CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION

"The Co-operative Banking System is an integrated one and, because of its three-tier structure, has been enabled to extend credit to agriculturists, artisans and small men in general. The three-tier system also allows a rationalised flow of resources from the metropolitan centres to the villages and combines this with fairly low costs of operations."

Dr. D.R. Gadgil

The introduction of co-operative enterprises in our rural society effectively set in motion the socio-economic upliftment of the weaker sections particularly since 1947. As a catalyst, the co-operatives organised weaker segments in rural areas and acted as a common parlance for ensuring socio-economic development of rural masses. They facilitated their collective social action and created awareness about their deprived condition. Co-operative education further improved the process of their general awakening. The generated awareness minimised the terms of illiteracy, ignorance and unawareness in their social life. They facilitate democratic participation of members irrespective of caste, class and creed and ensure the principle of democracy by one vote for each individual. They relieved the weaker segments from the clutches of middlemen, exploiters and parasites in the
rural segments. On account of their membership, they can develop spirit of service through common action and other social qualities like fellow-feeling, integrity, social solidarity, peaceful co-existence and so on. The employment generated through co-operatives not only promoted their economic status in the family but also improved the overall income of the family and their standard of living. Rural Industrialisation seen through co-operation generated local self-employment for men and women. Through the process of transmission of morality to members, they inculcated repayment ethics in the minds of their members. Democratic values like equality and opportunity, leads to consciousness among the participating members in the co-operative organisation which is essential for the development of the country. In view of these developments, the rural societies experience transition from traditional to modern social order leading ultimately to the integrated development of all weaker sections who were once subjected to deprivation and alienation.

Co-operation is both a means to better living and a system for moral upliftment. The Joint Family System, Panchayats, Chit Funds and Nidhis are instances on the point which show that our country provides a natural soil for the development of co-operative institutions. In its modern form, the co-operative movement was developed at the initiation of the Government of India in 1904 with a view to provide credit facilities to the rural people. The co-operative banking structure is federal in character. At the village level, there is a primary co-operative society upon which
the whole phenomenon of co-operative credit is based. These societies are federated at the district level into a central society called Central Co-operative Bank. In the early years of co-operative banking, the village primary co-operative credit societies were able to find funds for themselves and also from the grants sanctioned by the Government. But when the movement grew up more funds were required for financing the primary co-operative credit societies. Hence higher banking institutions like District Central Co-operative Banks at the district level and State Co-operative Banks at the state level were started. The State Co-operative Bank, called the apex bank, is formed by federating the district central co-operatives banks.

The central co-operative banks occupy a position of cardinal importance in the co-operative credit structure. They are responsible for planning, organising, directing and control of primary co-operative credit societies in the districts. They exist mainly for serving the affiliated primary co-operative credit societies. They have been organised since the passing of the Co-operative Societies Act of 1912 to finance the primary societies and to act as their balancing centres. They work very effectively for the success of member societies. They act as liaison between primary co-operative credit societies and state co-operative bank. As a unit at the district level, the success and efficiency of the co-operative credit system maintained by the central co-operative banks, decides the extent of the performance of the co-operative lending structure. It may be still said
that co-operative banking yet remains the best answer or the most satisfactory institution for providing finance to borrowers in the rural areas of our country. An attempt is made in this study to review the working of The Salem District Central Co-operative Bank Limited during the years between 1981-82 and 1990-91.

2 STATEMENTS OF THE PROBLEM

In India, in 1970, it was observed that about 70% of the working population in the country was engaged in the agricultural sector whereas the contribution of that sector to national income was about 45%\(^2\). Agricultural credit can be classified as producer's credit - taken by the agriculturists for the purpose of carrying on their productive activities with a view to earning more income and consumers credit - taken with a view to satisfying immediate needs for goods and services before being able to make payment for such goods and services. Lending agencies prefer producer's credit to consumer's credit. Credit cannot be obtained by the agriculturists from the usual market sources. In villages, the money-lenders grant loans at the abnormal rate of interest to the agriculturists. They do not maintain proper accounts for the receipts or repayments by borrowers. Loans from money-lenders entail a high rate of interest and small farmers cannot afford to pay it. They demand advance interest or deduct the interest from the loans given to the farmers.
They manipulate the accounts to the loans given to the dis-
advantage of the debtors at the time of settlement. Private
money-lenders deliberately encourage default for taking over
the land which is the usual security.

Commercial banks do not consider agricultural finance
as a part of their ordinary business because they were not
organised to supply rural long term credit or short term
credit needs. However they indirectly finance agriculture
to a great extent through merchants and dealers which is
inadequate to the borrowers. They have a prescribed scale
of financing agricultural operations. This scale should
cover the out of pocket expenses of the farmers. In practice,
they fix a scale of finance which is inadequate. Commercial
banks in towns donot possess expert knowledge to assess the
value of the security offered by the farmers in the form
of growing crops and livestock. The periods for which the
long term loans are required by the farmers are usually longer
than those for which the commercial banks can safely lend.
It is also not easy for the commercial banks to maintain
personal contact with the small farmers in the way of borrow-
ing from commercial banks. The above factors explain how
the small farmer is not able to avail loan facilities from
the commercial banks. Another agency for sanctioning rural
credits is government. Long term loans for 25 years were
sanctioned to the agriculturists for making permanent improve-
ments in the land like construction of wells, preparation
of lands, irrigation, protection of land from flood or
erosion. At the same time they were unable to implement their policies efficiently to the expectations of the agriculturists because of inadequacy of the amount of loans sanctioned; inequality of distribution of the quantum of the loans to the borrower; inappropriateness of the security shown by the farmers; incidental delays caused by the communication gap in the administration; inconvenience of timings in the sanction of loans; inefficiency of supervision of the officials and incompleteness of co-ordination among the personnel involved. On account of these reasons, Government decided to route these loans through the co-operatives. Therefore the rural credit requires the presence and efficient functioning of the co-operative banking institutions. They can only serve in a better way to the small farmers as well as rural artisans to get loans and advances for their agricultural operations. In this context only the co-operatives predominate in helping the small farmers. It is imperative to examine the performance of the district central co-operative bank. This study has been undertaken to examine the working of one District Central Co-operative Bank.

3 OBJECTIVES OF THE STUDY

1 To study the progress of co-operative banking in India, Tamil Nadu and Salem District.

ii To study the progress of Central Co-operative Banks in Tamil Nadu
To study the working of the Salem District Central Co-operative Bank Limited.

To study the problems in the working of the Salem District Central Co-operative Bank Limited.

To offer suggestions for making improvement in the working of the Salem District Central Co-operative Bank Limited.

4 SAMPLING

As the researcher is serving in the area, The Salem District Central Co-operative Bank Limited has been selected for his convenience.

5 METHODOLOGY

The study is primarily based on secondary data collected from annual reports, published articles, journal articles, annual action plans and the reports available with the following institutions:

1 The Head Office and branches of the Salem District Central Co-operative Bank Limited.

II The Tamil Nadu State Co-operative Bank. Head Office, Madras.

III Office of the Salem District Co-operative Union, Salem.
Data were collected for ten years from 1981-82 to 1990-91 on the various aspects of the working of the Salem District Central Co-operative Bank Limited. Two way tables were drawn. The percentage of increase or decrease of the amount of the various parameters of growth were calculated and inferences as to the progress of the bank were drawn therefrom.

6 PERIOD OF COVERAGE

The period covered by this study is 10 years from 1981-82 to 1990-91.

7 SCHEME OF CHAPTERISATION

The first chapter deals with the significance, statement of the problem, objective of the study, methodology, sampling, period of coverage and scheme of chapterisation.

The second chapter deals with development of co-operative banking with all types of co-operative banks in India, Tamil Nadu and Salem District.

The third chapter deals with progress of Central Co-operative Banks in Tamil Nadu.
The fourth chapter deals with the working performance of the Salem District Central Co-operative Bank Limited.

The fifth chapter deals with the problems in the working of The Salem District Central Co-operative Bank Limited and suggestions for improvement along with a summary of the findings of the study.
REFERENCES

1 Mathur BS, Co-operation in India. Sahitya Bhawan Publishers, Agra 1989, P.89

2 Desai SSM, Rural Banking in India. Himalaya Publishing House, Bombay 1983, P.2