CHAPTER 1

INTRODUCTION AND DESIGN OF THE STUDY

It is an acknowledged fact that in the process of economic development of India, agriculture has been playing a major role. However the growth of this sector is not up to the expectation even after crossing more than five decades after independence due to acute poverty and tradition bound attitude, illiteracy and ignorance and the consequent inaccessibility towards the adoption of modern methods of agricultural operations. Finance is a very important input needed for agricultural operations as it is for any economic activity. This is a major problem for the majority of the Indian farmers too. Even for doing the agricultural operations at the subsistence level, they had to borrow money from the unscrupulous money lenders and other indigenous groups who were actually living as parasites on the efforts of their borrowers. At this juncture the only solution is to provide the necessary credit to the farmers through organised institutions in which co-operative institutions should have a dominant share. Realising this the Government of India had helped the Indian farmers through passing the Co-operative Societies Act, 1904 and the Co-operative Societies Amendment Act, 1912.

Co-operation is a multidirectional medium to solve the problems, mainly economic and social problems, of the people. The Service Co-operatives helped to improve agricultural yield at lower cost by providing services such as supply of seeds, fertilisers, farm implements and machinery such as sprayers, threshers, household goods, storage and marketing facilities and technical guidance. The agricultural credit needs
are met to a larger extent by PACBs and DCCBs and saved the poor farmers from the clutches of the greedy money lenders and indigenous bankers. Also, these institutions stimulated the tempo of agricultural production through the supply of adequate and timely credit to the needy farmers under different Five-Year Plans in different degrees.

1.1. NEED FOR THE STUDY

Finance is the basic requirement to meet the socioeconomic needs of the people of a nation. It can be met through Co-operation which is best suited to a country like India where the people are very poor and their credit needs are more. Experts have viewed the importance of Co-operation in this regard from various angles. "An agency which satisfies the requisite conditions for agricultural finance is the Co-operative Society and it has been so recognised in almost all agricultural countries".¹ "The Co-operative sector is to play a dominating role in uplifting the economy under its fast changing economic conditions in the midst of unemployment, low production, lower incentive, rising prices, exploitation, misuse of resources, etc".² "In India it was the seriousness of the indebtedness of the Indian farmers and their exploitation by money lenders that urged the Indian Government to introduce the Co-operative movement formally".³ "In India the majority of farmers are unable to meet the expenses for their agricultural operations due to their poor economic condition. So the supply of credit to them is quite essential. This demand is met to a large extent by Agricultural Co-operative Credit Societies".⁴ "Indian planners considered Co-operation as an instrument of economic development of the disadvantaged, particularly in the rural areas".⁵
Dr. A. John Winfred & Dr. V. Kulandaisamy are of the view that “It becomes impossible to understand the social and economic reality of today without studying Co-operation”. S. Rajagopal considered “It is only through organised bodies (Co-operatives) built upon the smallest and the most numerous economic units that large scale improvements can be introduced successfully”. As estimated by Dr. S. Shanmuga Sundaram, “The purpose of Co-operation is socio economic in nature and its aim is to save the havenots from the exploitation of the haves.”

Dr. B. S. Mathur pointed out, “Co-operatives have helped to rationalise distribution pattern, increase purchasing power, promote consumer protection and narrow the housing gap. They have contributed to the modernization of small scale production in agriculture, fisheries, handicrafts and industry. They have made improved quality and greater volume of production and have led to more efficient marketing of increased output. In a wider sense, Co-operative growth has become an effective stimulant to economic growth”. Royal Commission on Agriculture viewed, “The salvation of the rural masses from their crushing burden of debt rests in the growth and spread of a healthy and well organised movement and Co-operative credit is the only satisfactory means of financing agriculture on sound lines”. Mohd. Mohsin Khan said, “With the passage of time the Co-operative movement played a very important role in the development of a national economy through the expansion and diversification of economic activities on democratic lines, raising the level of productivity, employment and incomes, providing better services to workers of low cost, modernising the management of the Co-operative enterprises and making its policies and programmes forward looking.
In order to bring proper distribution of food and other necessaries in times of shortage, Co-operative Societies are very relevant. According to Honourable (Late) C.Subramaniam, "The need for updating and developing the professional skills in the country's Co-operative movement inorder to save the farming community from usurious money lenders is through providing them the necessary credit with normal rate of interest and to improve the recovery rate. He added, Co-operatives have to play a greater role in rural development being instrumental in providing credit, increasing production and productivity, distributing necessary inputs, supervising their utilisation towards productivity and helping in the proper marketing of the produce and all these should be the integrated task of the Co-operatives".

Balishter assessed, "With a break through and powerful thrust on modern farm technology involving use of chemicals, systematic protection of crops from pests and plant diseases and better farm machinery and equipments from the mid sixties onwards, the financing of agriculture through Co-operatives necessitated the use of large capital for building, farm infrastructure and meeting the operational cost for the rapid growth of agriculture". Mirdha Committee reported, "Co-operative credit societies meet about the quarter of a crop loan requirements of the farmers. It had recommended for the proper estimation of crop loan requirements in the country before launching the crop loan scheme". T.N.Hajela held, "Co-operative banking was started in this country as the most useful weapon for ending stagnation of the poor masses".

P.Purushothaman emphasised, "There is a greater need for a single window approach to meet all the requirements such as finance, marketing,
technology, organisational support and entrepreneurship development of the rural industries". 16 Dr. V. Rangasamy observed, "Co-operative credit is the hope of the farmers to provide the basis for prosperity and the opportunity to meet the demands of the 21st century". 17 The Annual Report of the NABARD pointed out, "For the effective operation of its policies, a financially sound and operationally efficient credit delivery system is necessary. Therefore, it has been the bank's endeavour to reorient the functioning of its client institutions namely Commercial Banks, Regional Rural Banks and Co-operative Banks towards the achievement of the above goals". 18 Paney, Rao & Kishore pointed out, "In recent years in all parts of the country there has been rapid increase in the borrowings of the cultivators from the institutional credit agencies and a welcome trend towards more equitable distribution of credit between different groups of farmers. But there are great regional variations in the flow of such credit often granted to relatively better off states and better off regions within the same state". 19 According to S. Venu "Under financing was the major reason for farmers to borrow from more than one agency. Farmers still preferred private credit due to proximity, timely supply and unlimited quantum". 20

The above statements of various experts lead to an inference that agricultural credit needs an institutional approach.

1.2. STATEMENT OF THE PROBLEM

It is a well known fact that as a result of mass poverty that prevailed among the rural masses in India, the pace of Indian agricultural development has been very insignificant. In order to boost up the development in this
field, the Governments at the Central as well as at the State levels have introduced various institutions, modes and strategies via economic planning. As a result co-operation assumed greater relevance and importance to the agricultural sector. Moreover, this medium is the best suited remedy for a successful achievement of the targets especially for a developing country like India where the people are very poor and their credit needs are more.

In India, the Co-operative movement has all along been mostly confined to agriculture. The main function of a Primary Agricultural Co-operative Bank is the supply of credit to the small and medium farmers to a larger extent. Again, the Co-operative system requires voluntary involvement of those who belong to the socially and economically weaker sections of the society and insists on the adoption of the principles of self-help and mutual help. As time passed and society became more and more complex due to the various problems of the people arising out of their increasing aspirations in life, it was realised that without co-operation no task could be accomplished. The system is the most suited to Indian farmers because of its mission of elimination of exploitation, focus on the wider interest of the community, avoiding middle men, and outside interference giving secondary importance to profits, facing challenges of well established monopolies, assuring low cost yield, and ensuring equality. This is served by the PACBs and DCCBs, to a desirable extent. Hence this study concentrates on the study of their performances before and after bifurcation of the S.A. District as it can give solutions for the various existing problems and offer suggestions and guidelines for improving the performance of these organisations.
1.3. PERIOD OF STUDY

The relevant data for the study were collected for 12 years from 1988-89 to 1999-2000 in order to analyse the trends of performance of the DCCBs and PACBs in their jurisdiction. The collection of data was made from the Annual Reports of the S.A. District Central Co-operative Bank Ltd., from its Head Office at Cuddalore, of the Viluppuram District Central Co-operative Bank Ltd from its Head Office at Viluppuram and from the records of the Primary Agricultural Co-operative Banks in Cuddalore and Viluppuram Districts. The collection of the necessary data was undertaken during October-December 2001 from the Head Office of the DCCBs at Cuddalore and Viluppuram and from the PACBs of both the districts.

1.4. SCOPE

The scope of the study is limited to the analysis of the effect of bifurcation of the S.A. District on the performance of PACBs and DCCBs.

1.5. OBJECTIVES

The objectives of the study are:

1. To study the development of co-operative credit in India and in Tamil Nadu.

2. To study the development of co-operative credit in Villupuram District.

3. To examine the impact of bifurcation of S.A. District on the performance of PACBs
4. To examine the impact of bifurcation of S.A. District on the performance of DCCBs.

5. To study the problems of DCCBs at Viluppuram and Cuddalore and offer suggestions for their better performance.

1.6. HYPOTHESES

Based on the objectives mentioned above the following hypotheses have been formulated and tested in this study.

1. The performance of PACBs does not differ significantly before and after bifurcation of the S.A. District into Cuddalore and Viluppuram districts.

2. The performance of DCCBs does not differ significantly before and after bifurcation of S.A. District into Cuddalore and Villupuram districts.

1.7. METHODOLOGY

Under this head selection of the study area, sources of data adopted, sampling design used for collecting the data for the study, collection of data, operational definitions, analysis of data and the tests of significance for the validity of the hypotheses formulated are explained. Similarly appropriate statistical tools used in processing and interpreting the data leading to findings and conclusions have also been discussed.

1.7.1. Selection of the Study Area

This study is confined to the whole of the Revenue districts of Cuddalore and Viluppuram with a view to find out the performance of the
PACBs and DCCBs with the help of data collected on various aspects before and after bifurcation of the S.A. District on 1st April, 1996. Such an academic exercise would be much useful to introduce appropriate strategies to improve the functioning of the PACBs and DCCBs in the future.

1.7.2 Sources of Data

This study is an empirical one based on Survey Method using both Primary and Secondary data. The data required for the analysis were financial in nature and were collected from the published Annual Reports of the DCCBs in both the districts and from the appropriate records available in the PACBs. The researcher had personal discussions with the officials of the DCCBs and PACBs. He also visited libraries of Co-operative Trade Union Office at Chennai, District Central Co-operative Bank at Cuddalore, Madras Institute of Development Studies at Chennai, Natesan Institute of Co-operative Management at Anna Nagar, Chennai, T.B.M.L. College at Porayar, Annamalai University at Chidambaram and Madras University at Chennai.

1.7.3. Sampling Design

Appropriate sampling technique was applied in selecting the PACBs. Out of the 228 PACBs of 7 taluks in Viluppuram District, 207 were properly functioning and the rest are dormant. Similarly, out of 167, PACBs of 6 taluks in Cuddalore District, 158 were properly functioning and the rest are dormant. Only the societies properly functioning in both the districts formed the population. Three societies from each of the 7 taluks in Viluppuram District and 3 from each of the 6 taluks in Cuddalore
District were selected using simple random method drawing lots. Thus the sample consists of 21 PACBs in Viluppuram District and 18 PACBs in Cuddalore District.

Also for the personal interview with the help of an Enquiry Schedule, a total of 117 employees at the rate of 3 employees from each sample PACBs and a total of 1170 members at the rate of 30 members from each sample PACBs were randomly selected for investigation to elicit their opinions on the performance of the PACBs.

1.7.4. Collection of Data

Before collecting the required data, the purpose of the survey was made clear by the researcher to the officials of the PACBs and DCCBs and detailed enquiries were made with them in order to supplement the information collected at the secondary level. Since the purpose of collecting the data was to assess the performance of the PACBs and DCCBs, there was no difficulty in collecting the data on the performance indicators. In the collection of the data through survey, the purpose of the study was also made clear by the investigator to the respondents to convince them that the data were being collected for academic purposes only. Also, the investigator freely interacted with all the respondents to get reliable responses. During the survey the investigator collected data from the employees and members of the selected credit institutions to understand their perception towards different aspects of performance.
1.7.5. Operational Definitions

1.7.5.1. “A” Class Member

Those who have held shares of Rs.100 each and have right to vote and get dividend are grouped under “A” class members. All the member societies of the DCCBs are “A” Class members.

1.7.5.2. Associate Member

The individual and jewel pledgers having shares of Rs.5 each come under this category. They have no right to vote and get dividend.

1.7.5.3. Bifurcation

Spliting up of a DCCB into two DCCBs after the division of a Revenue District into two Revenue Districts.

1.7.5.4. Borrowings

The amount of loans of the DCCB from State Apex Co-operative Bank and the State Government and the amount of loans of the PACBs from the DCCB

1.7.5.5. Big Farmers

Farmers having more than 10 hectares of land or 10 Acres of wet land.

1.7.5.6. Loan Collection

Amount of loan collected by the PACBs from their member borrowers or DCCBs from the PACBs during the financial year
1.7.5.7. DCCB

A Co-operative financial institution extending its operation to the whole of a district for financing individuals, PACBs and the other societies affiliated to it and other Co-operative organisations in the district.

1.7.5.8. Demand

The amount to be collected as due for repayment from the borrowers of PACBs and DCCBs during the financial year.

1.7.5.9. Deposits

All types of deposits received by the PACBs and DCCBs during the financial year.

1.7.5.10. Farm Expenditure

All kinds of expenses required for farm operations and allied agricultural activities.

1.7.5.11. Farm Income

All kinds of income received from farm operations and allied agricultural activities.

1.7.5.12. Interest Paid

It is the amount of interest paid by the PACBs and DCCBs for the deposits received and loans borrowed during the financial year.
1.7.5.13. Interest Received

It is the amount of interest received by the PACBs and DCCBs for the loans and advances issued, cash credit and the overdraft during the financial year.

1.7.5.14. Investments

It is the amount of investments made by the PACBs and DCCBs on the other Co-operatives organisations.

1.7.5.15. Loans Issued

The amount of both short-term and medium-term loans issued by the PACBs and DCCBs during the financial year.

1.7.5.16. Loans Outstanding

Amount of Loan to be recovered either by the PACBs from the individuals or by the DCCBs from the individuals, affiliated societies and from other Co-operative organisations during a given financial year for which the due date might fall in future.

1.7.5.17. Loans Over Due

Amount of Loan that remained unpaid to PACBs and DCCBs by the borrowers after the lapse of the due date.

1.7.5.18. Marginal Farmers

Farmers having less than 1 hectare of land for agricultural operations.
1.7.5.19. Medium-term Loan

Any loan granted for a period of 15 to 60 months for the purchase of carts, cattle and agricultural implements, reclamation of land, digging wells and repairing old ones and the allied agricultural operations.

1.7.5.20. Net Income

The farm income left after meeting the farm expenses.

1.7.5.21. Own Funds

The total of paid up share capital, reserves and part of profit.

1.7.5.22. PACBS

Primary Agricultural Co-operative Banks are Co-operative financial institutions lending money to the farmers of the area of operation of a village or villages within a radius of 10 Kilometres.

1.7.5.23. Profit / Loss

The difference between the total income and total expenditure and vice versa.

1.7.5.24. Reserves

Before appropriating profit a sum of not less than 20% of profit should be transferred to reserve for meeting future contingencies.

1.7.5.25. Recovery of Loan

Amount of loan repaid by the borrowers to the PACBs or DCCBs during the financial year.
1.8.5.26. Salary

The amount paid by the PACBs or the DCCBs in terms of pay and allowances, ex gratia and other financial benefits to their employees.

1.7.5.27. Short-Term Credit

Loans issued for a period of 12 to 15 months for buying seeds, fertilisers, manures, agricultural implements, wages and day to day farm operations. It is also named as Crop loan.

1.7.5.28. Small Farmers

Farmers having the agricultural holding varying from 1 to 2 hectares of land.

1.7.5.29. Working Capital

It is an amount of paid up share capital, reserve fund, loans and advances received by the PACBs / DCCBs not invested in fixed assets.

The concepts used in the study and the importance of the problems relevant of the objectives of the research work are specified below:

The significance of the problems relevant to the objectives and the concepts used in this work are specified with regard to Membership, Interest received, Reserve, Salary, Loan outstanding, Loan collection, Short term loan, Medium term loan, Deposits, Borrowings, Interest paid, Investments, Working capital, Overdue, Profit / Loss, Loans issued and Demand. The definitions with regard to the above concepts are taken on the basis of their usage by the PACBs and DCCBs.
1.7.6. Analysis of Data

The data obtained from the secondary and primary sources have been coded, tabulated and analysed both qualitatively and quantitatively in order to obtain meaningful inferences on the performance indicators by using mathematical tools such as Ratios and Percentages and statistical tools such as Arithmetic mean, Correlation co-efficient, 't' test, Multiple Regression model and the visual tools such as Multiple Bar Diagram, Time Series Graph and Lorenz Curve. Qualitative analysis of the data with regard to the opinions and the attitudes of the respondents have led to the assessment and findings in the form of actual statements.

1.7.7. Tests of Significance

To determine the reliability of the data collected and the validity of the hypothesis formulated, 't' test of significance was carried out.

1.7.8. Limitations

The following is the limitation of this study:

There may be bias in the responses given by the respondents to the various questions in the interview schedule as the responses are more subjective than objective.

1.8. CHAPTERISATION

The first chapter deals with introduction, the statement of the problem, period of study, scope, objectives, hypothesis, methodology, limitations and chapterisation. The second chapter portrays the review of relevant literature. The third chapter deals with the development of
Co-operative movement in India, Tamilnadu and S.A. District. The fourth chapter examines the impact of bifurcation of S.A. District into Cuddalore and Viluppuram districts on the performance of the District Central Co-operative Bank. The fifth chapter examines the impact of bifurcation of S.A. District on the performance of the PACBs. The sixth chapter identifies the problems of the PACBs and DCCBs and offers suggestions to improve their performance.

SUMMARY

The need of the hour for Indian agriculture is to make necessary arrangements for financing various agricultural operations via Co-operative institutions. This study concentrates on the performance aspects of the selected PACBs and DCCBs in Viluppuram and Cuddalore districts for a period of 12 years from 1988-89 to 1999-2000 based on the data collected from their Annual Reports. Appropriate objectives and hypotheses were formulated and analysis of data was made by applying suitable matematical and statistical methods to achieve the objectives and to test the hypotheses. The first chapter of this research work ends with chapterisation.
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