CHAPTER - I

INTRODUCTION
1.1 INTRODUCTION

A strong agricultural base is an essential requirement for the economic development of the country. The agricultural revolution that is taking place following the application of science and technology to agriculture has thrown open new avenues for commercial banks and other financial institutions closely connected with agricultural finance.

The all India Rural credit Survey committee observed that, during 1951-52 there were only two important sources of rural credit, the moneylenders and the borrower’s relatives who between them, accounted for about 84 percent of the total credit. The government and the co-operatives accounted for 6.4 percent and commercial banks for just about 0.9 percent.¹

1.2 Role of Agricultural Finance

Agriculture plays a significant role in the economic development of India. Agriculture is the source of livelihood forever 70 per cent of population in the country.² To meet the requirements of the growing population and rapidly developing economy, agriculture has to grow fast and get modernized. This requires the use of high pay off inputs. Adoptions of high yielding varieties require large quantities of fertilizers plant protection Chemicals, modernized equipments and machineries, which in turn needs huge investment. The rural

² Ruddet Datt and K.P.M. Sundaram, Indian Economy, (New Delhi: S.Chand and Company Ltd.), 1994, p.43.
agricultural sector of the economy is labour abundant, land poor and capital scarce. So it would be very difficult to get the benefits of modernization of agriculture without adequate and timely supply of credit to the farmers.

1.3 Institution Financial for Agriculture

At present, Co-operative Banks, Commercial Banks, Regional Rural Banks and Government departments provide short-term finance to agriculture. Medium term and long term finance is given by co-operatives Land Development Banks and Commercial Banks. Indirect short-term finance is offered by State Co-operative Banks, Central Co-operative banks and Commercial Banks. Medium term, long-term indirect finance is given by Scheduled Commercial Banks and the Rural Electrification Corporation Ltd.

The co-operative credit sector had its beginning in the first decade of this century. The performance of agricultural co-operative societies has been erratic, though in some states they have done very well. The bane of the co-operative movement in the country, however has been the fact that the benefits of the movement were corned by a previleged few who controlled the societies, depriving the less privileged members for whose benefits in fact the co-operative movement was started.

In the seventies, both co-operative and commercial banks have recorded a significant progress. It has been reported that the share of the co-operatives as a

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source of the cultivators’ borrowing has almost doubled. Considerable progress has been made in territorial coverage as well.⁴

1.4 Flow of Institutional Credit of Agriculture

The total credit flow to agriculture and allied sector during the ninth plan (1997 – 2002) was expected to have reached Rs.2,33,700 crore as against the projection of Rs.2,29,000 crore. For the tenth plan period (2002 – 2007) the credit flow into agricultural and allied activities from all banking agencies is projected at Rs.7,36,570 crore, which is more than three times the credit flow during the Ninth plan. The target for credit flow for the agriculture and allied sector for the current year is Rs.82,073 crore.

TABLE: 1.1

FLOW OF INSTITUTIONAL CREDIT TO AGRICULTURE

<table>
<thead>
<tr>
<th>Institutions</th>
<th>1997-98</th>
<th>1998-99</th>
<th>1999-00</th>
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<td><strong>Total</strong></td>
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<td><strong>36,860</strong></td>
<td><strong>46,268</strong></td>
<td><strong>52,714</strong></td>
<td><strong>64,000</strong></td>
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<tr>
<td>Per cent Increase</td>
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Source: NABARD
Note: $Provisional @ - estimated
1.5 Co-operation and Agriculture

Meaning of Co-operation

Co-operation emphasis the idea of voluntary association of individuals for the achievement of the common good. It stands for the principles of “All for each and each for all” The theory of co-operation is that an isolated and weak individual can by association with others and by moral development and mutual support, obtain in his own degree, the material advantage available to wealthy or powerful persons, and therefore develop himself to the fullest extent of his natural abilities. The basic principles of co-operation can be summarized as follows.

1. Voluntary association
2. Democratic organization
3. Self help through mutual help
4. Common welfare and
5. A spirit of dedication and service with absolute honesty and unquestionable integrity.

Development of Co-operation in India

The idea of using co-operation in India, as a means of combating indebtedness and supplying rural credit was first suggested in the report of Fredric Nicholson in 1895. No action, however, was taken on this report. There was some sporadic individual effort. Example, H. Duperner submitted a scheme under the title of “People’s Bank for Northern India” Sir Edward Maclagan prepared a
similar of home for Punjab. The Famine Commission of 1901 also stressed necessity of starting credit societies in India.

Co-operative credit societies Act, 1904. A real beginning of the co-operative movement in India was the passing of the co-operative credit societies Act 1904. The Act provided for the registration of co-operative societies. The Act was found to be deficient in three respects.

i. It recognized only credit societies.

ii. It made no provision for central agencies for improved supervision and adequate supply of capital to the primary credit societies.

iii. The classification into rural and urban societies was inscientific and inconvenient.

The co-operative Credit Societies Act 1912 was intended to rectify these defects. It recognized non-credit forms of co-operation affecting purchase, sale, production, insurance, housing etc. As a result of the Act of 1912, the movement gained momentum and there was rapid growth in the number of credit societies as well as non credit societies.

In 1919, the Government of India Act was passed, co-operation became a provincial subject. The Act gave the states the opinion to retain or modify the 1912 Act. The Act of 1919 gave a great stimulus to the movement. The economic prosperity between 1920 and 1929 facilitated expansion, and there was a rapid increase in the number of societies. The depression of the thirties gave a tremendous setback to the movement. Not only did it stall the progress of the
movement, but created grave difficulties for the existing institutions. The abnormal conditions created by the Second World War led to some far-reaching developments in the co-operative movement. The war stimulated the growth of consumer stores and marketing societies.

A major development in the co-operative field since Independence was the appointment in 1951 by the Reserve Bank of Rural Credit Survey Committee. In its Report, the committee revealed that in the field of rural credit co-operatives have failed to make any significant inroads, accounting as they did for only about 3.1 per cent of credit requirements of farmers. Even this small quantity of credit had reached only the wealthier members of the village who owned credit worthy securities, and needs of the poor farmers were not satisfied. Besides large parts of the country were not covered by co-operatives. After analyzing the various causes the committee recommended an Integrated Scheme of Rural Credit. The Scheme involved the fundamental principles namely.

i) State participation at different levels.

ii) Co-ordination of credit with other economic activities, especially processing and marketing and

iii) Administration through trained and efficient personnel responsive to the needs of the rural population. The recommendations of the committee were made on the basis of programmes of co-operative development during the second plan.5

Co-operative Credit Structure in India

- Agricultural credit
  - Short term and Medium term Credit
  - State Co-operative Banks
    - Central Co-operative Banks
      - Primary Non-Agricultural Credit Societies
        - Employees Credit Societies / Urban Co-op. banks
        - LAMPs

- Non-Agricultural Credit
  - Long term Credit
  - State Co-op. Banks
    - Central co-operative Banks
      - State industrial Co-op. Bank

1.6 Co-operative Banking in Tamil Nadu

In Tamil Nadu, the first Co-operative Society was started in 1904 at Tirur in Chengai MGR District and now 29,000 co-operative societies are functioning successfully under various sectors in the state. The co-operative activities in Tamil Nadu have become a trendsetter for the development of agriculturists, adi-dravidars and women. There are 4655 Primary Agricultural Co-operative Banks, 22 Central Co-operative banks with 628 branches; 181 Primary Land Development Banks with its 42 branches and 125 Urban Co-operative Banks are serving tremendously for the development of agriculture, non-farm sector, cottage, industries, small scale industries and petty trades.

Among the states in India, Tamil Nadu is the pioneering State in the effective implementation of new schemes. Accordingly co-operatives extend its wing to every section of the people. During the financial year 1998 co-operatives extended its helping hands to the rural folk in the distribution of three essentials of human beings namely food, shelter and clothing. Invisible attitudes of co-

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operatives in the distribution of loans on several grounds in tandem with the rural masses have helped development. Agricultural operations are paramount work of rural people. It helps the agriculturists to get away from the clutches of moneylenders. In Tamil Nadu the prime activities of the co-operatives are to achieve the major objectives like provision of agricultural credit, marketing of agricultural produce, distribution of fertilizers and consumer articles.\(^8\)

In Thoothukudi District there were 157 Primary Agricultural Co-operative Banks and one Primary Land Development bank, which have been providing agricultural credit to the farmers; more particularly for the banana cultivators.

**Co-operative Credit Societies**

Indian planners considered co-operation as an instrument of economic development of the disadvantaged, particularly in the rural areas. They saw in a village panchayat, a village co-operative and village school, as the trinity of institutions on which a self-reliant. The non-exploitative character of co-operatives, Voluntary nature of membership the principle of one man one vote, decentralized decision making and self-imposed curbs on profits eminently qualified them as an instrument of development combining the advantage of private ownership with public good.

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The co-operative movement was started in India largely with a view to providing agriculturists funds for agricultural operations at low rates of interest and protects them from the clutches of moneylenders.

**Primary Agricultural Credit Society**

A co-operative credit society commonly known as the Primary Agricultural Credit Society (PACS) may be started with ten or more persons normally belonging to a village. 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. This will mean that all the members should know each other intimately. The management of the society is under an elected body consisting of President, Secretary and Treasurer. The management is honorary, the only paid member being normally, the accountant (in case the society is large and requires a paid whole time accountant) Loans are given for short periods normally for one year, for carrying out agricultural operations and the rate of interest low. Profits are not distributed as dividend to share holders, but are used for the welfare of the village, in the construction of a well, or maintenance of the village school and so on.⁹

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Organisational Structure

The short and medium term co-operative credit structure, as it has evolved in our country is federal in character, consisting of three tiers, viz., the State co-operative banks at the State level, the central co-operative banks at the district level and primary co-operative credit societies at the village level. Together these institutions, these institutions are expected to constitute an integral system for mobilizing resources and are an effective means of supplying credit. The long-term credit structure consists of two tiers only, viz., Central Land Mortgage Banks at the state level and Primary Mortgage Bank at the district level.  

State Co-operative Banks

The constitution of a co-operative banking institution at the apex level was considered essential as early as in 1915. The Maclagan committee emphasized the need for having an apex bank in each major province to co-ordinate and regulates the working of Central co-operative banks. The apex bank at the State level operates as a balancing centre for the resources of the movement in the entire State. At the top of the federal structure, it derives its strength from its affiliated institutions and gives in return, the strength earned as a result of its contacts with the monetary structure of the country. The apex bank provides the link between the Reserve Bank of India and the money market on the other hand and the entire co-operative credit structure, on the other Under the scheme of co-operative 

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agricultural credit developed in the country, the state co-operative bank has been considered such a vital link that it has been given a status comparable to that of a Scheduled bank and for certain purposes, the central financing agencies have been treated as its branches.¹¹

There are 28 State Co-operative Banks (SCBs) in the country. They form the apex of the co-operative credit structure in each state. The SCB finances and controls the working of the central co-operative banks in the state. It serves as a link between NABARD (formerly RBI) from which it borrows and the Central co-operative banks and village primary societies. The State co-operative Bank obtains its working funds from its own share capital and reserves deposits from the general public and loans and advances from NABARD (formerly RBI) The State Co-operative bank is not only interested in helping the rural co-operative credit movement but also in promoting other co-operative ventures and in extending the principles of co-operation. The State Co-operative bank, therefore, occupies a key position in the entire structure of short term and medium term co-operative credit.¹²

¹¹ Ibid., p.335.
Central Co-operative Banks

The position of Central co-operative banks is of crucial importance in the co-operative credit structure. The form an important link between the state co-operative banks at the apex and the primary agricultural credit societies at the base. The Maclagan committee suggested that the term, “central bank” should be applied to all local financing institutions directly financing the primary societies within an area sufficiently limited to allow them to exercise also the duties of supervision and control over these societies. The standing advisory committee on Agricultural credit constituted by the Reserve Bank recommended that as a general proposition, there should be one Central co-operative bank for the district.\(^{13}\)

These are now 360 District Central Co-operative banks, which lend about Rs.14,000 crore annually. These are federation of primary credit societies in specified areas normally extending to the whole district (hence they are sometimes known as district co-operative banks) These banks have a few private individuals as shareholders who provide both finance and management. Their main task is to lend to village primary societies but they were expected to attract deposits from the general public.\(^{14}\)

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Primary Agricultural Credit Societies

The primary credit society form the base of the co-operative credit structure and on its working depends, to a large extent, the soundness of the whole co-operative credit structure. The village credit society is the best agency to include the habit of thrift, self-help and mutual help among its members. It is engaged in securing, for its member services of various kinds. It has to keep the concepts of mutuality and ethical dealings in mind and ensure sufficient social cohesion.

The primary agricultural societies cover different types of credit societies, though the common feature of all these different societies is that most of the members are agriculturists. The group includes

(i) large-size societies which include rural banks, agricultural banks and credit unions.

(ii) Service co-operatives and

(iii) Other small-size societies.

The small size societies constitute a composite category and include Single purpose as well as multipurpose societies.  

1.7 Types of Co-operative Societies

The co-operative movement in India began with the setting up of co-operative credit societies. Gradually the movement spread to embrace other fields of agricultural activity also likes marketing, service co-operatives etc. The

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various societies presently obtaining in rural India can be broadly classified into two groups: viz (i) credit societies and (ii) non-credit societies.

Co-operative Credit Societies

There are two separate co-operative agencies for the provision of agricultural credit, one for short and medium term credit, and the other for long-term credit. The former has a three-tier structure consisting of a state co-operative Bank at the state level, a central co-operative bank at the district level, and primary agricultural credit societies at the village level. The land development banks provide the long-term co-operative credit.

The co-operative structure, after an initial failure, has come to stay as the most important source of institutional credit in rural areas. Co-operative institutions along with regional rural banks and commercial banks are charged with the responsibility of meeting the increasing credit requirements of the peasantry. However, the system suffers from a few major defects, among which the two important ones are

i. it has shown a class-bias in favour of rich and big farmers, and

ii. a large number of the co-operative societies suffer from overdues and are financially weak and non-viable.
Co-operative Non-credit Societies

As already stated, the co-operative movement, initially, came to be associated with the provision of credit. Therefore, in the sphere of non-credit co-operative movement, the co-operative structure that has emerged is substantially the same as it obtained in the sphere of credit. The marketing and processing co-operative structure consists of primary marketing societies, central marketing societies, a state marketing federation topped by the National co-operative Agricultural marketing Federation. In the case of consumer co-operatives, there are primary consumer co-operatives at the base with central wholesale co-operative above it.

At the state level is the state federation of consumer co-operative. The National co-operative consumers federation is the apex body of the state federation of consumer co-operatives. For co-operative farming there are co-operative farming societies with the National Farming Advisory Board to plan and promote the programme of co-operative farming. Among other important non-credit co-operative societies may be mentioned the co-operative milk supply societies and unions, fishery co-operatives vegetable and food preservation societies and fertilizer co-operatives.\(^\text{16}\)

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Task for Co-operatives

Together with the commercial banks the RRBs and co-operatives have an important role to play in financing agricultural and non-agriculture activities in rural areas. While the latter have been set up to finance mainly the weaker sections of society, a very large part of financing by co-operatives including that by the District Central Banks (DCBS), the Primary Land Development Banks (PLDBS) and branches of State Land Development Banks (SLDBS), Primary Agricultural Credit Societies (PACS), Farmers Services Societies (FSS), Large sized Advices Multi Purpose Societies (LAMPS), Weavers Co-operative Societies and Industrial Societies, goes to priority sector. The important steps taken to facilitate larger participation by co-operatives in priority sector lending and assisting the beneficiaries of the new 20-point programme include the following

1. Co-operatives have to earmark 40 per cent of their total agricultural advance for easily identifiable productive purposes of which minor irrigation schemes constitute a major component.

2. Long-term loans to small and marginal farmers for investment purposes may be allowed, even if there is a deficit in the value of land given as security.

3. Besides production credit for pulses and oilseeds, steps should be taken to encourage marketing and processing of oil seeds increasingly on co-operative lines with refinance facility from the RBI.

4. Co-operative banks have been advised to provide production finance to share croppers and oral lessees on the basis of the survey numbers of land and
satisfactory evidence regarding Revenue Department, village level worker or village panchayat against a charge on crops or surety of one or the solvent members.

5. PACS are encouraged to finance artisans including released bonded labour, for undertaking any of the activities covered under weavers and 22 other broad groups of cottage and SSI identified by the RBI, for which refinance is available. This is done to facilitate assistance to small groups of artisans who can not be formed into viable occupational co-operative societies; To bring SCs / STs and other weaker sections within the co-operative fold, provisions for universal/automatic membership have been incorporated in the co-operative societies Acts as also for appeal in case of refusal.

6. DCBs and urban co-operative banks have at least to provide finance for the various housing schemes, for the weaker sections or towards long-term loans for investment purposes in cottage and small industries up to 15 percent of total deposit resources, which ever is more.

7. Co-operative banks provide working capital finance to consumer co-operatives and their federations with reduced margins and the funds so lent are taken into account for the purpose of sanctioning higher credit limits for short-term agricultural purposes.

8. Primary Agricultural Credit Societies (PACS), Farmers Services Societies (FSS) and Large Sized Advices Multi Purpose Societies (LAMPS) undertaking the distribution of consumer articles in rural areas, are provided
additional Government share capital contribution and assistance from the National Agricultural Credit (Long Term operation) Fund.

9. Co-operative banks have been advised to provide the required credit support under the IRDP. As participating banks under district planning, both the short–term and long-term wings of the co-operative system have to ensure that the IRDP investments are refinanced by the National Bank for Agriculture and Rural Development (NABARD).17

1.8 Role of Co-operatives in Agricultural Credit

Co-operative societies had been providing credit to the farmers at a relatively cheaper rate. The All India Rural credit survey committee (1954) had stated, “co-operation has failed; but co-operation must succeed”. It was true that the movement had not recorded much of a success before the year 1954. Since 1954, the co-operative credit societies had been meeting the requirements of the farmers in an increasing way. More than 60 percent of the credit needs of the farmers were met by the co-operative societies and their institutional agencies.

The co-operative had played a significant and increasing role in the rates of credit, agricultural production, agricultural processing and agricultural marketing, co-operative societies had also helped in improving the living conditions of the people in the rural areas.

In India the number of co-operatives had increased from the level of 70,019 in the year 1988-89 to 93278 in 1007-98.18

1.9 Functions of Primary Agricultural Co-operative Banks

The main function of the primary Agricultural co-operative bank is to provide short and medium term credit, supply agricultural inputs and other requisites to the farmers and arrange for the marketing of the agricultural produce. The co-operative Banks are also expected to inculcate the habit of thrift and mobilize the savings of the members.

In the context of the national drive for increasing agricultural production and productivity and the consequent need for marketing credit available to the farmers, the primary credit societies have a very important role to play. The old concept of a Bank advancing loans in the farm of cash has now given place to the new concept of providing all types of services such as provisions of seeds, fertilizers and insecticides; so that the farmers may not hesitate to switch over to the new modern methods of advanced cultivation practices. The primary agricultural co-operative banks, now a days are expected to help in formulating and implementing plans for increased agricultural production for the rural villages. They are also expected to undertake educative advisory and welfare-oriented programmes.

The committee on co-operative credit (1960) had stated that a primary agricultural co-operative Bank should render certain basic services and should also discharge certain other obligations. The more important functions were stated to be the following.

1. To associate itself with all the programmes of agricultural production.

2. To lend adequate amounts of credit to all the producers, specially to the agricultural producers and in this process, later to the needs of the small producers to a great extent.

3. To address the consumption needs of the smaller producers as well as the agricultural labourers provided the prospective borrowers were credit worthy and had adequate means for repaying the loans they had borrowed.

4. To equip itself financially by borrowings or otherwise, so as to meet its obligations fully.

5. To attract local savings to the maximum possible extent so that its share capitals well as its fixed deposits might increase steadily and continuously.

6. To make use of its own funds and borrowed funds to the maximum extent.

7. To recover the loans and to see that loans are repaid promptly and as per schedule.

8. To distribute fertilizers, seeds agricultural implements and the like either on its own or by way of acting as an agent on behalf of others.

9. To supply certain consumer’s goods, which were found to be in common demand such as kerosene, rice, sugar and like.
10. To collect or purchase agricultural produce, wherever necessary on behalf of other institutions such as a consumers society the marketing society of the government.

11. To provide storage facilities.

12. To associate itself generally with welfare or economic programme, for the benefit of the village community.
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<td>1349</td>
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<td>3.5</td>
</tr>
</tbody>
</table>

Source: All India Rural Credit Survey Committee Report 1954, P.278
Reserve Bank of India, Bombay, RBI Bulletin, Feb 1986
RBI, Bombay reports on Trend and Progress of Banking in India, 1995-96 and 2000-01.
1.10 Statement of the Problem

Co-operation emphasises the idea of a voluntary association of individuals for the achievement of the common good. An isolated a weak individual can by association with others and by moral development and mutual support obtain in his own degree, the material advantage available to wealthy or powerful persons and there by develop himself to the fullest extent of his natural abilities. The spirit of self-help through mutual help, common welfare and a spirit of dedication and service with absolute honesty and unquestionable integrity are then basic principles of co-operative movement.

In a time when government is passing through serious financial constraints, public sector has failed to control all the sectors. There is introduction of New Economic policy liberalization and globalisation and increasing emphasisation on privatization at all sphere. It is hoped co-operative will be a mid way weapon for accelerating the tempo of economic development.

In the wake of the emerging new economic environment, there is an urgent need for winding up all those co-operative societies which were either inactive or were managed only on paper, as also those dormant societies which were not likely to be incused of with new life. These should be declared bankrupt and their movable and immovable properties should be disposed off according to legal provisions. Co-operatives should be allowed to frame their own byelaws, selected auditors, and take independent financial decisions.
1.11 Objectives of the Study

1. To analysis the structure and functioning of the primary Agricultural Co-operative Bank in Sebathaiahpuram.
2. To evaluate the assets and liabilities profit and loss, repayment of loans and loan outstanding of PACB.
3. To identify the socio economic conditions of the sample beneficiaries and non-beneficiaries of PACS.
4. To identify the problems faced by the beneficiaries while borrowing and repaying the loans.

1.12 Hypotheses of the Study

1. There is no significance difference between the beneficiaries and non-beneficiaries in terms of family size.
2. There is no significance difference between the beneficiaries and non-beneficiaries in terms of farm income of sample households.

1.13 Scheme of Presentation

The present research work “A case study on The Primary Agriculture co-operative Bank at Sebathaiahpuram, Thoothukudi District” is organized in six chapters.
Chapter I - introduction begins with the role of agricultural finance, institutional credit, co-operatives, type of credit; objectives, statement of problems are presented.

Chapter II presents review of literature. This gives a broad view of various research studies conducted in the past in the field study co-operative bank and related areas.

Chapter III presents concepts, and methodology. This section gives clear explanations for the concepts used in the study. The later part of this chapter encompasses the sample design, data collection, tools and techniques of analysis and limitations.

Chapter IV gives a detailed profile of the study area – Thoothukudi district. It deals with the demographic details of the district.

Chapter V deals with the analysis. Here, the collected data is analysed and inferences are deduced from it.

Chapter VI is the final section of the dissertation, embodies the findings of the study. Suggestions and conclusion based on the findings are also included in this chapter.