CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

Economic development involves not nearly economic change but also social and Institutional changes. It is a continuous process. It fulfils the aspirations of the people as well as national objectives. For more than decades, the development process has been associated with the challenges of persistent poverty, unemployment, degradation of natural resources and so on. In recent years economic development has also been linked with social progress. Accelerated economic growth brings with it social progress that is, increase in mass well-being, expansion of employment and reduction in income disparities.

The Indian Constitution which came into force in January 1950 set forth the following directive principles of state policy.

The state shall try to promote the welfare of the people by securing and protecting as effectively as it may be possible a social order in which justice, social, economic and political, shall inform all the institutions of national life. Further that, the state in particular directs its policy towards the citizens; men and women equally have the right to an adequate means of livelihood; the ownership and control of material resources of the community are so distributed as best to sub-serve the commonhood and the operation of the economic system does not
result in the concentration of wealth and means of production to the common
detriment.

In pursuance of these directive principles, the planning commission had
drawn up so far nine Five Year Plans during 1951-56 to 1997-2002. All the nine
Five Year Plans emphasised

- an increase in the standard of living of the people through increased
  production
- achieving self-sufficiency in food-grains through an increase in
  agricultural production
- a large expansion of employment opportunities
- ensuring social justice to weaker sections and preventing concentration
  of economic power,
- the removal of poverty,
- the promotion of efficiency in the use of resources and improved
  productivity,
- alleviation of poverty and a reduction in inter-class, inter-regional and
  rural- urban disparities and
- attainment in self-sufficiency in food, education, health, nutrition,
  sanitation and housing¹.

1987, pp. 6-11.
Co-operative sector plays a very important role in fulfilling the directive principles and the objectives of Five Year Plans. The co-operative sector seeks to remedy the economic inequality and evils of concentration of income and wealth and thereby prevents the exploitation of the weaker sections by the stronger.

Co-operation is a noble ideology and it aims at establishing a just civilised society. It lays the road to peace and abundance of wealth, both material and moral for all the citizens.

The co-operative policy evolved by former Indian Prime Minister P.V. Narasimha Rao, envisages that the co-operative should be promoted as instruments to harness and develop peoples’ creative power, for decentralized economic development, in order to maximise productivity. The Co-operative should also be encouraged to grow as self-reliant grassroot democratic institutions, owned, managed and controlled by members for their economic and social betterment. The co-operatives should be given preference in agro processing, cottage industries, marketing and exports of agricultural commodities to emerge as principal sources of income for the small farmers and artisans².

In India, the co-operative sector has been assigned an important role in the development of many sectors. The co-operative sector covers a number of vital areas like agriculture, rural small scale industry, retail distribution, housing and

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so on. Since independence, the co-operative sector has made progress especially in the fields of agricultural credit, marketing and processing of agricultural produce, supply of farm inputs and distribution of consumer goods.

The contribution of agriculture to gross domestic product during fifties was over 50 per cent and the share in employment was more than 70 per cent. But this contribution had been declining steadily from 38 per cent in 1980 to 29 per cent in 1995. At the same time contribution of the industrial sector had increased from 26 per cent to 29 per cent and service sector had increased from 36 per cent to 42 per cent. Still 64 per cent of the population continue to depend on agricultural sector³.

The Banking system must respond quickly and appropriately to the credit and promotional needs of the farmers, rural artisans, women and other segments of the rural poor. The Banking system in India governs the savings of the people and makes them available for development of rural sector. The banking system in Germany and Japan have close links with industrial and agricultural sectors, which is an important element in the rapid development of these countries⁴.

Rakesh Mohan adviser to the finance ministry said for achieving an 8 per cent GDP growth rate in the next ten years, banks would have to lend more,

increase savings mobilise and channellise funds in higher productive instruments for better returns\textsuperscript{5}.

\textbf{1.2 BANKING SYSTEM IN INDIA}

The whole banking system in India is controlled by the Reserve Bank of India. In the banking system there are 20 nationalised commercial banks, 8 belonging to the State Bank group, a vast net work of co-operative banks at state, district and block levels and various development banks, in addition to private and foreign sector banks. Rural and agricultural sectors are well served by the co-operative banks.

Co-operative banks are an important constituent of the Indian banking system. The co-operative banks originated in the west but they have assumed importance in India because of their vast network which is rarely paralleled anywhere else in the world. Their role in rural financing continues to be important even today and their business in urban areas has also increased in recent years, mainly due to the sharp increase in the number of primary co-operative banks.

\footnote{Rakesh Mohen, Adviser to the Finance Ministry, \textit{The Hindu}, August 26, 2001.}
Co-operative banks are part of the vast and powerful super structure of co-operative institutions which are engaged in the tasks of rural and urban banking, agriculture and agro processing including sugar products, dairy products, production of fertilisers, marketing of agricultural commodities, distribution of consumer articles through retail outlets and so on. Co-operative banks promote employment opportunities and additional income generation, thus helping in promoting quality of life of the common masses.

The co-operative banks in Indian banking were started with the objectives of prevention of concentration of economic power, achieving wide dispersal of ownership of productive resources, active involvement of people in development programmes, augmentation of the productive resources, liquidation of unemployment and poverty, and relieving the people from indebtedness to money lenders.

In independent India, the co-operative banks shoulder the responsibility as institutions to purvey credit for agricultural and rural development. The network of co-operative banks, with 29 state co-operative banks and 19 state Agricultural and Rural development banks, 367 District central co-operative banks with around 5.04 lakh primary level institutions, covers almost all villages in India. The resources such as the share capital of Rs.178687.50 crores, the reserves totalling Rs.179145.60 crores, deposits amounting to Rs.1159664.90 crores, working
capital of Rs.2271118.30 crores speak of the importance and contribution of co-operatives as the premier and dependable rural financial institutions in India\textsuperscript{6}.

The urban areas are served by the urban co-operative banks and the rural areas are largely served by two sets of institutions dispensing long-term and short-term credits. The State Co-operative Agricultural and Rural Development banks at the apex level and the Primary Co-operative Agricultural and Rural Development banks at the base level, are providing long-term credit. Short-term credit has a three tier structure with the state co-operative bank at the apex level, the central co-operative banks at the intermediate level and the primary agricultural co-operative banks at the grossroot level. The Central Co-operative Banks are considered as a nerve centre to control all the co-operative activities in a particular area of operation, usually a district. Central Co-operative Banks play a very important role in the development of agriculture and the rural people.

1.3 CENTRAL CO-OPERATIVE BANKS

A Central Co-operative Bank is a federation of primary agricultural co-operative banks and other primary societies in a specified area, normally a district. The rural credit survey committee recommended that there should be only one central co-operative bank in a district so that it could be strong enough as

an economic unit\(^7\). When membership of a central co-operative bank is restricted to primary societies only, it is known as a banking union. Central co-operative banks are generally situated at the headquarters of a district and have on their boards of management individuals of sufficient influence and business capacity, in addition to representatives of primary societies. Main objective of the central co-operative bank is to arrange the supply of funds for their constituents. In the present stage of development, the primary societies are not very strong so as to meet the credit requirements of their members. The central co-operative banks play a crucial role by arranging a regular flow of credit to the primary societies. The central co-operative banks also supervise the working of primary societies and ensure a satisfactory implementation of recognised credit policies.

The central co-operative bank is one of the strongest units in the co-operative banking structure. Though originally there was no provision for the organisation of such banks under 1904 Act, the new Co-operative Societies Act 1912 has paved the way for the organisation of central co-operative banks throughout the country.

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In many states the three-tier system is strengthened purely by the presence of the central co-operative banks. The weakness of co-operative movement in a state is synonymous with the weakness of the central co-operative banks.\textsuperscript{8}

1.4 PROGRESS OF CENTRAL CO-OPERATIVE BANKS

The progress of central co-operative banks in India is viewed in stages such as pre-independence period and post-independence period.

1.4.1 Pre-Independence Period:

Originally there was no provision for the organisation of central co-operative banks under the Co-operative Societies Act, 1904. Primary Agricultural Societies were formed under this Act. They raised their own funds through deposits and took small loans from the Government. But the Primary Agricultural Societies found it very difficult to meet the financial requirements of their member farmers due to inadequate resources. So, they needed financial assistance and technical and administrative guidance from other sources. Hence, the need for Central Financing Societies arose which would mobilise deposits from the rich in towns and finance the Primary Societies at the village level. Therefore the Government passed the Co-operative Societies Act 1912, which paved the way for the organisation of central co-operative banks throughout the Country. Under this Act Non-Agricultural Credit Societies also came into existence.

During 1912-1918, many central co-operative banks were formed in the various parts of the country. So, this period is described as the period of “Origin of Central Co-operative Banks”. During the 10 years from 1919-20 to 1929-30, the number of central co-operative Banks increased from 393 to 588. This period witnessed the expansion of the co-operative banking system.\(^9\)

The number of central co-operative banks reached the maximum of 611 during 1936-37, in the history of the credit movement in India. This was due to the registration of new central co-operative banks in the States of Uttar Pradesh and Bihar.\(^10\)

Though the number of Central Co-operative Banks (CCBs) increased tremendously, the working of the Banks was adversely affected due to the economic depression in India in the thirties. There was a marked decline in the membership of CCB’s.\(^11\)

After the formation of the Reserve Bank of India in 1935, various changes and developments took place. The Co-operative Credit Movement again picked up momentum after the second world war. During 1945-46, the number of member societies increased to 118094, whereas the individual members

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decreased to 80000 from 85000 in 1936-37. The total owned funds and working capital of the CCBs in India stood at Rs.3782 lakhs and Rs.4508 lakhs respectively. The average owned funds and working capital per bank worked out to Rs.6.29 lakhs and Rs.7.50 lakhs respectively. The number of banks declined to 601 during the period. The total amount of loans disbursed increased from Rs.914 lakhs in 1936-37 to Rs.4307 lakhs in 1945-46 with a remarkable increase of nearly 4.7-times. Similarly the overdue position of the banks in India increased to Rs.2036 lakhs during the period\(^{12}\).

1.4.2 Post–Independence Period:

After Independence, particularly after India entered the area of planning, the Government considered co-operative banks an indispensable instrument for implementing the development plans particularly those meant for agriculturists and the weaker sections of the society. The central co-operative banks shouldered the responsibility as institutions to purvey credit for agriculture and rural development.

Due to the absence of planning in the earlier stages of development of the co-operative movement, a large number of central co-operative banks were organised. In 1950-51 the number of central co-operative banks came down from 601 to 509. The Rural Credit Survey Committee recommended that there should

be only one central co-operative bank in a district so that it could be strong enough as an economic unit. It was, however, agreed that if two or more central co-operative banks already existed in a district, they may be allowed to continue provided they satisfied the test of viability.\footnote{R.D., Bedi, \textit{op.cit.}, pp.247-248.}

Being the leader of the co-operative movement in a district, the central co-operative banks were expected to play an effective role for the all-round growth of the co-operative movement. Being a social banker, the central co-operative banks were expected to take the banking facilities to the rural and unbanked areas.\footnote{P. Saravanavel, \textit{op.cit.}, p.181.}

The Committee on Co-operative Credit declared that the work of reorganisation of weak central banks through amalgamation should be completed as soon as possible so that the progress of agricultural credit co-operative may not be impeded but, in fact, may be accelerated.\footnote{S. Nakkiran, \textit{Co-operative Banks in India}, 1990, Rainbow Publications, Coimbatore, p.167.} The standing Advisory committee also supported the above view and recommended the amalgamation and reorganisation of central co-operative banks with the aim of having one strong central co-operative bank for a district.\footnote{\textit{Ibid.}, p. 166.}
The recommendations were approved by the Government of India and central co-operative banks were reorganised and amalgamated. The reorganisation process commenced from the first Five Year Plan and was completed at the end of the Fourth Five year Plan.

Table 1.1 shows the growth and progress of central co-operative banks from 1955-56 to 1973-74.

TABLE 1.1
PROGRESS OF CENTRAL CO-OPERATIVE BANKS IN INDIA FROM 1955-56 TO 1973-74

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Number of banks</td>
<td>478</td>
<td>380</td>
<td>346</td>
<td>341</td>
<td>341</td>
</tr>
<tr>
<td>2.</td>
<td>Share capital (Rs. in crores)</td>
<td>8.50</td>
<td>37.93</td>
<td>76.32</td>
<td>115.24</td>
<td>192.68</td>
</tr>
<tr>
<td></td>
<td>Government contribution</td>
<td>1.26</td>
<td>10.04</td>
<td>21.32</td>
<td>29.88</td>
<td>54.13</td>
</tr>
<tr>
<td>3.</td>
<td>Deposits (in crores)</td>
<td>55.71</td>
<td>110.59</td>
<td>236.59</td>
<td>350.84</td>
<td>718.60</td>
</tr>
<tr>
<td></td>
<td>Average per bank (Rs. in lakhs)</td>
<td>11.65</td>
<td>29.10</td>
<td>68.38</td>
<td>102.89</td>
<td>210.73</td>
</tr>
<tr>
<td>4.</td>
<td>Loans issued (Rs. in crores)</td>
<td>79.83</td>
<td>350.91</td>
<td>583.52</td>
<td>1020.83</td>
<td>1248.54</td>
</tr>
<tr>
<td></td>
<td>Average per bank (in lakhs)</td>
<td>16.70</td>
<td>92.34</td>
<td>168.65</td>
<td>299.36</td>
<td>366.14</td>
</tr>
<tr>
<td>5.</td>
<td>Percentage of loan overdues on loans outstanding</td>
<td>14.5</td>
<td>12.4</td>
<td>19.5</td>
<td>27.0</td>
<td>23.3</td>
</tr>
</tbody>
</table>

Source: Data Compiled from

a) The Annual Report of the Ministry of Industry and Civil Supplies, Government of India, New Delhi, 1974-75, pp.390-391 and

Table 1.1 shows that the number of CCBs in India decreased from 478 to 341 during the fourth Five Year Plan. This was mainly due to the fact that the
amalgamation and reorganisation scheme was intensively carried out in the states like Bihar, Punjab, Rajasthan and West Bengal\textsuperscript{17}. The number of CCBs remained constant till the end of June 30, 1974.

During the period of amalgamation and reorganisation, the amount of share capital, deposits and loans showed an increasing trend. The share capital steadily increased from Rs.8.50 crores in 1955-56 to Rs.192.68 crores, indicating more than a 22-time increase. The Government contribution towards the share capital of the CCBs also increased from Rs.1.26 crores in 1955-56 to Rs.54.13 crores in 1973-74 indicating a 43-times increase.

From Table 1.1 it could be seen that the deposits of all CCB’s in India from 1955-56 to 1973-74 showed an increasing trend. Deposits of Rs.55.71 crores in 1955-56 increased to Rs.718.60 crores showing a 13-times increase. The average deposits per bank also increased from Rs.11.65 lakhs in 1955-56 to Rs.210.73 lakhs during 1973-74. Loans and advances also increased tremendously from Rs.79.83 crores in 1955-56 to Rs.1248.54 crores in 1973-74. Loans and advances per bank also showed an upward trend during the period. The percentage of loans overdue on loans outstanding showed a mixed trend, beginning 14.5 per cent in 1955-56 which decreased to 12.4 per cent in 1960-61 and then increased to 27 per cent in 1968-69 and decreased to 23.3 per cent in 1973-74.

\textsuperscript{17} Samiun and Mah Foozur Rehman, \textit{Co-operative Sector in India}, Sultan Chand and Co., New Delhi, 1983, p.112.
The total number of CCBs gradually increased from 341 in 1973-74 to 349 in 2003-04. This was due to the fact that more CCBs were started after the amalgamation scheme was over. Owned funds increased to Rs.900 crores in 2003-04. Deposits increased from Rs.718.60 crores in 1973-74 to Rs.3766 crores in 2003-04 recording a 5-time increase. Loans and Advances increased from Rs.1248.54 crores in 1973-74 to Rs.5110 crores in 2003-04 which nearly was a 4-time increase. In 2003-04, loans outstanding were Rs.4705 crores.

The following Table 1.2 indicates the progress of CCBs during 2003-04 and 2006-07.

**TABLE 1.2**

**PROGRESS OF CCBS IN INDIA FROM 2003-04 TO 2006-07**

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Number of Banks</td>
<td>349</td>
<td>352</td>
<td>349</td>
<td>351</td>
</tr>
<tr>
<td>2.</td>
<td>Owned Funds</td>
<td>900</td>
<td>1007</td>
<td>1573.14</td>
<td>1838.31</td>
</tr>
<tr>
<td>3.</td>
<td>Deposits</td>
<td>3766</td>
<td>4932</td>
<td>9664.77</td>
<td>11180.56</td>
</tr>
<tr>
<td>4.</td>
<td>Borrowings</td>
<td>2000</td>
<td>2351</td>
<td>4580.60</td>
<td>5460.31</td>
</tr>
<tr>
<td>5.</td>
<td>Working Capital</td>
<td>-</td>
<td>8663</td>
<td>15232.75</td>
<td>19079.25</td>
</tr>
<tr>
<td>6.</td>
<td>Loans issued</td>
<td>5110</td>
<td>7333</td>
<td>15476.19</td>
<td>18771.01</td>
</tr>
<tr>
<td>7.</td>
<td>Loans Outstanding</td>
<td>4705</td>
<td>5444</td>
<td>9881.49</td>
<td>12156.22</td>
</tr>
</tbody>
</table>

Source: Data compiled from
Table 1.2 indicates that the number of CCBs showed a mixed trend during the period between 2003-04 and 2006-07. In 2004-05, the number of CCBs increased to 352 from 349 in 2003-04. Then, it decreased to 351 in 2006-07. The owned funds increased from Rs.900 crores in 2003-04 to Rs.1838.31 crores in 2006-07 registering a two-fold increase. Deposits also increased to Rs.11180.56 crores in 2006-07 from Rs.3766 crores in 2003-04 showing a 3-time increase. Borrowings of CCBs from apex banks increased from Rs.2000 crores in 2003-04 to Rs.5460.31 crores in 2006-07 with nearly a 2½ time increase. Working capital also increased to Rs.19079.25 crores from Rs.8663 crores during this period.

From Table 1.2, it could be observed that the advances increased from Rs.5110 crores in 2003-04 to Rs.18771.01 crores, indicating a 3.5-time increase. Loans outstanding also simultaneously increased to Rs.12156.22 crores from Rs.4705 crores during this period.

1.4.3 Progress of Central Co-operative Banks (CCBs) between 1997-98 and 2006-07:

In order to assess the recent trends in the progress of CCBs in India, especially after liberalisation, the researcher has analysed the data for 10 years from 1997-98 to 2006-07.

The following Table 1.3 depicts the progress of CCBs in India from 1997-98 to 2006-07.
From Table 1.3 it could be seen that the Total number of CCBs in India had gone up from 352 in 1997-98 to 367 in 2006-07. In 1999-2000, there was an increase of 7 banks due to the bifurcation of districts. Since 2003-04 onwards the number of banks has remained the same. The number of branches of CCBs in India stood at 14304. But it got reduced to 11546 in 1998-99 due to closure of various branches for want of viability. Since then, the number of branches had increased from 11546 in 1998-99 to 13029 in 2005-06 showing a 12.84 per cent increase.

The owned funds in 1997-98 of Rs.1984 crores increased to Rs.12180 crores in 2006-07 showing nearly a 6-time increase. There is an increasing trend throughout the period. The Deposits mobilised by CCBs in India showed Rs.12340 crores in 1997-98 which increased to Rs.57574 crores in 2006-07 showing nearly a 4.5-time increase. The trend shows a consistent increase over the 10 year period.

The total borrowings by CCBs in India shows Rs.6552 crores in 1997-98 to Rs.15836 crores in 2006-07 indicating a 2.5-time increase. The low rate of increase shows that the CCBs depended more on deposits than borrowing for their lending operations.
Table 1.3 shows that the working capital of CCBs in India was increasing all along the 10 year period. The working capital Rs.21103 crores in 1997-98 had increased to Rs.87821 crores in 2006-07 showing nearly a 4-time increase.

Loans and Advances amounting to Rs.17047 crores in 1997-98 increased to Rs.44678 crores in 2006-07. This shows an increasing trend except in the years 1996-97 and 2006-07 where there was marginal decrease over the previous period. The loans outstanding show a steady increase over the previous years. In the year 1997-98, loans outstanding stood at Rs.13589 crores which increased to Rs.47635 crores in 2006-07 indicating a 3.5-time increase. It is suggested that the CCBs should take steps to reduce loans outstanding.

In Tamil Nadu there are 23 central co-operative banks functioning. All districts have a separate central co-operative bank, except the newly formed six districts. Thoothukudi District Central Co-operative Bank has been operating since 1991.

15 REVIEW OF PREVIOUS STUDIES

With a view to identify and understand the areas already investigated relating to central co-operative banks, the researcher mentions below a few important studies already undertaken.
A. John Winfred in his study “Funds Management in District Central Co-operative Banks” analysed the cost and returns of funds to understand the margin available to a bank in its resource mobilisation and utilisation and whether the available margin was adequate to run a bank satisfactorily. For the purpose of analysis four DCCBs were selected from among 16 DCCBs in Tamil Nadu. The analysis was based on both primary and secondary sources of data\textsuperscript{18}.

N. Narayansamy and S. Ramachandran in their study of performance evaluation of South Arcot district Central Co-operative Bank assessed the performance of the bank with reference to key indicators like membership, share capital, deposits, borrowings, advances, operating expenses, establishment expenses and profit for a period of ten years from 1974-75 to 1983-84\textsuperscript{19}.

Y. Venu Gopala Rao in his article, “Funds Management in Co-operative Banks – A need for new approach” emphasised the significance of funds management in co-operative banks in the context of globalisation, liberalisation and privatisation of the financial system, consequent upon the implementation of Narasimham Committee recommendations. He pointed out that co-operative banks required a new approach for achieving higher productivity and profitability


in the context of the opening of economy, application of prudential norms and
deregulation of interest rates. The new approach should lay emphasis on
moblisation of resources at reasonable cost and deployment of funds at required
yield so as to enlarge the interest spread and profitability\textsuperscript{20}.

B.U. Bhatt, R.L. Shiyani and N.M. Patel in their case study of Junagath
District Central Co-operative Bank revealed the importance of credit-deposits
ratio. Credit-Deposit ratio is an indication of the effective and efficient planning
for utilisation of deposits received. They studied the C.D. Ratio and its inter
relationship with other components contributing towards credit which helped
them to judge the credit and deposit performance of the bank. They concluded that
effective C.D. ratio reflected the real picture of management of deposits and
credit\textsuperscript{21}.

B. Ramesh and M.R. Patil, in their article, “Performance Evaluation of
Urban Co-operative Banks in India”, attempted to evaluate the growth
performance of urban co-operative banks in India for the period from 1974-75 to
1993-94. The performance indicators such as number of banks, membership share
capital, reserves, deposits, borrowings, working capital, advances, overdues and
the like were selected for their study. They used the linear and exponential growth

\textsuperscript{20} Y. Venu Gopala Rao, “Funds Management in Co-operative Banks. A New Approach”,
\textsuperscript{21} B.U. Bhatt, R.L. Shiyani and N.M. Patel, “A Case Study of Junaganth District Central
models to estimate the linear and compound growth rates. Their study showed that the urban co-operative banks had made noteworthy progress in all their performance indicators. However, the borrowings and overdues had unfavourably augmented during the study period. Considering some deficiencies in the overall working of the urban co-operative banks, they suggested certain suitable policy measures for better performance.

N.V. Namboodiri in his study, “Economics of scale and scope of District Central Co-operative Banks”, explored the cost relationship of DCCBs. He applied a multi-product cost function to reveal the cost structure of these banking institutions and economics of scope for future expansion in their banking operations.

B. Subramanian and M. Dharma Reddy in their study titled “Deposit Mobilisation - A Study of Kheda District Central Co-operative Bank” found that the loan disbursement is higher than the total volume of the deposit of the bank.

R.C. Saraiya, while commenting on the report of banking commission 1972, observed that the organisational structure of banking institutions in the rural

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sector was not sound; the existence of paucity of funds in primary credit societies to lend money adequately to agriculturists; the banking habit in the rural sector was not well developed due to the poor functioning of co-operative banks; the officials of central co-operative banks were not well qualified and trained and the banking facilities in rural and semi-urban areas and the services rendered by the co-operative banks were not commensurate with their needs.\(^25\)

C.M. Rajan, in his article, “Central Co-operative Banks” discussed the various promotional measures and intensive efforts to be taken by central co-operative banks in Tamil Nadu.\(^26\)

T.S. Devaraja, in his study, “An analysis of District Central Co-operative Bank, Hasan” analysed the working of the bank in certain vital areas such as share capital, credit business recovery performance, overall profitability and economic viability.\(^27\)

L.D. Vaikunthe, in his study, “Recovery Performance of District Central Co-operative Bank, Dharwad”, analysed the recovery procedure of the bank with

the help of 180 borrower households belonging to big, medium and small farmers. He found that crop failure was the main cause of mounting overdues

D.M. Nanjundappa in his article, “Integrative Rural Banking”, stressed that rural banking should promote speedier development and reduction of poverty in rural India.

“Rural Indebtedness in Assam” an article, written by Gautham Purakayasta, revealed that in Assam informal sources were playing an important role more than institutional credit for borrowing funds, due to the sad decline of co-operative credit.

C.J. Arena and G.C. Aneka, in their article, “The Position of Women in the Repayment of Agricultural Loans in Nigeria” analysed various factors responsible for high repayment rate among female farmers. The results showed that high repayment rate was due to larger loan size, larger farm size, higher gross income, shorter distance between home and source of loan, higher level of female education and higher level of adoption of innovation.


D. Ganeshwar Rao, in his article, “Work Technology of Co-operatives” reiterated that the work technology needed to be improved in co-operative banks both as a measure of efficiency of operations, economy in expenditure and improvement in customer service\(^\text{32}\).

N. Ravindranathan, in his study, “Performance and Promises of Central Co-operative Banks in Kerala” analysed networth, deposits, borrowings, loans, over dues, and profitability of central co-operative banks in Kerala\(^\text{33}\).

In an article, “Co-operative Credit - Revamping needed”, Sanjib Kumar Kota and Vinod Sharma emphasised that a successful financial institution especially a co-operative financial institution had to adopt itself to the changing needs in order to become sustainable\(^\text{34}\).

K.J.S. Satyasai and A.S. Patil, in their article, “Revitalising Rural Credit System” suggested three strategies to strengthen rural credit system namely\(^\text{35}\)

i) recognising the nature and significance of demand for rural credit.


ii) Strengthening of organisation and competence of the institutions and

iii) Sensitising the regulatory and support systems.

All India Rural Credit Survey Committee 1954 recommended many measures for the general performance of central co-operative banks. This committee maintained that there should be one CCB for each district and the states were asked to draw a detailed scheme for strengthening central co-operative banks located in the state.

All India Rural Credit Review Committee, 1969, has put forward various suggestions for strengthening the central co-operative banks. This committee stressed the need for state contribution to the share capital of central co-operative banks and writing off of bad debts. It suggested appointment of special officers in view of the poor management of CCBS. It reiterated that the human resources of the bank must be fully utilised.

Cappoor Committee 2000 suggested a package of measures for strengthening co-operative credit institutions such as increasing share capital base,

reducing Government controls, professionalising management, diversifying business, funds management, and so on.\textsuperscript{38}

Kulwant Singh, in his work entitled, “Co-operative Agricultural Credit Utilisation in Himachal Pradesh” found that in recent years the requirement of agricultural credit had assumed significant dimensions due to the increasing thrust for development of new technology in the agricultural sector; the greater demand for the short-term, medium term loans and the large farmers utilising the credit more than small and marginal farmers\textsuperscript{39}.

In his analysis of the performance of Regional Rural Banks, Vasan Anand Kumar, suggested the following reasons for the non-viability of RRBs\textsuperscript{40}.

a) the availability of the margin between the cost of borrowing and the cost of lending
b) low volume of business
c) low rate of recycling of funds and
d) mounting overdues.

K. Jacob Samuel, in his study, “Agricultural Credit and Enhanced Productivity” revealed that the public sector banks, as purveyors of credit were required to lend full support to achieve the national objectives especially for the development of rural economy. Therefore the author stated that the banks should

\textsuperscript{38} Jagadish Capoor Committee Report, \textit{Urban Credit}, Vol. XXII, No.4, December 2000, pp. 31-32.

\textsuperscript{39} Kulwant Singh, Co-operative Agricultural Credit Utilisation in Himachal Pradesh”, \textit{Finance India}, Vol. X, No. 3, pp. 671-676.

\textsuperscript{40} Vasan Anand Kumar, “Performance of Regional Rural Banks”, \textit{Kurukshatra}, Vol. XXXVI, No.8, May 1988, pp. 19-20.
play an important and meaningful role in achieving the production targets by adopting well-designed credit management\textsuperscript{41}.

The Annual Report of NABARD pointed out the weakness of the institutional agencies in providing rural finance in the following words. “The National Bank recognises that for the effective operation of its polices, a financially sound and operationally efficient credit delivery system is necessary. It has, therefore, been the banks’ endeavour to re-orient the functioning of its client institutions viz. Commercial banks, regional rural banks and co-operative banks towards the achievement of above goals\textsuperscript{42}.

N. Namsivayam in his study, “performance evaluation of Ramnad District Central Co-operative Bank Limited” elaborately discussed resource mobilisation, resource deployment, recovery performance and matters relating to problems of recovery in respect of beneficiaries, PACBs and the bank\textsuperscript{43}.

V. Rengasamy, in his study entitled “Performance Evaluation of Tamil Nadu State Co-operative Bank Limited” analysed the performance of the bank with particular reference to deposit mobilisation and lending and observed that

\textsuperscript{42}Annual Report, NABARD, Mumbai, 1992-93, p. 29.
co-operative credit was the hope of the farmers to provide the basis of prosperity and opportunity to meet the demands of the twenty-first century.\textsuperscript{44}

The Khusro Committee rightly felt that co-operative banks must work as a total system and develop self-reliance. The higher tiers of the system must look upon the lower tiers as mother institutions, from which they derive strength and to which they, in turn, provide authority, leadership, guidance, supervision and control. There should be mutual accountability, support and responsibility within the system so that it became cohesive and had an organic relationship between its different tiers. There should be commonly-shared interest in deposit mobilisation, profits and reserves. “While self-reliance is a key to successful co-operatives, deposit mobilisation is vital to self-reliance and mobilisation of small savings, from as large a number of people as possible which is the desired strategy for deposit mobilisation.\textsuperscript{45}

Ganapathy in his thesis entitled “Performance Evaluation of Tirunelveli District Central Co-operative Bank, Limited” analysed the performance of this bank with that of other selected CCBs in Tamil Nadu and found that the financial


soundness of Tirunelveli Central Co-operative Bank was not as good as that of other selected central co-operative banks in Tamil Nadu.\textsuperscript{46}

Mayilsamy and Revathi Bala\textsuperscript{47} in their study stated that District Central Co-operative Banks (DCCBs) are essentially an intermediary structure. The important policy development contemplated by the State Government during the Plan periods consisted of substantial State Partnership in the share capita of DCCBs, linking borrowing with share capital, measures for the mobilization of adequate deposits, linking of deposits with borrowing, application of provisions of Banking Regulation Act to DCCBs, reorientation of lending on the basis of production plans i.e., crop loan system, provisions of working capital needs of Handloom Weaver Co-operative Societies (HWCS) and Marketing Societies, liberalized lending to the DCCBs by the NABARD, preferential lending to weaker sections, reorganization of DCCBs at the rate of one bank for a district, maintenance of financial discipline such as non-overdue cover, recovery discipline, etc. These measures and policy initiatives taken by NABARD and concerned State Governments had resulted into a growth in the general performance of DCCBs in India.


Sakthivel and T. Aranganathan in their study stated that the services are a form of product that consist of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of any thing, examples are banking, hotel, airline, retail, tax preparation and home-repair services. Co-operative banks are promoted mainly to help agriculture and other activities. The weaker sections are provided more assistance by lending at a lower rate of interest than other commercial banks. The share capital of these co-operative banks is contributed by both the State Government and the public.

The co-operative banks like many other financial service is facing a rapidly changing market, new technologies, economic uncertainties, fierce competition and more demanding customers and the changing climate has presented an unprecedented set of challenges. Intangible assets, particularly brands and customers, are criteria to any organisation and in today’s competitive environment relationship marketing is critical to banking corporate success. Banking is a customer oriented services industry, therefore the customer is the focus and customer service is the differentiating factor.

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Darling Selvi⁴⁹ in her study stated that the co-operatives in Kanyakumari district play a vital role in the credit scene, particularly, in rural areas. The co-operative department has to oversee the functioning of these micro-level bodies and ensure that there are following the lending norms uniformly. With the co-operatives also being drawn into the service area concept, the department has to ensure that their plans are properly presented and implementation monitored in the Block level meetings. Their role in the development of agriculture is of much useful to the people concerned. The co-operatives in Kanyakumari district has 114 Primary Agriculture Credit Societies, 16 branches and 5 Primary Land Development Banks or Societies. Agriculture is the backbone of India and the role of co-operatives in activating the activities of farmers is quite appreciable and encouraging. Despite the vast expansion of the formal credit system in the country, the dependence of rural poor on moneylenders continues in many areas especially for meeting emergent requirements. Such dependence is pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small. For various reasons, credit to these sections of the population has not been institutionalized in practice.

Selvakumar\textsuperscript{50} in his study stated that the co-operative banking sector, with its more than a century old existence, plays an important role in enlarging the reach of institutional credit both from geographic and socio-economic perspective. Though it supplements the efforts of the commercial banks in credit delivery and deposit mobilisation, its extensive branch networks with reach even in remote areas, makes it an important instrument for achieving greater financial inclusion. The co-operative movement in India started a century ago with the enactment of Co-operative Societies Act in 1904. Although joint stock banks opened branches in urban and semi-urban areas, the did not find it advantageous to cater to the banking and credit requirements of the urban middle/lower class comprising small traders/businessmen, artisans, factory workers, salaried persons with limited incomes, etc. The inability of joint stock banks to appreciate and cater to the needs of this class of clientele with limited means effectively drove them to money lenders and similar agencies for loans at exorbitant rates of interest. This situation was the prime mover for non-agricultural credit co-operatives coming into being in India. The main objectives of such co-operatives are to meet the banking and credit requirements of this section of people and to protect them from exploitation.

\textsuperscript{50}M. Selvakumar, “Priority Sector Lending by Virudhunagar District Central Co-operative Bank – A New High”, \textit{Tamil Nadu Journal of Co-operation}, April 2009, p.27.
1.6 STATEMENT OF THE PROBLEM

The Central Government announced a number of programmes which would help in meeting the credit requirements of the rural sector. These credit programmes were designed to augment the flow of credit to the poor. The main thrust of these programmes was to provide financial assistance to the poor at concessional rate of interest, coupled with capital subsidy to enable them to cross the poverty line.

The poor must occupy the centre stage in any socio-economic planning. For the socio-economic development of the rural poor, an institutional approach is necessary so that a poor man can have access to assets and services. The institutions, especially co-operative institutions, must support the agricultural sector as it has poverty-reducing capacity, provide an increase in employment opportunities and lead to an increase of income and improved standard of living of the rural poor. It is generally agreed that the rural poor had not benefited from the various programmes of rural development. Eradication of rural poverty depends largely on availability of credit. Not only agricultural development but all other activities largely depend on the available monetary resources.

In the absence of adequate financial help, the farmers and agricultural labourers are the ready victims of money lenders and indigenous bankers who charge exorbitant rates of interest. In order to protect them from the economic
exploitation and moral degeneration, co-operative banks have been set-up. The co-operative banks are institutions established with the objectives to facilitate rural credit and to promote thrift and self-help among the economically weaker sections of the society.\(^{51}\)

It would be impossible for the Government alone to depend on their resources for the national-building activities especially rural development. Banks, especially co-operative banks, are therefore required to play a prominent role in the mobilization of resources and in employing them. Co-operative banks are expected to do a lot for the rural reconstruction by tapping rural resources and by dispensing adequate credit.

With the adoption of multi-agency approach, co-operative banks are facing stiff competition from other rural financial institutions such as commercial banks and Regional Rural Banks in mobilizing deposits and lending. Hence, co-operative banks should make special efforts for tapping deposits from urban and rural areas so that these resources may be made available for agricultural and rural development.

The study unit Thoothukudi District Central Co-operative Bank Limited, functions in the area of Thoothukudi. About 80 per cent of the total population of

Thoothukudi district live in rural areas. The main aim of the bank is to develop the rural economy by providing rural credit for the purpose of development of agricultural and allied activities, village industries and other productive activities in rural areas. Moreover, the bank plays a very important role in developing the banking facilities in the rural areas of Thoothukudi district.

In the two districts, 39 banks (including Thoothukudi District Central Co-operative Bank Limited) and their branches numbering 328 are functioning. In March 2001, the total deposit mobilised by all the banks was Rs.3166.86 crores while Thootukudi District Central Co-operative Bank Limited deposits was Rs.427.78 crores. In the same year the total advances were Rs.2250.85 crores while Thoothukudi District Central Co-operative Bank Limited advances were Rs.458.92 crores. The credit deposit ratio of all the banks was 71 per cent. Thoothukudi District Central Co-operative Bank Limited credit deposit ratio was 107.28 percent\(^{52}\).

With this background in view, an attempt has been made to evaluate the performance of Thoothukudi District Central Co-operative Bank Limited with particular reference to deposit mobilisation, lending and financial performance.

\(^{52}\textit{Lead Bank Records},\) Maduraid Theni Districts.
1.7 OBJECTIVES OF THE STUDY

The following are the main objectives of the study:

1. To trace the origin and growth of Thoothukudi District Central Co-operative Bank Limited

2. To analyse the deposits of Thoothukudi District Central Co-operative Bank Limited in respect of institution-wise deposits, type-wise deposits and source-wise deposits.

3. To study the lending policies, pattern of lending and recovery performance of Thoothukudi District Central Co-operative Bank Limited.

4. To evaluate the financial performance of Thoothukudi District Central Co-operative Bank Limited.

5. To assess the views of employees regarding the working performance of Thoothukudi District Central Co-operative Bank Limited.

6. To summarise the findings of the study and offer suitable suggestions for the improvement of the working of Thoothukudi District Central Co-operative Bank Limited.

1.8 METHODOLOGY AND DATA COLLECTION

The present study evaluates the performance of Thoothukudi District Central Co-operative Bank Limited from 1998-99 to 2007-08 with reference to
deposit mobilisation, lending and recovery performance and financial performance. The present study is based mainly on secondary data and also on primary data. Both secondary and primary data collected for the study were analysed with the help of appropriate tools of analysis.

1.8.1 Sample Design

In order to analyse the views of bank employees on the working performance of Thoothukudi District Central Co-operative Bank, 250 employees were randomly selected from the main and the branch offices of the bank. Out of 250 sample respondents, 228 respondents belonged to the assistants cadre (91.20 per cent) and 22 respondents came under the managerial cadre (8.80 per cent). The assistants included junior assistants, assistants, typists and cashiers. Managers included assistant managers and managers.

1.8.2 Collection of Data

For the present study data were collected from both primary and secondary sources.

The present study has the objective of assessing the views of the bank employees regarding the working performance of the Thoothukudi District Central Co-operative Bank, in relation to mobilisation of resources, deployment of funds, management of the bank, providing customer services and the like.
Naturally such an analysis involves the collection of primary data from the sample respondents. The primary data have been collected from the sample respondents with the help of an interview schedule specially designed for this purpose. The direct personal interview method was adopted for collecting information, during the reference period 2007-08.

The secondary data used for the study were collected from Annual Reports of Thoothukudi District Central Co-operative Bank for the period from 1998-99 to 2007-08, published and unpublished documents maintained by the Head Office of Thoothukudi District Central Co-operative Bank, Thoothukudi, Annual Records of Tamil State Co-operative Bank, Chennai, Reserve Bank of India Bulletin (various issues), Report on trend and progress of banking in India (various issues), NABARD reviews and lead bank Annual Credit Plans (various issues) relating to Thoothukudi District. Besides this, published and unpublished dissertation works, books, periodicals and research articles from various journals were also taken into consideration.

1.8.3 Period and Coverage of the Study

The present study attempts to evaluate the performance of Thoothukudi District Central Co-operative Bank Limited. The study covers the Head Office of the bank located at Thoothukudi and branches of the bank spread over
Thoothukudi district. The period of reference is 10 years from 1998-99 to 2007-08.

1.8.4. Framework of Analysis

In order to study the working performance of the Thoothukudi District Central Co-operative Bank limited, the following tools for analysis have been used.

1. Co-efficient of variation.
2. Trend and growth rate
3. Correlation co-efficient
4. Ratio analysis
5. Factor analysis
6. Garrett ranking technique

In order to find the average value and their stability over a period of deposits, loans and advances, recovery of loans and outstanding loans, co-efficient of variation is computed.

\[
\text{Co-efficient of variation} = \frac{\text{Standard deviation}}{\text{Arithmetic mean}} \times 100
\]

If the co-efficient of variation is less, it means greater stability, more consistency, uniformity and homogeneity of growth.
In order to analyse the trend and compound growth rate of deposits, advances, outstandings, and recovery the following semi-log trend equation and growth rate formula have been used.

\[ \log y = a + bt \]

- \( y \) – actual value of deposits/advances/recovery etc
- \( t \) – time variable
- \( a \) and \( b \) are constants to be estimated.

Above trend equation was estimated by the method of least squares.

Compound growth rate (CGR) = \( (\text{Anti log } b - 1) \times 100 \)

In order to determine the nature and strength of relationship between two variables, the co-efficient of correlation has been applied. It is a statistical tool used to describe the degree to which one variable is lineally related to another. The co-efficient of correlation is applied to find out the relationship between loans issued and recovery of loans and loans outstanding and overdue. The following is the formula

\[
r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n(\sum x^2) - (\sum x)^2][n(\sum y^2) - (\sum y)^2]}}
\]

To analyse the financial performance of Thoothukudi District Central Co-operative Bank, Ratio Analysis has been used. It is adopted to compare the relationship between two related variables.
To identify important significant set of financial ratios, Factor Analysis has been used.

In order to rank the views of bank employees on the working performance of Thoothukudi District Central Co-operative Bank, Garrett ranking technique has been used, utilising the following formula

\[
\text{Per cent position} = \frac{100 \times (R_{ij}-0.50)}{N_j}
\]

where

\[R_{ij} = \text{Rank given for the } i^{th} \text{ statement by } j^{th} \text{ employees}\]

\[N_j = \text{Number of statements ranked by } j^{th} \text{ employees}\]

Besides the above tools, percentage analysis has been used wherever necessary.

1.9 LIMITATIONS

The present study is confined to 10 years of secondary data from 1998-99 to 2007-08. Further the study depends mainly on secondary data obtained from the records of the bank both published and unpublished. The views of the employees of the bank were solicited from the selected respondents comprising managers and assistants and not from the higher officials and sub-staff of the bank. The study does not cover the beneficiaries of the bank.
1.10 CHAPTER SCHEME

The thesis consists of seven chapters.

The first chapter deals with the introduction and design of the study, the performance of central co-operative banks, statement of the problem, review of previous studies, objectives, scope, methodology, tools for analysis, limitations and the chapter scheme.

The second chapter presents the origin and growth of the Thoothukudi District Central Co-operative Bank with reference to membership, share capital, reserves and surplus, borrowings, working capital, investment, profitability and branches.

The third chapter analyses the mobilisation of deposits institution wise, type-wise and source-wise.

The fourth chapter examines the loans and advances, pattern of lending, recovery performance of the Thoothukudi District Central Co-operative Bank Limited.

The fifth chapter evaluates the financial performance of the Thoothukudi District Central Co-operative Bank with the help of ratio analysis.
The sixth chapter assesses the views of the bank employees regarding the working of Thoothukudi District Central Co-operative Bank Limited.

The seventh and final chapter presents a summary of findings of the present study and offers various suggestions for improving the working performance of the study unit.
1-5, 7-17, 19-45