>
<td><strong>II. Namakkal District</strong></td>
<td></td>
</tr>
<tr>
<td>Mohanur</td>
<td>6</td>
</tr>
<tr>
<td>Namakkal</td>
<td>10</td>
</tr>
<tr>
<td>Namagiripet</td>
<td>18</td>
</tr>
<tr>
<td>Rasipuram</td>
<td>19</td>
</tr>
<tr>
<td>Tiruchengode</td>
<td>20</td>
</tr>
<tr>
<td>Vennandur</td>
<td>10</td>
</tr>
<tr>
<td>Velur</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>300</strong></td>
</tr>
</tbody>
</table>

In the next stage, respondents were selected from branch of PCARDB without any omission. The branches and sample borrowers were listed as follows:
<table>
<thead>
<tr>
<th></th>
<th>Respondents by Branch-wise</th>
<th>Total Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Salem District:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attur:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gangavalli</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>Thalaivasal</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>P.N.Palayam</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Kadayampatty</td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>Mettur</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mecheri</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Nangavalli</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Kolathur</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td>Omalur</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Omalur</td>
<td>25</td>
<td>45</td>
</tr>
<tr>
<td>Tharamangalam</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Salem</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ayothiyapatanam</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Panamarathupatty</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Valapadi</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Veerapandy</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Yercaud</td>
<td>3</td>
<td>35</td>
</tr>
<tr>
<td>Sankari</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sankari</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Konganapuram</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Idapadi</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Macdonalds Choultry</td>
<td>6</td>
<td>25</td>
</tr>
</tbody>
</table>
The above borrowers list were selected at random and each of them are contacted in person to fill the questionnaire.
FIELDWORK AND DATA COLLECTION

The researcher carried on the fieldwork during January 2004 to December 2004 at different stages. First the lists of PCARDBs were collected from two offices of Salem and Namakkal Districts. Using these lists, the borrowers were sampled. All the sample borrowers were interviewed and other details were collected from the records of the PCARDBs through personal discussion, annual reports etc. In short, for this study, primary and secondary data were collected, processed, analysed and the results were given.

HYPOTHESES

Based on the objectives and questionnaire framed, the following hypotheses were constructed and tested.

1. There is no significant relationship between age, sex education, amount of loan received, type of family and satisfaction regarding sanction of loan.

2. There is no significant relationship between age, sex, size of family, type of farmer of respondents and amount of loan received.

3. There is no significant effect between independent variables and dependent variables on percentage repayment of loan.

4. There is no significant effect between loan amount and percentage of loan amount repaid by medium farmers.
5. There is no significant variation in the average number of labourers employed by small, medium and large farmers, before and after credit utilisation.

6. There is no significant difference in the average agricultural income earned by small, medium and large farmers before and after credit utilisation.

7. There is no significant variation in the average asset value of small and medium farmers before and after credit utilisation.

8. There is no significant increase in the average business income of small farmers after credit utilisation.

9. There is no significant increase in the average amount of savings of small and medium farmers after credit utilisation.

10. There is no significant increase in the average amount of debts of small farmers after credit utilisation.

11. Loan amount is the maximum discriminating variable between non-defaulter and defaulter.

12. Type of borrower and purpose of loan between non-defaulter and defaulter.

13. There is no significant relationship between type of borrower and type of farmer between non-defaulter and defaulter.

14. There is no significant relationship between amount of overdue and type of farmer between non-defaulter and defaulter.
15. There is no significant difference in the average amount of overdues by farmers who have received loans for different purposes.

16. There is no significant difference in the average amount of overdues among borrowers from different banks.

METHODOLOGY AND TOOLS OF ANALYSIS

Initially percentages, means and standard deviations were calculated. For selected independent variables like age, sex, education, family size and annual income with dependent variables chi-square analysis have been performed.

For the dependent variables like amount of loan received, percentage of loan amount utilized for the purpose and amount of repayment or percentage of loan amount repaid, t-test has been used and ANOVA has been applied by taking age, sex, education, family size, distance to PCARDBs, cultivated area, period of membership as independent variables. Also paired t-test had been used to find whether there is significant difference between before and after getting credit in their average agricultural income, business income, assets etc.

Multiple regression analysis has been used to study

i) the effect of independent variables on percentage of loan amount repaid.

ii) the effect of independent variables on the percentage of loan amount utilized
with independent variables like age, sex, education, family size, family income, agricultural income, business income, household expenses, duration of membership, distance to PCARDBs etc. That is to see whether these independent variables affect the utilization of credit and repayment of loan significantly or not.

In order to identify which variables are highly discriminating between defaulter and non-defaulter, discriminating function analysis has been applied.

SCHEME OF CHAPTERISATION

This research study has been classified into five chapters:-

The first chapter covers introduction, importance, scope, statement of the problem, review of literature, objectives of the study, geographical coverage, study period, limitations of the study, sampling scheme, fieldwork and data collection, hypotheses, methodology and tools of analysis and scheme of chapterisation.

The second chapter covers with role of PCARDBs in India and Tamil Nadu in the development of rural credit for agriculture.

The third chapter briefs the profile of Salem and Namakkal for this study and performance of PCARDBs in Select Districts.

The fourth chapter deals with the analysis and interpretation of data relating to utilization by borrowers of PCARDBs.

The fifth chapter presents with summary of findings, suggestions and conclusion of this research study.