CHAPTER - II

CENTRAL COOPERATIVE BANKING IN TAMIL NADU -
A RETROSPECT

TAMIL NADU ECONOMY - A PROFILE

The Tamil Nadu state forms the southern-most part of the Indian peninsula. The state is bounded on the north by Andhra Pradesh and Karnataka states, on the south by the Indian Ocean, on the west by a long and continuous stretch of hills - the western ghats, which separates the state from Kerala. The 998 km. long eastern coast is washed by the Bay of Bengal. The capital of the state is Madras. The geographical area of the state is 1,30,069 square kilometres (or 50,154 square miles). For administrative purposes, it is divided into 16 districts namely Madras, Chengleput, North Arcot, South Arcot, Tiruchirapalli, Pudukottai, Thanjavur, Madurai, Ramanathapuram, Tirunelveli, Kanyakumari, Salem, Dharmapuri, Coimbatore, Nilgiris and Periyar. In 1978, there were 17,097 revenue villages, 374 panchyat unions, 12,628 village panchystats, 600 town panchystats, 439 towns and 17 major cities in the state.

In size, it occupies eleventh rank and fifth in population among the states in India. Out of the total population of 48,30 million (1981) in Tamil Nadu,
3.27 million or 6.8 percent were in Madras only. The balance of 45.3 million were distributed in 15 districts with an average population of 3 million per district. About 7.5 percent of the country's population live in the state which occupies 4 percent of the area of the country. Tamil Nadu is one of the densely populated states in India with a population of 317 per square kilometre as against all India average of 182. The literacy rate is 45.8 percent distinctly higher than the all India rate of 36.1 percent. In 1978, percentage of its rural population was 69.7 while the working force was 35.8 percent. The percentage of cultivators to the total working force was 31.3 percent, agricultural labourers 30.5 percent, non-agricultural labourers 38.2 percent, as against the all India percentages of 43.3, 26.3 and 30.4 respectively.

AGRICULTURAL ECONOMY

The Tamil Nadu state is predominated by agricultural economy, providing a strong, and prosperous base for its economic growth. It contributes 33.79 percent of the total net domestic product and supports 73.3 percent of the rural population.

2. Ibid., p.181
The total arable land in the state was 62.81 lakhs hectares, with area sown being 14.73 lakhs hectares, representing 24 percent of the net sown area. Of the gross cropped area of 77.68 lakh hectares, 77 percent was under food crops and 23 percent under non-food crops. The area irrigated was 37.23 lakhs hectares and the percentage of irrigated area to net cultivated being 42.8. The total irrigated area under cereal was 29 lakhs hectares of which paddy alone covered 25.81 lakhs hectares. Of the other crops under irrigation, sugarcane covered 1.67 lakhs hectares, oil seeds 1.67 lakhs hectares, non-food crops 2.8 lakhs hectares, fruits and vegetables 90,000 hectares, condiments and spices 62,000 hectares and pulses 7,000 hectares.

The average farm-size in the state was 1.49 hectares which was lower than the all India average of 2.30 hectares. About 65 percent of the agricultural holdings were marginal with 1 hectare and below which accounted for 21 percent of the operated area and small holdings between 1 to 2 hectares were about 18 percent of the holdings covering 21 percent of the operated area.

4. Ibid., PP. 104-105
5. Ibid., P. 98
Food and Commercial crops have almost been equally distributed in the cropping pattern in the state. Paddy is the most important crop among the food grains followed by cereals like jowar, ragi, bajra and maize. Groundnut leads the commercial crops followed by sugarcane, cotton and chillies.

AGRICULTURAL PRODUCTION

Agricultural production after Green Revolution took its firm roots. The state made impressive progress in food-grain production which stood at 31.63 lakhs tonnes in 1950-51 reached the annual average production of 40.88 lakhs tonnes during the First Plan, 50.05 lakhs tonnes during the Second Plan and 55.52 lakhs tonnes per annum during the Third Plan. The agricultural production which was 71.36 lakhs tonnes in 1972-73 increased to 80.88 lakhs tonnes in 1977-78. It is a clear indication of a great break-through in agriculture in Tamil Nadu.

Tamil Nadu has also great potentialities for the production of export-oriented crops like tea, coffee, oilseeds, spices, fruits and fruit products resulting in valuable foreign exchange earnings. Further by stepping up production of commodities like rubber and cotton, reasonable savings could be effected in foreign exchange.

* Millets grown in Tamil Nadu.
INDUSTRIAL DEVELOPMENT

There were about 24 major types of industries in the state. The annual survey of industries 1976-77 reported that the state accounted for 10.54 percent of the total number of factories in the country which increased from 8,508 in 1977 to 9,139 in 1979 and the income generated by them was 9.88 percent of the national income. Yet the standard of living of the rural people was low as compared to that of other countries or to urban population within the state. It is estimated that over 67 percent of the rural population lived under poverty conditions in 1977-78. In order to raise the standard of living of the people the state has been taking all steps to increase the agricultural productivity and production. Efforts were also taken to create additional employment in rural areas. The state's gross savings was Rs. 14,460 lakhs for 1979-80 and the net collection of small savings was Rs. 6,312 lakhs. With this economic background, we will now assess the credit needs of the farmers and the role of the cooperatives to meet the same.

CREDIT NEEDS OF FARMERS

Agricultural development depends on many factors like agrarian reforms, arable soil, availability of
irrigation facilities, rural electrification, supply of seeds, fertilizers etc. But the availability of adequate and timely credit is pivotal to agricultural development. Agriculture, therefore, requires both immediate production credit of working capital and long term investment credit for improvement purposes. The need to borrow arises as an agriculturist's capital is locked up in his land and stock and hence temporarily mobilised. The demand for credit also arises largely from the seasonal cycle of agricultural production. The farmer's income fluctuates widely creating gaps in his demand for funds and income generated from agriculture. Hence credit is not only essential but inevitable and as such it is not necessarily objectionable, nor a sign of weakness.  

Farmers need credit to pay current expenses of cultivation such as the purchase of seeds, manures etc; the purchase of cattle, implements and raw materials; acquire new land; or improve land by irrigation, drainage, weeding and planting; pay old debts; to build and repair houses; to purchase food stuffs and other personal

necessaries; pay land revenue to the Government; meet expenses connected with marriage and other social events in the family; buy jewellery and conduct law suits and to educate their children. Broadly these items may be classified into directly productive and indirectly productive expenses.

COOPERATIVE CREDIT MOVEMENT - A PROFILE

In India, there was complete absence of institutional finance for agricultural requirements. The finance made available by the money lenders-cum-merchants was more in the nature of exploitation of the farmer than providing facilities for cultivation of the farm. This lacuna in the institutional finance and the defects associated with the rural credit provided by the money-lenders-cum-merchants led to the establishment of the co-operative credit institution as an alternative method.

In 1901, the Indian Famine Commission advocated strongly the establishment of agricultural banks on the basis of mutual credit associations of Europe. The Government of India therefore appointed a committee under the Chairmanship of Sir Edward Law to make proposal for introducing Cooperative Movement in India. The Law Committee

7. Ibid., P. 33
came to the conclusion that the cooperative credit societies deserved every encouragements and that they should be given a fair trial. It was on the basis of these recommendations, the Cooperative Credit Societies Act-X of 1904 was passed to facilitate the organisation of Cooperative Credit Societies as a means of helping the poor sections of the people to improve their economic conditions and to lift them out of the state of stagnation. In India, the cooperative credit movement was thus officially inaugurated in 1904.

ORIGIN AND DEVELOPMENT OF CENTRAL COOPERATIVE BANKS

FORMATIVE STAGE (1906 TO 1920)

The Cooperative movement in Tamil Nadu was born like a farmer's child in a cottage-tent in 1904 with the first cooperative Credit Society child being born and registered in a village Tirur in Chengleput district by Sir P. Rajagopalachariar, the first Registrar of Cooperative Societies. Credit was the principal function of credit societies as majority of the people required loans for agricultural development. The primary societies were initially financed by the Government. But this source soon became unequal to the demand from the local

The loans provided by the Government to help societies to get over their initial difficulties were intended only as a temporary expedient as it was recognised that any measure of Government support on a large scale would impair the independent growth and self-reliance essential for the sound progress of the movement. 9

The primary credit societies were expected to meet the increasing credit needs of the farming community by mobilising sufficient deposits from the members and other affluent sectors of the society. But the societies did not fare well in tapping sufficient funds by way of deposits.

Furthermore, it was found that some of the primaries had surplus funds which could not be properly employed. Interlending between societies was not considered desirable. The primary societies also required technical guidance and administrative advice to improve their working. Hence, the need for an agency which could act as a balancing centre, attract deposits from towns and employ them profitably in financing the

villages, was keenly felt. Such a bank namely the Madras Central Urban Cooperative Bank was registered on 19.10.1905 with the object of financing the societies in all parts of the Presidency. It consisted only of individual members but it could lend only to cooperatives.

Need for more Central Banks:

With the increase in number of societies the need for more central banks on the pattern of the Central Urban Cooperative Bank at Madras was felt. Further, the Madras Central Urban Bank could not tap adequate resources and make them available to the societies in the area. In 1909 thus, the formation of district central cooperative banks was found necessary with jurisdiction confined to revenue districts for ensuring rational use of cooperative funds and providing a common forum for the exchange of ideas and cooperative knowledge. To begin with such central banks were established in the district head-quarters at Salem and Tiruchirapalli. In 1911, two more similar banks were formed in Coimbatore and Tenali, now in Andhra Pradesh. The membership of these banks was confined to individuals residing in such districts.

It was the 1912 Act, which stimulated further the growth of the central banks. The 1912 Act also recognised the formation of a new variety of central bank
known as "Banking Union". The first union of its kind namely the Madura-Ramnad Central Bank was formed in 1912 which admitted both individuals and societies as members. It also had as its object not only to finance but also the supervision and control of affiliated societies.

Maclagan Committee - 1914:

An important milestone in the history of cooperative movement in India was the appointment of the Maclagan Committee on Cooperation on 8th October, 1914. The committee reviewed the progress of the movement and suggested ways and means for the healthy growth of the movement in the country. The committee reported that there were 7 central banks in the state of which four admitted individuals only and 3 admitted societies to membership. The committee laid stress among other things on the creation of central banks at district level and apex cooperative bank at the state level. The Maclagan Committee also favoured central banks consisting of only societies as members. "Such central banks will carry one step further the principles of the substitution of collective for individual responsibility, that is of passing responsibility from individuals to cooperative societies."

On June 30, 1915, there were in addition to the Madras Central Urban Bank, nine central banks, seven with both individual and society members and two, those of Salem and Tiruchirapalli with only individual members. Later these banks permitted societies to hold shares in them. Though there were individual shareholders in those banks in no case individual shareholders outnumbered society share holders.

A Community Central Bank:

Another important event in the history of central banking in former Madras State was the birth of a new variety of central financing organisation known as Christian Central Cooperative Bank in July 1916. The bank aimed at improving the economic conditions of the depressed classes as the ordinary central banks were unwilling for financial reasons to finance societies composed of these classes. The Christian Central Bank thus occupied a peculiar position and rendered special services to special types of cooperative societies like Kollar Societies, societies for Crimials and Tribes, Labour societies and societies of similar types throughout the state.
Birth of An Apex Bank: A precursor of the three-tier system

In April, 1917, in accordance with the recommendations of the Maclagan Committee, Madras Central Urban Bank which was financing cooperative societies of all kinds throughout the presidency in districts in which central banks did not exist, was converted into an apex bank for the whole presidency. The constitution of the apex bank was perfected in 1919 by making it a federation of central banks with individuals as shareholders and by transferring the shares of primary societies to central banks. Thereafter the provincial bank ceased to finance primary societies in the districts directly. This is the early precursor of the three-tier system of cooperatives.

Cooperation in State Lists

In 1919, the subject of cooperation was transferred to the provinces (states) from the concurrent list of the central Government. It provided opportunities to the state for stepping up the movement by formulating policies suited to the needs of the people. This also incidently pushed up the growth of central banks in the state. The Table-II.1 shows the growth of the central banks during 1908-09 to 1918-19.
TABLE - II.1

GROWTH OF CENTRAL COOPERATIVE BANKS DURING 1908-1919

(Amount Rupees in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Banks</th>
<th>Membership</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Individuals</td>
<td>Societies</td>
<td>Amount of loans outsta-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>nding against individ-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>uals and societies</td>
</tr>
<tr>
<td>1908-09</td>
<td>3</td>
<td>157</td>
<td>-</td>
<td>6.62</td>
</tr>
<tr>
<td>1910-11</td>
<td>4</td>
<td>NA</td>
<td>-</td>
<td>NA</td>
</tr>
<tr>
<td>1913-14</td>
<td>7</td>
<td>NA</td>
<td>-</td>
<td>NA</td>
</tr>
<tr>
<td>1915-16</td>
<td>9</td>
<td>NA</td>
<td>-</td>
<td>NA</td>
</tr>
<tr>
<td>1918-19</td>
<td>26</td>
<td>1663</td>
<td>2538</td>
<td>79.57</td>
</tr>
</tbody>
</table>

Financial highlights of the Central Banks:

The resources of the banks consisted of share capital, reserves, deposits and borrowings. The value of share varied from Rs. 10 in South Kanara to Rs. 500 in Salem. The share capital and reserve fund represented from 7 to 12 percent of the total capital of the banks. Deposits came chiefly from the urban classes at rates varying from 5 to 6½ percent and fixed as a rule for one to two years. The primary societies within that district had to deposit reserve funds with the central banks. The borrowing capacity of the banks was eight times their paid-up share capital plus reserve fund.
The central banks lent to societies at 1\% percent. Loans were granted on the Registrar's sanction after an enquiry made by his staff. A few central banks maintained supervisors. The central banks used the reserve funds of other societies which lodged with them as part of their working capital.

Management:

The banks were managed by the board of the management elected by the general body. Where societies held shares in central banks, they were entitled to elect representatives on the Board of Management. The day-to-day business of the banks was looked after by an honorary secretary with a staff of clerks and confined themselves to accounting the banking business. It was usual to pay 1/8 of the net profits to the honorary secretary as his remuneration. The banks did not receive any state subvention. The audit of the banks was done by the Assistant Registrars.

THE SECOND PHASE - THE PERIOD OF EXPANSION (1920-1930)

During 1920-21 the then existing financing structure of the state consisted of separate central banks for each district with a provincial bank at Madras, making the three-tier structure complete. This period also saw the appointment of a Committee on Cooperation under the Chairmanship of
Mr. C.A.H. Townsend on 1st July 1928, to examine the progress of the movement in the presidency and to suggest future course of development. This period witnessed a phenomenal growth of primary societies necessitating the exclusive function of central banks to financing the primaries. The central banks had to pay attention in the direction of mobilising adequate resources to meet the increasing credit needs of the primary societies.

The Table-II,2 shows the growth of the resources of the central banks.

The banks mobilised their resources from individual members and non-members, cooperatives, local bodies and Government departments. It was in the year 1919-20 the Government passed an order permitting local bodies to deposit in central banks approved by the Registrar, their surplus funds and deposits lodged with them by contractors and employees. Thus the total amount of deposits increased from Rs. 3 lakhs in 1919-20 to Rs. 164 lakhs in 1926-27. The deposits from individuals, cooperatives and local bodies and Government departments constituted 35.46 percent, 12.61 percent and 32.8 percent respectively. Besides, the deposits the borrowings included loans and cash credit from Madras Central Urban Bank and the then Imperial Bank of India. But it must
### TABLE - II.2

CENTRAL COOPERATIVE BANKS—TREND OF PROGRESS DURING 1920 TO 1930

(Amount Rupees in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Share Banks</th>
<th>Capital</th>
<th>Deposits and Other Borrowings</th>
<th>Reserve Fund</th>
<th>Total Working Capital</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920-21</td>
<td>32</td>
<td>18.82</td>
<td>141.19</td>
<td>2.97</td>
<td>162.30</td>
<td>2.06</td>
</tr>
<tr>
<td>1921-22</td>
<td>32</td>
<td>24.11</td>
<td>183.63</td>
<td>4.20</td>
<td>211.12</td>
<td>3.89</td>
</tr>
<tr>
<td>1922-23</td>
<td>32</td>
<td>28.38</td>
<td>215.20</td>
<td>5.82</td>
<td>247.82</td>
<td>4.31</td>
</tr>
<tr>
<td>1923-24</td>
<td>32</td>
<td>32.41</td>
<td>257.16</td>
<td>7.14</td>
<td>295.34</td>
<td>5.80</td>
</tr>
<tr>
<td>1924-25</td>
<td>31</td>
<td>36.92</td>
<td>300.61</td>
<td>8.90</td>
<td>344.64</td>
<td>7.12</td>
</tr>
<tr>
<td>1925-26</td>
<td>31</td>
<td>40.23</td>
<td>345.98</td>
<td>10.39</td>
<td>395.23</td>
<td>7.23</td>
</tr>
<tr>
<td>1926-27</td>
<td>31</td>
<td>44.33</td>
<td>422.67</td>
<td>12.59</td>
<td>477.82</td>
<td>8.87</td>
</tr>
<tr>
<td>1927-28</td>
<td>31</td>
<td>48.70</td>
<td>481.18</td>
<td>16.52</td>
<td>542.94</td>
<td>12.19</td>
</tr>
<tr>
<td>1928-29</td>
<td>31</td>
<td>52.08</td>
<td>507.91</td>
<td>18.99</td>
<td>576.25</td>
<td>13.21</td>
</tr>
<tr>
<td>1929-30</td>
<td>31</td>
<td>56.54</td>
<td>550.59</td>
<td>22.46</td>
<td>627.18</td>
<td>13.34</td>
</tr>
</tbody>
</table>

(Source: Report of the Madras Committee on Cooperation, 1939-40, P. 37)

It be noted that a few of them were self-supporting and did not borrow loans from the apex bank.
Liquidity - A must:

The Government order No: 1427 dated August 3rd 1920 and modified by later Government orders required the central banks to maintain fluid resources equal to i) Fifty percent of fixed deposits falling due in the next 30 days. ii) Fifty percent of current deposits, iii) Twenty five percent of savings deposits. The Government laid down that fluid resources must consist of i) Cash on hand ii) Undrawn cash credit with the Imperial Bank of India iii) Eighty percent of the current market value of Government promissory notes.

Distribution of Assets:

The period under review also saw the expansion of the loaning activities of the central banks. The resources were utilised for giving loans to various types of societies both for short and long periods depending on purposes. The total amount of loans outstanding against societies and individuals amounted to Rs. 76,57 lakhs in 1920-21 increased to Rs. 505,32 lakhs in 1928-29. The central banks also advanced loans to non-members on the security of deposits upto 90 percent of their deposits.

Overdues was one of the serious problems faced
by the banks during this period. It increased steadily and the overdues on account of principal and interest formed 20.18 percent and 5.06 percent respectively in 1927-28.

THIRD PHASE - PERIOD OF CONSOLIDATION AND REORGANISATION
(1929-30 TO 1939-40)

This period witnessed the great depression of the thirties. Cooperatively this period saw the liquidation of many bad and moribund societies as a result of the policy of consolidation and reconstruction. The number of societies and membership showed a progressive decline. The general economic depression created a number of difficult problems for the central banks. The repaying capacity of the members of societies was crippled and defaults by members to societies and by societies to central banks assumed large proportions.

Resource Mobilisation:

During this period the resources position of the central banks showed a declining trend. The deposits and other borrowings which stood at Rs. 535.07 lakhs in 1930-31 declined to Rs. 422.03 lakhs in 1939. The total working capital also decreased from Rs. 715.96 lakhs to Rs. 566.24 lakhs during the same period. The restrictions imposed by the Government on investment of deposits by local bodies and municipalities in central banks, reduced
the deposits considerably. However, the restrictions were relaxed by the Government in 1936 and all central banks were permitted to accept deposits not exceeding its paid-up capital from such institutions. In 1939 the Government allowed the local bodies to invest in central banks only certain earmarked funds such as the Provident Fund, the Water and Drainage Fund, the Endowment Fund and unspent loan amounts. The total deposits of local bodies held by the central banks stood at Rs. 46.44 lakhs in 1939-40 which worked out to about 8 percent of the total working capital.

The overdues from societies to banks increased from 20.18 percent in 1927 to 32.70 percent in 1938. Various remedial measures were adopted to counteract these trends. The signs of recovery began to make their appearance from 1935-36 as the Government helped the apex bank to enable it to supply fresh loans to members of the rehabilitated societies.

Madras Cooperative Societies Act - 1932

In 1932, the Madras Cooperative Societies Act of 1932 was passed which widened the scope of the cooperative movement in the state. The new Act strengthened the hand
of Registrar of Cooperative Societies in dealing with defective societies and armed him with requisite power to execute decrees and awards for the realisation of dues.

A Review Committee - 1939:

The Review Committee of 1939 made the following recommendations for improving the working of central banks:

i) elimination of individual members and development of central banks purely with societies; ii) adoption of the principle of one bank one district; iii) encouragement of deposits from one to three years; iv) attraction of sizeable deposits from local bodies by changing the Government policy; v) provision of more short and medium-term loans to societies; vi) financing of societies for cottage industries; and vii) provision of modern banking business. The State Government gave effect to these recommendations.

This period also saw the establishment of Reserve Bank of India in 1935 and its Agricultural Credit Department which was charged with the responsibility of studying various problems relating to agricultural credit. This gave a boost in many respects to the cooperative movement in this state.

The progress of the central banks during this period could be seen from the Table-11,3.
TABLE - XJ.3.

PROGRESS OF CENTRAL COOPERATIVE BANKS (1930 TO 1939)

(Amount Rupees in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Banks</th>
<th>Share Capital</th>
<th>Deposits and other Borrowings</th>
<th>Reserve Fund</th>
<th>Total Working Capital</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930-31</td>
<td>32</td>
<td>57.86</td>
<td>535.07</td>
<td>24.99</td>
<td>615.96</td>
<td>13.64</td>
</tr>
<tr>
<td>1931-32</td>
<td>32</td>
<td>57.49</td>
<td>493.69</td>
<td>27.32</td>
<td>576.28</td>
<td>N.A</td>
</tr>
<tr>
<td>1932-33</td>
<td>32</td>
<td>56.10</td>
<td>505.25</td>
<td>28.90</td>
<td>588.74</td>
<td>N.A</td>
</tr>
<tr>
<td>1933-34</td>
<td>32</td>
<td>55.05</td>
<td>451.00</td>
<td>30.10</td>
<td>553.21</td>
<td>13.75</td>
</tr>
<tr>
<td>1934-35</td>
<td>32</td>
<td>54.53</td>
<td>402.10</td>
<td>31.33</td>
<td>551.43</td>
<td>14.25</td>
</tr>
<tr>
<td>1935-36</td>
<td>52</td>
<td>53.55</td>
<td>389.08</td>
<td>32.74</td>
<td>501.43</td>
<td>14.24</td>
</tr>
<tr>
<td>1936-37</td>
<td>31*</td>
<td>50.41</td>
<td>387.56</td>
<td>33.45</td>
<td>499.79</td>
<td>11.73</td>
</tr>
<tr>
<td>1937-38</td>
<td>31</td>
<td>49.79</td>
<td>409.68</td>
<td>34.28</td>
<td>523.54</td>
<td>10.64</td>
</tr>
<tr>
<td>1938-39</td>
<td>30**</td>
<td>49.58</td>
<td>452.03</td>
<td>34.58</td>
<td>566.24</td>
<td>11.12</td>
</tr>
</tbody>
</table>

* Aska and Ganjam Central Banks transferred to Orissa and the Chicacola Bank was started during the year.
** The Christian Central Bank was liquidated during the year.

FOURTH PHASE—PERIOD OF RECOVERY (1940-1950)

The second world war had a marked impact on the cooperative movement. The development of the cooperative
movement from the year 1940 can be divided broadly into two phases: 1) 1940-1945 - the aftermath of the second world war and ii) 1945-50 - Independence and Planning. The significant contributions of the War were: i) shifting of emphasis from credit to non-credit aspect of the movement and ii) broadening the functions of primary credit societies to embrace the entire life of the cultivator. These developments enhanced the role of central banks in the state.

i) The First Period - 1940-41: During the period 1940-41 to 1944-45 the prices of agricultural produce registered a steep rise and this trend had its impact on the working of the village credit societies.

ii) The Second Period - 1946-50: The period from 1946-1950 witnessed the cooperative movement registering progress in many directions. The agriculturists depended more and more on the cooperatives for their financial needs. The central banks also diversified their lending policy to cover societies like consumer, marketing, weavers, employees' societies and urban banks.

Role of the Reserve Bank of India:

A noteworthy development during this period was that RBI started playing an increasingly important role in the provision of Agricultural finance. During 1947-48 for the first time in its history, it sanctioned credit to 11 central
banks through the State Cooperative bank to a maximum of Rs. 100 lakhs at a concessional rate of 1\(\frac{1}{2}\) percent which was 2 percent below the bank rate. It was only on account of this generous aid on the part of the Reserve Bank, that it had been possible to reduce the rate of interest to the ultimate borrowers at 6\(\frac{1}{2}\) percent in the village credit societies and marketing societies in all districts.

The overall progress of the central banks from 1940 to 1950 could be judged from the Table-II.4.

FIFTH PHASE - PLANNING ERA

After Independence, the country embarked on a programme of planned development. Attainment of the socialist pattern of society, through a democratic process of planning had been set as an ultimate objective. The building up of a cooperative sector as a part of the scheme of planned development was one of the central aims of national policy. Though the First Five Year Plan recognised that cooperation was an instrument of democratic planning, no major scheme of cooperative development was included in the plan. However, in the Second Five Year Plan which commenced from 1956-57, major cooperative schemes relating to agricultural and industrial sectors had been incorporated.
TABLE - II.4.

GROWTH OF CENTRAL BANKS DURING 1940 TO 1950

(Amount Rupees in lakhs)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>1940-41</th>
<th>1942-43</th>
<th>1944-45</th>
<th>1946-47</th>
<th>1949-50</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No. of Banks</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>2. Share Capital</td>
<td>49.71</td>
<td>51.82</td>
<td>62.60</td>
<td>81.54</td>
<td>117.91</td>
</tr>
<tr>
<td>3. Reserve Fund</td>
<td>35.52</td>
<td>37.73</td>
<td>40.68</td>
<td>45.18</td>
<td>57.37</td>
</tr>
<tr>
<td>4. Other Funds</td>
<td>31.52</td>
<td>28.41</td>
<td>29.85</td>
<td>31.47</td>
<td>23.57</td>
</tr>
<tr>
<td>5. Owned Capital</td>
<td>116.75</td>
<td>117.96</td>
<td>133.13</td>
<td>158.19</td>
<td>214.50</td>
</tr>
<tr>
<td>6. Average owned Capital per Bank</td>
<td>3.89</td>
<td>3.93</td>
<td>4.44</td>
<td>5.27</td>
<td>6.92</td>
</tr>
<tr>
<td>7. Total Working Capital</td>
<td>595.10</td>
<td>673.16</td>
<td>650.33</td>
<td>1,384.28</td>
<td>1,737.66</td>
</tr>
<tr>
<td>8. Average Total Working Capital</td>
<td>19.84</td>
<td>22.44</td>
<td>28.38</td>
<td>46.14</td>
<td>56.05</td>
</tr>
<tr>
<td>9. Percentage of Owned Capital to the Working Capital</td>
<td>19.60</td>
<td>17.50</td>
<td>15.50</td>
<td>11.40</td>
<td>12.40</td>
</tr>
<tr>
<td>10. Borrowed Capital</td>
<td>478.35</td>
<td>555.19</td>
<td>717.20</td>
<td>3,246.44</td>
<td>1,523.16</td>
</tr>
<tr>
<td>11. Loans Issued (to Individuals and Societies)</td>
<td>449.56</td>
<td>499.66</td>
<td>N.A</td>
<td>3,277.78</td>
<td>4,340.38</td>
</tr>
<tr>
<td>12. Percentage of Overdue to demand</td>
<td>30.03</td>
<td>18.44</td>
<td>6.99</td>
<td>5.20</td>
<td>5.00</td>
</tr>
</tbody>
</table>

(Source: Statistical Statements relating to Cooperatives from 1940-41 to 1949-50, Reserve Bank of India)
The Third Plan envisaged a growing cooperative sector particularly in the sphere of agriculture, medium and small industry, trade and distribution. Further, the Fourth Five Year Plan envisaged growth of cooperatives in all parts of the country to ensure the coordinated operation of various types of cooperative organisations. One of the objectives of national policy in the Fifth Plan was building up of a strong and viable cooperative sector, with special emphasis on the needs of the peasants, the workers and the consumers.

Tamil Nadu entered into the era of planning along with the rest of the country. Cooperation was accepted as an effective instrument for achieving the socio-economic objectives in a planned economy. It was declared that provision of credit for agricultural purposes would continue to be the prime responsibility and principal activity of the cooperative movement.

The provision of credit by the cooperatives which was at the order of Rs. 5 crores a year at the end of the First Plan was stepped up to about Rs. 25 crores at the end of the Second Plan and to Rs. 30.34 crores in the final year of the Third Plan and to Rs. 78.82 crores in the last year of the Fourth Plan. During the first
3 years of the Fifth Plan, the cooperatives provided credit to the extent of Rs. 67.68 crores, Rs. 102.85 crores and Rs. 125.12 crores respectively. During the year 1977-78 the loans issued increased to Rs. 135 crores of which the medium term credit was Rs. 5 crores. During 1983-84, the cooperative credit would go up to Rs. 216 crores of which the cooperatives would meet 60 percent of the total credit needs of the farmers.

The planning era in Tamil Nadu established a well-knit three-tier agricultural credit structure with primary societies at village level, central banks at district level and apex bank at state level. This structure continues to occupy a dominant place in the cooperative movement. The central banks being the middle-tier occupied a crucial position in the cooperative credit structure in the state. They were assigned greater role due to the introduction of large programmes of cooperative development in the state. The various facets of the development of the central banks during this period are discussed under the following heads.

CONSTITUTION AND MEMBERSHIP

The guiding principle of one strong central bank for each district was well emphasised right from the beginning of the First Plan. There was one central bank for each
district except Thanjavur which had two. Thus there was 16 central banks in the year 1979-80. The following table shows the record of services of the banks in Tamil Nadu.

TABLE - IX.5.

RECORD OF SERVICE OF THE CENTRAL BANKS

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the Bank</th>
<th>Date of registration</th>
<th>No. of years of service</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Salem Central Bank</td>
<td>1906</td>
<td>75</td>
</tr>
<tr>
<td>2.</td>
<td>Coimbatore Central Bank</td>
<td>1910</td>
<td>71</td>
</tr>
<tr>
<td>3.</td>
<td>Madurai Central Bank</td>
<td>1912</td>
<td>69</td>
</tr>
<tr>
<td>4.</td>
<td>Kumbakonam Central Bank</td>
<td>1913</td>
<td>68</td>
</tr>
<tr>
<td>5.</td>
<td>Kancheepuram Central Bank</td>
<td>1915</td>
<td>66</td>
</tr>
<tr>
<td>6.</td>
<td>Vellore Central Bank</td>
<td>1917</td>
<td>64</td>
</tr>
<tr>
<td>7.</td>
<td>Tirunelveli Central Bank</td>
<td>1918</td>
<td>63</td>
</tr>
<tr>
<td>8.</td>
<td>South Arcot Central Bank</td>
<td>1918</td>
<td>63</td>
</tr>
<tr>
<td>9.</td>
<td>Thanjavur Central Bank</td>
<td>1920</td>
<td>61</td>
</tr>
<tr>
<td>10.</td>
<td>Tiruchirapalli Central Bank</td>
<td>1920</td>
<td>61</td>
</tr>
<tr>
<td>11.</td>
<td>Pudukottai Central Bank</td>
<td>1920</td>
<td>61</td>
</tr>
<tr>
<td>12.</td>
<td>Ramanathapuram Central Bank</td>
<td>1920</td>
<td>61</td>
</tr>
<tr>
<td>13.</td>
<td>Madras Central Bank</td>
<td>1930</td>
<td>51</td>
</tr>
<tr>
<td>14.</td>
<td>The Nilgiris Central Bank</td>
<td>1954</td>
<td>27</td>
</tr>
<tr>
<td>15.</td>
<td>Kanyakumari Central Bank</td>
<td>1957</td>
<td>24</td>
</tr>
<tr>
<td>16.</td>
<td>Dharmapuri Central Bank</td>
<td>1966</td>
<td>15</td>
</tr>
</tbody>
</table>
The membership of the banks consisted of societies primary and central, individuals and the state Government. In the initial period individuals were admitted so that experienced and prominent persons might be available for management. On the recommendations of various committees on Cooperation the central banks had been pursuing a policy of confining the membership only to societies. The Madras (Santhanam) Committee on Cooperation (1969) also emphasised the same policy.

STATE PARTNERSHIP

A remarkable event in the history of cooperative movement during the planning era was the publication of the report of the All India Rural Credit Survey Committee in 1954. One of the far-reaching recommendations of the committee was State partnership in cooperatives at different levels. The policy of State partnership in the share capital of the central banks was accepted for adoption on wide scale during the Second Five Year Plan Period. While the principle of state partnership aimed at strengthening the capital resources and consequently the borrowing power of the central banks, the ultimate object was that each central bank should progressively increase the share capital contribution of members vis-à-vis the Government share capital participation, so that after reaching an optimum level the
bank could start retirement of Government capital over a period of years. It was also recognised that such participation would help create new conditions in which central banks could operate effectively and for the benefit of the weaker sections of the agricultural community.

**RESERVE BANK'S HELP TO CENTRAL BANKS**

The Reserve Bank was considered as the most suitable agency to play a purposeful and positive role in the promotion of a sound system of rural credit particularly in the context of planned economic development and the need for increasing the agricultural production. The RBI therefore, began to take active interest in the building up and rehabilitation of the cooperative movement through a large number of financial and administrative measures. It had been giving a new life and potent leadership to the cooperative credit movement. It was also vitally concerned in building up of a sound and self-reliant cooperative credit structure in line with the objectives of Five Year Plans.

A significant event during the Second Plan period was the constitution of two important Funds in the RBI on the recommendations of the All India Rural Credit Survey Committee (1954). (i) The National Agricultural Credit (long term operation) Fund was created in 1956 to grant loans and advances to the state Governments for their
financial partnership in cooperatives, to advance medium-term loans to central banks through apex bank for agricultural purposes and to purchase debentures of central and development banks. (ii) The National Agricultural Credit (stabilisation) Fund was constituted in July 1956 for advancing medium-term loans to central banks through Apex Bank for the conversion of short-term loans into medium-term loans during the periods of famine, drought, flood and other natural calamities. The same fund was created at different levels of short-term cooperative credit structure with the same objects.

The central banks were allowed to avail themselves of the assistance from the stabilisation funds maintained by the State Cooperative Bank and the RBI normally to the extent of 95 percent of the short-term agricultural loans which were to be converted; the balance of 5 percent being met out of their own stabilisation funds and or other resources. As in the case of normal medium-term loans, conversion loans from the RBI were also sanctioned at concessional rate at 2½ percent below the Bank rate with effect from 1st March, 1978.

EXTENSION OF THE BANKING REGULATION ACT 1949

The most important development relating to the
Central cooperative banking during the planning era was the extension of the Reserve Bank of India's powers and responsibilities for the regulation of banking, to cooperative banks through the enactment of the Banking Laws (applicable to Cooperative Societies) Act 1965, the provisions of which came into force on 1st March, 1966. Some of the provisions of the Banking Regulation Act, relating to maintenance of cash reserves and liquid assets, regulations of advances, issue of directions, inspection etc., have been made applicable to the central banks also. The main consideration for bringing the cooperative banks under the control of the Banking Regulation Act was that "the operation of the cooperative banks had so increased in volume in recent years which had such an important bearing on the currency and credit situation in the country that it would be anomalous to leave this sector outside the ambit of the Reserve Bank's statutory control".11

Besides extending various kinds of financial assistance to central banks, the RBI had been advising them on all matters relating to banking and credit activities for which a Standing Advisory Committee on Agricultural

11. RBI, Report of the All India Rural Credit Review Committee, Bombay: Agricultural Credit Department, 1969, p. 698.
Credit was constituted by the RBI in 1951. In pursuance of the recommendations of the All India Rural Credit Review Committee (1969) the Standing Advisory Committee was reconstituted as the Agricultural Credit Board of the RBI in February, 1970.

The RBI had also been playing a very useful role in training of personnel of central banks with a view to improving the operational and managerial ability. Thus during the planning era the role of RBI widened to a great extent.

EMPHASIS ON INTERNAL RESOURCES

It was envisaged that as the central banks grew in terms of turnover, operational efficiency and organisational strength, they should become increasingly self-reliant and be in a position in the long run to restrict their dependence on outside borrowings. The All India Rural Credit Review Committee therefore, suggested that greater emphasis than hitherto should be placed on the mobilisation of deposits.

The central banks had been taking all possible efforts to augment their internal resources particularly deposits. The resource position of the banks recorded a steady increase during the planning era. The deposit position of the banks increased substantially due to various
steps taken by the banks and the state Government such as branch banking, provision of wide range of modern banking services, introduction of attractive deposit schemes, extension of deposit insurance scheme, the higher rate of interest allowed on deposits and the Government guarantee to the depositors. It was proposed to step up the deposit position from the present level of Rs.201.52 crores to Rs. 300 crores by the end of Sixth Plan period.

CENTRAL BANKS AND THE AGRICULTURAL DEVELOPMENT PROGRAMMES

During this period certain agricultural development schemes were taken up for implementation with the active assistance of the central banks. The Intensive Agricultural District Programme was the first of such schemes. It was introduced in Thanjavur district in April, 1960, with the object of maximising agricultural production by providing agriculturists with credit, agricultural inputs and other facilities according to the package of practices recommended. The programme covered only paddy and a limited area of the district in the initial period. By stages, it was extended to almost the entire district, and to other crops. Seeing the success of this programme, another programme called the Intensive Agricultural Area programme was introduced in select areas of Chingleput, Coimbatore, Madurai and Tirunelveli districts in 1965 for the intensive cultivation of paddy.
ragi, cholam and cotton. This scheme envisaged the
preparation of farm plan, provision of credit and other inputs.

With a view to increasing food production on a
large scale, a massive agricultural programme known as the
High Yielding Varieties Programme was introduced during
1966 all over the state. The programme contemplated the
cultivation of special high yielding varieties of paddy
and millets that responded quickly to the use of chemical
fertilizers. The scales of finance per acre for the
cultivation of such crops were therefore, fixed higher than
those adopted for traditional cultivation.

The basis and procedure for the provision of
short-term credit by central banks had been reoriented from
time to time on the recommendations of various Committees
and Working Groups on Cooperation. To make production
credit available at the right time and adequately and to
simplify the procedure with a view to avoiding delay.
Following the recommendations of the All India Rural
Credit Survey Committee (1954) and the Mehta Committee
on Cooperative Credit (1960), the Crop Loan System had
been implemented in the state since 1965. This system
shifted the basis of credit from the asset nexus to
production nexus.
The RBI also contributed appreciably towards the elaboration of the Crop Loan System, dissemination of its underlying principles and formulation of appropriate operational procedures. The progress made in the implementation of crop loan system was reviewed by the conference of State Ministers of Cooperation held in October, 1966 at New Delhi. It was agreed that the system was to be implemented in all areas by the end of 1967-68, priorities being given to areas of intensive cultivation and high yielding varieties programme.

Under the high yielding varieties programme the central banks had been assigned significant role viz., provision of adequate and timely credit facilities to their member societies to enable them to obtain the requisite production inputs. The RBI provided special credit limits to central banks relaxing the normal conditions regarding multiples of owned funds, non-overdue cover etc., for financing the scheme.

MANAGEMENT AND ADMINISTRATION OF CENTRAL BANKS

The General Body was the supreme authority in all matters. It consisted of i) individual members, ii) delegates of affiliated cooperative societies and iii) nominees of the apex bank and state Government.
The Board of Management was represented by elected representatives of the affiliated cooperative societies of different types, individual shareholders, individual depositors and nominees of the State Government. Due representation was also given to weaker sections like small farmers, scheduled castes and tribes, women and other classes of interests not represented by election. The strength of the Board varied from 8 to 48. The Board of Directors of each bank elected a Chairman and Vice-Chairman from among the directors.

The day-to-day management of a central bank was carried on by the Executive Committee, subject to the control of and delegation from the Board. This committee consisted of the Chairman, the Vice-Chairman, the nominee of the Apex bank and of the State Government and few other members of the Board.

At present, the democratic administration stands suspended in Tamil Nadu. All the central banks were placed under the control of Special Officers appointed by the State Government since 1976, who look after the managerial functions of the banks.

There were two important sections in each bank namely, the Banking Section and Administrative Section to
look after the day-to-day administration. The Banking section was headed by a Secretary who was appointed by the bank and assisted by one or more Assistant Secretaries, Development Officers, Superintendents and other assistants. The Administrative Section was headed by a Chief Executive Officer who was deputed by the Department of Cooperation and assisted by an Assistant Secretary or Superintendents and other assistants.

**INSPECTION, SUPERVISION, AUDIT, AND CONTROL OF THE CENTRAL BANKS**

The inspection and supervision were conducted by the Apex Bank and the RBI. Senior officers of those financial institutions inspected the head office of the Central banks, their branches and affiliated societies to which the central banks had extended financial accommodation. Each central bank was periodically and annually audited by the internal auditor of the bank and the auditor of the Audit Department of Cooperation. The central banks were externally controlled by the RBI, the Apex bank and the Registrar of Cooperative Societies. Of the three, the RBI exercised greater measure of control. It sought periodical statements and returns from each central bank under the various sections of the RBI, Act and Banking Regulations Act. Each bank has also to send periodical reports to apex bank and the Registrar.
WORKING RESULT

All the central banks in the state were working at profit. The banks earned their income by way of interest on loans and advances, discounting of bills, interest on investments, rent, commission and other miscellaneous receipts. The income of the banks ranged from Rs. 59 lakhs to Rs. 569 lakhs in 1979-80. The average income per bank worked out to Rs. 279 lakhs. The expenditure items of the banks included interest on deposits and borrowings, cost of management and other expenses, provision for doubtful debts and overdue interest. Their expenditure ranged from Rs. 55 to 481 lakhs and the average expenditure for a bank worked out to Rs. 242 lakhs in 1979-80.

The cost of management formed 69 percent of the total expenditure. The total amount of net profit of the banks increased from Rs. 29 to Rs. 83 lakhs in 1965-66 and further to Rs. 252 lakhs in 1975-76 and in 1979-80 it rose to Rs. 588 lakhs. The net profit of the banks ranged between Rs. 2 and 93 lakhs and the average net profit per bank worked out to Rs. 37 lakhs in 1979-80. As many as six banks earned profit above Rs. 50 lakhs. The dividend declared by them ranged from 3.75 to 12 percent in 1979-80. Out of the 16 central banks 8 banks were placed under 'A' classification in audit.
The overall growth of the central banks during the planning era could be seen from the Table-IX.6.

The historical development of the cooperative movement in Tamil Nadu State vividly depicts an evolution of the central banks earning a unique place and greater relevance in the co-operative credit structure. They formed the backbone of the cooperative structure. They undertook various promotional and developmental activities for the growth of the co-operative movement in the districts. In the three-tier federal structure, they were the strongest central links. They acted not only as balancing centres but also as friends, philosophers, and guides to the affiliated primary societies. In addition to the usual financial help to credit societies, they extended financial accommodation to other types of co-operatives. They developed rural banking by opening branches in rural areas. They also played a dynamic role in extending the benefits of credit services to a large majority of the farming community, besides providing leadership for the cooperative movement in the districts by promoting new societies, financing new societies and appraising their performance periodically. The banks pooled banking skills and experience in one place which improved the efficiency of
### TABLE II.6

- **GROWTH OF CENTRAL BANKS DURING PLANNING ERA**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of Banks</td>
<td>31</td>
<td>16</td>
<td>15</td>
<td>15</td>
<td>16</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>2. Number of Branches</td>
<td>12</td>
<td>8</td>
<td>22</td>
<td>67</td>
<td>338</td>
<td>356</td>
<td>369</td>
</tr>
<tr>
<td>3. Membership</td>
<td>23134</td>
<td>16269</td>
<td>13907</td>
<td>17054</td>
<td>21124</td>
<td>12760</td>
<td>12595</td>
</tr>
<tr>
<td>4. Share capital</td>
<td>137</td>
<td>100</td>
<td>362</td>
<td>962</td>
<td>1844</td>
<td>3424</td>
<td>3217</td>
</tr>
<tr>
<td>5. Reserve and Other funds</td>
<td>90</td>
<td>89</td>
<td>115</td>
<td>427</td>
<td>589</td>
<td>2570</td>
<td>3315</td>
</tr>
<tr>
<td>6. Deposits</td>
<td>1183</td>
<td>855</td>
<td>1012</td>
<td>1945</td>
<td>6728</td>
<td>15869</td>
<td>20152</td>
</tr>
<tr>
<td>7. Borrowings</td>
<td>606</td>
<td>361</td>
<td>2089</td>
<td>2305</td>
<td>6679</td>
<td>16857</td>
<td>16371</td>
</tr>
<tr>
<td>8. Working Capital</td>
<td>2034</td>
<td>1416</td>
<td>3618</td>
<td>5540</td>
<td>17087</td>
<td>41572</td>
<td>45062</td>
</tr>
<tr>
<td>9. Loans Advanced</td>
<td>4458</td>
<td>1514</td>
<td>4619</td>
<td>8126</td>
<td>14047</td>
<td>35172</td>
<td>22179</td>
</tr>
<tr>
<td>10. Overdues</td>
<td>55</td>
<td>42</td>
<td>32</td>
<td>702</td>
<td>930</td>
<td>9018</td>
<td>13846</td>
</tr>
<tr>
<td>11. Percentage of overdues</td>
<td>4</td>
<td>7</td>
<td>N.A.</td>
<td>15</td>
<td>N.A.</td>
<td>26</td>
<td>62</td>
</tr>
<tr>
<td>12. Net profit</td>
<td>20</td>
<td>10</td>
<td>40</td>
<td>83</td>
<td>203</td>
<td>679</td>
<td>588</td>
</tr>
</tbody>
</table>

**Note:**
1. Data relating to 1950-51 is confined to composite state of Madras.
2. Membership includes cooperatives, Individuals and State Government.
3. N.A. - not available.
the banks in discharging their functions effectively. They commanded an intimate local knowledge combined with initiative, foresight and sympathy which were essential for the success of a lending programme. The central banks also established a vital link between the apex bank at the top and the ultimate borrower through primary society. This vital link naturally strengthens the foundation of cooperative movement in the district. They have, thus, acted as an effective balancing fulcrum, in the credit structure of rural finance.