Agriculture is the backbone of Indian economy. It is the bedrock and foundation of all efforts for economic development and planning in India. Notwithstanding many serious efforts towards rapid industrialization, agriculture continues to contribute a large share to the national income. One cannot think of economic development in the country without the development of agriculture. One of the chief inputs for agricultural growth is the ‘credit’. According to *The Great Lidco Dictionary* (2006), ‘credit’ means confidence in a person’s honesty and ability to pay. It also means ‘belief of others that a person, business, company can pay debts’. In economic literature, credit means the ‘entitlement to resources’. The more the credit one receives, the more are the resources one commands. Naturally, with appropriate credit institutions and credit policies, one can lead a society towards any desired direction. In a given society, if one could find out who is enjoying how much credit facility today it would be easy to predict the socio-economic condition that would emerge tomorrow.

Credit without strict discipline is nothing but charity. Charity, in the name of credit will destroy the poor, not help them. Credit institutions must make sure that the loans are paid back in full and in time. If it does not happen that way, one should not be quick to blame the people for failure rather one should blame the designer of the credit institution that fails in its recovery schedule.
Every poor person must be allowed a fair chance to improve his economic condition. Indian credit institutions have emerged as a challenge to the conventional banking wisdom and endeavour to make credit available to every human being irrespective of his socio-economic position.

As a matter of fact agriculture is being converted into a commercial venture and as such it has become more capital-intensive. It cannot be carried on much less expanded and modernized, unless funds are available for maintenance, replacement and improvement of capital equipment and for the working expenses of production activities. Due to the peculiarities in agriculture – particularly uncertainties, small scale production, scattered operation, low return, high rate of interest and limited scope for employment – a large proportion of cultivators cannot manage from one harvest to another without recourse to borrowings. In India, the need for credit is more pressing, where farmers are almost without liquid resources because credit on reasonable terms is needed to finance preparation for next crop, to enable them to make modest start in adopting improved methods of farming and often to enable them to avoid selling at very low prices ruling immediately after the harvest.

For stimulating the tempo of agricultural production, it is imperative that the farmers must be provided with essential prerequisites like fertilizers, improved seeds, irrigation facilities, modern implements, marketing facilities, etc. It is quite patent that without adequate and timely credit they would not be able to make use of these essential inputs. The use of greater and better quality of inputs would mean greater demand for rural credit.
The development of institutional credit is thus a basic condition for agricultural progress. The history of agricultural development in all the advanced countries shows that an integrated system of institutional credit laid the foundation for agricultural prosperity. The objectives of the institutional credit are to make a breakthrough in the vicious circle of poverty, rack-renting, usury and debt and to stimulate the farmer to boost agricultural productivity. These institutional arrangements are expected to do the following functions.¹

1. Facilitate and encourage savings and their mobilization for productive investments.
2. Reduce the cost of credit administration.
3. Pool the risks of lenders.
4. Increase competition among private money-lenders and effectively counter the local monopolies which many of them now enjoy.
5. Help farm families fully to understand the opportunities of wise use of credit affords, and in this way as well as by flexible repayment provisions.

Since the pre-independent period, the agriculture in India continues to be an important occupation giving employment and livelihood about 70 per cent of its population. In a developing country like India along with other systems, co-operation has to play a dominant role in the economic development. Co-operation, with rural orientation, helps for socio-economic betterment of the people. The co-operative system which is the value choice of rural people redefines and re-establishes the agricultural occupations. It modernizes agriculture, trade and commerce, by providing need based finance.

Formerly the private money-lenders played a vital role in providing the required finance to them. Now, the financial requirements are met by the nationalized, scheduled and co-operative banks.

With technological changes, the financial needs of agriculturists to purchase modern power driven agricultural implements such as tiller, sprayer, tipper, etc. have increased significantly. Agriculturists require short-term, medium-term and long-term loans. Short-term loans are needed for current agricultural operations such as ploughing, transplantation and purchase of seeds, pesticides and fertilizers and it is to be repaid after harvest, generally within a year. Medium-term credit is needed for the purchase of cattle, deepening of well, purchase of power sprayer and bullock-cart, the construction of bio-gas plant and minor land improvement work such as levelling and reclamation which is to be repaid within 5 years. The agriculturists also require long-term credit ranging between 15 and 20 years for certain capital expenditure such as land improvement, purchase of land, erection of pumpset, purchase of tractor, the construction of well and discharge of earlier debts. At present the co-operative institutions are providing loans and advances for agricultural inputs and adopting technical advancements.

The Government of Tamil Nadu took keen interest in developing co-operatives as an agency for providing rural credit. In 1892, the Government of Madras deputed Fredrick Nicholson to probe into the possibility of introducing co-operative agency for agricultural finance in the Madras State. He submitted the report in 1897. F. Nicholson, impressed by the German
experiment, recommended the starting of Reiffesien type of co-operative credit societies in India, on the basis of one society one village.

As per the report of F. Nicholson, the Government of India appointed Sir Edward Law to make proposals for consideration. The Co-operative Credit Societies Act 1904 was enacted on the basis of these proposals which marked the formal beginning of the co-operative movement in India. The primary object of the Act was the organisation of co-operative societies in rural areas, to relieve indebtedness and encourage thrift and self-help among the agriculturists and persons of smaller means.

The main provisions\(^2\) of this Act were as follows

1. Ten persons living in the same village, town or belonging to the same caste or class may apply for registration of a co-operative society for the encouragement of thrift, self-help and co-operation among the members.
2. The main business of the society was to raise funds by deposits and borrowings and for giving loans to its members.
3. The societies were placed in charge of official Registrars with very wide powers of control and supervision.
4. The accounts of every society were to be audited by the Registrar or by a member of his staff, free of charge annually.
5. The societies were classified as rural and urban. The liability of the members of a rural primary co-operative society was to be unlimited.

6. No dividends were to be paid to the members of the rural co-operative credit societies but were to be transferred to a reserve fund out of which bonus might be distributed to the members under certain circumstances.

**Primary Agricultural Credit Society (PACS)**

It lies at the grass root level of the short-term structure of the rural co-operative credit institutions and deals directly with individual borrowers, grant short-term and medium-term loans and also undertake distribution and marketing functions. In brief, the objectives of the PACS are:

1. To promote economic interest of its members in accordance with the co-operative principles.
2. To provide short-term and medium-term loans.
3. To promote savings habit among the members by accepting various deposits.
4. To supply agricultural inputs such as fertilizers, seeds, insecticides, implements, etc.
5. To supply domestic requirements such as rice, sugar, kerosene, etc.
6. To provide marketing facilities for the sale of agricultural produce.
7. To provide loans for the development of rural women and other weaker sections of society.

The PACSs are formed in big villages or by grouping a number of hamlets. In Tamil Nadu, at least 25 members are required to register a PACS. The members of PACS are the farmers who take shares in the PACS to borrow money for agricultural purpose. The value of each share is generally nominal so as to enable even the poorest farmer to become a member. The members have unlimited liability, that is, each member is fully responsible for the entire loss of the society in the event of failure. The management of the
society is under an elected body consisting of President, Secretary and Treasurer.

The working capital of the PACS is derived from its owned funds, deposits and borrowings. It accepts deposits both from members and non-members but only the members are entitled to borrow from the society. The deposits are received for the purpose of lending to the farmers and strengthening the working capital. The different types of deposit accepted are fixed deposit, savings deposit, recurring deposit, thrift deposit and staff security deposit.

The primary objective of the society is to provide short-term and medium-term loans to farmers to meet the expenses connected with seasonal agricultural operations. The loan issued at the time of the commencement of agricultural operations is recovered when the harvest is over. The loan is not only advanced by way of cash but it also includes other portions, which consist of the main agricultural requisites such as fertilizers, seeds, pesticides, etc. The PACS also meet the medium-term loan requirements of the farmers. The other types of loan given by the PACS are consumer loan, jewel loan, fixed deposit loan and non-farmers loan, which is given to small businessmen, artisans, petty traders, etc. and loans for the development of the weaker sections of the society such as small business loan to women under self-help group programme and kisan credit card loan to small farmers. Now-a-days credit societies have undergone revolutionary changes over the years. In Tamil Nadu, these societies are renamed as Primary Agricultural Co-operative Banks.
REVIEW OF LITERATURE

Agricultural credit, being a vital sector of national importance, has claimed governmental and academic attention quite often. It has been analysed under different disciplines for a long time.

From the very beginning agricultural financing has the monopoly of the money-lenders. But now the scenario has undergone phenomenal changes. The increasing awareness of farmer’s needs and the problems that came in the wake of planning led to greater participation by public agencies in the financing of agriculture. This new role of active participant led the government to review agricultural credit scene, assess performances and redefine targets and objectives. Many committees were appointed to this end and their recommendations have dictated the course of government policy time and again. Many studies on the varied facets of agricultural finance have been conducted in different regions. For the purpose of review, studies conducted since 1954 have been considered. The main thrust and observations of such studies are focused hereunder.

The All India Rural Credit Survey Committee headed by Gorwala (1954)\(^3\) made a study on rural credit. This nation-wide survey was carried on at the institutional level as well as at the cultivator level. It was observed that about 70 per cent of the total credit requirements of the agriculturists were supplied by the professional money-lenders. The government and the co-operatives have supplied just 3.3 and 3.7 per cent

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\(^3\) Reserve Bank of India. Bombay: Report of the All India Rural Credit Survey Committee (1954).
respectively. The committee identified that a bulk of institutional credit was used by the big farmers. The co-operative credit societies lent loans against land alone and the co-operative credit institutions were weak both at the grass root and central levels. The committee recommended “Integrated Scheme of Rural Credit” to set right the bottlenecks in co-operative institutional credit.

Again four rural credit follow up surveys were conducted by the Reserve Bank of India [1956-57, 1957-58, 1958-59 and 1959-60] in selected districts on systematic lines. These surveys had covered the short-term co-operative credit societies. They highlighted the following drawbacks in the co-operative credit structure: (1) Uneven growth of co-operatives in different regions; (2) Holding of co-operative credit institutions by the big landlords and money-lenders and (3) Inadequate flow of farm finance due to defective lending policy.

The Informal Group on Institutional Arrangements for the Agricultural Credit [1964] appointed by RBI under the chairmanship of Bhattacharya has recommended the following issues: (1) The credit requirements of agriculture in relation to the development of modern technology; (2) Assessment of the credit needs of agriculture in the present context as well as the relation to the expected modernization in future.

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The All India Rural Credit Review Committee (1969)\(^6\) under the chairmanship of Venkatappiah has reviewed the agricultural credit scene in general and recommended greater participation by the Primary Agricultural Co-operative Societies in revitalizing the agricultural credit system and that scales of finance under the co-operative loan system should be fixed separately for as small an area as possible, preferably a taluk. It wanted separate scales for irrigated and non-irrigated areas. It also recommended that Block Extension Staff should be entrusted with the work of supervision to ensure that the beneficiaries of crop loans in kind/cash really used the dosages of inputs they had drawn or for which they had received credit. It also suggested a simplification of the loan-granting procedure by introducing a system of farmers credit pass-book as an authentic record of cultivators’ rights in land.

A study on organizational framework for implementation of social objectives (1969)\(^7\) conducted under the chairmanship of Gadgil had offered a detailed district plan for facilitating the arrangements for supply of agricultural credit. This study report suggested multi-agency approach for meeting the credit requirements of the farmers.

The outlook for farm credit in India (1969)\(^8\) was conducted by 13 agricultural experts of Ford Foundation. They examined the issue of expansion of co-operative credits. Their study emphasized that prior to

\(^8\) Ford Foundation. The Outlook for Farm Credit in India (1969).
planning and starting of agricultural credit there should be a scientific assessment of the developments in the agricultural sector.

The Government of Punjab (1970) \(^9\) made a survey on the utilization of co-operative loans for agriculture in Punjab. This survey had pointed out that the heavy workload of the supervisory staff had blocked the supervision over the end-use of credit by the farmers.

The study on Institutional Finance for Agricultural Development (1970) \(^10\) conducted by Rangaswamy and Gopalan, has revealed that inadequacy and untimeliness were the bottlenecks in the flow of agricultural credit to small farmers.

The RBI’s Study on Agricultural Credit (1970) \(^11\) had highlighted three areas of study viz., (i) study of intensive agricultural credit programme (ii) study of medium-term agricultural credit and (iii) study of long-term agricultural credit.

The Report of the Banking Commission (1972) \(^12\) headed by Saraiya had emphasized the need for effective co-operative banking and co-ordinated development of co-operatives and commercial banks.

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Rao (1974)\textsuperscript{13} explained the need for rural co-operative institutions to arrest the problems of rural indebtedness in the country.

The RBI appointed study team on Overdues of Co-operative Credit Institutions (1974)\textsuperscript{14} had examined the position of overdues at various levels of three-tier co-operative credit system in the country and suggested the policy and procedure for granting conversion facilities (that is conversion of S.T. Loan into M.T. Loan).

A study on Overdues in Farm Co-operative Credit was made by Dahich (1977).\textsuperscript{15} He examined the trends in overdues in agricultural co-operative credit in Rajasthan. He also reported the socio-economic factors influencing the repayment of co-operative dues.

The Expert Committee (1979)\textsuperscript{16} had explored the problem of overdues in co-operative banks and observed a growing trend in the number of defaulters and the amount of overdues.

The Report of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (1981)\textsuperscript{17} headed by Sivaraman had reviewed the existing arrangements for institutional credit for agriculture and rural development. It specifically examined the structure and operations of

\textsuperscript{13} L.R. Rao (1974). \textit{Rural Co-operatives}. New Delhi: Sultan Chand and Sons,
\textsuperscript{14} RBI, Bombay: Report of the Study Team on Overdues of Co-operative Credit Institutions (1974).
\textsuperscript{17} RBI, Bombay: Report of the Committee to Review Arrangement for Institutional Credit for Agriculture and Rural Development (1981).
the Agricultural Refinance and Development Corporation [ARDC], the feasibility of integrating short-term and medium-term credit structure with long-term credit structure of National, State, District and Village levels and merits of three-tier and two-tier structure of Co-operative Financing Institutions.

Raj Kishor Pandy on Institutional Credit for Agriculture in India (1985)\textsuperscript{18} had examined the changes in supply and direction of institutional credit.

Desai had studied Farmers’ Societies and Agricultural Development (1986)\textsuperscript{19}. He mainly described the pattern and extent of various services rendered by the farmers’ societies.

The Agricultural Credit Review Committee headed by Khusro (1989)\textsuperscript{20} had examined the agricultural credit system. This committee had reviewed the rural financial system in the country and also assessed the quantum of agricultural credit requirements for the next decade. Again it examined the role of credit system in the national plan for agricultural development. The major problems and issues affecting the agricultural credit system were also presented in its report.

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\textsuperscript{18} Raj Kishor Pandy (1985). \textit{Institutional Credit for Agriculture in India.} New Delhi: Ashish Publishing House. \\
\textsuperscript{19} R.G. Desai (1986). \textit{Farmers’ Societies and Agricultural Development.} Allahabad: Chugh Publications. \\
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Ravi Varma and Bhagavan Reddy (2000)\textsuperscript{21} in their study on “Analysis of the causes for overdues in co-operatives under SWCCDS of Chittoor district in Andhra Pradesh” have found that the majority of borrowers became defaulters due to wilful causes which include misutilisation of loans and political factors. They have also found that the failure of crops, low market prices for produce, inadequate income and natural calamities are the major non-wilful causes.

Udayakumar and Gabriel Simon Thattil (2001)\textsuperscript{22} in their study on “Agricultural finance and total credit requirements of farmers - a study based on kisan credit cards” examined the status of kisan credit card business in India as well as in the State of Kerala. In the backdrop of the current kisan credit card scenario, a micro level study presenting the utilisation pattern of credit available under the scheme by a group of kisan credit card holders in Trivandrum district was undertaken. In this study, it was found that the misutilisation of credit was a major factor which threatens the successful growth of kisan credit card scheme.

Mariappan (2003)\textsuperscript{23} in his study “Financial mismanagement in PACSs: A case of Anapanthy Service Co-operative Bank, Kannur district of Kerala” discussed the fund management efficiency of PACS. He has also reviewed the

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soundness of the bank portfolio in terms of deposits and loans besides the investment and recovery management.

Ayenew Belay et al. (2004) 24 studied “The performance of Primary Agricultural Co-operative Credit Societies in Haryana.” They have examined the trend and growth in size of operation of Primary Agricultural Co-operative Societies, and have also analysed the pace of deposit mobilization, pattern of loan disbursement and sources of working capital of PACSs.

Sen (2004) 25 did his research on “Co-operative credit sector in India: a crisis of confidence and tasks ahead” and he has concluded that co-operative banks continue to play a critically significant role in the socio-economic matrix of India. As such, these institutions cannot simply be washed away. Effective measures are, therefore required to be taken on an urgent basis so that they continue to contribute towards the development process in the country.

The Task Force on Revival of Rural Co-operative Credit Institutions headed by Prof. A. Vaidyanathan (2005) 26 has focused on to restore autonomy of the credit co-operatives by scaling down the control and interference by the state governments through amendments to the State Co-operative Societies Act. Further, the recommendations of the task force included provision of

financial assistance for recapitalization, to fund the accumulated losses of the
short-term co-operative credit structure, evolving a common accounting
system, management information system and computerisation and HRD
initiatives.

Seilan (2006)\textsuperscript{27} in his article entitled “Primary Agricultural Credit
Societies – The Bank of the Rural Masses” has suggested that the societies
should be encouraged to mobilize more deposits to become financially
stronger so that the owned funds get strengthened, the loaning policies
reoriented in favour of small and marginal farmers and other weaker sections
of the rural community. To ensure proper utilization of credit, strict vigilance
and effective supervision of credit is necessary. The members should take
active interest in the working of co-operative credit societies and proper
training has to be given to society staff which will lead to the improvement in
the quality of service rendered by co-operative credit societies.

Prasad (2006)\textsuperscript{28} in his article “Primary Agricultural Co-operative
Societies in India: Problems and Remedies” has pointed out the several
problems faced by PACSs. He states that the problems faced by PACSs have
greatly affected their performance. He has suggested that PACSs must
advance more amounts of short-term, medium-term and long-term loans to the
members and link the credit with marketing of products which will go a long

\textsuperscript{27} A. Seilan, “Primary agricultural credit societies: the bank of the rural masses”, \textit{Tamil
\textsuperscript{28} A. Prasad, “Primary Agricultural Co-operative Societies in India: Problems and
Remedies”, \textit{The Maharashtra Co-operative Quarterly}, Vol.92, no.5 (2006),
pp.6-7.
way towards better recovery of loans and advances, which in turn, will surely improve the financial soundness of PACSs.

Bhagavati Prasad (2006)\textsuperscript{29} in his article “Co-operative banking in competitive business environment” has examined the performance of co-operative credit and banking structure. He has analysed the critical problems faced by PACSs such as lack of diversification in business portfolio, low volume of business, declining percentage of borrowing membership, high cost of management, imbalances in loan outstanding, unskilled staff, lack of professionalism, weak MIS, involvement in less profitable PDS business and low interest margin.

Zakir Hussain (2006)\textsuperscript{30} in his study on “Relative performance of service co-operative banks in Kerala” has made an analysis by comparing the performance of PACSs in Kerala with all India position to find out the reasons for the failure in achieving profitability. He has concluded that it is high time that the service co-operative banks in Kerala have to analyse the profitability of each of their activity, plan their funds efficiently and effectively, utilize their work force to the maximum in order to get a reasonable profit and survive in their competitive environment.


Kamat (2007) in his article “Role of Primary Co-operatives in New Economic Scenario” emphasised the need for consolidation through amalgamation and merging of co-operative organization either in the same business or complementary business units in the emerging economic conditions to be recognized.

Muley (2007) in his study on “Role of co-operative banks in rural credit” has revealed that the recovery performance of co-operative banks is not satisfactory and they are facing problems of recovery and its associated problems. He has suggested that considering the importance of co-operative credit in rural area, the government should protect the co-operative societies and co-operative banking agencies in new environment.

Natarajan (2007) in his article “PACS in Kerala - in search of profitability” has pointed out that poor funds management put many of the service co-operative banks in Kerala to incur loss and quite many of them fail to generate profit in carrying on their non-banking business.

Chalam and Prasad (2007) in their study entitled “An evaluation of financial performance of co-operative societies in Andhra Pradesh” (A study of selected PACSs in West Godavari District) have analysed the

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financial performance of nine selected primary agricultural co-operative societies and suggested that the co-operative societies should strike a balance between liquidity and profitability.

Mishra and Mishra (2007)\textsuperscript{35} in their study on “Institutional finance and farmers indebtedness in Orissa: evidence from village study” have identified that the large farmers by their political influence get access to considerable amount of credit but the small and marginal farmers are found to divert the productive credit for other purposes and very often they are alleged not to have repaid the amount intentionally.

Sikandar Kumar and Rakesh Singh (2007)\textsuperscript{36} in their study on “Impact of co-operative credit on the agriculture sector of Himachal Pradesh: A study of Mid Hill Zone” have suggested the proper guidance regarding utilization of the available high yielding varieties of seeds, fertilizers and pesticides depending on soil conditions and effective supervision from time to time.

Paramasivan (2008)\textsuperscript{37} in his article “Lending and repayment performance of primary agriculture co-operative banks” focused on the primary agricultural co-operative societies in Mallasamudram block in Namakkal district of Tamil Nadu. He suggested that the restructuring of co-operative societies is unavoidable in the present day situation and the


primary agricultural co-operative banks should change their structure and programmes in accordance with modern development.

Vishwanath (2008) in his study “Institutional finance and agricultural credit co-operatives in Karnataka” has made an attempt to understand the problems of institutional rural finance in Karnataka. The author looked into the recommendations of various committees related to rural finance and provided valuable suggestions for its improvement.

Several studies on agricultural credit and primary agricultural co-operative societies have been reviewed by the researcher. Though there are many studies, only very few research studies have attempted on service effectiveness of primary agricultural co-operative societies. To fulfil this gap, the present study is undertaken.

**Statement of the Problem**

The co-operative banking has been playing a pivotal role in providing rural credit. The co-operative banking should be strong and efficient to face the challenges in competitive environment. Many administrative and financial problems are cropping up in the process of quantitative and qualitative development of co-operative system. Due to lack of necessary funds, primary agricultural co-operative banks are unable to provide adequate and timely finance to the members. For development of agricultural sector and allied activities, adequate and timely finance are essential. But co-operative

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institutions delay the sanctioning of loan. Effective supervision and verification of actual utilization of loan become the major difficulties faced by the banks. The farmers have limited source of income and hence divert the credit for their domestic needs. Moreover, unnecessary political interference in banking operation creates many problems for bank officials. Now-a-days, overdues are the serious problems in co-operative banks. The unsatisfactory recovery performance of co-operative banks results in high NPAs. The smooth working of co-operative banks is affected due to lack of adequate and trained staff. The co-operative banks in general and PACBs in particular do not change by themselves in the changing environment.

The Primary Agricultural Co-operative Banks face several problems in our country. Now-a-days the proportion of non-user members is higher than the user members of the bank. This indicates that the real beneficiaries may not elect the management of the banks, which is against the principles of co-operatives. The non-user members become members of the PACBs just before elections with the initiation of the people who contest to the Board of Management of these banks and they admit their friends, relatives and other so called as members for getting votes in their favour in the election.

PACBs are at the grass root level of co-operative credit structure. They extend loans for agricultural operations, purchasing cattle, seeds, manures, fertilizers, insecticides, etc. Most of the farmers avail credit from the PACBs whereas the credit advanced by the PACBs is not sufficient for agricultural operations. The non-credit business activities of the PACBs consist of sale of agricultural inputs, consumer goods and the marketing of agricultural produce.
It is surprising that many of the banks are not undertaking any non-credit business activity.

The PACBs are vital agencies to resolve a host of problems in agricultural economy in general and the socio-economic status of weaker section of people in particular. A quite interesting and debatable feature of the banks is that the recovery performance is quite unsatisfactory. The volume of overdues has increased along with the quantum of credit. These overdues hamper the progress of PACBs, cripple their operations and choke lending channel.

The PACBs role in mobilization of surplus funds of the rural people by means of deposits will have an enormous and effective impact, which leads to economic progress. The basic idea of PACB is mobilisation of small resources from members for promoting thrift and mutual help for collective development by bringing together people of the same occupation. These funds should be utilized adequately so as to cover not only members in general but also the poorer sections of small and marginal farmers and artisans in particular. However, the PACBs are neglecting their responsibility of mobilizing deposits from members. Instead, they lean on higher co-operative institutions like District Central Co-operative Banks (DCCBs) for financial assistance.

The government officials and influential local political leadership gains control over the decision making in the PACBs, thus putting the real members out of focus. As a result the members lose control and interest in their banks.
The interference of influential local people is adversely affecting the repayment schedule of the borrowers in rural areas, as village politics plays a crucial role in the functioning of the PACBs. The government populist policy of waiving of loans has created mass psychology in the rural areas to withhold repayments and wait for some type of loan waiver programme to come to their rescue.

Due to the above mentioned facts, the performance of most of the PACBs in the State of Tamil Nadu is said to be unsatisfactory. Thus, it becomes extremely essential to assess the performance of these banks in the State.

Objectives of the study

The following are the main objectives of the present study

i. To examine the role of co-operative credit societies in the rural credit.

ii. To study the financial performance of primary agricultural co-operative banks.

iii. To analyse the lending and recovery performance and service effectiveness of primary agricultural co-operative banks.

iv. To study the overdues position in the primary agricultural co-operative banks.

v. To offer suggestions to improve the performance of primary agricultural co-operative banks.
Hypotheses

The following hypotheses are formulated and tested in the present study.

1. There are no significant differences among the different categories of PACBs and also among the different years in the average working capital.

2. There are no significant differences among the different categories of PACBs and also among the different years in the average loan issued.

3. There are no significant differences among the different categories of PACBs and also among the different years in the percentage of recovery.

4. There are no significant differences among the different categories of PACBs and also among the different years in the average overdues.

5. There are no significant differences among the different categories of PACBs and also among the different years in the average loan outstanding.

Area of study

For the purpose of this study the selected area is Thanjavur district in Tamil Nadu, India. From this district, the PACBs functioning under Thanjavur Central Co-operative Bank have been selected. These PACBs are spread over six taluks in Thanjavur region and two taluks in Tiruvarur region. These taluks are as follows

1. Thanjavur
2. Tiruvaiyaru
3. Orathanadu
4. Uranipuram
5. Pattukkottai
6. Peravurani  
7. Mannargudi  
8. Needamangalam.

**Period of the study**

Data collected from the sample PACBs belong to a period of 10 years from 1996-97 to 2005-06. Primary data have been collected during the period 2006-07, that is from October 2006 to September 2007.

**Methodology**

The study is empirical in nature and based on survey method. Both the primary and secondary data are used for this study. The primary data have been collected from the respondents with the help of pre-tested interview schedule [Vide appendix-2]. The respondents have been contacted in person over a period of twelve months to elicit effective primary data.

The secondary data have been collected from the official records of co-operatives and from the publications of the Government, Reserve Bank of India, National Bank for Agriculture and Rural Development (NABARD), Journals, Magazines, etc. Data which are required for analyzing financial performance, lending and recovery performance and overdues have been collected from the audit reports of the sample PACBs for the period of 10 years that is from 1996-97 to 2005-06.
Sampling Technique

In this study, the performance and service effectiveness of PACBs in Thanjavur district have been analysed. The district has been selected as it is the ‘Granary of South India’ and most of the people in the district depend on agriculture for their livelihood than most other districts in Tamilnadu. For the purpose of the study, the PACBs functioning under Thanjavur Central Co-operative Bank have been selected purposively. Totally 237 PACBs are functioning under Thanjavur Central Co-operative Bank. To select PACBs for the study, the stratified random sampling method has been applied. The stratification has been done on the basis of viability position of the PACBs as shown in the comparative statement prepared by Thanjavur Central Co-operative Bank as on 2005-06. As per this statement, the PACBs are placed under three categories viz., Viable, Potentially Viable and Unviable. Among the three categories, 10 per cent of PACBs have been selected at random from each category as sample. Therefore, a sample of 2 out of 13 viable PACBs, 4 out of 32 potentially viable PACBs and 19 out of 192 unviable PACBs [Vide appendix-3] have been taken for indepth analysis. As the unviable PACBs are large in number and spread over in large area, the sample PACBs have been taken from each taluk of the study area. With regard to farmer beneficiaries 20 borrowers are selected from each sample PACB on the basis of random sampling. Due care is taken to select 70 per cent defaulters from each PACB for the purpose of analysing the causes for overdues among the defaulters. Thus in total, 500 borrowers have been selected from 25 sample PACBs in the area of study.
Statistical Tools

The data collected from both primary and secondary sources are processed systematically. Simple percentage, average, ratio and growth rate are used to present a comparative picture of data between different categories of PACBs. Statistical tools such as correlation and ANOVA (Two-way) have been used to analyse the quantitative data. The chi-square test is also used to analyse the qualitative data collected in relation to service effectiveness of the PACBs.

Operational Definitions

Some terms have been commonly used in this study. The operational definitions of the key terms are as follows:

PACB

PACB means the Primary Agricultural Co-operative Bank coming under the jurisdiction of the Co-operative Act and is recognized as ‘Bank’ by the Central Government notification and as per the provisions of the Reserve Bank of India Regulations.

Overdues

Overdues mean the quantum of loan remaining unpaid beyond the stipulated date or the extended date of repayment and are classified as ‘Overdues’ by the Primary Agricultural Co-operative Banks as per the rules and regulations of the banks and as instructed by the government during the year concerned.

Short-term loan

Short-term loan is the loan given for seasonal agricultural operations directed towards the raise of crops. It is generally made for 12 months. It is
given for the purchase of seeds, fertilizers, pesticides, meeting labour charges, etc.

**Medium-term loan**

The medium-term loan is the loan given for a period ranging from 3 to 5 years for the purposes such as reclamation of land, building and other land improvements, purchase of live-stock, machinery and other implements, sinking of wells, construction of pucca drains in the cultivation field etc.

**Working capital**

Working capital refers to the capital which is required for lending operation and other services of PACB. It consists of share capital, reserves, deposits and borrowings from central co-operative bank, government and other agencies.

**Owned Fund**

Owned Fund is the fund generated internally by the PACB. It is also called ‘Internal Fund’. It consists of share capital and reserves.

**Borrowed Fund**

Borrowed Fund is the fund generated externally by the PACB. It is also called ‘External Fund’. It consists of deposits and borrowings.

**Viable PACB**

The term ‘Viable PACB’ which is used in this study refers to a Primary Agricultural Co-operative Bank categorized as viable unit by the DCCB as on 2005-06.

**Potentially Viable PACB**

The term ‘Potentially Viable PACB’ which is used in this study refers to a Primary Agricultural Co-operative Bank categorized as potentially viable unit by the DCCB as on 2005-06.
Unviable PACB

The term ‘Unviable PACB’ which is used in this study indicates a Primary Agricultural Co-operative Bank categorized as an unviable unit by the DCCB as on 2005-06.

Wilful Defaulter

Wilful defaulter means the borrower who has the capacity to repay the loan, but intentionally not repaying it with some expectations. This type of defaulter has no genuine reasons for default.

Non-Wilful Defaulter

Non-wilful defaulter means the borrower who has failed to repay the loan within the stipulated or extended time as fixed by the Primary Agricultural Co-operative Bank, due to the inability to repay the loan and has genuine reasons for default.

Kisan

The term ‘Kisan’ which is used in this study refers to farmer.

Limitations of the study

It is a micro level study based on the data collected from bank records and members. Hence, the findings of the study may not be generalized at the national level. Normally the members may not keep any record. They may give opinion from their memory. Therefore, there is a chance for recall bias. To minimize recall bias, cross checks have been made. The percentages in the tables have been rounded to the nearest whole numbers to limit the size of the tables.
Chapter Scheme

The study is presented in six chapters. Introduction to the study, review of literature, statement of the problem and research design are given in the first chapter. The role of co-operative credit societies in rural credit has been evaluated in the second chapter. The third chapter deals with the financial performance of the sample PACBs. Lending and recovery performance and service effectiveness of the sample PACBs have been analysed in the fourth chapter. The fifth chapter deals with the overdues position in the sample PACBs. Findings, conclusion and suggestions are given in the final chapter.