Chapter - I

INTRODUCTION

Agriculture and rural development are the pre-requisites for the accelerated economic development of the developing countries like India. It is the rural sector which contributes substantially for the development of our economy by providing food for the very existence of millions of population, supplying raw materials to many agro-based industries which are providing employment, adds to the GDP and also earns the much needed foreign exchange.

"Agriculture contributes the biggest share of 34.7 per cent of the Net Domestic Product of India, provides employment and means of livelihood for over 60 per cent of the population and contributes to the extent of 27.7 per cent of the country’s total exports".¹

Agriculture, in a narrow sense is referred to crop production while in its wider sense it includes other allied activities where biological transformation is the process of production. Following the definition of National Commission on Agriculture, "It includes activities like cultivation of crops, cattle rearing and dairy farming, raising piggery and poultry and development of fishery and forestry and also activities connected with their improvements, while maximization of output through modernization of agriculture and allied activities is termed as agricultural development".²

'India lives in villages", is true even to this day. "India is a country of 5.76 lakhs villages and every four persons out of five are villagers and every five out of six persons depend on agriculture and allied activities".³
Therefore, agricultural development implies not only a growth in farm productivity, but also improvement in the general economic condition of the rural masses. "Rural development has gained wide importance along with agricultural development since the introduction of Five Year Plans in the country. Rural development is a strategy designed to improve the economic and social life of a specific group of people, the rural poor. It involves extending the benefits of development to the poorest among those who seek a livelihood in rural areas. This group includes small farmers, tenants, the landless and people of low income and related activities". It has been widely accepted that agricultural development in rural areas contributes a great deal to rural development. Thus, it can be concluded that agricultural development is a pre-requisite for rural development. Both can be said to be complementary to each other, a fair combination of these two, contributes to the overall economic development. However, agricultural development alone in rural areas does not result in rural development. "The National Bank for Agriculture and Rural Development after recognizing the importance of developing the non-farm sectors as a means to enhance employment opportunities to the rural masses, has stressed the need for providing credit for the promotion of small scale industries, cottage and village industries, handicrafts and other allied activities along with agriculture in rural areas with a view to promoting integrated rural development".

**Rural Credit**

"Agriculture, in spite of its importance, suffers from many deficiencies such as lack of value addition process, its dwindling share in Net Domestic
Product and the declining productivity of agriculture in general and lack of
development of a viable organizational mechanism at the grass root level
which can undertake planning and co-ordination". This calls for the need to
develop the villages at the grass root level, which holds the key for
economic development. Considering these, the eighth five year plan has
given emphasis to agricultural and rural development. It is hoped that a
provision of adequate credit to this sector will help in ‘taking off’ agriculture
from the present deteriorating stage.

Credit is a vital factor in Indian agriculture, since the majority of the
rural farmers are poor. Technological transformation and rural development
necessitates the provision of cheap finance especially for long period. Thus,
investment credit is of considerable importance in a capital-scarce country
like India. “The advent of green revolution and the new farm technology
comprising of high yielding varieties of seeds, fertilizers and the recent
policy decision to undertake wasteland development and aforestation have
opened new vistas in agricultural banking".

On the basis of time, agricultural credit is classified as short term,
medium term and long term. Short term loans are given for a period of less
than one year and are generally required to meet current agricultural
operations. Medium term loans are generally granted for periods ranging
above one year but below five years. Medium term and long term loans are
usually required for various capital expenses which are expected to
generate returns gradually over a long period after a short gestation period.
However, the main difference between medium term and long term credit is
the time factor. The period of loan even for the same purpose may differ from one cultivator to another depending upon the repaying capacity. Moreover, the institutional agencies providing credit are changing the duration of loans and there is no uniformity among them about the duration of medium term and long term loans. In view of these considerations, to avoid confusion, it would be more logical to classify credit into two categories working capital credit and long term credit for investment purposes.

However, the main difference between short term credit and investment credit is that the repayment of long term loan is expected only out of annual net savings of the borrowers, while in case of short term loans, repayment is linked with the harvesting of crops. In investment credit, the benefit is not confined to any particular harvesting period, but over a number of years.

**Long term credit**

Long term finance is important for capital investment in agriculture. In India, where there is not much scope for increasing agricultural production by bringing more land under cultivation, efforts are to be directed towards increasing the yield from land already under cultivation. This necessitates the adoption of scientific methods of cultivation so that production potential can be pushed up. Moreover, the majority of Indian farmers has little or no savings and hence is not in a position to go in for capital-intensive investments without external finance. The new innovations in agricultural technology have opened up vast potentialities for agricultural development.
and long term credit has been viewed as dynamic credit in the sense that it helps the farmers to create assets on land, progressively increasing his output and add to the agricultural income of the country. Moreover, recently according to the land resources estimates, about 50 per cent of the total geographical area in India is under various degradation hazards and about 2.1 million hectares of land is being degraded or deforested annually. This calls for the need to develop these waste and deforested land, which again requires heavy capital investment of a long term nature.\textsuperscript{11}

There are two sources of agricultural credit in India, namely institutional and non-institutional. Non-institutional sources include the private money lenders, commission agents, etc. who are all detrimental to the interest of rural people. In view of the evil effects of these non-institutional agencies, attempts were made from the very beginning for the provision of cheap credit to the cultivators.

Among the various institutional agencies, cooperatives were the first to enter the field of agricultural credit. It was recognized that cooperative credit has a great role to play in promoting rural economic development because of its close proximity with local people and knowledge of their living conditions. However, several shortcomings were found in the cooperative credit system and in 1954, the All India Rural Credit Survey Committee after examining the whole issue of the rural credit, concluded that “there was no alternative to the co-operative form in the villages for the promotion of agriculture credit and development”.\textsuperscript{12} At the same time, efforts in the sphere of rural credit should not be solely concentrated on the cooperative
Table 1.1

INSTITUTIONAL FINANCE FOR AGRICULTURE AND ALLIED ACTIVITIES

(Rs. in Crores) *

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative Banks</td>
<td>3701.0</td>
<td>4710.4</td>
<td>4873.1</td>
<td>5453.4</td>
<td>5392.0</td>
</tr>
<tr>
<td></td>
<td>(48)</td>
<td>(51)</td>
<td>(52)</td>
<td>(51)</td>
<td>(50)</td>
</tr>
<tr>
<td>State Government</td>
<td>209.6</td>
<td>478.4</td>
<td>274.5</td>
<td>291.8</td>
<td>358.6</td>
</tr>
<tr>
<td></td>
<td>(3)</td>
<td>(5)</td>
<td>(3)</td>
<td>(3)</td>
<td>(3)</td>
</tr>
<tr>
<td>Scheduled Commercial Bank</td>
<td>333.24</td>
<td>3526.1</td>
<td>3813.2</td>
<td>4282.4</td>
<td>4675.5</td>
</tr>
<tr>
<td></td>
<td>(43)</td>
<td>(38)</td>
<td>(40)</td>
<td>(40)</td>
<td>(43)</td>
</tr>
<tr>
<td>R.R. Banks</td>
<td>476.9</td>
<td>483.2</td>
<td>467.5</td>
<td>647.2</td>
<td>334.5</td>
</tr>
<tr>
<td></td>
<td>(6)</td>
<td>(6)</td>
<td>(5)</td>
<td>(6)</td>
<td>(4)</td>
</tr>
<tr>
<td>Total Direct Finance</td>
<td>7719.9</td>
<td>9198.1</td>
<td>9428.3</td>
<td>10674.8</td>
<td>10760.6</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
</tr>
</tbody>
</table>

* Figures in brackets are percentages to total.
sector. Cooperatives should be strengthened. They would serve better and
the farmer be better served - if other institutions co-existed with them in
healthy competition.

Thus, commercial banks were inducted into the field of agricultural
credit in 1961 followed by Regional Rural Banks in 1975 with a view to meet
the growing credit needs of the agricultural sector. Table 1.1 shows that
there has been an impressive progress in the total institutional credit
disbursed for agriculture and allied activities. From Rs.7719.9 crores in
1986-87, it went up to Rs.10760.6 crores in 1990-91 registering an increase
of 39.3 per cent over the five-year period. Cooperatives accounted for about
48 per cent of the total finance disbursed by institutional agencies in
1986-87 and it went up to 50 per cent of the total in 1990-91. The share of
the State Government's contribution to the total finance remained almost
constant at 3 per cent level in all the five years except in 1987-88 when it
was 5 per cent of the total. The share of Regional Rural Banks in total direct
finance to agriculture and allied activities declined marginally from 6 per cent
in 1986-87 to 4 percent in 1990-91. However, the share of commercial
banks in the total agricultural finance remained between 38 per cent and 43
per cent and had been almost constraint during this period without any
significant increase. Thus, it can be concluded that co-operatives still hold
the important position in agricultural finance in spite of the entry of
Commercial Banks and Regional Rural Banks into this field.

Though the cooperatives were holding a major share in the over-all
agricultural finance, when compared to commercial banks and other
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative Banks</td>
<td>2208 (43.5)</td>
<td>2278 (43.6)</td>
<td>2156 (37.1)</td>
<td>2148 (28.06)</td>
<td>2616 (27.8)</td>
<td>3098 (27.4)</td>
<td>3356 (25.9)</td>
<td>3489 (20.2)</td>
<td>4190 (21.5)</td>
<td>4737 (22.0)</td>
<td>3968 (16.55)</td>
</tr>
<tr>
<td>Of which, SCARDBs</td>
<td>1212 (23.9)</td>
<td>1375 (26.3)</td>
<td>1645 (28.3)</td>
<td>2030 (27.0)</td>
<td>2468 (26.2)</td>
<td>2682 (23.7)</td>
<td>2811 (21.7)</td>
<td>2864 (16.6)</td>
<td>2898 (14.9)</td>
<td>2938 (13.6)</td>
<td>3103 (12.9)</td>
</tr>
<tr>
<td>RRBs</td>
<td>342 (6.7)</td>
<td>245 (4.7)</td>
<td>395 (6.8)</td>
<td>532 (7.1)</td>
<td>563 (6.0)</td>
<td>644 (5.7)</td>
<td>750 (5.8)</td>
<td>749 (4.3)</td>
<td>974 (5.0)</td>
<td>1077 (5.0)</td>
<td>1295 (5.4)</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>2528 (49.8)</td>
<td>2700 (51.7)</td>
<td>3255 (56.1)</td>
<td>4827 (64.3)</td>
<td>6234 (66.2)</td>
<td>7482 (66.1)</td>
<td>8821 (68.1)</td>
<td>13036 (75.3)</td>
<td>14321 (73.4)</td>
<td>15683 (72.8)</td>
<td>18670 (77.8)</td>
</tr>
<tr>
<td>Other Agencies</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>92 (0.8)</td>
<td>30 (0.2)</td>
<td>29 (0.2)</td>
<td>28 (0.1)</td>
<td>39 (0.2)</td>
<td>41 (0.17)</td>
</tr>
<tr>
<td>Total</td>
<td>5078</td>
<td>5223</td>
<td>5806</td>
<td>7507</td>
<td>9413</td>
<td>11316</td>
<td>12957</td>
<td>17303</td>
<td>19513</td>
<td>21536</td>
<td>23974</td>
</tr>
</tbody>
</table>

Source: NABARD and SCARDBs.
financing agencies, their share in lending under medium term/long term loans has started declining from 1992-93. The reasons may be attributed to (i) Increase in total medium term/long term loans for farm mechanization, land development, minor irrigation, etc. and (ii) the share of commercial banks in rural lending, especially the increase in medium term/long term credit. Because RBI has stipulated that a minimum of 18 per cent of the total credit by the banks must be directed towards agriculture and allied activities - it is a sub-limit under the overall 40 per cent towards priority sector. The above trend has been represented in Table 1.2.

The table illustrates the share of cooperative banks in lending under medium term /long term credit has declined from 43.50 per cent in 1992-93 to 16.55 per cent in 2002-03., where as the same period of 11 years, the share of commercial banks has increased from 49.80 per cent in 1992-93 to 77.80 per cent in 2002-03. Another valid inference from this table is that the term lending cooperative institutions, i.e. SCARDBs have also lost their share considerably from 23.90 per cent in 1992-93 to 12.90 per cent in 2002-03.

**Cooperatives in long term credit**

With the introduction of cooperative movement in the country, there arose the need for a specialized institution, catering exclusively to the long term credit needs of farmers. The difficulties associated with the long term credit like locking up of the funds for long periods, risks involved in lending money for long period etc. forced the planners to have a separate institution. Moreover, the repayment of long term loans is spread over a number of
years and mortgage requirement has been considered as an essential requisite for such long term loans. It is the appreciation of these factors which has led to the creation of specialized institutions - Land Mortgage Banks - catering to the complicated term loans of farmers in India.\textsuperscript{13}

The Long term credit structure in cooperatives had its beginning in the early 1920s with the establishment of Land Mortgage Banks to provide long term loans to farmers to redeem their prior debts. The first land mortgage bank was established in 1920 in Punjab followed by the establishment of large number of such banks in all provinces. The first Central Land Mortgage Bank started functioning in Madras to centralize the issue of debentures and to coordinate the working of Primary Land Mortgage Banks. The Bombay Banking Enquiry Committee (1930) mentioned about the inadequacy of resources of primary credit societies to undertake long term lending and advocated formation of Land Mortgage Banks for giving long term loans. The 1930's and 1940's of last century witnessed the mushroom growth of Land Mortgage Banks throughout the country without any uniform pattern with regard to their size and operation. The All India Rural Credit Survey Committee recommended re-organization of Land Mortgage Banks with a State level apex body and Primary Land Mortgage Banks at taluk level affiliated to it. The Committee has also assigned a developmental role to the Land Mortgage Banks by diversifying their operations to the investment credit for agriculture. Central Land Mortgage Banks were established in almost all the States during the second Five Year Plan.
The contributions of Agriculture and Rural Development Banks to the development of Indian agriculture have been quite significant in the post-Independence era. ARDBs played a very important role in improving the productivity of land especially through development of minor irrigation and facilitating farm mechanization in the 1960's and 1970's. While continuing to promote capital formation in agriculture, these banks started financing rural non-farm sector projects in a big way in the 1980's and 1990's which helped rural families to increase their income substantially through value addition to their produce apart from providing opportunities for alternate employment.

The structure of cooperative long term credit institutions is under two-tier system viz., State Cooperative Agriculture and Rural Development Banks at the State level and Primary Cooperative Agriculture and Rural Development Banks at the Block / Taluk level. The SCARDB in each State guides the primaries in their business. Though the activities of the Cooperative Agricultural and Rural Development Banks have grown by leaps and bounds, with the entry of Commercial Banks and Regional Rural Banks in the area of agricultural finance, CARD Banks are no longer enjoying a monopoly status in the long term credit structure.

Term lending for agricultural development has a long history in India. The Government used to assist the farmers in the form of ‘Taccavi loans’, which was an ancient and traditional form of assistance. ‘Taccavi loans’ were previously granted by the Government for agricultural purposes during natural calamities and other difficulties. Such a loan turned out to be a record of inadequacies and inequality of distribution mainly due to the fact
that medium and long term loans which formed the bulk of Taccavi were
normally disbursed to the well-to-do farmers. Thus, the small farmers and
tenants were left behind as they could not avail themselves of loan for want
of security as required by the rules. This type of ‘Taccavi’ lending had
almost all the features of the present long term credit system.\textsuperscript{16}

However, as early as in 1863, the first bank in the pattern of Land
Mortgage Bank was set up by English Company sub-titled ‘Credit Fencier
Indian’ and was registered in London. Arrangements for providing long term
credit came only in 1883 with the passing of the Land Improvement Loan
Act. Even with the introduction of cooperative credit movement in India in
1904, the agricultural credit societies could not make any progress in the
sphere of long term credit mainly due to the risks involved in long term
financing and locking of funds for long years. There was an urgent need for
an institution meeting the long term credit requirements. The Royal
Commission on Agriculture (1928) remarked: ‘There is a widespread
tendency to look for a financing agency, which wields greater resource than
the village credit society which can meet the rural credit needs of the rural
masses’.\textsuperscript{17} Cooperatives were considered as suitable agencies and again
the problem was whether the existing three short term cooperative
structures can handle this function also, or to have a separate agency in the
form of the Cooperative Land Mortgage Banks. There was a serious debate
over this for a decade and the Government delayed action in dealing with
this problem.
However, H.C. Calvert, Registrar of Cooperative Societies in Punjab, took advantage of the provisions of the already passed Indian Cooperative Societies Act of 1912, and set up at Thong (now in Pakistan) the first Cooperative Land Mortgage Bank on 30th June 1920. Though it progressed initially, the movement did not last long due to poor recoveries.

It was towards the end of 1929 that the Madras Cooperative Central Land Mortgage Bank was organised to raise funds needed by the primaries through the issue of debentures and thereby coordinating the working of Primary Land Mortgage Banks. Regular and proper land mortgage banking could be said to have begun in the country with the organisation of this as well as with similar banks established in Bombay (1935), Mysore (1929) and Cochin (1935). The establishment of the Central Land Mortgage Banks further led to the rapid expansion of their business. Their main aim then remained confined to lending loans for redemption of prior debts.

By June 1939, there were 226 PLMBs in India; Madras claiming half the number and Bombay standing second to Madras and loans outstanding to these banks as on 30.6.1939 amounted nearly to Rs.5 lakhs.

In 1946-47, there were only 5 SLMB's operating through 284 PLMBs with outstanding loans of Rs.310 lakhs and disbursement during the year amounting to Rs.50 lakhs. The banks provided loans mainly for repayment of old debts and redemption of mortgage of land whose function continued for some years till mid-fifties. However, these Land Mortgage Banks could not make much progress in the initial years. The RBI has rightly summarized
the situation as "in spite of its vast agricultural population, India has not had a successful land banking structure".\textsuperscript{20}

The Rural Credit Survey Committee appointed by RBI conducted a survey during 1951-52 and found that only six States had Land Mortgage Banks. The Committee reviewed the performance of Land Mortgage Banks and felt that these banks should re-orient their operation to production and should give priority to productive purposes. In pursuance of the recommendations of the Rural Credit Survey Committee (1954), the emphasis was shifted from Land Mortgage Banking to Land Development Bank.\textsuperscript{21} With this there came about a new direction in their lending operations in terms of ‘production’ rather than ‘redemption’. A further impetus was provided in subsequent years, when the Five Year Plans laid stress on increased agricultural production by improved production methods and increased irrigation facilities. To suit their new role of provision of more loans for developmental activities, the change in nomenclature, viz., Cooperative Land Development Bank is quite significant. Thereafter, there had been a substantial progress in the year-to-year lending programme.

The formation of Agricultural Refinance Corporation in 1963 gave a new dimension to the programmes of the bank and the sixties proved to be "the golden age of long term cooperative credit structure".\textsuperscript{22} The working of Land Development Banks was further expanded by formulating and implementing special schemes aimed at increasing agricultural production. By subscribing to the debentures, which were fully guaranteed by the State
Governments, ARC has been providing refinance between 75 and 90 per cent of the credit disbursed by Land Development Banks.

In July 1975, the Agricultural Refinance Corporation Act was amended and the Corporation was renamed as Agricultural Refinance and Development Corporation. This corporation had been providing refinance to the Land Development Banks either in the form of directs loan or through special debentures issued by the borrowing institutions. However, the NABARD came into existence from July 1, 1982 as an apex bank for the rural credit. The main aim of this bank is to pay full attention in matters related to rural credit. After its formation, works carried on by the Agricultural Refinance and Development Corporation and the different Departments of the RBI like Agricultural Credit Department and Rural Planning and Credit cell were transferred to this bank. The setting up of NABARD can be considered as a real milestone in the history of cooperative Agricultural and Rural Development Banks. Refinance is provided by NABARD by subscribing to the debentures floated by CARD banks.

In 1990s, the LDBs further diversified their activities to finance non-farm sector also. In 1996-97 these LDB's were renamed as Primary Cooperative Agriculture and Rural Development Banks in most of the States.

As on 31st March 2006, the number of operation units of 19 SCARDB's was 2646 as against 2609 as on 31st March 2005, comprising 788 branches and 764 PCARDBs with 1075 branches. As on 31st March 2006, the aggregate membership of ARDBs went down to 29.79 million as
Table 1.3

PROGRESS OF PCARDBs IN INDIA
(Rs. in crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>768</td>
<td>727</td>
<td>696</td>
<td>764</td>
</tr>
<tr>
<td>Owned funds</td>
<td>3856</td>
<td>3116</td>
<td>3380</td>
<td>3450</td>
</tr>
<tr>
<td>Deposits</td>
<td>395</td>
<td>364</td>
<td>382</td>
<td>380</td>
</tr>
<tr>
<td>Borrowings</td>
<td>11879</td>
<td>12750</td>
<td>13066</td>
<td>12565</td>
</tr>
<tr>
<td>Working capital</td>
<td>15812</td>
<td>16689</td>
<td>16856</td>
<td>16452</td>
</tr>
<tr>
<td>Loans issued</td>
<td>2164</td>
<td>2506</td>
<td>2254</td>
<td>2308</td>
</tr>
<tr>
<td>Loans outstanding</td>
<td>11311</td>
<td>12622</td>
<td>12740</td>
<td>12224</td>
</tr>
<tr>
<td>Recovery Performance</td>
<td>44</td>
<td>54</td>
<td>48</td>
<td>49</td>
</tr>
</tbody>
</table>

Source: RBI and NABARD.
P: Provisional
against 30.82 million as on 31st March 2005. The borrowing membership at
1,01,13,935 constituted 62 per cent of the total members at 1,64,39,258 as
on 31st March 2006.$^4$

**CARDBs in Tamil Nadu**

The Tamil Nadu Cooperative State Agriculture and Rural Development Banks provides credit facilities to Agriculture and Rural Entrepreneurs throughout the State of Tamil Nadu through 18 Regional Offices located at district level and 180 affiliated PCARD Banks covering 384 blocks in 172 Taluks of Tamil Nadu. Among the 180 PCARD Banks affiliated to the SARD Bank, 11 PCARD Banks are located at Taluk level and 59 PCARD Banks are located at Block level.

Considerable improvement has taken place in the case of PCARDBs. In 1953-54, the number of the PCARDBs was only 34. But it rose to 786 in 2002-03. Loan issued also rose to 1,696 crores in 2002-03 from 1224 crores in 1995-96. The loan outstanding by the PCARDBs also rose to 8.960 crores in 2002-03 from, 4096 crores in 1995-96. The deposits of the banks rose to 2,502 crores in 2001-02 from 37 crores in 1995-96. The recovery (percentage to Demand) during 2001-02 was 46 per cent.$^5$

Now 181 PCARDBs located at Taluk and Block levels throughout the State are independent and autonomous institutions and they are affiliated to TNSCARD Bank. The lending eligibility of PCARDBs is fixed by TNSCARD Bank with reference to the instructions given by the NABARD. As cooperative institutions, the PCARDBs are functioning with the cooperation of their members. All the members of these banks are eligible.
for availing loan facilities. If a farmer or a person having land in rural areas wants to borrow from the PCARDBs he has to become a member of the bank first and then only he becomes eligible to apply for the loan.26

**PCARDBs in Thanjavur District**

Thanjavur District occupies a place of pride among frontline districts in the State, which has made a mark in the achievement of cooperative objectives starting with providing agricultural inputs. The movement has shown substantial progress in all spheres of cooperative activities. There are eight PCARDBs functioning in 14 blocks of Thanjavur District. The list of the banks and their operation areas are as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of the PCARDBs</th>
<th>Blocks covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Kumbakonam</td>
<td>Kumbakonam, Tirupanandal</td>
</tr>
<tr>
<td>2.</td>
<td>Orathanadu</td>
<td>Orathanadu</td>
</tr>
<tr>
<td>3.</td>
<td>Pattukkottai</td>
<td>Pattukkottai, Madukkur</td>
</tr>
<tr>
<td>4.</td>
<td>Peravurani</td>
<td>Peravurani, Sethubavachatram</td>
</tr>
<tr>
<td>5.</td>
<td>Papanasam</td>
<td>Papanasam, Ammapettai</td>
</tr>
<tr>
<td>6.</td>
<td>Thanjavur</td>
<td>Thanjavur, Budalur</td>
</tr>
<tr>
<td>7.</td>
<td>Thiruvaiyar</td>
<td>Thiruvaiyar</td>
</tr>
<tr>
<td>8.</td>
<td>Thiruvaidamarudur</td>
<td>Thiruvaidamarudur, Aduthurai</td>
</tr>
</tbody>
</table>
Statement of the problem

The main objectives of Primary Cooperative Agricultural and Rural Development Banks are to relieve the riots from rural indebtedness and subsequently to enlarge the sphere of their business for land development and allied activities of agriculture. The challenge that the PCARDBs poses is essentially that of providing gainful employment to agriculturists in new emerging areas in rural sector. The PCARDBs put their very effort to make small and marginal holdings economically viable as well as to bring fallow lands and wastelands under cultivation. Above all, PCARDBs aim to alleviate rural poverty by implementing developmental programmes in rural areas.

In the case of long term finance, the Cooperative Agricultural and Rural Development Banks are supposed to play a vital role in meeting the investment credit needs of farmers, rural artisans, skilled labourers etc. It has been seen that they could perform the task assigned to them in a fairly satisfactory manner. However, the performance of the CARDBs had started declining since the later part of 90's mainly due to the inherent deficiencies associated with their design as non-resource based specialised term lending agencies, severely restricting their ability to meet the financial needs of members adequately in competition with other rural financial institutions.

The CARDBs are not able to maintain business growth to commensurate with the growth rate in agricultural credit. This has resulted in their market share getting eroded progressively. The inability to provide loans other than agricultural long term, resulted in farmers moving away
from the CARDBs to other agencies, for the convenience of getting all kinds of credit services from a single agency. High financial cost on account of complete dependence on borrowed funds as well as absence of avenues for cross subsidising high risk costs associated with agricultural lending have made their loans costlier than their competitors.\textsuperscript{27}

The Reserve Bank of India has permitted the CARDBs to mobilize term deposits of one year and above from public. But the scheme has not been successful in mobilizing substantial resources due to the ban on acceptance of deposits by primaries and the restriction that deposits outstanding at any time should not exceed their net worth.

Being non-resource based, CARDBs depend heavily on borrowed funds to carry out lending operations. Refinance from National Bank for Agricultural and Rural Development is the main source of lendable funds. Because of the over-dependence on NABARD borrowing, the PCARDBs are not able to diversify their advances to such purposes for which NABARD refinance is not available.\textsuperscript{28}

The recovery performance was 47.57 per cent as on 30\textsuperscript{th} June 2006. NPAs as percentage of loans outstanding, which stood as 28.32 per cent as on 31\textsuperscript{st} March 2006.\textsuperscript{29} The overdues and NPAs have crippled financial solvency and cramped productivity and profitability of the PCARDBs.

The governance at state and primary level CARDBs are impaired by a host of factors. The lack of autonomy and operational freedom, the
absence of elected board, the appointment of CEOs by Government without proper selection process, frequent change of CEOs, lack of professionals and inadequate training and HRD efforts, Government interferences in the management of the banks etc., are the major factors.

In this context, an evaluation of the performance of the PCARDBs seems rewarding. So a thorough appraisal of the functions of the PCARDBs is necessary to assess the present status and future prospects. This will also help the PCARDBs to find its strengths and weaknesses for further improvement and corrective actions. Keeping this point in view, a performance appraisal of the PCARDBs in Thanjavur District has been made in this study.

**Objectives of the study**

The present study has the following objectives.

1. to examine the different sources of working funds of the selected PCARDBs;

2. to appraise the application of working funds in different portfolios by the selected PCARDBs;

3. to analyse the lending operations and the recovery performance of the sample PCARDBs;

4. to assess the customers perception towards the working of the PCARDBs; and

5. to arrive at major findings and suggestions.
Methodology

Survey method has been followed for this study. Both primary and secondary information has been collected through various sources. To collect primary information, two separate interview schedules were constructed. One for the sample PCARDBs and the other for the customers. The information gathered through discussions with the officials in the selected banks, the office of the TNSCARDB, Thanjavur region, and the office of the TNSCARDB, Chennai has been supplemented. The secondary information has been gathered from financial statements, audit reports and records of the sample PCARDBs and published reports of the RBI, NABARD and NFCARDB. The profit and loss accounts and balance sheets of the selected PCARDBs have been recast and presented in a condensed form.

Tools for analysis

In the course of the analysis in this study, the use of various accounting and statistical techniques has been made. Ratio analysis, trend, percentage, mean, coefficient of variation, Average annual growth rate and chi-square test have been applied. The use of all these techniques at different places has been made in the light of the nature and suitability of the data available and the requirements of analysis.

Mean – ‘\( \mu \)': The statistical tool, mean (Average) “\( \mu \)” has been calculated for the data collected from the financial statements of the selected PCARDBs. This mean is calculated as a measure of central tendency using the formula
**Average annual growth rate:** The growth rates of different variables of performance of selected PCARDBs have been computed for every year, taking the previous year as the base. The overall picture of growth can be obtained by calculating the average annual growth rate using the geometric mean.

\[
GM = \frac{\text{AL (ΣLog X)}}{n} = \text{G.M} - 100.
\]

**Sampling**

Simple random sampling method has been followed to select sample PCARDBs. There are eight PCARDBs working in Thanjavur District. Out of these eight PCARDBs, four banks were selected for this study using the above sampling method. The selected banks are Orathanadu, Thanjavur, Thiruvaiyaru, and Thiruvaidaimaruthur PCARDBs.

To analyse customers’ perception, information has been gathered from 200 customers. 50 customers from each sample bank were selected on the basis of convenient sampling method. Thus \(4 \times 50 = 200\) respondents have been interviewed with the help of interview schedule.

**Period of the study**

The study covers a period of ten years from 1997-98 to 2006-07.
Definitions of concepts

**Cooperative Bank:** An institution established on the cooperative principles and engaged in the normal banking business of accepting deposits from the public for the purpose of lending and repaying it on demand or otherwise.

**PCARDB:** It means a Primary Cooperative Agriculture and Rural Development Bank registered or deemed to be registered under the Cooperative Societies Act.

**‘A’ Class Member:** ‘A’ class Members are eligible for all types of loans and enjoy all the rights prescribed in the bye-laws including the right to vote.

**‘B’ Class Member:** ‘B’ class Members cannot vote but are entitled for loans on jewels and deposits.

**Long term credit:** Agricultural credit are disbursed to farmers for a period above five years or more.

**Farm sector loans:** It includes all direct and indirect agricultural activities which contribute to the production of agricultural products. Farm sector also includes the activities allied to agriculture.

**Non-farm sector loans:** Non-farm sector has all economic activities other than agricultural sector. Industries, service, business and other customer loans are treated as non-farm sector loans.

**Taccavi loans:** The financial assistance provided by the government to the farmers when their agricultural activities are affected by natural calamities like flood, drought, etc., or any other cause beyond their control.
complete information in quantitative terms of the past performance of a business unit but the use of these reports for analysis and interpretation is not without limitations. The financial position reflected by the annual reports is true only to the last day of the accounting year and it may not be relevant for the remaining parts of the year. Moreover, the published accounts exhibit values at historical prices. In this study, no attempt has been made to convert data into current prices, as such a conversion through inflation would have yielded an unrealistic picture.

While the executives and officials in the selected banks supplied freely the financial reports, the experience in the collection of primary data was not so encouraging. The officials at the helm of affairs of the selected units with whom interviews arranged were found unwilling to part with necessary information on the plea that they could discuss much about the procedures and policies. Further the customers did not disclose the full information regarding purpose, utilization and overdues of loans. As an alternative, it was possible to collect some relevant information through general discussions with the executives and customers.

However, this study is made as scientific as possible making allowances to all these limitations.

Chapterisation

The present study is organised into six chapters as per the details given below:

The first chapter deals with the design and execution of the study.

The second chapter reviews the previous studies.
The third chapter is devoted to the analysis of sources of working funds of the selected PCARDBs.

The fourth chapter appraises the application of working funds by the selected PCARDBs in the loans and advances and investments. The recovery performance of the bank is also analysed in this chapter.

The fifth chapter assesses the customers' perceptions with reference to credit portfolio towards the working of the PCARDBs.

The last chapter summarises the findings and suggestions of the study.

References:


16. Nanavati, B. Manilal, 'The Indian Rural Problem', Indian Society of Agricultural Economics, Bombay, 1965, Ch. XII.


22. Reserve Bank of India, Seventh to Tenth Meeting of the Agricultural Credit Board, Bombay, 1979, P. 35.

24. Ibid. P.11.


