CHAPTER II

REVIEW OF LITERATURE

2.1. INTRODUCTION

In a country like India, agricultural sector must be given special attention for achieving rapid economic development. Availability of finance is the most requisite factor for the development of any sector. In the field of agriculture, intensive cultivation, proper irrigation, improved techniques and the adoption of new agricultural strategy require credit. Co-operative credit structure helps to meet the credit requirements of the cultivator and to save him from the clutches of the money lenders. The RBI plays its role in providing rural credit through state Co-operative Bank and District Central Co-operative Banks via primary Co-operative Societies or Banks. The short-term credit for inputs such as seed, manures, fertilisers etc. is provided by the DCCBs and the State Co-operative Bank through PACBs.

Research is a process involving, searching the problem and finding out the solutions. In order to arrive at the problem for the study, it is imperative to understand the various facets of that problem. Review of literature is a collection of the different views on the problem selected. A knowledge of the relevant literature helps one to understand the scope of the study and also to decide about the validity of the issue selected. It also helps the researcher to set a deeper insight into the topic selected. Hence the views of different experts on the related issues of the problem selected are recorded in the following paragraphs.

2.2. FEATURES OF CO-OPERATION

B.B. Barik assessed, "Co-operatives are one of the instruments for
decentralisation of economic power and through it the social and economic objectives of human being can be achieved".¹ According to V.L. Mehta, "Service is the guiding principle, the association is not exploitative and intention is to promote social objectives".² R.D. Bedi observed, "Co-operation combines the good points of capitalistic as well as socialistic forms of organisation. A Co-operative society enables the members to put in their best to achieve a higher standard of living for themselves without, in any way, exploiting others. It honours human values and provides incentives".³ G.S. Kamat pointed out, "A Co-operative society is an organisation for the promotion of the economic interest of its members, through self help and mutual aid among agriculturists and others with common economic needs, so as to bring about better living better business and better methods of production".⁴

C.R. Fay stressed, "It is not the amount of capital budgeting but the extent of loyalty to the society which determines the success of the co-operative society".⁵

The opinions of the writers on this aspect show that Co-operation is the most suited system for a country like India where the majority of the people are poor and exploited by others.

2.3. SCOPE OF CO-OPERATION

Mohd. Mohsin Khan held, "The early Co-operative movement began abroad as an attempt to procure the necessaries of life for workers and there by relieve their poverty".⁶ Dr. Pradeep Sharma observed, "There exists no uniformity so far as the jurisdiction of the rural co-operative societies is concerned. It has been observed that societies with larger jurisdiction have
failed in bringing all the families under their scope in catering to their financial needs and in properly managing their affairs. Hence it is advisable to keep the area of a single village under one society".  

The experts' opinions on this aspect insist that the area of operation for a Co-operative unit must be of optimum size so that it can serve the members better.

2.4. ADMINISTRATION

Dr. Sharma observed, "Meetings of the general body of the society are seldom held and those at fault for this should be brought to book. The same applies to the meeting of the board of directors, managers etc".  

According to D.S. Singh and R.N. Trivedi, "An effective horizontal and vertical linkages is a must for the successful working of the Co-operative. Also managerial soundness is one of the most urgent requirements of the Co-operative sector as a whole, particularly the agricultural Co-operatives, which could be achieved through building a strong training and educational programme".

The views of the experts on administration emphasize that special attention must be given to this aspect to keep the Co-operatives on sound lines.

2.5. BIFURCATION

Mrs. Uma observed, "Decentralisation in financial and physical terms through bifurcation has not done good to the State Transport Undertakings in Tamil Nadu".  

A Study was conducted by S. Ravivarma and B. Bhagawan Reddy to evaluate the performance of DCCB, Chittoor, Andhra Pradesh, before and after the introduction of the Single Window Co-operative Credit
Delivery System (SWCCDS) in the State where the study reveals that the share capital, reserve funds, deposits, borrowings and working capital are relatively higher after the inception of SWCCDS. As a result, the capital base of the bank has considerably gone up”.

The opinions given by the writers on this aspect assure that bifurcation is useful to improve the performance of the Co-operatives.

2.6. COLLECTION OF LOAN

Kutamba Rao estimated, “In the context of recovery the concepts of adequacy implies that the DCCBs should recover the loans advanced at least to such an extent that it becomes to secure maximum possible credit limits from the NABARD. As such, a DCCB may be said to have ensured adequate recovery if overdues to demand does not exceed 20% and defaulting societies to indebted societies does not exceed 35%”. The AIRCSC reported, “In the three tier credit structure a DCCB shoulders major responsibility for curbing the overdues at the primary level. It has statutory and non-statutory powers in respect of supervision and control over the societies and its leadership with local standing and knowledge of local conditions are expected to help in prompt recovery of loans. One of the important limitations of the federal character of co-operative structure is that the weakness at one level of the structure undermines the capacity of the organisation at the immediate higher level to work actively. This problem is manifested more in the field of short-term co-operative credit”.

Dr. S. Ravivarma & Dr. B. Bhagawan Reddy pointed out, “Recovery of loans fluctuated with the incentives or disincentives extended by the Government”. Savitri Singh held, “The Registrar is to be empowered to
inspect the co-operatives in order to ensure its proper functioning and the result of such inspections should be communicated to the persons concerned. This empowerment is conferred on the principle that who soever will be its financier will be controlling the activities like any other commercial organisation or company".15

According to Dr. Puyalvannan the percentage of cash recoveries to demand fluctuated in the Central Co-operative Bank.16 Dilip K. Chellani and Meena Bhatt opined "The size and composition of working funds during 1987-1996 revealed a steady and solid increase. The efficiency of the working of the bank was found to depend on its performance on the recovery front".17 Dr.A.Subbiah held, "Financial soundness of any lending institution largely depends upon its success in the recovery of loans. While good recovery of loans helps in the proper recycling of funds, poor recovery results in the depletion of resources. So the DCCBs need to take all necessary steps for prompt recovery of loans to improve the recovery performance at the national level like the remarkable performance achieved by the DCCB in Tamil Nadu and Punjab during the year 1997-98".18 Tamilmani and Manivel observed, "Some Primary Co-operative banks encourage the members to redeem the loans with amount borrowed from non-institutional financing agencies like money-lenders which revealed the lack of supervision of the farmer borrowers. They added that enlightened membership with effective participation in business and strict adherence to the Co-operative Principles would alone lead to growth and development on healthy lines. Again, efficient management with effective supervision and follow up action would ensure proper utilisation of loans and the prompt repayment by the members".19 Report of the All India Rural Credit Review Committee stated, "The field survey revealed that 40% of the
recipients of the short-term loans had diverted 23.4% of the loan for non-productive purposes and that of the medium-term loan was 34.8% due to the absence of consumption credit. Also, when compared to big farmers, the small farmers had diverted more loans towards unproductive purposes.\footnote{20}

The experts' opinions given on this aspect insist that in order to make the Co-operatives financially sound and to facilitate their successful operation, overdues must be collected without succumbing to interference.

2.7. COST OF MANAGEMENT

P. Puyalvannan said, "Co-operative bank, a service organisation, serving the agriculturists and others by providing credit, has a suitable organisation with regular recruitment of staff and a well-furnished building. So it has to incur expenditure in payment for salary and allowances to the staff and the directors, rent, postage, telegram, telephones and printing and stationery and totally called as Cost of Management".\footnote{21} "The banking industry has been confronted with the problems of rising costs owing to rapid expansion of branches and increase in the establishment expenses, periodical awards of industrial tribunals/commissions and the rise of interest rates by the banks on deposits from the public".\footnote{22} C. S. Ratod observed, "There was increase in the establishment expenses due to the growth of the staff and increase in their dearness allowance, payments and a free rendering of number of services by the banks which made the upward surge in price level. In this context, the banks have to find out ways and means to augment their savings".\footnote{23}

The views of the experts on this aspect reveal that the cost of management must be kept at the optimum level to make the operations of the Co-operatives efficient.
2.8. DEPOSITS

K.R. Punia remarked as follows: “A large number of financial institutions at the National and State levels are providing finances to the Co-operative institutions. However, the finances in the required scale are not coming from the public as anticipated. True Co-operatives can flourish only if the people raise their own finances and make the best use of it.”

Prem S. Sharma stated, “The Co-operative banks in mobilising the rural deposits and encouraging rural savings and making loan and advances. For this a well created strategy ensuring functional efficiency incorporated by computerisation, Management Information System and Information Technology should be followed in the banking operations.”

M. Swaminathan viewed, “The major source of funds for lending by any bank is the deposit mobilised from its constituents. The confidence of the investing public in the safety and soundness of the bank is evidenced by the uninterrupted inflow of deposits year after year.”

The opinions of the writers on this aspect show that in order to improve the financial position of the Co-operatives they should launch deposit mobilisation schemes that can attract the public by assuring security and comparatively better benefits.

2.9. EFFICINECY

S.K. Sahoo and S.C. Sahoo opined, “For an all round working of the bank, the management has to be improved first and the banks and its branches and societies are to be equipped with adequate trained man power assuring the successful functions of deposit mobilisation, sound financing, effective collection of overdue, etc. An improved managerial efficiency will
assure better utilisation of working capital". According to S.S. Ghat Pande, "The maximum operational efficiency can be obtained at minimum cost of management by adopting viability oriented business mix and by increasing its deposits, more particularly, savings deposits". Dr. Shollapur held, "On the basis of operational performance of the DCCB, its branches are classified as potentially viable and non-viable and the latter may be discontinued with a view to improve the overall profitability of the bank. Also, based on the internal viability factors like financial resources, deposit mobilising skills and credit recovery ability and the external viability factors like scope for agricultural credit business and competition from other banks, branch expansion should be motivated. Finally Cost Audit must be made compulsory and Cost Benefit Analysis of each item of expenditure at branch level must be evaluated periodically". In Niranjan Raj Urs's view, "Success of the Co-operatives is dependent on self-reliance, optimal deployment of available funds, extent of member satisfaction and patronage and economic viability. The scientific measures to evaluate the performance of the PACBs of Ratio of Membership Share Capital to Total Share Capital, Credit to Loanable Funds Ratio, Stock Turnover Ratio, Assets Turnover Ratio, Volume of business per branch, Ratio of Borrowing members to Total members and ratio of interest to Total Income". Kutumba Rao stated, "The role of RBI in guiding and controlling Central Co-operative Banks has a healthy effect on their operational efficiency".

The ideas on this aspect supplied by the experts confirm that for the survival of the PACBs and DCCBs, efficiency on all possible lines in their functioning must be adopted without fail.
2.10. LOANS ISSUED

Pradeep Sharma remarked “Only a few families succeed in getting loans while a large number of needy farmers is left without any help. Hence this practice should be given up and the affairs should be managed properly so that the poor and the needy may also receive loans”.32 Balishter observed, “The continuous existence of weak DCCBs has been retarding the progress of the Co-operative Credit movement in the country due to the inability of them to provide the required finance facilities to the PACBs. So the weak DCCBs should be made viable units to supply credit through the PACBs and the PACBs should be allowed to borrow directly from the Apex Bank”.33 V.L.Mehta committee suggested, “Farmers credit societies are to be organised on the basis of village community as the primary unit due to the viability of Co-operative Credit Societies in providing agricultural loan”.34

The statements of the writers on this aspect make it clear that there must be systematic and impartial supply of loans to the needy for the smooth functioning of the Co-operatives.

2.11. MEMBERSHIP

Dr. Pradeep Sharma pointed out, “Though a significant growth has been observed in the membership of Co-operative Credit societies, yet the representation of different classes is not proportional. Big farmers are taking full benefit while the small land holders are still not utilising the services of these societies. Hence proper measures should be taken to enrol such farmers and motivate them to participate in the movement for their benefit”.35
The opinion of the experts on the membership enlightens us that proper attention must be paid to this aspect to assure significant growth in the PACBs or DCCBs and hence further regulatory steps are to be followed.

2.12. OVER DUE

V. Prasad, D.S. Singh and R.N. Trivedi estimated, "The overdues of the Co-operatives are large and growing which is the most disturbing feature of PACBs. The lack of proper relationship between the Co-operatives and the borrowers is the major factor for the high rate of overdues". In the words of Steve Wigging, "Bad debts did restrict the ability of branches to recycle loans. There was a significant inverse correlation between new loans and overdues. However the flow of funds was not affected due to a strong presence of informal lenders".

A.R. Viswanath held, "The important causes for overdues increase in the form of larger proportion of the outstanding are over financing, grant of loans for the repayment of ancestral debts, lack of proper scrutiny, ineffective supervision over the utilisation of loans, leniency in demanding punctual payment of the loans, allowing automatic renewals and fictitious repayment, defective loaning policies, weakness of internal management and the recurrence of natural calamities". In this regard C.R. Reddy observed as follows: "Heavy overdues at the primary level turned the societies dormant, creating a difficult situation for the DCCBs to channel fresh credit through societies. Heavy overdues of the DCCBs, due to their inability to recover the loans from the societies, impair DCCBs capacity to borrow from the higher financing agencies". Vasanth M. Sathe evaluated, "The Capital and reserves, deposits, outstanding loans increased manifold between
1951-52 and 1978-79. The percentage of overdues to outstanding also increased triple times during the same period".\textsuperscript{40} Beohar & Khare remarked, "Farmers who obtained credit for the purchase of pumpsets repaid the loan in the beginning but who received loan for purchase of fertiliser and digging of wells did not repay it in proper time. Also, the farmers who adopted a large number of package of production practices, irrespective of the purpose of the credit, had higher repaying capacity as compared to others”.\textsuperscript{41} Singh evaluated, "Major portion of the total credit went to ceremonies and domestic consumption and a small portion to the purpose for which the loan was borrowed. So the Government must devise a scheme to check whether the fund is fully utilised for the betterment of agriculture and rural economy”.\textsuperscript{42}

The opinions expressed by the different authorities on overdue insist on various punitive steps to be taken to make the functioning of the PACBs and DCCBs more efficient.

\textbf{2.13. PERFORMANCE}

With regard to performance, S.Sundara Rajan remarked, "No doubt Co-operatives made rapid progress since independence still they have yet to achieve the triple objectives of better farming, better business and better living. Though Co-operatives have concentrated a great deal on better farming and better business, the Co-operative movement is yet to reach those who are still at the bottom of the layer. If Co-operatives are shaped as the nucleus for development touching all the aspects of human life at the grass root level, better living for the people could be achieved".\textsuperscript{43} Thiru.A.P.Muthusamy former Chief Secretary of Tamilnadu said, "In the past more than 60 years, number of changes have been made in the
Co-operative credit procedures but political interference and the diminishing Co-operative spirit were the draw backs found in this sector".44

S.Dharmarajan observed, "Co-operative banks were advised by the RBI to implement the prudential norms for Income Recognition, Assets Classification and Provisioning from the accounting year 1996-97 in order to improve efficiency and growth in this field".45

N.Narayanasamy held the view that "The poor deposit mobilisation, inefficient lending, poor loan recovery, poor profitability, restricting the generation of internal resources, dependence on external source of funds, imposition from above, exploitative leadership, political interference, complex and confusing legislation on Co-operatives have all crippled the PACBs. As a result, the autonomy of PACBs, restriction on the rights to have election, to decide on staff members and the composition of the committee, to further the interests of the user members and the other rights".46

According to K.R.Punia, "Though the Government rightly encouraged the movement in all possible ways, it unconsciously managed it like a Government department with all rigidities and short sightedness associated with the Government department. This did not kindle the interest among the people but made them dependent on the Government. Government assistance, instead of working as instrument for self-reliance, has acted as a great daper on democratic aspect besides, the Government has been to expand rather than consolidate the movement".47 Harold A.Miles opined, "India has not yet devised an effective programme for developing strong viable primary Co-operatives. It will not be possible for the Co-operatives to provide the credit services needed to support the agriculture based on modern techniques without self supporting well managed societies at the point of service of cultivators".48
The All India Rural Credit Review Committee (1969) reported, "Over large part of the country, small farmers have been handicapped in having access to co-operative credit both current inputs and viable investments". K.R. Punia said, "Most of the Managing Directors have not been paying much attention to the supervision work over the PACBs also they have not been receiving regularly the work done by the Development and Executive Officers. There are certain PACBs which have neither been inspected nor visited by any officer of the bank including the Managing Director, the Development officer and even the Executive Officer for a period of 2-3 years". M. Kutumba Rao pointed out, "The performance of the DCCB assumes greater importance by virtue of its place in the structure. It being the visual connecting link in the chain of credit delivery, its performance will have a telling effect on the performance of the Primaries as well as the Apex Bank". A.R. Srinath observed, "There was deterioration in the Co-operative banking system in which the PACBs and DCCBs continue to be weak even after reorganisation and revitalisation in supplying short and medium-term credits. Also, there were problems on overdues, fixation of interest rates by the Co-operative banks, diversification of operations into non-credit activities and lack of training among the staff". P. Puyalvannan said, "Quantitative and qualitative aspects are to be used to measure the productivity of a bank. A comparative study of different ratios such as Net Profit to Working Capital, Cost of Management to Total Working Capital, Average Return of funds, Amount of overdue advances, Deposit per employee, Advances per employee etc. Over a period of time revealed the trend of quantitative productivity in banks". He added that Ratio of cost of Management to gross income and productivity of employees are to be kept in mind for the efficient and economic functioning of
the DCCBs. G.N.Osterguard and A.H.Halsey found that members’ participation in General Body meeting had declined ominously to less than 1%. The larger the society, the greater the apathy, the less the reality of democracy. In the view of O.R.Krishnasamy “Democracy existed in a formal constitution only but not in the actual practice of the PACBs. The ignorance of the members, their socio-economic disparities, the societies’ dependence on Central Bank, robbing of vital matters of decision from their hands, lack of member relation practices, the mechanical way of conducting the meetings etc. sap the vigour and vitality of democracy”. Tirth Narayana Singh pointed out, “Co-operatives are so much under the thump of the Government and the Registrar and so they cannot thrive on their own. If co-operatives are given a chance to develop on their own, all provisions in the Act, rules and by-laws must be removed”.  

A.K. Zakir Hussain said: “The performance appraisal system in Co-operatives is needed since it enables an organisation to evaluate the performance and competence of its personnel. It also reveals inadequacies and draws attention to the effectiveness of its training and development programme, established different grades based on performance of employees and ensures the attainment of objectives effectively. However, this system is not implemented in Co-operatives due to the involvement of additional expenditure, existence of traditional evaluating system by personal identity, following paternalistic style of functioning need for professional approach and no recognition on the merit of the system”. S.Venu pointed out: “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”. B.N.Negi held the view that the problems
that block the progress of the Co-operative credit institutions are non-repayment of loans, inefficient management, in-adequate supervision over the working of the Primaries and lack of Co-ordination among lending agencies". 59 According to Bhagwati Prasad "Any measure introduced should enable the financial system to play its role in a more efficient, competitive, profitable and viable one to the achievement of goal of a financial institution". 60

The views on the performance aspect given by various experts highlight the significance of Co-operative credit and enable us to understand its various parametres.

SUMMARY

Relevant literature dealing with the various aspects of the functioning for the PACBs and DCCBs such as features, feasibility, scope, performance and other dimensions are reviewed in this chapter. This has been of immense help in framing the operational definitions used in this research work.
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