CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1 Introduction
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"Co-operative movement seems to offer a philosophy, a method of approach, which would aim at social purpose without infringing too much on individual Freedom"

Jawaharlal Nehru

1 INTRODUCTION

Agricultural credit co-operative societies constitute a very important segment of the institutional framework for providing agricultural credit. They are the kernel of the co-operative movement in India. They are started with the object of providing cheap credit to the agriculturists in order to free them from the clutches of the rapacious money lenders.

"These societies are the foundation on which the whole co-operation edifice is built" Townsend Committee. There are 95817 primary agricultural credit societies at village level; 337 District Central Co-operative Banks and 27 State Co-operative Banks for providing short term and medium term agricultural credit; and 19 Central Land Development Banks operating through 841 branches and 890 Primary Land Development Banks for the provision of long-term agricultural credit.

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1 Mathur BS Co-operation in India Sahitya Bhawan Agra 1977 p 217
The main functions of the credit societies are the provision of short term and medium term finance to agriculturist, supply of agricultural and other requisites and the marketing of agricultural produce.

During 1975-76 the proportion of rural population served by agricultural credit societies was as high as 79% in Himachal Pradesh followed by Punjab (73.9%), Tamil Nadu (62.3%), and Maharashtra (62.7%). In the states of Uttar Pradesh, Tamil Nadu, Kerala, Punjab, Madhya Pradesh, Maharashtra, Orissa and Bihar 95% to 100% of the villages are covered by the agricultural credit societies.

The co-operative banking system is an integrated one. With its three tier structure the system is able to extend credit to agriculturists, artisans and small men in general. The strength of the co-operative credit structure depends upon the strength of each of the links in the structure.

2 STATEMENT OF THE PROBLEM

Moneylenders have been operating in the rural areas for long. Though these moneylenders were assailed to be exploiting the poor farmers, their role in the provision

2 All India Rural Credit Review Committee Report 1969 p 169
of agricultural credit has been none too low. Though they used to charge usurious rate of interest and used to have a number of malpractices such as foreclosing the loans and appropriating the property mortgaged for themselves, they have been considered to be convenient source of finance to the farmers because they are easily accessible and have no formalities to be gone through for getting loans. The main objective of the village co-operative credit societies is to grant loans to members at low rates of interest so as to replace the moneylenders in the long run. As they are credit institutions it is their responsibility to recover the loans granted by them. Prompt collection of loans is the index of efficient management. Non collection makes them ineligible for further finance from the central co-operative banks and hence jeopardise their role in replacing the moneylenders. Non collection affects their capacity to lend further and encourages unproductive use of loans by the farmers. As the farmer is not able to borrow further he is again caught in the clutches of the village moneylenders. Hence it is imperative for the village credit societies to ensure prompt collection of loans granted. However the picture regarding the
collection of loans by the credit societies is not rosy as revealed by the following Table.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Societies issuing loans (in lakhs)</th>
<th>Loans Issued (Rs cr)</th>
<th>Collection (Rs cr)</th>
<th>Percentage of Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>NA</td>
<td>22.20</td>
<td>NA</td>
<td>--</td>
</tr>
<tr>
<td>1955-56</td>
<td>NA</td>
<td>49.60</td>
<td>NA</td>
<td>--</td>
</tr>
<tr>
<td>1960-61</td>
<td>1.70</td>
<td>202.75</td>
<td>162.74</td>
<td>80.30</td>
</tr>
<tr>
<td>1965-66</td>
<td>1.52</td>
<td>341.98</td>
<td>279.97</td>
<td>81.87</td>
</tr>
<tr>
<td>1966-67</td>
<td>1.32</td>
<td>365.17</td>
<td>278.44</td>
<td>76.20</td>
</tr>
<tr>
<td>1967-68</td>
<td>1.29</td>
<td>428.22</td>
<td>374.48</td>
<td>87.40</td>
</tr>
<tr>
<td>1973-74</td>
<td>1.15</td>
<td>760.00</td>
<td>669.30</td>
<td>88.26</td>
</tr>
<tr>
<td>1975-76</td>
<td>1.03</td>
<td>1023.45</td>
<td>896.80</td>
<td>87.62</td>
</tr>
<tr>
<td>1976-77</td>
<td>0.94</td>
<td>1210.54</td>
<td>962.27</td>
<td>79.49</td>
</tr>
<tr>
<td>1977-78</td>
<td>NA</td>
<td>1257.00</td>
<td>NA</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: Mathur BS Co-operation in India Op cit p 129

Table 1.1 reveals that the collection of loans by the co-operative credit societies is not full over the years. The percentage of collection has declined marginally from 1960-61 to 1976-77. This position poses the question whether co-operative credit societies
are fulfilling their purpose of helping the farmers by lending and ensuring collection of loans issued to them.

TABLE 1.2 COLLECTION OF LOANS BY PRIMARY AGRICULTURAL SERVICE CO-OPERATIVE SOCIETIES IN SALEM DISTRICT

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in lakhs</td>
<td>in lakhs</td>
<td>in lakhs</td>
<td>in lakhs</td>
<td>in lakhs</td>
</tr>
<tr>
<td>I CROP LOAN</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a Demand</td>
<td>1504.91</td>
<td>1333.91</td>
<td>1872.31</td>
<td>1560.67</td>
<td>2286.11</td>
</tr>
<tr>
<td>b Collection</td>
<td>990.33</td>
<td>816.48</td>
<td>1293.23</td>
<td>1088.53</td>
<td>1600.54</td>
</tr>
<tr>
<td>c Balance</td>
<td>514.58</td>
<td>516.71</td>
<td>597.08</td>
<td>473.14</td>
<td>685.57</td>
</tr>
<tr>
<td>d Percentage of Collection</td>
<td>65.8</td>
<td>61.1</td>
<td>69.0</td>
<td>69.8</td>
<td>70.0</td>
</tr>
<tr>
<td>II MEDIUM TERM LOAN</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a Demand</td>
<td>357.24</td>
<td>236.27</td>
<td>368.33</td>
<td>442.14</td>
<td>534.79</td>
</tr>
<tr>
<td>b Collection</td>
<td>171.28</td>
<td>205.71</td>
<td>221.33</td>
<td>307.77</td>
<td>372.80</td>
</tr>
<tr>
<td>c Balance</td>
<td>185.96</td>
<td>130.56</td>
<td>147.00</td>
<td>134.37</td>
<td>161.99</td>
</tr>
<tr>
<td>d Percentage of Collection</td>
<td>47.9</td>
<td>61.3</td>
<td>60.0</td>
<td>71.8</td>
<td>70.0</td>
</tr>
</tbody>
</table>

Source: Monograph of Salem District Central Co-operative Bank

Table 1.2 reveals that during the five years from 1980-81 to 1984-85 collection of loans by service co-operatives in Salem District is not full. However there is a marginal
improvement from 1982-83. During 1981-82, the collection rate fell due to postponement of the due dates of crop loan. In case of medium term loans collection improved from 1980-81 to 1983-84 but declined marginally in 1984-85. Generally medium term loans are promptly repaid because of their higher rate of interest than that for the crop loans.

This situation creates the following questions to be probed in

i To what extent the primary credit societies have collected their loans?

ii What are the factors influencing collection of loans by the primary credit societies at the village level?

iii What are the reasons for low collection, if the collection is low?

This study is an attempt to find answers to the above questions in Salem District.

3 REVIEW OF LITERATURE

'A number of studies have been already made relating to the overdues and general working of primary credit co-operative societies. A few of them which the researcher could come across are enumerated below.'
A Study by P.T. George and others on "Repayment performance by farmers in Chenglepet District" (Tamil Nadu) was made in 1984. The main findings of the study are:

i Family size influences repayment performance of defaulters and non-defaulters

ii The low caste (SC/STs) farmers are comparatively better repayers than middle (BC/MBC) and high caste (FC) farmers

iii Old age farmers are more prompt in repayment than young farmers.

Balister in his study, "Primary agricultural Co-operative credit in Uttar Pradesh: their progress, performance and problems" made in 1984, found overdues to be alarming with the increase in overdues from Rs 43.17 lakhs in 1950-51 to Rs 10150.24 lakhs in 1978-79 due to lack of efforts in collection of loans.

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4 Balister Primary Agricultural Credit Co-operatives in Uttar Pradesh: their progress performance and problems Indian Co-operative Review Vol 22 No 1 July 1984 pp 36-55
Another study by Dr. S. Shanmugasundaram and Mrs. Kamalaveni on "Utilisation of the Farmers Service Co-operative Society by the Members"\(^5\) reveals that

i. Members with lower income, utilise the society more than the members with higher income.

ii. The distance between the residence and the society affects utilisation. Longer the distance, lower would be the utilisation.

iii. Value of cultivable land affects utilisation: Small landholders utilise the society more than the large landholders.

Rao, B.S. made "A Study on the flow of credit by primary credit agricultural development bank in Uttar Pradesh - a case study"\(^6\). This study stressed the

i. importance of credit to agricultural sector

ii. proper supervision over the utilisation of loan amount and

iii. the reasons for the overdues of members.

\(^5\) Dr Shanmugasundaram S and Kamalaveni Chittode Farmers service co-operative society by the members of Nallagoundam palayam village Indian Co-operative Review Vol XXI No 1 July 1983 pp 15-23

\(^6\) Rao BS A Case Study on flow of credit by primary credit agricultural development banks in Uttar Pradesh Khadi Gramodyog Vol 30 No 10 July 1984 pp 426-430
Another study "An enquiry into the extent and causes of overdues in the agricultural credit societies in Kadanad Panchayat area" was made by R. Sivalingam. This study revealed that overdues were due to various factors. The Main factors are:

i. Crop failure
ii. Borrowings from village moneylenders
iii. Size of family affects repayment of loan to society.

Like the ones cited above, there have been innumerable studies on overdues. While a study on overdues emphasises the negative aspect, a study on collection would be on a positive aspect. Now that the performance of co-operatives has improved, overdues no more continue to be a current topic. How these societies have been able to reduce their overdues or to improve collection is a pertinent question at the present juncture to be investigated. No such study has been attempted in this positive direction and hence this study.

7 Sivalingam R An enquiry into the extent and causes of overdues in the Agricultural Credit Societies in Kadanad Panchayat area The Nilgiris Unpublished thesis submitted to University of Madras 1970
4 OBJECTIVES OF THE STUDY

The following are the objectives of the present study.

i To make a review of co-operative credit in India, Tamil Nadu and Salem District

ii To review the working of the sample primary agricultural credit co-operative societies

iii To measure the extent of collection of loans by the sample primaries and to identify the factors influencing such collection and

iv To suggest measures for improving collection of loans by primaries.

5 HYPOTHESES

i Collection of loans by agricultural service co-operative societies with educated membership is more than those without educated membership; Larger the literacy, higher would be the collection.

ii The area covered by the society under the cultivation of commercial crops, promotes collection; Larger the area, higher would be the collection.

iii The official link with the District Central Co-operative Bank promotes collection; collection by
societies with official link with central co-operative bank would be more than that by societies without such link.

iv Distance between the villages covered and the society affects collection; Larger the distance, lower would be the collection.

6 OPERATIONAL DEFINITIONS

6.1 PRIMARY CO-OPERATIVE CREDIT SOCIETIES: These societies are operating at the bottom of the co-operative credit structure at the village level. Farmer beneficiaries are in direct contact with these societies. They are registered under the Tamil Nadu Co-operative Societies Act. There are different types of primary credit societies such as Primary Agricultural Credit Co-operative Societies, Farmers' Service Co-operative Societies and Agricultural Co-operative Banks in the study area. All these societies form the units of this study. They are generally referred to as 'Primary Co-operative Credit Societies', sometimes as 'Primary Societies', sometimes as 'Primaries', and sometimes as 'Societies'.

6.2 COLLECTION: The Primary Credit Co-operative Societies issue loans of various types to their members. They have
to recover these loans from the members so as to meet their commitments to the District Central Co-operative Banks and in order to lend again to the members during the next season. This recovery of the loans by the Primary Credit Societies is referred to as collection. Collection of loans by the primaries is the dependent variable of the study. Collection has been studied in two ways. First, Collection of the different types of loans by the sample societies has been descriptively analysed individually. Next, Collection Index has been constructed for each sample society for the purpose of further analysis. Construction of collection Index is explained in the appropriate chapter.

6.3 FACTORS: In the factorial analysis a few independent variables influencing collection have been identified. These factors are defined and explained in the appropriate chapter.

7 SCOPE OF THE STUDY

Collection of loans is undertaken at the different levels of the co-operative credit structure such as primaries, District Central Co-operative Bank and State Co-operative Bank. In this study collection of loans
at the primary level has been studied. The study covers short term and medium term agricultural loans of the primary co-operative credit societies. The approach to the study is from the point view of the societies.

8 PERIOD OF STUDY

The study covers a period of five years from 1980-81 to 1984-85.

9 COVERAGE OF AREA

This study covers the primary agricultural Co-operative credit societies in Salem District.

10 METHODOLOGY

This is an 'expost Facto' study based on the published materials, data from survey, published articles, Government appraisal, reports, etc. A questionnaire has been prepared and used by the researcher to collect primary data from the sample societies.

In addition to such primary data, Special Officers, Secretaries, Bank officials, Government officials and a few members have been interviewed and the information supplied by them has been recorded in separate schedules.
11 SAMPLING

This study has its population for research investigation all the 375 Primary agricultural co-operative credit societies in the district. The researcher has made use of stratified random sampling. First the societies were stratified according to division. The total population for the research investigation consists of ten divisions viz., Mettur, Omalur, Tiruchengode, Sankari, Velur, Namakkal, Rasipuram, Attur, Valapadi and Salem. Then the societies in each division were stratified according to the percentage of collection of loans during 1984-85. Societies were selected from each stratum at proportionate random sampling method.

12 FRAMEWORK OF ANALYSIS

Collection of loans by the agricultural service Co-operative Societies is the dependent variable of the study. Hence a collection Index has been constructed for each sample society. The percentage of the amount of loans collected to total loans due to be collected during the five years of study is the collection Index.
The independent variables of the study are literacy, area under commercial crops, link with central co-operative bank and the distance covered by the society.

First the average collection index was calculated for each factor group. If there is a consistent relationship between the dependent variable (Collection) and the independent variables (literacy, area under commercial crops, link with central co-operative bank and distance), Analysis of Variance test of significance has been applied to find out the significance of the relationship between the dependent variable and independent variables and inferences have been drawn therefrom. In the process hypotheses have been tested.

13 SCHEME OF CHAPTERISATION

The first chapter deals with the design of the study covering objectives, hypothesis, scope, sampling, methodology, tools used and framework of analysis.

In the second chapter the role of co-operative credit in India, Tamil Nadu and Salem District has been discussed.
The third chapter consists of a discussion on the credit activities of the sample primaries. In this chapter the amounts sanctioned, disbursed, demanded and collected, of the different types of loans have been analysed.

The fourth chapter deals with the extent and variation of collection of loans by the sample Primary Credit Societies and the factors influencing such collection.

The fifth chapter deals with the summary of findings of the research and suggestions for higher collection of loans by the primaries.