CHAPTER I

COOPERATIVE CREDIT SYSTEM IN INDIA

1.1 INTRODUCTION

Cooperative Banking in India has emerged out of a felt need to solve the problems posed by the agrarian economy where 70 percent of the population depended on agriculture for better livelihood. At the beginning of the 14th Century Indian agriculture was exposed to serious problems of fragmentation and smaller holdings on the one side and usury and land grabbing by indigenous money lenders on the other. Even the state sponsored loan popularly known as 'Taccavi' fell into disuse by the first quarter of the 19th Century. Rural indebtedness started assuming alarming proportions. By the middle of the 19th century the equilibrium of the Indian rural economy was disturbed to a great extent. Riots and violence were on the increase. The explosive atmosphere shook up the Government as well as the public. The dire economic condition of the peasants called for a

1. Report of the "Committee on Cooperation in India" 1915 P.1
suitable agency for providing credit. The remedy for stagnation has been found in financing credit cooperatives. The peculiar feature of cooperation is that, "it is intended to meet not only more obvious material but also the underlying moral deterioration to which the poor classes have been exposed. The Famine Commission of India 1901 remarked that the probability of lashing success will be greatly strengthened if mutual credit associations take root and flourish in the country. Sir Frederick Nicholson, in his report to the Government of Madras in 1897 made a strong plea for the introduction of Cooperative Credit societies.

With the passing of the Cooperative Societies Act 1904 and 1912 a number of Cooperative Credit societies, Central banks which are now known as Central Cooperative Banks herein after referred to as CCBs, Provincial Cooperative Banks which are now known as State Apex Cooperative Banks herein after referred to as Apex Banks came into existence.

1.1.1 COMMITTEE ON COOPERATION

The appointment of the Committee on Cooperation is an important event in the history of the Cooperative Movement in India. The Government of India appointed the committee under the Chairmanship of Sir E.D. Maclagan on 8th October 1914. There were no separate central

1. Ibid.,
Cooperative Societies Act of 1912. A few cooperative financing agencies prior to the passing of the societies were doing the function of a central financing agency though there was no legal provision for the same. It was with the recommendations of the Macalagan Committee that the organisation of CCBS received a great impetus. Distribution of societies and banks in India in 1915 is given in table 1.1.

**TABLE 1.1**  
Distribution of Societies and Banks - 1915

<table>
<thead>
<tr>
<th>Provinces</th>
<th>Primary Societies</th>
<th>Central Banks</th>
<th>Provincial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madras</td>
<td>1250</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Bombay</td>
<td>569</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Bengal</td>
<td>1547</td>
<td>33</td>
<td>--</td>
</tr>
<tr>
<td>Bihar &amp; Orissa</td>
<td>766</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>United provinces</td>
<td>2549</td>
<td>55</td>
<td>-</td>
</tr>
<tr>
<td>Punjab</td>
<td>3261</td>
<td>58</td>
<td>-</td>
</tr>
<tr>
<td>Burma</td>
<td>1092</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Central Provinces</td>
<td>2083</td>
<td>28</td>
<td>1</td>
</tr>
<tr>
<td>Assam</td>
<td>224</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Coorg</td>
<td>22</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ajmer</td>
<td>352</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13715</strong></td>
<td><strong>189</strong></td>
<td><strong>5</strong></td>
</tr>
</tbody>
</table>

From 189 CCBS during the year 1915 the number of ccbs rose to 212 by the end of the year 1918-19. But it may be noted that the development was neither orderly nor rapid. The reason was that with the establishment of guaranteeing unions on the Burma model as suggested by the Maclagan committee a conflicting element was introduced. The guaranteeing unions were organised for a group of societies within a radius of about five miles with a view to furnish mutual guarantee to the central financing agency and to carry on mutual supervision of the primary societies affiliated to them. Thus, two parallel systems came to be in operation. But it should be noted that the guaranteeing unions did not prove much of a success. The failure of the unions may be attributed to the illusive character of the guarantee furnished by them and to the lack of trained personnel for supervising and controlling the primary societies affiliated to them. As a result the guaranteeing unions had to be scrapped up later on.

With the passing of Reforms Act of 1919, Cooperation became a provincial subject. There was a remarkable increase in the number of societies, members and working capital during the period 1919-20 and 1929-30. The rate of expansion was particularly high up to the end of 1924-25. The important point that deserves to be noted with regard to the Central Banking Agencies during
the period was that they started opening more and more branches with a view to facilitate their banking operations. The functions and the area of operation of the Provincial banks and District banks (ccbs) have been clearly demarcated. As a result some of the central banks were called upon to function as apex banks and the names were altered to be the Provincial Cooperative Banks in 1924, to denote that their primary function would be to serve as Apex Banks balancing the surplus and deficiencies in the resources of their affiliated banks. Land Mortgage Banks were also organised during 1929 for giving long term loans. Another significant aspect of the development of the movement was the emphasis laid on the agricultural non-credit cooperatives.

1.1.2 ROYAL COMMISSION ON INDIAN AGRICULTURE

The Royal commission on Indian Agriculture set up in 1920 emphasized the role of cooperation in the improvement of agriculture and in the rural reconstruction activities in general. They observed that "If cooperation fails, there will fail the best hope of rural India". The Commission made a strong plea for Govt. assistance for the development of the movement. The central and the Provincial Banking Enquiry Committee


5
(1929) also made suggestions for the improvement of the working of the cooperative societies. During this period there were 87,991 credit societies with 30,04,000 members and Rs. 32.38 crores as working capital. The number of non-credit societies was 9761 with 9,92,000 members and Rs.13.63 lakhs as working capital.

1.1.3 RESERVE BANK OF INDIA AND COOPERATIVE CREDIT

The establishment of the Reserve Bank of India in 1935 is an important event. The Agricultural Credit Department which was set up simultaneously with the issue and banking department was expected to maintain an expert staff to study the various problems of agricultural credit and to tender advise to the Central and State Governments as well as to the Cooperative Central Financing Agencies. The Reserve Bank could also extend financial accommodation to the Cooperative movement under various sections of the Reserve Bank Act. It could be noted, however, that the Reserve Bank in the beginning followed more or less a passive policy of giving merely advice rather than extending any financial assistance to the cooperative movement. The Reserve Bank was also called upon under section 55(1) of the Reserve Bank Act to study the problems of agricultural finance and submit reports on the same. The Reserve Bank submitted preliminary Report on Agricultural Credit in 1936 and the Statutory Report in 1937. The main
suggestions put forth in the report related to basing the loan policy of cooperatives on sound banking rules, strictness in recovery of loans, reduction of old debts, fixing of loan-limits to the agriculturists, etc. The general tenor of the suggestions of the reports was that the cooperatives should conduct their operations like commercial banks on business principles which unfortunately ignored the special features and conditions of agricultural finance. One of the valuable suggestions, however, put forth by the Reserve Bank was regarding the organisation of multipurpose societies with a view to cover the entire life needs of the agriculturists. The role of ccb's became increasingly important.

1.1.4 RURAL BANKING ENQUIRY COMMITTEE

The cooperative banking system at all levels was in a position to acquire a place of importance in the Indian Banking System in the late forties. In its review of the position of banking facilities in the country the Rural Banking Enquiry Committee (1950) made special reference to the role of provincial now the State Apex Cooperative Banks as well as the District Central Cooperative Banks. The Committee had come to the conclusion that on the face of it, the position was such that a sound and satisfactory cooperative banking structure had come to stay, albeit in some state only.
In other states, it was the committee's view that the structure was in the process of reorganization, consolidation and rehabilitation. The primary societies at the village level had come to be regarded in the words of the committee as 'miniature banks' and the committee felt convinced that these were the only appropriate organisations through which banking facilities could reach out to the masses of rural population.

1.1.5 ALL INDIA RURAL CREDIT SURVEY COMMITTEE (1954)

The Reserve Bank of India conducted an All India Rural Credit Survey in 1951 under the Chairmanship of Sri A.D. Gorwala which submitted its report in 1954. The most important landmark in the history of the cooperative movement in India after independence was the publication of this report. One of the revelations of the survey was that cooperative credit societies, in spite of their assistance for over 50 years, supplied only 3.1 percent of the total credit requirement of the farmers. Most of the cooperative societies gave loans only on the security of land and others were not able to get loans. The survey Committee found that the primary credit societies were the weakest link in the chain. The central banks were weak and largely uncoordinated. Commenting on the cooperative credit it stated that "it satisfies none of the requisites of either good
1. All India Rural Credit Survey Committee Report, 1955 vol II, General Report, Chapter 18, P 228.
capital participation was felt to make the cooperative structure commercially viable and be able to mobilise rural savings and meet the bulk, if not the entire credit needs of the rural sector. Other institutional measures recommended were the setting up of National Cooperative Development Corporation under the aegis of Central Government to extend the support for processing, marketing and storage facilities in the cooperative sector, National Agricultural Credit Stabilization fund in the RBI to provide medium term loans for the purpose of rescheduling the short term loans in the event of crop failures on account of natural calamities and setting up of a national network of training institutions to train the cooperative banking personnel. In the two decades which followed at the national as well as at the state levels, both in policy and in effort the Governments were geared to the development of cooperatives as an exclusive institutional agency for purveying agricultural credit.

1.1.6 COOPERATIVE CREDIT AND MULTI AGENCY APPROACH

The Reserve Bank of India had constituted "All India Rural Credit Review Committee" in 1969 to review the functioning of cooperatives. The committee found that inspite of the massive efforts made in implementing the various recommendations of the survey committee
(1954) the performance of the cooperative sector was not up to expectations, either in mobilizing deposits or in granting credit. The committee recommended a series of measures to reorganise and strengthen the cooperative credit structure as part of an integrated approach to multi-agency system. It also noted that under the social control policy introduced in 1967 and subsequently the nationalization of 14 major commercial banks in 1969, the banks were given a special responsibility to set apart a portion of their advances to agriculture and allied activities.

The working group on Regional Rural  Banks (1975) had briefly reviewed the performance of the commercial banks in agricultural credit under the multi agency system as also that of the cooperative credit system. The Report made a special mention of the impressive record, in terms of coverage and credit disbursal by the cooperatives; but was of the view that if supply of credit increased the demand also would increase leaving a large gap. Besides, the progress in all the states had not been uniform. The selective record of progress had in fact, according to the working group, contributed to widening regional disparities in the functioning of cooperatives.
1.1.7 PROGRESS OF COOPERATIVE CREDIT SYSTEM

The Agricultural Credit Review Committee headed by Prof. A.M.Khusro in its report observed that "No credit system has been subjected to as much experimentation at the dictates of those outside the system as the cooperative credit system. The history of cooperative credit system has been the history of alternating periods of growth, stagnation, reorganization and yet quantitatively the achievement of the cooperative system has by no means been insignificant. These pertain not only to the credit sector in the system, but also others as well. "Numerically in terms of membership, the cooperatives have spread widely in the country. The percentage of rural population covered by the agricultural credit cooperatives was a mere 7.8 percent in 1951 but by 1960-61 it increased to 36 percent and further to 65 percent in 1985-86." As on 30th June 1991 there were 28 State Cooperative Banks, 353 Central Cooperative Banks and 82,905 Primary Credit societies, whereas the long term credit structure consisted of 19 State Land Development Banks and 692 Primary Land Development Banks. On the same date there were 28,336 employees cooperative credit societies and urban cooperative banks.

2. Ibid, P. 167.
under the category of primary Non Agricultural Credit societies." The progress of the cooperative credit institutions in India is shown in Table 1.2.

Table 1.2 shows that during the period of ten years between 1980-81 and 1990-91, one apex bank at state level, 16 ccbs at the district level, 71 urban cooperative Banks at urban and semiurban centres and 6,548 employees cooperative credit societies were formed. This very clearly shows the rapid progress of credit cooperatives in the country. The composition of working capital of Apex banks comprised 4.3 percent by way of owned funds and 30 percent by way of deposits. The total loan outstanding of Apex banks stood at Rs.6,592 crores as an 30th June 1991 and 14.9 percent of the loans have become overdue.

The CCBs possessed Rs.1,740 crores of owned funds, and Rs.10,357 crores of deposits. The CCBs have borrowed Rs.5,422 crores from financing bank. The Loan outstanding was to the tune of Rs.9,185 crores as on 30th June 1991 of which 34.3 per cent of loans have become overdue amounting Rs.3,154 crores.

1. Important items of data - credit and non credit cooperatives societies 1990-91. NABARD.
## Table 1.2
### Progress of Cooperative Credit Institutions in India

(Rs. in Crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Number</td>
<td>27</td>
<td>28</td>
<td>337</td>
<td>353</td>
<td>19</td>
<td>19</td>
<td>21788</td>
<td>28336</td>
<td>95000</td>
<td>82905</td>
</tr>
<tr>
<td>2.</td>
<td>Owned Funds</td>
<td>345</td>
<td>975</td>
<td>669</td>
<td>1740</td>
<td>265</td>
<td>596</td>
<td>317</td>
<td>825</td>
<td>754</td>
<td>1642</td>
</tr>
<tr>
<td>3.</td>
<td>Deposits</td>
<td>1675</td>
<td>6708</td>
<td>2419</td>
<td>10357</td>
<td>29</td>
<td>39</td>
<td>347</td>
<td>1140</td>
<td>289</td>
<td>1349</td>
</tr>
<tr>
<td>4.</td>
<td>Borrowings</td>
<td>462</td>
<td>3572</td>
<td>1017</td>
<td>5422</td>
<td>1984</td>
<td>3919</td>
<td>107</td>
<td>571</td>
<td>2433</td>
<td>7779</td>
</tr>
<tr>
<td>5.</td>
<td>Working Capital</td>
<td>2750</td>
<td>22329</td>
<td>4572</td>
<td>18477</td>
<td>2544</td>
<td>5403</td>
<td>920</td>
<td>3106</td>
<td>4036</td>
<td>11872</td>
</tr>
<tr>
<td>6.</td>
<td>Loans Issued</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i</td>
<td>Agre</td>
<td>2870</td>
<td>6206</td>
<td>3211</td>
<td>7341</td>
<td>365</td>
<td>765</td>
<td>(ST) 280</td>
<td>925</td>
<td>1526</td>
<td>2881</td>
</tr>
<tr>
<td>ii.</td>
<td>Non Agre</td>
<td>(N.A.)</td>
<td>1647</td>
<td>(N.A.)</td>
<td>3780</td>
<td>N.A.</td>
<td>N.A.</td>
<td>(MT) 394</td>
<td>1020</td>
<td>243</td>
<td>585</td>
</tr>
<tr>
<td>7.</td>
<td>Loans Outstanding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i</td>
<td>Agre</td>
<td>1837</td>
<td>5361</td>
<td>2987</td>
<td>9185</td>
<td>1697</td>
<td>3739</td>
<td>(ST) 258</td>
<td>984</td>
<td>1915</td>
<td>2664</td>
</tr>
<tr>
<td>ii.</td>
<td>Non Agre</td>
<td>(N.A.)</td>
<td>1231</td>
<td>NA</td>
<td>2542</td>
<td>N.A.</td>
<td>N.A.</td>
<td>(MT) 425</td>
<td>967</td>
<td>706</td>
<td>678</td>
</tr>
<tr>
<td>8.</td>
<td>Loans Overdue</td>
<td>162</td>
<td>985</td>
<td>940</td>
<td>3154</td>
<td>289</td>
<td>739</td>
<td>34</td>
<td>179</td>
<td>1086</td>
<td>2526</td>
</tr>
</tbody>
</table>

Source: Annual Reports of RBI and Statistical Statements relating to cooperative movement in India-NABARD 1980-81 1990-91

ST = Short Term    MT = Medium Term
The Cooperative land development banks in two tier credit structure dealing with long term loans had working capital to the tune of Rs. 5,403 crores. Rs.3,739 crores, was the loan outstanding as on 30th June 1991. Primary Agricultural credit societies have been reduced from 95,000 in 1980-81 to 82,905 in 1990-91. The deposit position shows an outstanding of Rs.1,349 crores, loan outstanding of Rs.3,342 crores of which Rs. 2,526 crores have become overdue forming 75.6 percent of loan outstanding.

The primary cooperative banks depict all round growth. They have lesser outstanding and have built up strong financial base. All these institutions form strong edifice of the cooperative credit structure.

1.2 COOPERATIVE CREDIT STRUCTURE

The credit sector is "the Prince of Denmark" in the whole apparatus of the cooperative movement. It merits the pride of place in the present study. The credit structure is pyramidal or federal in character. At the base level there is a primary agricultural credit society. These societies are federated at the district level into a Central society called the Central


14
Cooperative Bank. At the state level, the district banks are federated into an Apex Bank.

The Apex bank is linked with RBI/NABARD which provides financial assistance to cooperative credit structure. In addition to the institutions mentioned above urban cooperative banks are functioning at the urban and semiurban areas and they are directly under the control of the Reserve Bank of India (RBI). Employees Cooperative Credit societies are functioning at primary level. Industrial Cooperative Banks are functioning at state and at district level. The long term credit structure has a federal setup. Cooperative State Land Development Banks are functioning at the Apex level and Primary Cooperative Land Development Banks at the taluk level.

1.2.1 THREE TIER CREDIT STRUCTURE

The pattern of the short term credit structure obtaining in most parts of the country is based on three tier system. At the base level, primary agricultural credit societies (PACS) function mostly on the basis of a village or a cluster of villages as their area of operation. At the intermediary level a Central Cooperative Bank (CCB) functions, and at the apex level a State Cooperative Bank functions.
Union territories and small states do not have ccbs. In these places state Apex Cooperative Banks play the role of ccbs and directly deal with PACS. In a few States such as Assam and Himalaya Pradesh where ccbs were found to be too weak to continue as separate institutions they have been amalgamated with State Apex Cooperative Banks.

1.2.2 TWO TIER CREDIT STRUCTURE

Earlier the long term credit structure had two tiers only. Apex Bank at the State level and Primary at the taluk level. These were called Central Land Mortgage Banks and Primary Land Mortgage Banks, respectively. Later many states reintroduced a bank at the State level with its branches at the district or taluka levels. The long term cooperative credit structure is both unitary and federal, the former existing in most of the western and northern states and the latter in almost all the southern states and in most of the eastern states. With the increased emphasis on development and investment credit, the institutions are now renamed as State Cooperative Land Development Banks at state level and Primary Land Development Banks (PLDBS) at taluka level. In the absence of State Cooperative Land Development Banks, the State Cooperative banks finance

1. ACRC Report RBI 1989, P. 202
long term credit requirements either directly or through Primary Land Development Banks. This system is followed in the Union territories of India (Pondicherry, and Andaman, Nicobar Islands). With the growing emphasis on the provision of investment credit for agricultural programmes, it has become increasingly necessary to take a comprehensive view of the requirements of the development projects, as also the composite needs and repaying capacity of the borrowers in respect of both investment credit and working capital. These requirements of farmers are met by PLDBS.

1.2.3 SINGLE WINDOW COOPERATIVE CREDIT SYSTEM

The land development banks finance agriculture, allied activities and also several land based developmental projects like, dairy, poultry, sheep breeding, fishery etc. The credit delinquency, noticeable deterioration in the funds position and reduction in men who manage these institutions have become a threat to their separate identity and also a major obstacle to future growth. Hence integration of the structure with short term credit structure was debated. Following the recommendation of the Hazari committee on integration (1976) the two structures have been merged. In the report it is mentioned that "in the context of national agricultural policy, from the point of view of farmer's
convenience, of taking a comprehensive view of borrower's requirements, of closer supervision over end use of credit, of improvements in the quality of loans advanced and of better financial discipline among the borrowers, of the cost, advantages accruing through better deployment of funds etc, the case of integration at all levels in the two wings of the cooperative credit structure is well established."

With a view to provide "one contact point" for the farmer in getting credit, some State Governments viz., Andhra Pradesh, Punjab, Madhya Pradesh and Rajasthan favoured such integration of the two wings of the cooperative credit structure. Andhra Pradesh reorganised the primary credit structure and integrated PLDBS with ccbs at the intermediate level in March 1986 and integration of the SLDBs and SCBS took place later. In addition to the credit cooperatives, commercial banks and Regional Rural banks (RRBS) are in the rural credit system.

1.2.4 INSTITUTIONAL SET UP FOR RURAL CREDIT

Growing monetisation of the village economy on the one hand and mounting indebtedness and consequent alienation of land, etc, on the other compelled the state machinery to take steps for institutionalising credit

and extend the coverage to the villages. It was in this context, that the Government turned its attention towards cooperatives. There were more efforts to institutionalise credit. Following the recommendations of the Rural Credit Survey committee, the policy of the Government and RBI came to be directed towards making the cooperatives the sole purveyors of rural Credit. At the end of a decade or half it was realised with the new breakthrough in agricultural technology, the demand for credit increased phenomenally. As a result there was a shift in policy towards a multi agency approach to agricultural credit. Meanwhile 14 major commercial banks were nationalised. This was followed by induction of commercial banks in a large way in purveying agricultural credit. The organisation of RRBS in 1975 was yet another attempt in taking bank credit to unbanked areas in the remote corners of the country as well as in catering exclusively to the weaker sections of the community. As a result, today there are three streams of credit operating in the rural areas viz. cooperatives, the commercial banks (cbs) and RRBS.

Each of these three streams has its own distinctive organisational features; but in common all of them have a structural pattern which provides a machinery for dispensing credit at the village level. Whereas the
organisation of the higher levels is by and large federal in the case of cooperatives, it is unitary in the case of RRBS and CBS. All these three streams are ultimately linked, either through the state apex organisations in the case of cooperatives or through the head office in the case of RRBS and CBs to the NABARD for drawal of resources to supplement their own. In certain cases where the provision of credit is for the non agricultural sector, they are linked to the IDBI and SIDBI and for the overall development of cooperatives to the NCDC at the national level. These national level apex bodies are themselves, in varying degrees, directly linked to both the Government of India in respect of broad framework of policy objectives and most of them to RBI in respect of policy, funding and operational control. The structural pattern of various sectors in the credit system from the base level to national level is illustrated in chart 1.1.

1.3 STATEMENT OF THE PROBLEM

The Central Cooperative Banks have occupied a pivotal position in the Cooperative Credit Structure. They provide the vital link between the Apex Cooperative Bank in the state and the primary cooperative societies in the village. They assume the greater responsibility

Chart 1.1.

INSTITUTIONAL SET-UP FOR RURAL CREDIT

Source: ACRC Report 1989 P.721
for the development of cooperative credit movement. Infact ccb acts as a friend, philosopher and guide to all the cooperatives in the district.

Even after decades of existence ccbs could not emerge into strong and formidable institutions capable of leading the cooperative movement in the districts. They remained weak and often faced unique problems which are reflected in the decline of productivity, profitability, efficiency and erosion of funds. The concept of evolving ccbs as balancing-centres depends to a great extent on how they conduct their operations and prove themselves as real banking institutions. The growth and development of ccbs in the country is not uniform. Some are strong, whereas many are working much below the norms enunciated by RBI/NABARD. For obvious reasons management of funds has been the prime reason for the present state of affairs. The studies made by several committees appointed by the Government of India and RBI did not make an indepth micro study of this problem and suggest unit specific recommendations to solve their problems. All those studies were general in nature. The research institutes and universities also have not made any worthwhile study in the area of management of funds in ccbs which is vital for the success. This situation calls for micro level studies of the specific problems faced by the ccbs. The present study is an effort in
this direction to unearth the problems in the area of management of funds and suggest suitable measures to solve these problems.

1.4 REVIEW OF LITERATURE

A critical stock taking of the rural credit system in general and the cooperative credit system in particular has been done by a number of committees, commissions, study teams appointed by Government of India, State Governments, and RBI. These studies identified a number of problems and suggested suitable measures for improving the credit system. Literature on cooperative credit is plenty but studies on the management of funds in Central Cooperative Banks are scarce. Most of the research studies relate to the general working of the Central Cooperative Banks. Some studies are made on issues like deposit mobilisation, implementation of various schemes for the development of small farmers and marginal farmers, overdues, democratic management, personnel administration etc,. Comprehensive studies on management of funds in central cooperative banks are not available.

The Government of India have appointed the Committee on cooperation under the Chairmanship of

Sir. E.D. Maclagan in 1914 to review the progress made by the Cooperatives. It suggested for the federated financing agencies or the central financing agencies. The Royal Commission on Indian Agriculture 1928 examined the problems of agriculture in general and it dealt with cooperation as an important part of its comprehensive enquiry. The Committee identified that inefficient management, ineffective supervision and illiteracy of members were the important causes for the failure of the cooperative movement in the country. It suggested various measures for the orderly growth of the cooperative movement.

In 1931 the Central Banking Enquiry Committee was appointed to examine the existing state of affairs of the cooperative movement. It made suggestions for the improvement of the working of the cooperative societies and recommended for establishment of RBI in 1934 with Agricultural Credit Department. The Cooperative Planning Committee headed by Sri R.G. Sarraiya suggested the ways of improving the

financial strength of Central Cooperative Banks. The 1
All India Rural Credit Survey Committee appointed
under the leadership of Sri. A.D.Gorwala suggested
integrated scheme of rural credit, state partnership,
etc. for strengthening central cooperative Banks. The 2
Committee on Cooperative Credit (1959) appointed under
the chairmanship of Sri.V.L. Metha reviewed the adequacy
of cooperative credit provided and recommended suggestions to buttress the internal resources of cooperatives
by linking share capital with borrowings and by mobilising deposits. The All India Rural Credit Review Committee 3 (1966) appointed under the Chairmanship of Sri B.Venkatappaiah undertook a comprehensive study of the performance of the ccbs. It suggested reorganisation of ccbs at the rate of one bank for one district, increase of share capital assistance by State Government, improved procedure for streamlining crop loan system, etc.

During the year 1972, a study team was appointed under the Chairmanship of Dr.C.D. Datey by RBI to go into the

1. Report of the All India Rural Credit Survey committee, RBI, Bombay.
causes of overdues at various levels of cooperative credit system. It came to the conclusion that defective loaning policy and procedure and inefficient management contributed for the heavy overdues. A study on overdues in Farm Credit Cooperatives of Rajasthan (1977) was done by Sri C.L. Dadhich and focus was given on socio economic causes for mounting overdues. A study on the reasons for overdues in Chingleput district in TamilNadu was undertaken by Dr. S.P. Seetharaman sponsored by Tamilnadu State Land Development Bank in 1975, and the conclusion drawn was that by and large the big borrowers were chiefly responsible for increasing overdues and willful defaulters constituted major portion of overdues. During 1976 the Government of Andhra Pradesh made a study on overdues of Short Term and Medium Term credit in the state and analysed causes for overdues. Similarly the studies on farm credit recovery and characteristics of defaulters

2. Dadhich, C.L. Overdues in farm Credit Cooperatives a case study of Rajasthan, Popular Prakashan, Bombay 1977, pp 81 to 120.
of cooperative loans in Periyar District in Tamilnadu were made under the title "A discriminant functional approach and presented by Sri K.P. Kandasami. He highlighted the need for assessing certain characteristics of the borrowers even before the loans are issued.

The RBI constituted a committee to review arrangements for Institutional Credit for Agriculture and Rural development (CRAFICARD) 1981. It stressed the need for existence of CCBs. It observed that "the substantial expansion in the quantum of finance dispensed by cooperative credit structure, the considerable diversification of purposes for which credit is made available and the growing complexity of operations make it necessary to have a unit at district level for efficient and effective management of operations. The need for a district level organisation for successfully implementing and monitoring the various credit based development schemes for ensuring effective coordination with other institutional agencies and for

1. Kandasami, K.P., study on Farm credit recovery and characteristics of defaulters of cooperative loans in Periyar District in TamilNadu. "A discriminant functional approach".

proper representation of cooperative institution is obvious, — A summary dismissal of the institution central bank as useless and redundant under all circumstances seems to be an extreme, unwarranted and unwise conclusion."

The study team on two tier cooperative credit structure in Kerala has brought out the important role of Central Cooperative Banks in provision of agricultural credit and the need for strengthening of internal resources etc. A study on organisation structure and administrative aspects of the Central Cooperative Banks was done by Sri.D.Ravindra Prasad on Warangal District Cooperative Central Bank (1978). A study on Personnel Administration in District Central Cooperative banks in Tamilnadu was done by Sri S. Vadivelu in (1990). Another study was done by S.S.Jyothi on Human Resources Management in Cooperatives. Sri S.Sivaprakasam (1992) did a study on Human resources Management in

1. Ibid PP. 296-299.
2. Report of the study team on two tier Credit Structure for Kerala RBI, Bombay, P. 45.
3. Ravindra Prasad D., "Cooperative Administration - A case study of a District Central Cooperative Bank in Andhra Pradesh".
Central Cooperative Banks in Tamilnadu and brought out the personal policy issues. On Management in Central Cooperative Banks, especially on elected versus nominated board aspect has been studied by Sri M. Kutumba Rao in his research study on management of Central Cooperative Banks in Krishna district, Andhra Pradesh. A study on the "Democratic control and Management in Agricultural Cooperative credit structure in Tamilnadu" was done by Sri. O. R. Krishnaswamy in 1969. The National Federation of State Cooperative Banks has conducted a study on Management Pattern by state and central Cooperative Banks for a period covering 1968-69 to 1977-78. The pattern of management in different states at Central Cooperative Bank level has been narrated in it. A study on the viability and development of the business of Central Cooperative Banks was conducted by Sri. N. Palani under the title Planning the desirable


level of business for the Central Cooperative Banks in Tamilnadu (1992), wherein the profitability of Central Cooperative Banks, Management cost and desirable level of business have been discussed. A microlevel study on cost of operations and profitability in rural credit institutions has been done by Sri B.S.Nagarajan, Sri N. Narayanasamy and Sri S.Ramachandran. The focus of the study was on cost of operation, cost effectiveness and profitability at Primary Agricultural credit society, with relation to borrowings from central Cooperative Bank and Pandian Grama Bank in Tamilnadu. Research study on (a) "Deposit mobilisation" 2 a study on Kheda District Central Cooperative Bank and (b) of deposit schemes an evaluation which is a case study of the Parbhani District Central Cooperative Bank done under the Robobank foundation project cell by the National federation of State Cooperative Banks (1985) reveal the efforts made by Central Cooperative


Banks in augmenting deposits and the problems involved in the task of mobilisation of internal resources. A study on Financial Management of Cooperatives by Sri. G.M.Laud (1954) is a noteworthy study on liquidity and credit dispensation. The Study covered the performance of Central Cooperative Bank at All India level. The study is a comprehensive one but it did not analyse the problems of the primaries, the borrowing units and the consequent impact on financing bank. Sri C.S.Ratnod in his research study on Management of cooperative Banks (1981) dealt with management of funds in addition to other aspects. A research study on Management of funds in cooperative Banks with special reference to central cooperative banks (1990) was done by Sri. A. John Winfred with focus on internal and external sources of capital and analysed the adequacy of internal capital in Central Cooperative Banks in Tamilnadu.

A review of studies on central cooperative banks reveal that the area of management of funds has not received much attention. Studies on selected aspects of Central Cooperative Banks reviewed above have not

1. Laud G.M. Financial Management of Cooperatives
evaluated the performance of the banks in a comprehensive way. Many vital aspects of their financial operations and management of funds have to be brought under indepth analysis. It is in this context that the present study of management of funds in Central Cooperative Banks is taken up to throw light on the vital aspects of the management of funds in Central Cooperative Banks.

1.5 SCOPE OF THE STUDY

The scope of the study on Management of Funds in Central Cooperative Banks in Tamilnadu has been limited to the extent of analysing various financial parameters of the Central Cooperative Banks viz. Management of cash, remittance facilities, computation of surplus resources, deployment of loanable internal resources, management of investments, study of interest rate structure, cost of funds and yield on funds, profitability and other issues of operational efficiency. Moreover, the performance of the Central Cooperative Banks is linked to the performance of the Primary Agricultural Cooperative Societies at the village level and Apex Cooperative Bank at the State level. This study does not include the evaluation of the performance of these link organisations. The study is intended to measure
the performance of the Central Cooperative Banks in relation to their objectives and to some extent make a comparison of the results with that of the competing Commercial Banks.

1.6 OBJECTIVES

The broad objectives of the study are:

(a) To review the financial activities of the Central Cooperative Banks.

(b) To analyse their efficiency in the procurement and deployment of funds.

(c) To examine the interest rate structure and concessional refinance facilities available.

(d) To evaluate the management strategies in recovery of advances.

(e) To assess the operational efficiency in terms of adherence to various financial disciplines and

(f) To suggest a framework suitable for an effective Management of Funds in Central Cooperative Banks.
1.7 HYPOTHESES

(a) Directed credit and lower interest rates contribute for the poor financial performance of the Central Cooperative Banks.

(b) Inefficient allocation of funds leads to erosion of profitability.

(c) Growing politicisation and officialisation lead to ineffective management.

1.8 METHODOLOGY

For the purpose of the present study sample survey method is adopted. Data were collected from the records of the Central Cooperative Banks. Tamilnadu State Apex Cooperative Bank, National Bank for Agriculture and Rural Development, Office of the Registrar of Cooperative Societies and also by means of interviewing the executives of the banks and officers of the cooperative department. Information is also gathered from published and unpublished literature on the subject.

1.8.1 SAMPLING

The study of management of funds involves a close and careful examination of the modus operandi of Central Cooperative Banks and their end results at various levels based on primary data. Out of 18 Central
Cooperative Banks at present in Tamilnadu the study is confined to only four Central Cooperative Banks. The selection of these banks is based on the performance criteria. Out of 18 Central Cooperative Banks, one Central Cooperative Bank is not dealing with agricultural credit as it is located at Madras Metropolitan city and another Central Cooperative Bank is recently bifurcated. From the remaining sixteen Central Cooperative Banks four banks are selected on the basis of their performance i.e., one in the upper strata, one in the middle strata and one in the lower strata. The fourth one is under the pilot project scheme of NABARD. The study of these four Central Cooperative Banks will broadly represent the working of all the Central Cooperative Banks functioning in the state.

1.8.2 REFERENCE PERIOD

Data for a period of 10 years from 1981 to 1991 have been collected on matters relating to general performance of the bank whereas data on matters of financial performance have been restricted to five years period from 1986-87 to 1990-91.

1.8.3 TOOLS AND TECHNIQUES

The tools adopted for collection of data are

(a) A schedule for Central Cooperative Banks and
(b) An interview schedule for the executives.
The schedule for Central Cooperative Banks covers such items like general information relating to segment-wise classification of deposits, targets fixed for loaning operations, surplus resources in excess of loanable internal resources, maintenance of liquid assets over statutory minimum level, investment portfolio, deficit in non-overdue cover for seasonal agricultural operations and medium term agricultural operations, extent of utilisation of credit limits sanctioned, default in repayment to higher financing agency, credit performance, overdue to loan outstanding and on other aspects.

The interview schedule for executives covers such information as would be leading to effectiveness in management or otherwise.

In analysing the data simple techniques like percentages, averages, growth rates, common size balance sheets, cash flow, funds flow statements and ratios are employed. Interbanking comparisons made on profitability ratios are expressed as percentages based on accounting profit as working funds. Mostly the performance of the selected units are compared intersect for analytical purpose and in certain cases with the performance of Central Cooperative Banks in the State.
1.9 LIMITATIONS OF THE STUDY

As in the case of any research study, the present study also suffers from some limitations. The Central Cooperative Banks are primarily intended for extending agricultural credit, but the Madras Central Cooperative Bank located in Madras Metropolis is not having agricultural credit operations and hence this bank is not included for the study and the findings may not be relevant to it. The study may also be subject to the familiar limitations of the survey questionnaire type of research. Since the secondary data are obtained from more than one source, slight discrepancies may creep in between one source and another due to incorrect reporting.

Further, the primary data collected through administering the questionnaire has its own limitations. The respondents may overstate the problems faced by them. These include lack of opportunity to probe the respondents beyond the given answer in order to clarify further. While computing the percentages and averages, the figures may be approximate, rounded off and sometimes totals may not exactly tally.
1.10 CHAPTERISATION SCHEME

The following is the chapterisation scheme adopted in the study:

Chapter - I consists of introduction, history of cooperative credit movement in India, origin of credit cooperatives, cooperative credit structure, statement of the problem, review of literature, scope of the study, objectives of the study, methodology, sampling, reference period, tools and techniques used, limitations of the study and chapter arrangement.

Chapter - II gives a brief account of the origin, growth and development of Central Cooperative Banks in general, need for the continuance of Central Cooperative Banks, profile of Tamilnadu in general and the districts of selected Central Cooperative Banks in particular. It also gives a brief review of the progress of all ccbs and the working and management of selected central cooperative banks in Tamilnadu.

Chapter - III deals with the mobilisation of resources by Central Cooperative Banks both from internal and external sources.

Chapter - IV focuses on the deployment of resources, computation of loanable internal resources, sectoral deployment of funds and optimum use of funds.
Chapter - V outlines the operating environment of the Central Cooperative Banks. The operational constraints in remittance and transfer of funds, directed lending programmes and administered interest rates are discussed. In addition recovery management is also dealt in this chapter.

Chapter - VI deals with the financial structural parameters of central cooperative banks viz. efficiency of capital structure, marginal efficiency of capital, cost of funds and price of funds, working capital management and operational efficiency.

Chapter - VII presents conclusion of the study with suggestions for effective Management of Funds in Central Cooperative Banks.