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CHAPTER - I  
DESIGN OF THE STUDY

INTRODUCTION

Cooperation is a method by which individuals with limited resources can take part in an organised economic activity for mutual benefit through mutual sharing of responsibility for management on the basis of equal partnership. Cooperation today is a world wide movement. It was introduced in India in the early years of this century in the wake of famines which resulted in economic hardship resulting in an alarming increase in the indebtedness of the farmers to the money-lenders as a consequence. Co-operative credit on easy terms, appeared to be the best means of getting the farmers out of the vicious circle of increasing indebtedness and mounting poverty.

The cooperative movement was also expected to promote local leadership, social values and community consciousness with influence extending far beyond the horizons of economic activities. Therefore, cooperation was assigned a pivotal role in the programmes for raising the level of agricultural productivity, extending improvements in technology and expanding employment, with a view to securing the basic necessities for every member of the rural community.

THE AGRICULTURAL COOPERATIVE CREDIT STRUCTURE IN INDIA

The Agricultural Co-operative Credit Structure in India is divided into two sectors one dealing with short-term and

medium-term and the other with long-term credit. The short-term cooperative credit structure is a type of pyramid or federal in character, based on a three-tier system with primary credit societies at the bottom, Central Co-operative Banks constituting the middle-tier and the State Cooperative Bank covering the entire State at the apex level. This structure is an evolution over a period of decades, beginning with the enactment of the Cooperative Credit Societies Act of 1904. Thus, three-tier structure has emerged out of practical necessity and has gradually stabilised itself, as the most appropriate and useful structure, synchronising with growth of the Cooperative movement. The MacLagan Committee (1915), and various other expert Committees on Co-operation appointed from time to time by the Government of India, and the Reserve Bank of India have all favoured the three-tier system for the healthy and sound growth of the Cooperative movement. The All India Rural Credit Survey Committee (1954) strongly advocated the three-tier system and favoured its introduction on a country-wide basis. The Committee on Cooperation (1960) considered the three-tier structure to be the most appropriate structure.

The idea behind a three-tier credit structure is to have cooperative institutions essentially democratic in character with representatives of the members at various levels managing the institutions. It is also based on the

cooperative principles of self-help and mutual knowledge. It also helps to associate local leadership for the better management of the institutions and for better mobilisation and utilisation of resources. This set up has its own merits. This has resulted in linking the different levels with each other by the bond of affiliation. These institutions at the three levels are distinct entities in financial and legal terms, each serving a set of specific purposes, justifying its existence as an independent unit at each level. Together, these institutions constitute an effective machinery functioning as balancing centres within the movement and supplementing the internal financial resources by borrowing from the public money market and the Reserve Central Bank of India which is the lender of last resort. These institutions at the different levels as independent legal entities also imply that the "strength of the chain depends upon the strength of each of the links".<sup>1</sup>

#### ROLE OF THE CENTRAL COOPERATIVE BANKS IN THE SET UP

The Central Cooperative Banks hold a position of great importance in the three-tier short-term credit structure. They form the backbone of the structure. [They are one of the strongest units in the cooperative credit and banking structure.] In many States, the federal credit system was

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1. India Government of, Report of the Committee on Cooperative Credit, New Delhi: NCDC, 1963, P.37

strengthened purely out of the strength of the Central Banks. "The weakness of the Cooperative movement in a State is always synonymous with the weakness of the Central Banks."<sup>2</sup> They play a vital role in the development of the cooperative movement in the entire district. Mr. Otto Rothfeld, a former Registrar of Cooperative Societies, Bombay, wrote that "The District Central Banks in a well-conducted system of cooperation play the most important role in the control and finance of Agricultural Cooperatives."<sup>3</sup> They act as a fulcrum of finance for the affiliated primary units in the district by providing them funds when in shortage and by serving as a clearing house for their funds when in surplus. They also tap the resources from the affluent part of the district and extend assistance to the comparatively backward and developing areas. Besides they are helpful in extending banking facilities in rural and urban areas and inculcate thrift and saving habits among the people.

The central cooperative banks are the spokesmen not only for the primary credit societies but also for other types of societies in the district. They provide leadership for the development of cooperative movement in their

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2. Nakkiran S., Cooperative Banking in India, Coimbatore: Rainbow Publication, 1980, P. 156.

3. Quoted by G.M. Laud., in Cooperative Banking in India, Bombay: The Cooperators' Book Depot, 1956, P. 337.

districts. They also provide a connecting link between the lower and higher units. The problems of lower units are conveyed to the higher units and the solutions and suggestions offered by the higher units are transmitted to the lower units.<sup>4</sup> They also guide, supervise and control the working of member societies. In addition to the financial aid, the Central Cooperative Banks assist the primaries to maintain proper accounts, propagate the value of Cooperation and Cooperativisation of the rural economy.

As a leader of the cooperative movement in a district, Central Cooperative Banks promote new types of societies, finance them and appraise their performances periodically. According to G.M. Laud, "The *raison D'etre* for the establishment of district central cooperative banks is that there should be an intermediary agency between the primary credit society with rural bias run by agriculturists having no touch with the money-market and the provincial cooperative bank run mainly by city men with urban bias and having no close association with the countryside."<sup>5</sup> The Central Banks are closer to the

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4. Nakkiran S., op. cit., P. 159.

5. Laud G.M., op. cit., P. 336.

primary societies than an apex bank could be and afford opportunities to them for influencing their policies to suit their requirements and enable them to train themselves in sound banking principles and practices.

Today in India, this structure consists of 26 Apex Cooperative Banks, 344 District Central Cooperative Banks and 1,16,125 Primary Credit Societies. In Tamil Nadu the short-term federal credit structure consists of a State Cooperative Bank, 16 Central Cooperative Banks and 4,802 Primary Credit Societies. Thus the present credit structure has occupied a pre-eminent position in the institutional frame work of agricultural credit and as pointed by the All India Rural Credit Survey Committee in many ways the position of Central Cooperative Banks is of crucial importance in the cooperative credit structure.

#### STATEMENT OF THE PROBLEM

A developing economy requires as a condition of growth, the promotion of the savings of the community and institutionalising and channelising the same for the development. During the planning era in the country the Central cooperative banks have been assigned an important role in the economic development particularly in the rural development and growth process; and are charged with greater responsibility of serving agriculture and allied activities. They have a significant role in mobilising, channelising

and institutionalising the savings out of increased income from rural sector; allocate them to meet the investment needs of agricultural sector as also the other sectors of the economy, which have shot up in the recent past as a result of the new developmental programmes launched in the country; and reduce the credit gap. Besides, these institutions as heads of the primaries in the districts have a special responsibility to keep the cooperative credit system in an efficient working order.

The crucial task of resource mobilisation gets added significance as it facilitates inter-sectoral flow of funds, helps to absorb overdues so as to maintain the flow of credit in an uninterrupted manner and reduces the dependence of the central banks on outside borrowings.

As early as 1915 the Maclagan Committee emphasised that the central cooperative banks should base their finance on their own local credit and should not merely serve as conduit pipes for conveying outside money to societies. These banks must have self-generating force of finance and act as balancing centres at the district level. The need for resource mobilisation by the central banks have also been stressed from time to time by different Committees and Conferences of

Cooperation\*, in order to improve their capacity to provide funds for agriculture, to reduce their dependence on resources from outside financial institutions and Government, to preserve autonomy and to enable them to contribute effectively for agricultural and rural development. So it is absolutely essential that the central banks have to make an all out effort to accelerate the pace of resource mobilisation.

The resources mobilised by the central banks both internally and externally should be made available for productive investments. One of the tests of sound banking is the judicious and profitable utilisation of the resources. Mr. V.S. Allane a noted cooperative specialist stated clearly that "Cooperative capital should be employed judiciously and in the most economical and fruitful manner. This means that cooperative capital should be so employed that maximum benefits are derived with minimum expenditure in relation to results gained."<sup>6</sup>

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\* All India Rural Credit Survey Committee (1954); Mehta Committee on Cooperative Credit (1960); The National Conference of the State Ministers of Cooperation held in December 1977 at New Delhi.

6. Allane V.S., Manual for Cooperative Directors, Wisconsin: Cooperative Publishing Association, 1949, P. 167

The resources of the banks are generally utilised by lending loans and advances and by way of investments. Lending and advances not only play an important part in contributing to the gross earnings of the banks, but also promote the economic development of the country by channelling accumulated savings of the nation into productive uses. They also assist in creating more avenues of employment and thus help raising the standard of living of the people.

The resources of the central banks, after meeting the liquidity requirements, are generally utilised by providing financial accommodation to their affiliated societies and banks. It is often stressed that the advances should be regulated keeping in mind the role which they have to play as the central financing agency of the cooperative credit structure in meeting the credit needs of the different types of cooperatives, primarily the agricultural credit societies.

Further, these banks are charged with the responsibility of ensuring economic growth with stability and dispensation of credit for socially desirable purposes. They have to see that the neglected areas, sectors and activities in the district which have not so far got their due share of credit, are benefited from the banks, by exhibiting a developmental approach in diversified

directions without sacrificing the principles of security and liquidity. There is also a keen desire everywhere that small agriculturists, rural artisans, agricultural labourers, small traders, persons engaged in small scale industries, small transport operators, salaried employees, small retail business people, self-employed persons etc, should obtain maximum benefits from the banks, leading to economic and social progress. Therefore, the central banks have to utilise the resources to help the havenots and see that they also contribute their mite for the resource mobilisation programme for economic development. In this way the banks achieve their social objectives and make banking a public utility service.

Since the central banks are assigned a <sup>crucial</sup> new role in the developmental process and occupy a strategic <sup>place</sup> rôle in the cooperative credit structure, the twin functions of resource mobilisation and utilisation get greater relevance. Therefore, it is pertinent to probe the following queries in a scientific way.

- i) How far the central cooperative banks have been successful in mobilising adequate resources?
- ii) What are the concrete means and measures adopted by them to tap resources?

- iii) To what extent they have succeeded in winning over the confidence of the general public?
- iv) What are the modern savings and banking services offered by them to individuals and institutions?
- v) What are the steps taken by them to project their image among the general public?
- vi) What are the strategies and techniques adopted by them for mobilising adequate resources?
- vii) What are the difficulties experienced by them in mobilising the resources?
- viii) To what extent they are able to compete with the commercial banks in mobilising deposits?
- ix) What are the policies adopted by the banks to utilise their resources?
- x) To what extent the resources mobilised are judiciously utilised on productive lines?
- xi) To what extent they have diversified their lending to suit the needs of different categories of member-societies?

xii) To what extent the banks have financed the non-agricultural sector?

xiii) How is the recovery performance of the banks and

xiv) What are the measures taken to improve the recovery performance?

All these issues call for a scientific study and investigation. Hence this present study.

#### LITERATURE GAP

Despite the strategic position and importance of the central banks in the credit structure, studies on this subject are far from adequate and appropriate. There are only few studies relating this subject which we have briefly reviewed:

The Reserve Bank of India conducted an outstanding all India survey in 1951 under the title 'All India Rural Credit Survey'.<sup>7</sup> The study was largely based on the data collected through field investigation besides the use of questionnaire. The investigation in regard to cooperative movement among other cooperatives covered central cooperative banks and banking unions of the district headquarters. This study though a detailed and pioneering in its nature paid poor attention to the areas of resource

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7. RBI, All India Rural Credit Survey - General Report,

Bombay: Agricultural Credit Department, 1954.

mobilisation and utilisation by central cooperative banks.

Another study in the field was the "All India Rural Credit Review" conducted by the RBI in 1969 under the chairmanship of Sri B.Venkatapiah.<sup>8</sup> This was also a general survey aimed at reviewing the supply of rural credit in the country in the context of the Fourth Five Year Plan. Since this was a general survey, <sup>it</sup> did not study in depth the working of central cooperative banks.

Mention has also to be made of the two important studies conducted by the Tamil Nadu Government in 1955<sup>9</sup> and 1969<sup>10</sup> to examine the working of the cooperative movement in the state and to formulate proposals for improving its efficiency and performance. As these studies had not given exclusive attention to the central cooperative banking, several issues relating to resource mobilisation by the central banks were left uncovered.

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8. RBI, All India Rural Credit Review Committee, Bombay: Agricultural Credit Department, 1959.

9. Tamil Nadu Government of, Report of the Committee on Cooperation, (1955) Madras: Department of Industries Labour and Cooperative, 1956.

10. Tamil Nadu Government of, Report of the Committee on Cooperation, (1968) Madras: 1969.

Another important addition to the literature on this subject was a study conducted by the RBI in Kerala State in 1972<sup>11</sup> to examine how effectively the central cooperative banks in the state were functioning as supporting credit institutions and whether their retention in the credit structure as independent financing units was justified in the light of their performance. The study dealt with only few aspects relating to the resource mobilisation.

A case study of a District Central Cooperative Bank in Andhra Pradesh conducted by Mr. D. Ravindra Prasad in 1978<sup>12</sup> need to be mentioned here. Since it was mainly concerned with the administration-structure as well as process and politics of a district central bank, issues relating to financial aspects were uncovered. Recently another case study on the viability of a central cooperative bank was conducted by B.H. Elavia of M.S. University of Baroda in 1980.<sup>13</sup> Though this was useful

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11. RBI, Report of the study Team on the Two-Tier Cooperative Credit Structure in Kerala, Bombay: Agricultural Credit Department, 1972.
  12. Ravindra, Prasad D., Cooperatives and Rural Development, Hyderabad: Osmania University, 1978.
  13. Elavia B.H., A Study of Viability of a Central Cooperative Bank, Baroda: The Baroda Central Cooperative Bank, 1980.

one, touched only few aspects relating to the subject of the study.

The brief review of the studies presented above clearly indicates that they were either general in nature or covered only certain aspects of central banks as a part of the main study. The methodology followed, samples studied, the scope in terms of issues covered and the methods of analysis etc., differed widely. [No independent, detailed and in depth study on the resource mobilisation and utilisation by the central banks covering various issues and longer period with large samples has so far been made either in Tamil Nadu, or India.] As the present study aims at examining various issues in depth connected with resource mobilisation and utilisation by the district central banks in Tamil Nadu it can be considered as a pioneering study. This will be a valuable and timely contribution to cooperative banking presenting the data in a comprehensive manner for the first time. Thus it will be a pioneering one in the field of cooperative credit movement as this is a census study covering all the central banks in the state as such will prove a distinct contribution to the existing literature on the subject.

#### SCOPE OF THE STUDY

This study has been undertaken to analyse the working of central banks with reference to resource mobilisation and utilisation in Tamil Nadu. The study is confined to the middle-tier, i.e., central cooperative banks due to their prominence in the cooperative credit structure. The study covers a theoretical and historical exposition of the origin, development and growth of central banks in Tamil Nadu. The study aims at analysing all issues related to resource mobilisation and its utilisation.

Besides the means for resource mobilisation, trends in composition of deposits and their growth, ownership of deposits, variability in deposits, cost of raising deposits, extent of dependence on external resources, self-reliance of the banks, cost of raising loan capital and trends in working funds have been investigated. Attempt has been made to find out the relative influence of various components of working funds.

The study also intends to identify the factors influence the growth of deposits or otherwise. Effort has been made to study the strategies and techniques adopted for resource mobilisation, banking services offered by the banks, effectiveness of branch banking, details of the novel<sup>e</sup> deposit schemes introduced, methods employed to popularise the deposit schemes, problems faced and the introduction of deposit insurance scheme etc.

In the matter of resource utilisation, it is proposed to analyse the transfer of deposits into loanable funds, liquidity norms, maintenance of cash reserves and liquid assets, judicious deployment of funds in investments, loans and advances, different purposes of loans and advances, loans to weaker sections, shift in lending, regional variations in credit disbursal, factors influenced lending, loans and advances in relation to their resources, cost of lending etc.

It is also the intention of the study to evaluate the recovery performance of the banks, extent of overdues, causes of overdues and measures taken to improve the recovery performance of the banks. The study also aims at projecting strategies and techniques for better resource mobilisation and utilisation by the central banks.

#### OBJECTIVES OF THE STUDY

The principal objectives of the study are:

- (1) To examine in retrospect the working of central cooperative banks in Tamil Nadu;
- (2) To examine the means and measures adopted by the central cooperative banks to maximise the mobilisation of resources;

- (3) To project the strategies and techniques for the central cooperative banks for better resource mobilisation;
- (4) To identify the encumbrances to resource mobilisation;
- (5) To examine the process and procedures for utilisation of resources by the central cooperative banks;
- (6) To study and to evaluate the recovery performance of the central cooperative banks, and
- (7) Summary of findings, conclusions and recommendations.

#### OPERATIONAL DEFINITION OF CONCEPTS

##### 1. THREE-TIER SYSTEM means

- i) An apex bank is one at the top level situated at the State headquarter
- ii) Central Cooperative Banks - the middle-tier institutions usually located at the district headquarters - hereafter referred in the thesis as central banks only.

iii) Primary Credit Societies - the base level cooperative institutions situated at village level.

2. RESOURCE MOBILISATION means mobilisation of funds by way of share capital, reserves, deposits of different kinds from individuals, cooperatives and other institutions and borrowings from higher financing agencies like State Cooperative Bank, Reserve Bank of India, State Government and other financing agencies.

3. RESOURCE UTILISATION refers to judicious use of funds by way of investments in approved securities and lending on productive lines after meeting the statutory liquidity requirements.

4. COOPERATIVE SOCIETIES ACT means the Tamil Nadu State Cooperative Societies Act 1961 as amended upto date.

5. AUDIT CLASSIFICATION means classification done by the auditors of the Cooperative Department on the norms laid down by them. The classifications are A, B, C and D in which A is the First classification.

#### DELIMITATION OF THE STUDY

In India each State has its own cooperative credit system with the two separate structures: i) Short-term credit structure, ii) Long-term credit structure.

The short-term credit is organised on a three-tier basis consisting of a State Cooperative Bank at the State level, Central Cooperative Banks at the intermediary level usually located at the District headquarters and Primary Credit Societies at the Village level. The present study is confined to middle-tier of the short-term cooperative credit structure, i.e. the central cooperative banks. The working of the central banks also involves several aspects. But this study is limited only to resource mobilisation and utilisation by the central banks. As an individual researcher with limited financial resources and time, the study is confined to only two important aspects of the central banks in depth in the selected state of Tamil Nadu.

#### METHODOLOGY AND SOURCES OF DATA

As the study covers a wide area, i.e., the whole state, the survey method was used. The study was based on primary as well as secondary data. Both published and unpublished secondary data were employed. First-hand data were collected directly from the records of the central banks and through personal interview. Data were gathered from the annual reports, records, bye-laws and audit reports of the banks. Supportive data from the Tamil Nadu

State Cooperative Bank, the Tamil Nadu Cooperative Union, the Reserve Bank of India, the Tamil Nadu Agricultural University and the Revenue Department were also made use of.

#### SELECTION OF THE UNITS OF STUDY

The study was confined to a cooperatively advanced state in India, namely Tamil Nadu, which was selected purposively as most of the central banks in the state had long record of service in the field of cooperative credit and banking. Thus the units of the study were central cooperative banks. There were 16 central banks in Tamil Nadu. All the 16 banks were included in the study in order to examine thoroughly their working with reference to resource mobilisation and utilisation. Thus, a complete enumeration method was followed in this study.

#### TOOLS AND TECHNIQUES OF DATA COLLECTION

Suitable tool and technique were used to collect necessary data from the banks. A comprehensive questionnaire was drafted covering all the aspects necessary for the study. After its pre-test and revision, it was employed. The researcher himself personally visited all the 16 banks and canvassed the questionnaire with the help of the officials of the banks. Useful informations were

collected in informal conversations and discussions the researcher had with key officials and concerned section heads in the banks.

#### REFERENCE PERIOD

The study covered a period of ten cooperative year i.e., 1970-71 to 1979-80 each year commencing from 1st July and ending by 30th June.

#### FRAMEWORKS OF ANALYSIS

The data so collected were processed and reduced to tables in order to present the matter lucidly and systematically. Tabulated data were also subject to statistical treatment. To estimate, the average growth in deposits from different sources viz., cooperatives, individuals and local bodies and others, the means of deposits had been done. The standard deviation was also calculated. To ascertain the variability in percentages the co-efficient of variation was shown. Simple and partial correlation analysis were employed to identify the factors which influenced the growth of deposits, loans and advances and overdues. A linear multiple regression model was worked out to determine the relative influence of the different components of the working capital on the level of working funds and to identify the factors which influenced the quantum of

short-term agricultural advances by the central banks. The Spearman's rank order correlation was used to find-out shift in lending. Simple and two way statistical tables were used to interpret the data. Averages were workedout for a good deal of the data. Comparison tables, graphs and diagramatic representation of data were employed at appropriate places to illustrate key ideas.

#### ORGANISATION SCHEME

This study is presented in Eight chapters:

Chapter	I	...	Design of the Study
Chapter	II	...	Central cooperative banking in Tamil Nadu - A retrospect.
Chapter	III	...	Means and measures for resource mobilisation.
Chapter	IV	...	Strategies and techniques for better resource mobilisation.
Chapter	V	...	Encumbrances to resource mobilisation
Chapter	VI	...	Process and procedures for resource utilisation
Chapter	VII	...	Recovery performance of the banks
Chapter	VIII	...	Summary of findings and recommendations.

CENTRAL COOPERATIVE BANKS  
IN  
TAMIL NADU

