CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

Agriculture is one of the predominant pillars of the Indian economy. Nearly 72 percent of the total population directly depends on this sector for their livelihood. This sector is the source of food items to its growing population. In many countries agriculture progress is responsible for industrial development. India is maintaining self-sufficiency in food acquired as a result of the Green Revolution. Growth in agriculture and allied sectors increased from 3.8% in 2006-07 to 4.5% in 2007-08.¹

In many countries agriculture progress was responsible for industrial development. In recent years, Indian agriculture has achieved a major technological breakthrough and a progressive commercialization. The implementation of Intensive Agricultural District Programme, Intensive Agricultural Area Programme, High Yielding Variety programme and introduction of a new technology has thrown up an increasing demand for external finance. So, the primary object is to increase agricultural output by extending adequate and timely credit.
Agricultural Credit

Finance plays a pivotal role in carrying out any economic activity and more so in agriculture. As a result of the new agricultural strategy, the higher prices for fertilizers, increased wages of labour and other cultivation expense, low return, and high rate of rent, a large number of cultivators cannot manage the needed finance without recourse to borrowing. Sophisticated farm production technology and scientific crop planning have also created a heavy demand for credit. Finance is required not only to meet the shortage arising in the production activity, but it is also required to bolster up a chronically deficit agricultural economy, because farmers generally live at the brink of starvation.²

A serious concern for the farmers relates to the availability of rural credit in adequate amounts at reasonable rate of interest. Taken into account the concern of farmers, the Government of India policies and programmes have led to an increase in the flow of agriculture credit through various financial institutions by three times during 2002-03 to 2006-07.³
Sources of agricultural credit

The sources of credit may be classified as institutional credit and non-institutional credit. The commercial banks, co-operative banks and registered institutions come under the institutional credit and non-institutional sources are money lenders, pawn brokers, landlords and merchants who provide financial assistance to the rural farmers.

### TABLE 1.1
Relative Share of Borrowing of Cultivator Households from Different Sources

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<tbody>
<tr>
<td>Non-Institutional</td>
<td>92.7</td>
<td>81.3</td>
<td>68.3</td>
<td>36.8</td>
<td>30.6</td>
<td>28.9</td>
</tr>
<tr>
<td>Of which money lenders</td>
<td>69.7</td>
<td>49.2</td>
<td>36.1</td>
<td>16.1</td>
<td>17.5</td>
<td>12.8</td>
</tr>
<tr>
<td>Institutional</td>
<td>7.3</td>
<td>18.7</td>
<td>31.7</td>
<td>63.2</td>
<td>69.4</td>
<td>71.1</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Cooperative Societies/Banks</td>
<td>3.3</td>
<td>2.6</td>
<td>22</td>
<td>29.8</td>
<td>35.2</td>
<td>41.8</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>0.9</td>
<td>0.6</td>
<td>2.4</td>
<td>28.8</td>
<td>35.2</td>
<td>30.2</td>
</tr>
<tr>
<td>Unspecified</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>3.1</td>
<td>2.8</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** All India Debt and Investment Survey and RBI Bulletin.
Table 1.1 shows the sources of credit to Indian cultivators. During the period of 1951, money lenders only dominated in the agricultural credit. The actual part of institutional finance was very low in providing loan to the rural farmers. Afterwards it was slowly increased from 7.3 percent in 1951 to 71.1 percent in 2001. Among the 71.1 percent, the co-operative banks’ role is an important to agricultural credit. The money lenders’ contributions also decreased. Because of central and state government policies and programs, banks are providing cheaper agricultural credit to Indian farmers. The co-operative banks and commercial banks capture 71 percent in the total agricultural credit in India.

**Role of co-operative banks in agricultural credit**

A co-operative bank is an institution wherein persons economically weak like farmers, petty traders, agricultural labourers, artisans, salaried people, the people of small means, professionals, etc. join together on the basis of equality for the promotion of their economic interest. This was organized in India to remedy the poverty of the small farmers and to save them from the exploitation and clutches of moneylenders. People join a cooperative bank, obtain loans and invest their surplus funds in the form of deposits. Cooperative banks are expected to provide services to the members and customers. Service is the main motto of these banks.
The co-operative credit agencies in India can be divided into two categories, that is, those dealing with short and medium term needs on one side and those serving long term needs on the other side. The structure of short and medium term credit is three tiers, that is, State Co-operative Bank (Apex) at the state level, District Central Co-operative Banks at the district level and Primary Agricultural Co-operative Banks at the village the level. In the case of long-term credit, the structure is two tiers, that is, State Co-operative Agricultural and Rural Development Banks (Apex) at the state level and Primary Co-operative Agricultural and Rural Development Banks at the decentralized or blocks level.
# TABLE: 1.2

**Institutional Credit for Agriculture and Allied Activities**

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</thead>
<tbody>
<tr>
<td>Cooperatives</td>
<td>744</td>
<td>1187</td>
<td>2029</td>
<td>3674</td>
<td>4819</td>
<td>12483</td>
<td>27295</td>
<td>48123</td>
</tr>
<tr>
<td>State Governments</td>
<td>74</td>
<td>82</td>
<td>144</td>
<td>354</td>
<td>359</td>
<td>554</td>
<td>487</td>
<td>NA</td>
</tr>
<tr>
<td>Scheduled Commercial Banks</td>
<td>NA</td>
<td>405</td>
<td>1263</td>
<td>2729</td>
<td>4676</td>
<td>9274</td>
<td>16440</td>
<td>80599</td>
</tr>
<tr>
<td>Reginal Rural Banks</td>
<td>--</td>
<td>2</td>
<td>NA</td>
<td>402</td>
<td>335</td>
<td>1381</td>
<td>3956</td>
<td>15300</td>
</tr>
</tbody>
</table>

**Note:** RRBs came into existence in 1975-76

**Source:** Reserve Bank of India. National Bank for Agriculture and Rural Development.
Table 1.2 exhibits the institutional credit to agricultural and allied activities. The co-operative banks provided a major credit facility to the cultivators during 1970-71 to 2000-01. In 2005-06, the commercial banks were the major contributors of the agricultural credit.

**District Central Co-operative Bank**

The Primary Agricultural Co-operative Banks supply short term and medium term funds to the agriculturists. These banks obtain their funds from membership fees, deposit from the public and from the State Co-operative Bank through the Central Co-operative Banks. Under these systems, the Central Co-operative Banks serve as a link between the Primary Agricultural Co-operative Banks and higher financing agencies like the Reserve Bank of India and State Co-operative Bank. In conformity with this national practice, the District Central Co-operative Banks in Tamil Nadu also discharge similar functions and responsibilities. In Tamil Nadu, there were about 23 Central Co-operative Banks with 726 branches in 2007-08. They collected deposits and advances about Rs.8975.48 crores and Rs.10989.57 crores in 2007-08 respectively.⁴
Statement of the Problem

The main object of co-operative banks in India is to offer banking facilities to persons of limited means required for productive purposes in the use of the land and labour at their disposal. The performance of banking business by the co-operative banks in rural and urban areas has been very good. They perform well in urban and metro’s where the apex state co-operative banks and district central co-operative banks successfully compete with their counterparts in the banking business market, namely, commercial banks. However, their growth rate in the business performance in the recent years is not encouraging. There are certain identified problems contributing to the slow performance of the central co-operative banks in general. The fast development of information technology and its application in the banking industry in India has been totally changing the traditional banking. The central co-operative banks are yet to equip themselves to counter the competition in the customer service. The new prudential norms and banking reforms introduced in Indian banking with effect from 1992-93 made a sea-change in the business performance of all commercial banks. Similar reforms have been introduced in central co-operative banks with effect from 1994-95. The central co-operative banks are passing through the difficult period of adapting to the new accounting system and in fulfilling
the reform requirements like assets classification, provisioning, capital adequacy ratio, etc. Shit from the age-old traditional accounting system has caused a major setback in the working system of the banks and the result is slow growth in the business performance. Recovery performance of co-operative and commercial banks has been very poor in the recent years.\(^6\) The increasing NPA is the result of non-recovery of loans and advances. Managing NPA, i.e., proper identification of NPA, safeguarding the securities, recovery of loans and advances, proper appropriation of the recovery, arresting creation of NPA, etc. are essential for the banks. This inspired the researcher to study the performance of the Kumbakoam Central Co-operative Bank. Hence, this study aims at examining the working of the Kumbakonam Central Co-operative Bank in a detailed manner.

**Review of Literature**

The understanding of any subject depends on a good knowledge of related literature. A good knowledge of the related literature helps not only to find out the scope of the subject but also to design the study in an improved manner. A brief review of the available studies in this field and related fields is attempted in the following paragraphs.
1. Vaikunthe (1991), in the evaluation of the performance of the Dharwad DCCB Karnataka, found that credit utilization in non-irrigated areas was not efficient, but repayment was more regular\textsuperscript{7}.

2. Reddy’s (1993) study on overdues management in Andhra Pradesh portrayed that unsound lending policy, defective appraisal, misuse and diversion, unsatisfactory marketing arrangements, lack of effective follow-up, effect of natural calamities, political considerations, write-off/waiver of interest, etc. of the government policy, sometimes, hindered the recovery even from the borrowers who raise good crop production.\textsuperscript{8}

3. Goyal (1993) conducted a study on Hisal DCCB Haryana. The defaulted borrowers utilized a relatively larger proportion of their total earnings on consumption purposes, thereby leaving less for investment in production processes.\textsuperscript{9}

4. B.Lal and R.K.Singh (1993) studied the misutilization of co-operative credit in agriculture in Kukathala of Achnera block of Agra district and found that marginal and small farmers i.e., weaker sections, misutilized a maximum percentage of loans.\textsuperscript{10}
5. Dhaka (1994), in his study on overdues of co-operative banks in the State of Haryana, India, discovered that the inadequacy of loan was an important factor for increasing overdues over the years.\(^\text{11}\)

6. Kusumakara Hebbar (1994), in his study of 15 PACS in Mangalore, found that the recovery problem was more in the case of short-term and medium term loans.\(^\text{12}\)

7. Balishter et al. (1994), in their study in Agra District, found out that willful default was mainly confined to medium and large farmers to the extent of over 90 percent.\(^\text{13}\)

8. R.Reddy and M.N.R. Reddy’s (1996) study showed that there was a positive relationship between asset status and debt accumulation and between the level of borrowing and willful default in Nellore District, Andhra Pradesh.\(^\text{14}\)

9. S.Lekshmi, P.Rugmini and Jesy Thomas (1998), in their study on Kuttanad region in Alappuzha district, the rice bowl of Kerala, identified that marketed surplus, time of sowing and credit gap were the major characteristics that discriminated the borrowers of crop loan for paddy into defaulters.\(^\text{15}\)

10. Rabi Narayan Mishra’s (1998) study on the attitude towards repayment in Orissa disclosed that the percentage of defaulters in
literate category was higher than that of illiterates and was the highest among the general caste borrowers.\textsuperscript{16}

11. Singh and Rawat (1999) predicted the default status of crop loan defaulters in Hamirpur district. The relative importance of the variables, viz operational size of holding, initial amount of loan, gross income from agriculture, family consumption expenditure, in regard to their power to discriminate between the willful and defaulters was known.\textsuperscript{17}

12. Namasivayam and Ramachandriaiah (2000) observed that the productive loan as a proportion of total loan was higher for marginal farmers among non-defaulter and control groups who were utilizing loans predominantly for digging and deepening wells. The crop loan tended to be more often misused than term loans. This may be partly due to untimely issue of loans.\textsuperscript{18}

13. K.Ravichandran (2000) in his study in Tamil Nadu concluded that political exploitation became the major cause for delinquency, compared to other causes for overdues, viz crop failures, increasing family expenditure, and social obligations. A significant portion of defaulters were of the opinion that Government waiving schemes were the major cause for this delinquency.\textsuperscript{19}

15. Amardeep Walia (2003) has observed in the study, “Funds management in central cooperative banks – A case study of the Jalandhar central cooperative bank Ltd” that due to stiff competition in the market, banks are under pressure to judiciously manage their funds. The main source of funds for the bank had been deposits with 91 per cent of the funds coming from this source only. The loan portfolio of the bank was found unsound, and so a major chunk (60 per cent) was deployed in investments instead of loans. The loan portfolio contained a share of 34 percent of total funds and CD ratio was less than 39 per cent. The solvency position and recovery position of the bank were found to be sound with CAR at 12 per cent and recovery at 97 per cent. However, the liquidity position of the bank was found to be unsatisfactory as the bank had always maintained surplus CRR.

Tamil Nadu” has made an investigation of NPAs of Central Cooperative Banks. The CCBs play a significant role in the economy of Tamilnadu. But the increase in the credit disbursed through them is dampened by mounting gross NPAs. In Cuddalore DCCB which reflects a similar picture, NPAs are escalating some of the implementation of the prudential norms. Three-fourth of the NPAs are sub-standard assets indicating deterioration in asset quality. Sub-standard and doubtful assets occupy a major portion of NPAs. Short-term sub-standard, doubtful and loss assets are growing at a faster rate than medium and long-term loans. The accumulation of NPAs has been detrimental to the financial health of the bank. While the profitability of the bank is rather low, the liquidity position warrants strengthening. The minimal effective recoveries and pending executions show the complacency in recovery through litigation. This is mainly due to the government’s attitude inhibiting coercion to recover dues. Since short-term NPAs occupy a bulk of the NPAs, the study of default of co-operative credit in the PACBs in the district has identified factors like annual income, landholding, annual expenditure and over dues as significant in discriminating between willful and non-willful defaulters. Crop failure is the primary reason for default. Stringent measures to control and prevent NPAs besides effective credit
monitoring and use of effective execution of decrees besides various avenues of recovery, especially compromise settlements would contain the problem of NPAs effectively.\textsuperscript{22}

17. Nanda.Y.C. (2008) in his article has traced out the co-operatives which have lost their markets here considerably not only the short-term structure but the worst sufferer has been the long-term cooperatives structure whose share is hardly 6% now. While the share of the cooperatives have come down since the overall credit flow has increased and the present government has been able to achieve billing of the credit faster than what they had expected, the decline in the share of cooperative banks has been virtually unnoticed.\textsuperscript{23}

18. Kulwant pathania,(2008) has made a study on “ NPA Management in cooperative Banks: Perceptions of Bank Officials” and has observed that the committee on Non-Performing Assets of Public Sector Banks (1998) rightly observed that NPA is a double-edged knife that tells on a bank’s profitability. On one hand, banks cannot recognize income (interest) on NPA accounts and on the other, it is a drain on bank’s profitability due to funding cost’. The Narasimhan Committee Report 1998 rightly pointed out that NPA constitute a real economic cause to the nation in that they reflect
the application of scarce capital and credit funds to unproductive uses. The money locked up in NPAs is not available for productive use and to the extent that the banks seek to make provision for NPAs, it is charge on the profit’. High NPAs in the banks have devastating effects not only on the banks but also on the economy as a whole’. The formulation of the good policy will be of no use unless it is implemented in true spirit.  

19. Amin G.H. (2008) in his article has emphasised that the future vision of cooperative credit institutions should be focused on moving on to the fast tracts of efficiency and productivity through promotion of professionalism, strengthening their financial resources base and at the same time upgrading their technological parameters including computerization of their operations coupled with the creation of good environment for the clientele and depositors. Such a scenario would enable the rural credit cooperatives to develop their competitive edge and to exploit the emerging opportunities emerging from the processes of globalization and liberalization.  

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Objectives of the study

The following objectives are framed for this study. Hereafter Kumbakonam Central Cooperative Ltd. also known as KCCB.

1. To study the theoretical view of the Central Co-operative Banks in India and Tamil Nadu.
2. To assess the working funds of the KCCB.
3. To examine the lending operations and recovery performance of the KCCB.
4. To analyse the non-performing assets of the KCCB.
5. To examine the trends in the financial position and performance of KCCB.
6. To study the customers’ opinion towards services rendered by KCCB.
7. To consolidate findings and suggestions.

Methodology

Case study method has been followed for this study. The study is based on both primary and secondary data. The primary data were collected through interview schedule (Appendix I) from the customers of the KCCB branch who are come to transact the business in the concerned
branches. Out of the 33 branches, the researcher has selected 11 branches in the convenient sampling method. The researcher contacted the survey from 20 respondents at each branch. The branches are selected on the basis of total deposits during the year 2007-2008, which are mobilized higher amount of deposits among the 33 branches (Appendix II). The researcher interviewed all the senior officials, secretary and other officials with the help of unstructured interview scheduled. The secondary data were collected from the annual reports of the KCCB, Statistical Report Relating to Banking published by RBI, unpublished theses and other journals.

**Frame work analysis**

In the course of the analysis in this study, various accounting and statistical techniques have been used. Ratio analysis, trends percentages, correlations, regression and analysis of variance 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 requirements of analysis.

**Hypotheses**

The following hypotheses have been framed and tested in the study:
i) The target and achievement of total deposits are homogenous.

ii) There is no correlation between current year loans granted and previous year’s recovery.

**Period of the Study**

The study period of the study is ten year i.e., from 1998-99 to 2007-08.

**Arrangement of Chapter:**

The dissertation is organized into eight chapters.

The first chapter covers introduction and design of the study, focusing on the statement of the problem, objectives of the study, review of literature and methodology and chapter scheme.

The second chapter traces the historical background of co-operative banks in India and Tamil Nadu.

The third chapter assesses the working funds of the KCCB.

The fourth chapter presents the lending operations and recovery performance of the KCCB.

The fifth chapter examines the non-performing assets of the KCCB.
The sixth chapter analyses the financial performance of the KCCB.

The seventh chapter presents the customers’ opinion towards services of the KCCB.

The eighth chapter gives the summary of findings, suggestions and conclusion.

Reference:


19. K.Ravichandran, Crop Loan System and Overdues, (Rohtak; Spell Bound Publications, 2000.)


