CHAPTER  -  I

Why the study

Basic concepts defined

Objectives of the study

Review of literature

Hypothesis

Limitations

Methodology

Sampling

Analytical tools

Scope of the study

Chapterisation
CHAPTER - 1

INTRODUCTION

"In any programme of social and economic development of an underdeveloped economy, co-operation has a very valuable role to play". "Co-operation represents institutionalisation of the principle and impulse of mutual aid. It has the merit of combining freedom and opportunity for the small man with the benefit of large scale management and organisation. Co-operation is, therefore, eminently suited to bring about the desired socio-economic changes in the context of the existing conditions in the country. There is no other instrument as potentially powerful and full of social purpose as the co-operative movement". 1

"Co-operation is derived from the Latin word "Co-operasi. "co" means with and operasi means to work. In other words, co-operation means working together with others for a common purpose. Thus, there may be a team of cricketers or foot-ball players, where the members join to play the game; or there may be a friendly association or club where persons

come together to do some work together in order to achieve specific purpose, which may be rendering of social service or going on a picnic or meeting together, to have social acquaintances.

Co-operative movement in India is one of the largest voluntary movements in the world dedicated to the wellbeing of the people at large. The co-operative movement frees its members from users and profiteers. It was introduced in India at the beginning of the present century for the benefit of people having small means and common economic needs. It was visualised as an essential instrument for activating the aspirations of the people in order to establish socio-economic equality.

WHY THE STUDY?

The Salem Central Co-operative Bank was the first started bank among all other Central Co-operative Banks, in the whole of Madras Presidency. The History of Salem Central Co-operative Bank abounds many startling facts and it bespeaks the earliest vision of some of the patriots - Salemites who were considered to be co-operators per excellence. The galaxy of such co-operators include the late lamented last Governor General Sir. C. Rajagopalachariar, Precursors of Co-operative movement in our country and particularly in this district.
The Salem Central Co-operative Bank has been successful in mobilising the greatest quantum of deposits among all other district Central Co-operative Banks in the State for many years continuously. The achievement is tremendous, it calls for research so that the results of the research can be extensively applied for the benefit of all other Central Co-operative Banks. This study has been necessitated since no indepth research and analysis has ever been made pertaining to the gigantic development of SCCB compared with the development of other DCCBs.

The Co-operative credit structure has three tier built-in institutional set up in the State of Tamil Nadu. They are, the primary co-operative societies, the District Central Co-operative Bank and the State level co-operative apex body. The present study focusses its attention on SCCB with special reference to its overdues and recoveries position.

The efficiency of the DCCBs varies from district to district. This study unit has been acclaimed as the most efficient one by the Registrar of Co-operative Societies by taking into account the total functioning of all the district banks in the State. Again the study unit has come out first in the implementation of 20 point programme followed by the new 20 point programme.
BASIC CONCEPTS DEFINED

CO-OPERATIVE BANKING:

In the words of Wolff, co-operative banking is, "an agency, which is in a position to deal with the small man on his own terms accepting the security he has and without drawing on the protection of the rich. That agency must not be a channel for pouring charity or subsidising the small man out of the public funds; instead the material help must be backed by moral improvement and strengthening the fibre".

Devine defines co-operative banks as "a mutual society formed, composed and governed by working people themselves for encouraging regular saving and granting small loans on easy terms of interest and payment.

N. Baron has laid down five main principles on which the work of a co-operative bank is based and they are:

1. Co-operative character of activities and trait of mutual aid of credits granted.
2. Catering for collective organisation and their members.
3. Restriction on the number of individual votes.
4. Aiming at high rates on deposits and low rates on lending.
5. Limitation of dividends out of profit and bonus to deposits and borrowers or grants to cultural or co-operative endeavours.

Sec.2 clause CCC (bii) of the RBI Act 1934 defines that "a co-operative bank includes a state co-operative bank, a central co-operative bank and primary co-operative bank".

STATE CO-OPERATIVE BANK:

Sec.2 (f) of RBI Act 1934 says that state co-operative bank means "the principal co-operative society in a State, the primary object of which is the financing other co-operative societies in the State".

CENTRAL CO-OPERATIVE BANK:

Sec.2 clause b(i) of the RBI Act 1934 defines a central co-operative bank as follows:

The principal co-operative society in a district the primary object of which is the financing other co-operative
societies in that district.

PRIMARY CO-OPERATIVE BANKS:

Sec.2 c(iii) of RBI Act 1934 defines a primary co-operative bank as a co-operative society other than primary agricultural credit society.

i) The primary object or principal business of which is the transaction of banking business.

ii) The paid-up share capital and Reserves of which are not less than one lakh. of rupees; and

iii) The by-laws of which do not permit admission of any other co-operative society as a member.

OBJECTIVES OF THE STUDY:

The following are the main objectives of the present study.

i) To review the various types of credit extended by SDCCB with special reference to short term and medium term and long term loans.

ii) To assess the working of the SDCCB.
iii) To analyse and evaluate the specific aspects of overdues of the SDCCB and to identify the underlying factors for such overdues.

iv) To examine those policies of SDCCBs which relate to the issue and collection of loans and their impact on the profitability.

v) To suggest remedial measures for overcoming the problem of overdues and recoveries in SDCCBs.

REVIEW OF LITERATURE:

A number of studies have already been made pertaining to the problem of overdues and recoveries and general working of the co-operative banks. A few of them which the researcher had come across are listed below.

Overdue discipline is the concern of the management and there is the role both of the banker and the borrower. Mr. C.R. Reddy² has made an attempt to analyse the contributory factors to overdues with the following explicit objectives:

(i) to find out the factors influencing overdues in co-operative banking, and (ii) to suggest measures for lessening overdues. To examine these objectives, the researcher has selected the Anantapur District Central Co-operative Bank. It is one of the

---

drought prone districts of Rayalaseema region. The required data for the study have been collected from the headquarters of the Bank for a period of 10 years from 1971-72 to 1980-81. To study the factors influencing overdues, the factors other than managerial skill, supervision, and linking of credit with marketing have been considered. The magnitude of fluctuations in lending and recovery is examined by using the co-efficient of variation technique. For knowing the relationship between Lending and Collecting, the Co-efficient of Determination and testing it whether or not significant, the t-test was employed. The main findings are: (i) the association between the lending and the recovery is not satisfactory due to poor management, (ii) poor effort on the part of the management in recovering loans which has resulted in less lending. As a consequence, the credit structure of co-operative banking stands diluted, and (iii) the action taken against the defaulters is not timely and regressive.

But in this article, the main contributing factor namely the socio-economic characteristics of borrowers influencing overdues has not been considered.

A. Singh and J.B. Singh\(^3\) have examined the role of Co-operative banks in providing agricultural credit in their

research paper, published in 1979. In this respect, they have taken into account all types of co-operative credit institutions to study the objectives given below:

(i) to analyse the extent and trend of co-operative agricultural credit, and (ii) to make recommendations and suggestions. The study has covered a period of 12 years from 1966 to 1977. The data have been collected only from the secondary sources which include Reserve Bank of India Bulletin, Co-operative News Digest, Reports of the Committee Land Development Bank and the Proceedings of the International Seminar on Banking and Development. The technique of 'Percentage Analysis' has been employed to study the trend of agricultural credit. The findings of the paper are: (i) credit institutions are not functioning efficiently, and (ii) the deployment of agricultural credit is far from satisfactory due to the indifferent approach of the co-operatives. They have concluded that an unequal and untimely distribution of agricultural credit has been a striking feature in Indian Co-operatives.

A study was carried out by Dr. N. Thanulingam and P. Jawaharlal in Primary Agriculture Credit Societies at Sivaganga

Block of Pasumpon Muthuramalingam District was concerned with enquiry into reasons and extent of overdues in Primary Agricultural Credit Societies in the year 1986.

This block had 12 Primary Agricultural Credit Societies, one branch of the Ramanathapuram Co-operative Central Bank, one Land Development Bank and one Branch of State Land Development Bank. Borrowers of five Primary Agricultural Credit Societies (Idayamelur, Paiyurpillaivayal, Keelakandani, Muthupatty and Pannalayur) were selected for the study.

Of the five sample societies, Paiyurpillaivayal and Keelakandani are managed by elected Board and the other three, Idayamelur, Muthupatty and Panaiyur are under the direct control of the Department. All the five societies have Consumer's Stores attached to them buy only three of the five societies have trained secretaries.

It reveals that, the loan overdues in sample societies were 69.06% in 1981-82, 67.75% in 1982-83 and 71.99% in 1983-84. The slight decrease in the percentage of overdues during 1982-83 was due to the waiving of loan overdues and interest there on by the Government of Tamil Nadu. The extent and rate of increase
of overdues to outstanding in Sivaganga Block is abnormal and it strangles the Co-operative Credit Channel in this Block. Here, in 1981-82 the percentage of overdues was 75.13, in 1982-83, it was 78.19 and in 1983-84 it reached the all time high level of 81.63%.

An analogy of the percentage of overdues of Primary Agriculture Co-operative Societies (PACS) of Tamil Nadu with that of the sample Societies and Sivaganga Block would show a glaring reverse trend in the latter.


Their study was done on the following objectives, they are to isolate the reasons for irregular and/or non-repayment of loans and to visualize the attitudes of the sample borrowers towards repayment, besides obtaining suggestions of the farmers for effecting better recovery of loans.

It was found that 100 percent cultivated lands were in Minor irrigation and high yielding varieties. From out of 74 villages, four villages and 80 borrowers were selected at random representing 20 each from marginal (0-1 hectares) small (1-2 hectares) medium (2-4 hectares) and large (above 4 hectares) farmers.

A pretested questionnaire prepared for this purpose was used to collect the data, which pertains to 1983-84 agricultural year.

It was observed that the repayment period is seasonal in nature of Kharif and Rabi loans, 31st March and 31st May are disbursement and due date of loans. It is fixed by co-operative department.

It can also be observed that 75 per cent of Marginal and Medium farmers and 50 and 40 per cent of the farmers were defaulters in the Kharif and Rabi loans.

The suggestions for improving recovery of loans indicated that most of the marginal and Medium farmers needed proper supervision and persuasion by the bank officials.
In 1989, S.R. Bhohale and S.D. Dangat conducted a study about the repayment and overdues of medium-terms loans of co-operative societies in Kolhapur District of Maharashtra.

Their objectives were to study the extent of Medium-term loan borrowings of farmers from the Co-operative Societies to study the repayment position of the loan borrowed, and to ascertain the factors responsible for overdues.

It was found that the borrowers were grouped into small, medium and big farmers. The borrowers having 1 hectare, 1 to 2 hectares and above 2 hectares were categorised as small, medium and big farmers respectively.

It reveals that the amount of overdues of Rs.742, Rs.2,314, and Rs.3,327 of Small Medium and Large farmers increased averagely per family. The percentage of overdues to total outstanding amount was 59.18. They are 56, 55 and 64 per cent, of small, medium and large farmers.

It further reveals that per hectare the amount of overdues was Rs.1,043. The average per hectare of overdues was Rs.964, Rs.1,464 and Rs.880 in small, medium and large farmers. The proportion of overdues decreased to 61 per cent in 1982-83 and 39 percentage in 1983-84.

A study was made by Ajit Dange\textsuperscript{7} who found that the agricultural finance and its problems of overdues during 1985.

It was found that there were 12 million defaulting members accounting for agricultural credit societies in the country. The overdues of Primary Agricultural Co-operatives have increased from Rs.322.40 crores in 1970-71 to Rs.809.62 crores in 1977-78, accounting for 43.3 per cent and 45 per cent of the demand and outstanding loan respectively, at the end of June, 1978. The overdues rose to Rs.908 crores at the end of June, 1979, from 45.2 per cent of total outstanding.

It was found that the timely repayment of agricultural loans was essential to maintain the smooth flow of credit for the

Rural Development by the banks. Failure to repay loans occurred due to crop failure and natural calamities.

It was suggested that separate recovery cells must be started by co-operative and commercial banks for continuous and effective loan supervision.

As stated above, there have been innumerable studies on overdues and recoveries. One study has taken into account the extent and reasons of overdues, and neglected the recovery aspect. Another study has taken into account not only the extent of overdues but also the steps taken for recovery. But the data for the present study, have been collected only from the secondary sources. Yet another study has taken into account both the aspects of overdues and recoveries. But the study neglected the main contributing factors, namely the socio-economic characteristics of borrowers influencing overdues.

The present study analyses the various types of credit extended by SDCCBs, and the underlying factors for such overdues. It also suggests remedial measures giving due weightage to the socio-economic characteristics of the borrowers.
HYPOTHESIS:

The present study is based on the formulation of the following hypothesis. The validity of the same has been tested with the available data through appropriate analysis.

1. The bank has made a marginal progress and the growth has been meagre.
2. There is a positive relationship between the working capital and the loans issued by the co-operatives.
3. The short-term credit deployment of the bank is higher than the medium-term and long-term credit.
4. The amount of overdues of the co-operatives have been influenced by the socio-economic characteristics of the borrowers and the political situations prevailing.

LIMITATIONS:

1. The study has taken into account only few aspects such as the mounting position of overdues and recoveries at the district level, that too of SDCCB.
2. A comparative study of the performance with central co-operative banks in other districts as well as all India
level has not been made due to scarce time as well as resources at the disposal of the researcher.

3. The period of the study is confined to relatively a shorter period of 10 years i.e., 1978-79 to 1988-89. In the present study, the year refers to the co-operative year which commences on 1st July every year and ends on 30th June of the next calendar year.

4. Most of the beneficiaries are illiterates and do not maintain proper records. They are able to give only approximate figures from their poor memory.

5. It is felt that the study could have been more enlightening had all the DCCB in Tamil Nadu been covered as a whole.

METHODOLOGY:

The data pertaining to the present study have been collected both from the primary and secondary sources.

The primary data have been collected by conducting a survey. A structured interview schedule is used for the defaulters of Primary Agricultural Co-operative Banks.

Pre testing has also been done before collecting the
data from the respondents.

The secondary data have been collected from the publications as well as from annual reports, ledgers, records and bulletins of the following institutions.


SAMPLING

1. SELECTION OF A SAMPLE OF PRIMARY AGRICULTURAL CO-OPERATIVE BANKS OF SDCCBs

To study the overdue position 38 PACB in the district of Salem were taken out of 380 as sample, which formed 10% of the total. The sample was taken on the basis of proportional stratified random sampling method. The whole area of operation
of the bank was stratified into 10 divisions. During the year 1988-89 there were 380 PACB in these 10 divisions and this sample of 10% of the PACB from each division was drawn on a random basis as given in Table 1.1.

### TABLE 1.1

**DISTRIBUTION OF THE SAMPLE PACB**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Divisions</th>
<th>Number of PACBs</th>
<th>Random sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mettur</td>
<td>26</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Omalur</td>
<td>35</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Tiruchengode</td>
<td>36</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Sankari</td>
<td>37</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Velur</td>
<td>41</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>Namakkal</td>
<td>50</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>Rasipuram</td>
<td>38</td>
<td>4</td>
</tr>
<tr>
<td>8</td>
<td>Attur</td>
<td>44</td>
<td>4</td>
</tr>
<tr>
<td>9</td>
<td>Valapadi</td>
<td>26</td>
<td>3</td>
</tr>
<tr>
<td>10</td>
<td>Salem</td>
<td>47</td>
<td>5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>380</strong></td>
<td><strong>38</strong></td>
</tr>
</tbody>
</table>

**SOURCE:** Compiled from the records of the SDCCB.
2. SELECTION OF A SAMPLE OF DEFAULTERS OF THE PRIMARY AGRICULTURAL CO-OPERATIVE BANKS.

To study the socio-economic factors influencing the repayment of overdues by the borrowers of the selected 38 PACB, 100 defaulters were taken as sample, which formed 4.15% of the total population of 2408 defaulters during the year 1988-89. And this sample of 4.15% of the defaulters from each selected society was drawn on a random basis.

ANALYTICAL TOOLS:

Statistical techniques like percentages correlation have been adequately employed to highlight the trends of overdues.

In addition Graphic Methods like Simple and Multiple Bar Diagrams have also been used to give a diagramatic representation to the study.

Collection of loans by SDCCBs is the dependent variable of the study. The independent variables of the study are literacy, size of land holdings, age, community.

SCOPE OF THE STUDY:

The recovery of loans is undertaken at the different
levels such as primaries, District Central Co-operative Bank and State Co-operative Bank. In this present study collection of loans at the district central co-operative bank level has been studied from different angles.

CHAPTERISATION:

The first chapter deals with the introduction, as well as methodology of the study covering objectives, scope, sampling, area, tools used etc.

The second chapter deals with role and significance of co-operation in India.

The importance of district CCB, and also a brief account of the history, growth and working of SDCCB are dealt in the third chapter.

The fourth chapter focusses on the extent of overdues and the problem of recoveries from different angles.

The analysis and interpretation of the sample defaulters' views are highlighted in the fifth chapter.
The last chapter contains the summary of the findings and the suggestions offered for improving the collection of overdues by the SDCCB.