

CHAPTER-I

BACKGROUND ANALYSIS AND METHODOLOGY

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CHAPTER-IBackground Analysis and MethodologyI) Background AnalysisA) District Central Co-operative Banks and
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District Central Co-operative Banks occupy an important place in the co-operative credit structure. It acts as a link between State Co-operative Bank and Primary Agricultural Credit Societies.

The National Bank for Agricultural and Rural Development Act, 1981, defines Central Co-operative Bank as follows :

"Central Co-operative Bank" means the principal co-operative society in a district of a state, the primary object of which is the financing of other co-operative societies in that district.

"Provided that in addition to such principal co-operative society in a district, or where there is no such principal society in a district, the State Government may declare any one or more co-operative societies carrying on the business of financing other co-operative societies in that district to be also or to be a central co-operative bank or central co-operative banks within the meaning of this definition."

Following the recommendations of the All India Rural Credit Survey Committee (1954) (henceforth called "AIRCS"), the structure of Central Co-operative Banks was rationalised and small banking unions/Central Co-operative Banks in a district were re-organised into a single District Central Co-operative Bank with a view to make it strong and viable institution. Thus, Central Co-operative Banks constituted the second tier in a three-tier co-operative agricultural credit structure in the country.

Objectives of Central Co-operative Banks

The following are the main objectives of Central Co-operative Banks :

- i) to act as a balancing centre of finance for primary co-operative societies in the district by providing them funds when they have a shortage and by serving as a clearing house for their funds when there is surplus;
- ii) to mobilise savings from urban and semi-urban areas through various kinds of deposits;
- iii) to provide a safe place for investment of statutory reserve and other funds of the primary societies;
- iv) to develop and extend banking facilities in semi-urban and rural areas and make the people banking-minded;

- v) to provide financial support and guidance to primaries affiliated to them and to exercise supervision over their functioning; and
- vi) to promote and develop the co-operative movement in the district and act as its friend, philosopher and guide.

Constitution and Membership

Central Co-operative Banks in India can be classified under three main heads according to their constitution :

- i) Central Co-operative Banks whose membership is confined to individuals;
- ii) Central Co-operative Banks whose membership is confined to societies; and
- iii) Central Co-operative Banks which include both individuals and societies among their members.

The constitution of Central Co-operative Banks was also reviewed by the AIRCS. This Committee favoured pure type federal Central Co-operative Banks and recommended that there should be only one Central Co-operative Bank at the district level whose membership should be confined only to co-operative societies in the district. Wherever individual membership existed in the existing Central Banks, the AIRCS recommended that individuals should be gradually eliminated

and shares held by them should be transferred in favour of the primaries. Most of the Central Co-operative Banks in the country conform to this pattern and the process of eliminating individual members from their constitution is still continuing except for certain areas. It is hoped that most of them would become fully co-operative in character.

According to Statistical Statement relating to co-operative movement in India, the Co-operative credit structure comprised of 389 Central Co-operative Banks at the end of June, 1961-62. Their number came down to 341 in the year 1971-72 and further to 338 in 1981-82. This is showing in the following Table.

Table No.1.1 : Statement showing Trends in Progress of the Central Co-operative Bank on All India Level.

	1961-62	1971-72	1981-82*
1. Number of Banks	389	341	338
2. Offices (Number)	1655	4317	6321
3. Membership (Societies in Lakh)	2.12	2.38	2.16
4. Owned funds (Rs.crores)	61.80	225.70	731.00
5. Deposits (Rs.in crores)	124.46	509.71	2758.00
6. Borrowings (, ,)	166.39	458.20	1444.00



Table No.1.1 : (Contd...)

	1961-62	1971-72	1981-82*
7. Loans advanced to societies during the year (Rs.in crores)	384.40	1019.70	4143.00
8. Percentages of overdues of Loans	15.7	35.9	29.7

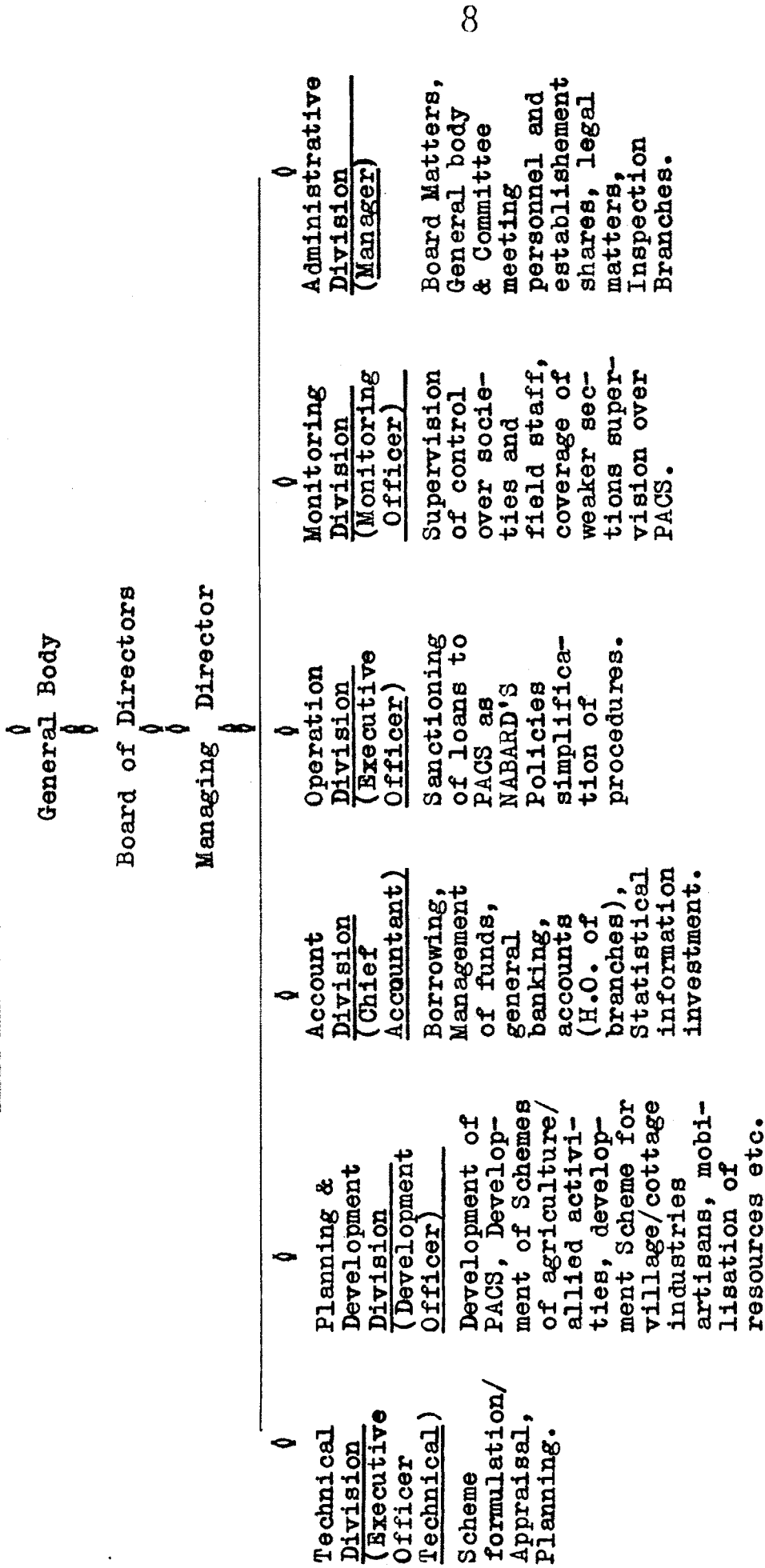
* Provisional data.

Source : Rao, M. Kutumba, "Management of Central Co-operative Banks", (Published by S.B. Nangia, New Delhi, 1985.)

Size and Area of Operation of Central Co-operative Banks

Central Co-operative Banks are normally established to cover the entire area of a district. The AIRCS was of the opinion that the Central Co-operative Banks with the entire district as its area of operation would tend to become a viable unit.

Internal Organisation of Central Co-operative Bank



Raising of Funds

The Central Co-operative Banks raise the funds mainly from the following sources :

1. Shares,
2. Deposits,
3. Loans,
4. Reserve and other funds.

1. Share Capital

The Central Co-operative Banks raise capital by issuing shares to individuals and society members. Since the liability of the members is limited to the share capital subscribed by them, it becomes imperative for the Central Co-operative Banks to have substantial paid up share capital to attract and serve as a guarantee for depositors and other creditors. The major portion of shares is issued to the society shareholders. Certain restrictions and limits are generally imposed on the issue of shares to individual shareholders, so that they do not acquire dominating influence in the management of the Central Co-operative Banks. Sometimes preference shares are issued to individuals granting them a preferential position as regards dividends. In some of the states preference shares are issued to the State Governments under the principle of State partnership. The State Governments are required to contribute to the share capital with a

view to strengthen the financial structure of Central Co-operative Banks in pursuance of the recommendations of the AIRCS. It may be recalled that the AIRCS had recommended that State partnership in the shares of Co-operative banks at a level not below 51% should continue for an indefinite period.

Another feature attaching to the Central Co-operative Banks' Shares is that ordinarily the share capital to be subscribed by the society-members is linked with their borrowings from the Central Co-operative Banks. Sometimes the amount of share subscription is related to the share capital of the society itself as a specified proportion thereof. Corresponding provisions regarding this normally exist in the bye-laws of the constituent societies as also the Central Co-operative Banks. The linkage as stated above not only helps the Central Co-operative Banks in mobilising adequate funds on the basis of self-reliance but it also provides a measure of the stake the borrowing societies will have in the well-functioning of the Central Co-operative Banks.

Deposits

It has been the general practice to relate the borrowing capacity of the Central and State Co-operative Banks to their owned funds. Otherwise, it would mean a business without any stake and sufficient sense of responsibility. Eventhough

the banking principles or banking laws have not laid-down any norm and limits regarding the quantum of deposits in relation to the owned funds of the commercial banks which can be expected by them, yet in practice a ratio of 1:10 between owned funds and deposits is generally considered as a suitable norm except in busy seasons. Since the inception of the Central Co-operative Banks, there has been a consensus of opinion that deposits must play a vital role in co-operative financing. Gradually the Central Co-operative Banks which are the back-bone of co-operative credit structure must become self-reliant and self-sufficient. In the context of fast increasing credit requirements for modernisation and commercialisation credit requirements of the Indian agriculture and the dominant role assigned to the co-operative banks in this sphere, mobilisation of savings through various kinds of deposits has assumed great significant.

The AIRCS, the V.L.Mehta Committee and the All India Rural Credit Review Committee (1969) laid great emphasis that Central Co-operative Banks must tap deposits from urban areas so that these savings may be diverted for Integrated Rural Development. These Committees made a number of important recommendations to improve the operational efficiency of the Central Co-operative Banks and refurbish their image in the minds of the public which might inspire confidence in depositors. Central Co-operative Banks were also advised to

devise special schemes, launch serious campaigns for deposit mobilisation of provide requisite banking facilities to the public so as to attract their savings. Recommendations were also made to extend Deposit Insurance Scheme to the Co-operative Banks on fulfilment of certain specified terms and conditions as also to take necessary administrative and legal steps to enable local bodies of educational institutions to patronise Central Co-operative Banks for making deposits.

The Central Coperative Banks were also required, under the Banking Regulation Act, etc., to maintain Cash Reserve Ratio (CRR) and Statutory Liquid Resources (SLR) as per requirements of the law. The facility of Deposit Insurance Scheme has been extended in a number of states where the Reserve Bank has been given powers required under the law.

Loans

The Central Co-operative Banks raise the funds also by direct borrowings from the State Co-operative Banks, State Governments, State Bank of India and its subsidiaries etc.

Generally the Central Co-operative Bank's borrowings are linked with their owned funds, i.e., paid up share capital and reserve fund. The credit limits are fixed by the higher financing institutions with reference to their owned funds and in the light of their past performance. Normally, the

credit limits of Central Co-operative Banks ranged between 12 and 15 times of their owned funds. However, this limit can be raised from time to time to help the banks to acquire sufficient borrowing capacity to meet the growing demands of the affiliated primaries after fulfilling certain conditions. The Registrar of Co-operative Societies can relax this limit on certain conditions to meet certain emergent demands of the constituent units of Central Co-operative Banks.

Loans of the National Bank for Agriculture and Rural Development (henceforth called as "NABARD") are routed routed to the Central Co-operative Banks through the State Co-operative Banks.

Operational Aspects

i) Loans and Advances -

The most important function of the Central Co-operative Banks is to give short and medium term loans to the Primary Agricultural Credit Societies and other constituent units.

Table No.1.1 disclosed that the loans advanced to societies amounted to Rs.384.4 crores in 1961-62, Rs.1019.7 crores in 1971-72 and Rs.4,143 crores in 1981-82.

ii) Overdues -

One of the most disquieting trends in the working of the Central Co-operative Banks is the rise in the amount of overdues.

Table No.1.1 revealed that the percentage of overdues was 15.7 in 1961-62 which rose to 35.9 in 1971-72 and declined to 29.7 in 1981-82.

iii) Audit and Supervision

Supervision of Central Co-operative Banks was exercised by the State Co-operative Bank concerned and the Reserve Bank of India. The Registrar of Co-operative Societies could also undertake inspection of the banks. After establishment of the NABARD, the function of supervision and guidance is taken over by the new National Bank.

The Audit of Central Co-operative Banks is the statutory responsibility of the Registrar of Co-operative Societies of the State concerned.

B) Profile of Karad Taluka

1. Location

In the State of Maharashtra there are thirty districts. Satara District is one of them which comes in Pune Division of the administrative set-up. In Satara district there are eleven talukas. Karad Taluka is one of them.

Karad Taluka is surrounded by Satara, Patan, Walava, Miraj, Khanapur and Koregaon Talukas. It is located in the Krishna and Koyana basin.

The total area of Karad Taluka is 133010 Sq.Km., out of

which 93010 Sq.Km. is rural area and 40,000 Sq.Km. is urban area. Karad town is the head-quarter of Karad Taluka and it is situated on the Pritisangam of Krishna and Koyana river at a distance at about 55 Km. from Satara.

2. Administration

As in the case of any other taluka in the State, the administrative authority is vested in the Tahasildar under whom work his assistants upto Talathi and Kotwal at village level. Block Development Officer, who heads the executive and administrative functions of Taluka Panchayat Samiti, looks after the development activities in the rural part of the Taluka.

3. Population

The total population of Karad Taluka as detailed in the following table, is 3,82,000 as per the 1981 census.

Table No.1.2 : Statement showing population of Karad Taluka according to the 1981 census.

(population "000")

Sr.No.	Particulars	Total	Percentage to total population
1.	<u>Rural Population</u> :		
	a) Male	165	43.19
	b) Female	163	42.67
	Sub-Total	328	85.86

...

Table No.1.2 : (Contd...)

Sr. No.	Particulars	Total	Percentage to total population
2.	<u>Urban Population</u> : a) Male	29	7.59
	b) Female	25	6.55
3.	Total Population :	382	100.00
	Sex Ratio	1 :.969	
	Rural Sex Ratio	1 :.987	
	Urban Sex Ratio	1 :.862	

Source : Social and Economic Abstract of Satara District 1982 to 1985 published by Government of Maharashtra, 1985.

4. Agriculture

The total geographical area of Karad Taluka is 1,04,200 hectares out of which 77,841 hectares (74.5% of the total) is the area under cultivation. (More details are given in Chapter-II).

Generally, there are three agricultural seasons in Karad Taluka viz., Rabbi, Kharif and Summer. The major crops raised are sugar-cane, paddy, wheat, jawar, chilly, gram, groundnut and turmiric etc.

Working population as obtained in Karad Taluka is presented in Table No.1.3. The Table is self-explanatory.

Table No.1.3 : Statement showing working population of Karad Taluka according to the Census, 1981.

(Population "00")

Sr. No.	Particulars	Rural	Urban
1.	Agriculturists	541 (16.41)	8 (1.4)
2.	Agricultural Labours	263 (8.00)	6 (1.1)
3.	Persons engaged in Small & Cottage industries	26 (0.8)	4 (0.7)
4.	Others	285 (8.7)	133 (24.4)
5.	Working population 1 to 4	1,115 (33.9)	151 (27.8)
6.	Non-working population	1,964 (59.9)	386 (70.9)
7.	Persons with other professions as their main occupation but deriving secondary income from agriculture.	205 (6.2)	7 (1.2)
8.	Total	3,284 (100.0)	544 (100.0)

Source : Social and Economic Abstract 1982 to 85 Satara District published by Govt. of Maharashtra, 1985.

5. Rivers

Krishna and Koyana rivers are the main rivers in Karad Taluka. Both these rivers run nearly south direction. Two rivers viz. Dakshin Mand and Uttar Mand merge into Krishna

river at Umbraj in Karad Taluka. Krishna and Koyana rivers merge at Karad at a place called "Pritisangam".

These rivers provide water for irrigation. The Koyana-hydro-electric project provides power for industry and agriculture.

6. Rainfall

Details of average rainfall in Karad Taluka for the last three years is given below.

Table No.1.4 : Statement showing Annual Average Rainfall.

Years	Rainfall in M.M.
1983-84	625.00
1984-85	690.00
1985-86	530.00

Source : Compiled from records at Karad Tahasil Office.

The climate of Karad Taluka is similar to the one obtained in South-Western part of Maharashtra. During June to October there is rainy season or monsoon season followed by winter. Winter season ends in January/February after which summer season starts.

7. Irrigation

In Karad Taluka various types of irrigation are available i.e. Wells, tanks, cannals, lift irrigation on river etc. Gross irrigated area was 25,765 hectares, out of the gross cropped area of 79,841 hectares in 1985-86.

8. Transport

In Karad, all types of transport facilities, except water transport are available. Karad Taluka is located on Pune-Bangalore National Highway and on the route of South Central Railway. The details regarding transport facilities are in the following Table.

Table No.1.5 : Statement showing Transport facilities in Karad Taluka

Particulars	Total length in Km.
A) <u>Railway Transport</u> -	
i) Single Broad guage	40.1
ii) Meter guage	-
iii) Narrow guage	-
B) <u>Road Transport</u> -	
i) National highway	38.0
ii) State highway	409.0
iii) Major district roads	295.0
iv) Village roads	350.0
v) Other roads	1850.0

Source : District Credit Plan prepared by Bank of Maharashtra, 1982 to 1985.

9. Industry, Trade and Commerce

In Karad Taluka there are two large-scale sugar industries, one fertiliser factory, three hundred sixty five registered small-scale industries and two hundred eightysix household and cottage industries.

In respect of trade and commerce Karad Taluka is an advanced Taluka in Satara District. Karad has a well organised market yard. The jaggery market of Karad is one of the biggest markets in Maharashtra.

10. Infra-structure for Agricultural Finance

Karad Taluka, being one of the developed Talukas in Satara District, has a good infra-structure as far as agricultural finance is concerned. Details of this instructions is depicted in the following Table.

Table No.1.6 : Statement showing the position of Bank Offices & Primary Agricultural Credit Societies in Karad Taluka as on 30th June, 1986.

Sr.No.	Particulars	No.of branches/Offices
1.	State Bank of India	2
2.	Other Public Sector Banks	14
3.	Other than Public Sector Banks (Commercial Banks)	06
4.	Satara District Central Co-op.Bank	28
5.	Maharashtra State Co-operative Land Development Bank	01
6.	Primary Agricultural Co-operative Credit Societies.	126

Source : i) District Credit Plan prepared by Bank of Maharashtra, 1982 to 1985.
ii) Annual Report of District Central Co-op. Bank, Satara, 1986.

C) Methodology

The Researcher comes from a village in Solapur District. He has seen the difficulties of the agriculturists in getting finance for their operations and also for capital improvements to be undertaken in their farms. He, therefore, felt if appropriate to undertake a study of a District Central Co-operative Bank and the role it plays in financing agriculture in a Taluka. Satara District Central Co-operative Bank Ltd., Satara (called the DCC Bank henceforth) is selected for the purpose of this study. The Researcher selected Karad Taluka because he has been working in Karad and it was felt that his stay at Karad would facilitate collection of data.

Objectives

The study has the following objectives :

- 1) To study the role played by Satara District Central Co-operative Bank in financing agriculture in Karad Taluka through the Primary Agriculture Credit Societies (henceforth called PACCS).
- 2) To suggest improvements, if any.

Data Collection

With the objectives as mentioned above, data collection was done in the following manner :

- i) Data were collected mainly for the purpose of studying

the operations of the DCC Bank in Karad Taluka for a period of three years, i.e. 1983-84 to 1985-86.

The data were thus, mainly for the above three years.

- ii) Published annual reports of the DCC Bank were collected.
- iii) Data regarding operations like loan sanctions, disbursements, loan recoveries etc. were collected from the DCC Bank at Satara and also from its branches in Karad. For this purpose unpublished material, particularly the various Registers and files, was made use of.
- iv) The records at the office of the District Deputy Registrar, Co-operative Societies, Satara and of the Deputy Registrar, Co-operative Societies, Karad were made use of.
- v) Data were also collected from the following offices :
 - a) Zilla Parishad, Satara.
 - b) Tehsil Office, Karad,
 - c) Panchayat Samiti, Karad,
 - d) Supervision Cadre, Karad.
 - e) The concerned Nationalised Banks.
 - f) The concerned Commercial banks (i.e. other than nationalised banks).
- vi) Books and periodicals.

Scope of the study

Scope of the study extends to the DCC Bank's role in

financing agriculture in Karad Taluka only financing done by Nationalised Banks, other Commercial Banks and Maharashtra State Co-operative Land Development Bank is not considered for the purpose of study. In Karad Taluka also, Karad Market Yard Branch and Masur Branch only are considered for detailed study. The orientation of the study further led the Researcher to limit the scope to the major operations of the DCC Bank concerning financing of agriculture. The study is also limited in coverage of time period to three years only, i.e. from 1983-84 to 1985-86.

Chapter Scheme

The Dissertation is divided into the following Chapters :

<u>Chapter No.</u>	<u>Particulars</u>
I	: Introduction This Chapter deals with background analysis the subject, profile of Karad Taluka and methodology.
II	: Agriculture in Karad Taluka. The salient features of agriculture in Karad Taluka (e.g., land utilisation pattern, cropping pattern, supply of inputs etc.) and position of agriculture finance in Karad Taluka have been discussed in this Chapter.
III	: Role of the DCC Bank in Financing Agriculture. In this Chapter are discussed the issues like

historical development of the DCC Bank, its organisation structure and the operational aspects.

IV. : The D.C.C.Bank's Role in financing Agriculture in Karad Taluka.

Branchwise loans, sanctioned, disbursed and outstanding - for the three years under study and branchwise loan recovery for the three years, in Karad Taluka, have been presented through various tables and analysed. The similar data for Karad Market Yard Branch and Masur Branch have also been presented and analysed.

V. : Assessment of the Performance of the DCC Bank.

This Chapter is the concluding Chapter. Share of the DCC Bank in agricultural finance in Karad Taluka, coverage of villages and population by the credit co-operatives, the DCC Bank's relations with the PACSS, timely supply of credit, supervision and recovery and supply of inputs have been used as the major parameters to assess the DCC Bank's performance in respect of financing agriculture in Karad Taluka. The Chapter is concluded with the suggestions for improvement.

Limitations of the Study

The study could not cover, mainly on account of time constraints, the following :

- i) Scientifically selected sample of the D.C.C. Bank branches and the PACSs in Karad Taluka.
- ii) Views of the member-agriculturists.