CHAPTER - 1

INTRODUCTION
CHAPTER – I

INTRODUCTION

MEANING OF CO-OPERATION

The word ‘co-operation’ originated from the Latin Word ‘co-operate’ which means working together for a common cause. In other words, it means co-operating with each other for mutual benefit. Co-operation aims at economic and social betterment of persons who join together for common causes. It is an association of persons which have common aims to undertake certain common activities beneficial to every one. It also aims to promote peace and unity among members, fellow cooperators. Co-operative Society is to satisfy the needs of its every member by self-help and mutual help. Co-operators and Economists consider cooperation as better means for the development of a nation as a whole.

DEFINITIONS OF CO-OPERATION

According to Calvert “co-operation is a form of organisation wherein persons voluntarily associate together as human beings on the basis of equality, for the promotion of the economic interests of themselves”.

According to C.R.Fay, “co-operation is an association for the purpose of joint trading among the weak and conducted always in an
un-selfish spirit on such terms that all who are prepared to assume the
duties of membership may share its rewards in proportion to the degree
in which they make use of their association”.

**PRINCIPLES OF CO-OPERATION**

1. Voluntary Association or Open Membership.

2. Democratic Control.

3. Distribution of Surplus.

4. Limited interest on capital.

5. Co-operative Education.


7. Self-help through mutual help.


13. Principle of unity and fraternity.


15. Principle of Publicity.


17. Honest Trading.

19. Federalism.

PRINCIPLES OF CO-OPERATIVES:

1. Voluntary Association or open membership:

   The "voluntary membership means that Co-operative should only comprise persons who have joined it voluntarily without being coerced in any way". It provides an incentive for better work and develops initiative among the members.

   The principle of open membership means that the membership of a Co-operative Society shall be available to all without any artificial restriction. There can be no discrimination in a Co-operative Society on the ground of caste, creed, colour, community, race and religion.

   Open membership is considered to be necessary for the progress of co-operative ideal.

2. Democratic Control:

   The next important principles is that democratic control. This means that each member of a co-operative has only one vote and no more, irrespective of the number of shares held by him. Professor Paul Lambert has stated, "Each member has a vote solely by virtue of the fact that he is a man".
3. Distribution of Surplus:

It is generally accepted that the principle of distribution if surplus in proportion to transactions was the most ingenious and unique principle invented by the Rochdale Pioneers. Indeed, this principle is the essence of the Rochdale Co-operative System.

4. Limited Interest on Capital:

Another important principle of Co-operative enterprise is the payment of limited interest on capital. Capital is subordinated in co-operative enterprises because it is thought of as noxious, bearing may seeds of injustices. “The co-operators do not pay interest on capital of any sense of fairness or in order to encourage savings, but solely out of necessity”.

5. Co-operative Education:

One of the principles on which the Rochdale Pioneers insisted, particularly strongly was the promotion of education. In 1853 they introduced a provision into the rules that 2 ½ per cent of surplus should be devoted to education. “All persons engaged in co-operation need to participate in this process of education and re-education”.

6. Co-operation among Co-operatives or Principle of Growth:

The ICA Commission of 1966 has incorporated a new principle of co-operation, namely, “Principle of growth” mutual co-operation among co-operatives.

The principle is called “Co-operation among co-operatives”, because in the competitive conditions, the whole trend of modern economy is towards closer economic integration and larger units.

7. Self-help through Mutual Help:

“Self-help and Mutual help are of the essence of co-operation. The words of Indian Co-operative Union, mutual aid is the core of personal relationship amongst members. Its motto is, ‘Each for all and all for each.’

8. Cash Trading:

Cash trading was considered to be an essential principle of co-operation by Rochdale Pioneers. This was because more co-operative had inadequate capital and they wanted to maintain the financial soundness of the societies. The 1937 ICA Congress regarded cash trading as “non-essential principle”.

The 1966 ICA Commission, therefore, very rightly not adopt cash trading as a principle of co-operation, emphasized its importance as guide to business policy.
9. Political and Religious Neutrality:

A Co-operative is an economic enterprise not an instrument for political or religious action. A Co-operative comes into being to serve its members by improving their economic position, not to serve the members as political or religious groups.

Thus the co-operative organizations leave the members entirely free to hold whatever belief or opinion they choose or to adhere to any religious or political organization which attracts their sympathy and loyalty.

10. Principle of Thrift:

The principle of thrift means that a co-operative organization should inculcate the habit of saving amongst the members. Thrift is considered to be the first step in self-help. Thrift connotes not only frugality and savings but also economical management and lays stress on avoidance of wasteful expenditure.

11. Principle of Service:

The keynote of co-operative enterprise is service as distinguished from that of capitalist enterprises whose mainspring is the profit motive. A Co-operative enterprise is motivated by the spirit
of service; its whole business mechanism is geared towards the provision of most economical services.

12. Principle of Equity:

Another great principle of co-operation is that of equity and justice. This principle originated as a reaction against injustice and tyranny in the economic system.

13. Principle of Unity and Fraternity:

Co-operation is the application of the Philosophy of brotherhood to the economy. Kagawa, the great Japanese Christian, has called it "Brotherhood Economics".

14. Principle of Honorary Service:

The co-operative movement represents in the words of co-operative independent commission (1958), "one way in which public spirited citizens can devote their gifts and energies to the service of their fellows".

15. Principle of Publicity:

General meeting should be frequently held at which the accounts and affairs of the should be fully discussed. Sir F.Nicholson stated. "Publicity is in every Euronean Country, the first requirement, everything must be laid open to public view".
16. **Principle of Social Ownership:**

A co-operative is privately owned by its members, but the private ownership of a co-operative is conditioned by membership. Without membership there can be no ownership rights.

17. **Honest Trading:**

The principle of honest trading signifies that co-operative should always sell pure and unadulterated commodities given true weight and measure. "The co-operative principle of honest trade and production is by no means outmoded and needs emphasizing as much as ever it did".

18. **Principle of Autonomous Local Society:**

The Co-operative independent commission has drawn pointed attention to a rather different aspect of co-operative democracy, namely, the principle of autonomous local society. The independent commission observed, 'we, for our part, regard the principle of local autonomy as being an essential aspect of the wider principle of co-operative democracy".

19. **Federation:**

The primary units, which persons with limited means form, cannot by themselves individually command adequate resources or develop enough strength to make their common endeavours to have an impact or develop enough strength to make their common endeavours to have an impact on the economy. Thus almost from the very
The inception stage of the movement, Primary Co-operative Societies have found it necessary to organize their forces by forming unions or central societies.

The modern principles of co-operation have passed through several stages. The first Co-operative Society formed in the year 1844 by Rochdale Pioneers in England had the aims of Democratic Control, Open Membership, Limited Interest on Capital, Patronage Dividend, Cash Trade, Sale of Pure and Unadulterated Goods, Education of the members and Political and Religious Neutrality as their principles.

Later in 1934, the International Co-operative Alliance (ICA) Committee framed certain co-operative principles. They were Open Membership, Democratic Control, Distribution of surplus to the members in proportion to their transaction, Limited Interest on capital, Political and Religious Neutrality, Cash Trading and Promotion of Education.

The principles, which are currently being followed by the world co-operative movement, were approved by the 23rd ICA Congress held at Vienna during 1965-66. They are, Voluntary and Open Membership, Democratic Control, Limited Interest on capital, Equitable Division of Surplus, Co-operative Education and Co-operation among co-operatives. These principles are essential to genuine and effective co-operative practice both at the present time and in future as far as that
can be foreseen. The ICA Commission on co-operative principles described thus, “those practices which are essential, that is absolutely indispensable to the achievement of the co-operative movement’s purpose”.

**SPREAD OF CO-OPERATIVE MOVEMENT IN INDIA**

In 1894 Sir Frederick Nicholson was deputed from India by the Government to study the co-operative movement in European Countries. He recommended to start co-operatives on ‘Raiffeisen Model’. Thus, co-operation was accepted in India. The co-operative movement in India has not yet crossed hundred years of its origin. The enactment of Indian Co-operative Credit Societies Act 1904, Paved the way for the co-operatives as an economic form of organization. As per this Act only Credit Societies were allowed to be registered in India. However the subsequent Act passed in the year 1912 enabled the formation of non-credit co-operatives also.

The Montague-Chelmsford for Reform of 1919 transferred the subject co-operation from ‘Central List’, to ‘State List’. This transfer facilitated the states to enact their own Co-operative Societies Act in accordance with their own requirements and convenience without affecting the unique character of co-operatives. Each state began to have its own Co-operative Societies Act which controls the co-
operatives of a particular state. Thus, Indian Co-operative Movement became an official movement and was considered as a policy of the Government. The spread of co-operative movement in India was slow but encouraging until independence in the year 1947.

After independence, particularly after 1950, many committees and commissions were appointed to study and review the co-operatives and to suggest suitable measures to spread the co-operative movement on a large scale covering all economic sectors. Among those committees, the All India Rural Credit Survey Committee (1951-54) the All India Rural Credit Review Committee (1966) and the Committee on the Agricultural Finance and Institutional Credit for Rural Development (1980) were worth mentioning.

These committees, while reviewing the performance of the co-operatives, invariably found that the co-operative movement did not achieve the desired results and in certain areas it failed. However, the committees reiterated that as the co-operatives are the only tool for the uplift of the have-nots, co-operatives should succeed in their goals. The committees recommended new ideas for the successful functioning of co-operatives. They are; state's participation in the co-operatives, establishment of State Bank of India, National Co-operative Development Corporation and National Bank for Agriculture and Rural Development, Federations at State and National Levels,
maintaining and operation of National Agricultural Credit (Long-term) and (Stabilization) Funds, etc.

Now, the movement has its own clear-cut network throughout the country. There have been different sectoral heads formed within the movement such as Credit, Banking, Consumer, Marketing, Housing, Industrial, Production and Supply and so on. The co-operatives are serving the entire nation neglecting none and no area.

In India, the Co-operative Banks have a unique role in the banking system. The Co-operative Banks create the habit of thrift among the poor people by way of borrowing from the public by accepting various types of deposits. Therefore it is more useful to study "A study of Performance Evaluation of Salem District Central Co-operative Bank Ltd, Salem-1 with special reference to Lending and Overdue of Lending".

Today, co-operatives are the most important type of voluntary organization throughout the world. "Co-operatives have helped to rationalize distribution pattern, increase purchasing power, and promote consumer protection narrow the housing gap. They have contributed to the modernization of small scale production in agriculture, fisheries, handicrafts and industry. In a wider sense, cooperative growth has thus become an effective stimulant to economic growth".
CLASSIFICATION OF CO-OPERATIVES

Co-operative Societies are classified into the following four main groups.

PRODUCES CO-OPERATIVES
1. FARMING CO-OPERATIVES
2. INDUSTRIAL CO-OPERATIVES
3. PROCESSING CO-OPERATIVES

MARKETING CO-OPERATIVES
1. SALES & PURCHASE SOCIETIES
2. AGRICULTURAL MARKETING SOCIETIES
3. CONSUMERS CO-OPERATIVES

SERVICE CO-OPERATIVES
1. CO-OPERATIVE CREDIT SOCIETIES
2. DISTRICT CO-OPERATIVE BANKS
3. CENTRAL CO-OPERATIVE BANKS
4. LAND DEVELOPMENT BANKS
5. HOUSING CO-OPERATIVE
6. URBAN CO-OPERATIVE BANKS
7. OTHER CO-OPERATIVES
A. FISHING
B. IRRIGATION
C. TRANSPORT
D. EDUCATION
E. HEALTH

MULTI PURPOSE CO-OPERATIVES
OTHER CLASSIFICATION

➢ Resource Societies
➢ Production Societies
➢ Consumer Societies

In the first group are included all those societies which extend a helping hand to the members in their individual enterprise by providing for their resources of various kind like seeds, manure, implements on credit. In the second group, societies which undertake collective production are included. In the last group all kinds of consumer’s stores and housing societies are included.

DISTRICT CENTRAL CO-OPERATIVE BANK-MEANING

The District Central Co-operative bank operates in particular district, which is its area of operation. In certain special cases two central co-operative banks operate in the same district. Central Co-operative Banks are leaders in their district in guiding the banking activities for their members. They admit all types of Primary Co-operative Societies and provide banking and financial services. They compete with Commercial Banks in mobilizing deposits and have opened branches in all centers of a district of late their operations have been modernized with inducting efficient personnel trained in various banking and financial operations.
They undertake mainly financial functions which consist of raising funds, deployment of funds, forecasting cash flows, Cost centers, pricing, measuring cost of capital, forecasting profits, increasing assets, managing funds etc.

CO-OPERATIVE STRUCTURE

Co-operative structure is a two dimensional three tire structure. In every state this structure consists of the State Co-operative Banks at the apex or top level. Central Co-operative Banks at the district level. Primary Credit Societies at the Village level. Town Co-operative Banks at the Urban level.

![Co-operative Structure Diagram]

**Diagram:**

- **CO-OPERATIVE BANKS**
  - **STATE CO-OPERATIVE BANKS**
    - **CENTRAL CO-OPERATIVE BANKS**
      - **PRIMARY CO-OPERATIVE BANKS**
      - **URBAN CO-OPERATIVE BANKS**
Banking facilities are indispensable for economic development. The modern banking system routes the surplus funds of the community into the most productive channels. It provides facilities for the transfer of funds from one part of country to another part and from one country to another country. Moreover the development of industry and trade in a country will be impossible without the services of banks.

FUNCTIONS OF MANAGEMENT

Management has certain components which are called functions. The results of management are achieved by applying all the functions of management. Number of management tools have been invented by management experts to perfect various functions of management and to improve the efficiency of various management functions.

There is no unanimity among authors with regard to the number of management functions. Universally planning, organizing, staffing directing, controlling and co-ordination have become the accepted functions of management.

1) Planning:

Planning involves the advance determination of things to be done. The future course of action is decided at present. Planning consists of formulation of objectives, policies, programs, procedures and other names of achieving these objectives.
Meaning:

Planning is an intellectual process of thinking resorted to decide a course of action, which helps achieve the pre-determined objectives of the organization in future.

Definition:

Allen, "A plan is a trap laid to capture the future".

H. Fayol, "Planning is deciding the best alternatives among others to perform different managerial operations in order to achieve the pre-determined goals".

Importance of Planning in Co-operatives:

i) Planning in co-operatives is needed for the vertical and horizontal growth of individual co-operatives. Lack of proper planning led the stagnation of many co-operatives in our country.

ii) Planning in co-operatives can be framed and steps will be taken to move towards set goods. Objectives can be framed and steps will be taken to achieve them within a stipulated period.

iii) Co-operatives need planning to increase their competitive power. As similar activities are undertaken by other organisation the co-operatives have to compete them and must provide efficient service to their member customers.
iv) The operational efficiency of the co-operatives must be increased to make them as viable units and to grow and sustain for ever.

v) Co-operatives are not only undertaking economic functions but have a mission to touch the social values of co-operation, namely self-help through mutual help, each for all and all for each, unity in diversity etc.

2) DECISION MAKING:

According to Terry "Decision making is selection of one behaviour from two or more possible alternatives".

AIMS / OBJECTIVES OF DECISIONS

1. One of the objectives of decisions is to help to reach, the desired result by the management. Objectives are standard guideposts any management has to fulfill.

2. Decision making has to make all functions of management to be performed effectively and efficiently.

3. Decision making has to clear conflicts that may creep in at every stage of planning function.

4. Decision making is a human process. It involves interaction with many people at lower and higher levels.
3) ORGANISING

Organizing is a mechanism or structure which helps the activities to be performed effectively. The organization is established for the purpose of achieving the business objectives. The business objectives may differ from one business to another.

Chester Bernard, "A system of Co-operative activities of two or more person is called organization".

ORGANISATIONAL STRUCTURE OF A CO-OPERATIVE ORGANISATION:

The organizational structure of a co-operative is in a pyramidal form. The members who exercise the ultimate power stand at the top of the organisation.

The professional management is under the control of the Chief Executive. The Chief Executive in consultation with the board decides the organizational set up for the staff. Necessary powers are delegated to the Section Managers and responsibility is fixed. Control and Communication System are established.

The organizational structure of a co-operative is shown in the following chart, which is in pyramidal form.
4) STAFFING

The staffing includes selection, training, promotion, appraisal, compensation communication etc.

Definition:

According to Koontz and O’Donnel — “staffing involves the proper and effective selection, appraisal and development of personnel to fulfill the roles designed into an date organizational structure” — “keeping the job filled with the right people is the staffing phase of the management job”.

STAFFING IN CO-OPERATIVES

The Co-operatives do need qualified and efficient staff to run their business successfully. They must forecast their staffing requirements and must select the needed staff. The recruitment and selection of staff are done by the Board of Directors and the president is given powers to select candidates.
5) DIRECTING

The directing function includes decision making, guiding, supervising, motivation etc.

According to Haimann, “Directing consists of the process and techniques utilized in issuing instructions and making certain that operations are carried on as originally planned”.

IMPORTANCE OF DIRECTION

1. Direction bridges the gap between managerial decisions and actual execution.

2. Direction is an integrating function of management as it integrates individual goals with organizations objectives.

3. It facilitates the introduction of change in an organisation. People need direction to introduce changes for the betterment of the organisation.

4. It extracts maximum caliber from each individual. The fuller energies of personnel are utilized.

5. Direction has a futuristic goal. The future challenges of an organisation can be met well by proper preparation of facing risks.

5) SUPERVISION

The first component of direction is supervision (other being leadership, motivation and communication).
All managers have to perform supervision function. Below him are first line supervisors and general supervisors. They oversee the work of people under them. Persons at supervision level constitute the largest proportion of the managerial cadre.

PURPOSE OF SUPERVISION

1. It enables the higher executives to concentrate on planning, directing and related functions.
2. It aims at improving the staff efforts individually and collectively.
3. Supervision enables to find out short comings and finals remedy for such things.
4. It ensures fuller use of working hours and manpower.
5. Wastages are avoided by proper supervision.

6) CONTROLLING

Controlling includes performance appraisal, corrective actions, etc. control is undertaken through instruments like budget, costing etc.

STEPS IN CONTROL PROCESS

1. Establishing Standards:

Standards are criteria against which results are measured. They are norms to achieve the goals standards are usually measured in terms of output.
a. **Time Standards:** The goal will be set on the basis of time lapse in performing a task.

b. **Cost Standards:** These indicates the financial expenditures involved per unit, e.g. material cost per unit, cost per person etc.

c. **Income Standards:** These relate to financial rewards received due to a particular activity like sales volume per month, year etc.

d. **Market Share:** This relates to the share of the company’s product in the market.

e. **Productivity:** Productivity can be measured on the basis of units produced per man hour etc.

f. **Profitability:** These goals will be set with the consideration of cost per unit, market share etc.

7) **CO-ORDINATION**

Co-ordination is not considered to be a separate function of management as co-ordination arises at every stage of management functions.

**THE FUNCTIONS OF CO-ORDINATION IN CO-OPERATIVES:**

Coordination as a function of management integrates all other functions of management in all forms of business organizations including the cooperatives. The successful implementation of various
managerial and business functions of co-operatives depends on the effective coordination expressed at levels.

**Units of coordination:** Various units of cooperation which need to express coordination are members, office bearers, personnel, government community and co-operatives of various kinds from primary level to National and International level.

**UNITS OF CO-ORDINATION**

The various units of cooperation which need to express coordination are members, office bearers, personal, government, community and co-operatives of various kinds from primary level to National and International level.

(1) **Members:** Members of various co-operatives have to extend their cooperation and coordination for the success of their cooperatives. Likewise, various cooperatives must write and coordinate their activities to extend their services to all members and their cooperatives must extend coordination for their mutual success. Coordination of members is needed to solve the problems like over dues.

(2) **Office Bearers:** Coordination is needed among office bears including the Board of Directors, on the one hand and members and employees on the other hand. For the smooth functioning and efficient working, such coordination is necessary.
(3) **Personnel**: Successful coordination is necessary between the employees and their cooperatives. Industrial harmony in the form of good employee relationship should prevail at all levels. This can be expressed in another form of better board-executive relationship. Industrial peace should prevail. Any labour problem should be settled amiably through mutual dialogues.

(4) **Government**: Co-operative movement in India came into existence with official initiative and in the years to came the hold of the government over cooperatives will continue in our country. As government financing the cooperative mutual coordination is very much essential. Likewise the RBI and NABARD are helping the cooperatives in many ways. They should not treat the cooperatives as beggars. This warrants having mutual coordination between cooperatives and various government agencies.

(5) **Community**: One of the latest principles of cooperation introduced by the Third ICA Commission was the concern for community. Cooperatives in addition to help their members, must have a concern for the community surrounded by them. Here also coordination is expected between the cooperatives and the community.

(6) **Cooperatives of various types**: One of the important principles of cooperative is ‘cooperation among cooperatives. This principle is otherwise called as ‘principles of growth’. Vertical and horizontal
cooperation is necessary among various cooperatives at various levels, and with other country's cooperatives. At present such integration is lacking among our cooperatives. They function in an isolated way. An effective coordination among cooperatives can ensure cooperative common wealth.

GROWTH OF CO-OPERATIVE MOVEMENT IN INDIA

Co-operative movement in India was introduced as a state policy and owes its origin to the enactment of the Co-operative Societies Act, 1904. During the last more than 70 years of its existence, the movement has passed through various stages of development and has seen many ups and downs.

First Stage: 1904 to 1912:

The first stage was essentially an experimental one. The Indian organizers of the movement had little experience and scarce knowledge of the imported idea of co-operation. The task was made even more difficult by the fact that they were required to spread a new idea among the uneducated rural people.

The Act of 1904 provided for the organization of Primary Credit Societies and stress was on the promotion of agricultural credit only.

One of the special features of the societies, during the period, was that the government was the prime-mover of the movement. The
movement was not only initiated by the government. In 1909, government loans formed 22% of the working capital of societies.

**Second Stage: 1912 to 1919:**

1. The Act of 1904 confined co-operative activities to Primary Credit Societies only.

2. The old act classified societies into rural and urban where as the new act provided for the classification of societies on the basis of their liability into limited and unlimited.

3. The old act was silent about distribution of profits. The new act realized that Co-operative movement in India could not flourish so well unless the right of investors to reasonable profits was recognized.

4. The Act enabled for the first time the registration of Central Societies.

Co-operative education was given a serious attention and classes were held in Bombay, for giving training in co-operative work.

The co-operative movement till 1921 when he was involved in the non-co-operation political movement.

**Third Stage 1919 to 1929:**

Under the reforms of 1919, Co-operation became a transferred subject, under the charge of a minister in each state. The Bombay Co-operative Societies Act in 1925, incorporating provisions to suit local
conditions. Various states appointed commission of inquiry to judge the progress of the movement. "If co-operative fails, there will fail the best hope of rural India".

**Fourth Stage 1929 to 1939:**

In 1929, the world economic depression set in and gave the movement a rude Shock Funds with the movement were invested in loans to agriculturists.

1. **Land Mortgage Banks:**

Finding that the agriculturists were raising huge funds on the mortgage security of their lands, land mortgage banks were started on co-operative basis. The first Central Land Mortgage Bank was established in Madras in 1929.

2. **Reserve Bank of India:**

A rather very important event of this period was the establishment of the Reserve Bank of India in 1935. The agricultural credit department was also set up simultaneously, to study agricultural credit problems and give financial accommodation to Co-operative Credit Structure.
Fifth Stage 1939 to 1947:

As a result of high prices most of the overdues, which had accumulated during the period of depression, were cleared off. Demand for further loan also decreased greatly.

1. Control Period:

Due to the imposition of controls on the distribution of commodities, distributive co-operatives began to be organized all over the country.

2. Advancement of Co-operative Thought:

An important landmark of this period was the setting up of the Co-operative Planning Committee, which drew up plans for the development co-operative movement in various spheres.

FUNCTIONS OF CO-OPERATIVE BANKS

According to the section 6 of the Banking Regulations Act (as applicable to co-operatives) a cooperative bank can undertake the following functions.

1. The borrowing, raising or taking up of money, the lending or advancing of money either upon or without security; the drawing, making, accepting discounting, buying, selling, collecting and dealing in bills of exchanges, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures,
certificates, scripts and other instruments and securities whether transferable or negotiable or not; the granting and issuing of letters of credit, travelers cheques and circular notes; the buying and selling of foreign exchange, the buying, selling and dealing in bullion and specie, including foreign bank notes, the acquiring, holding, issuing on commission, under writing and dealing the stock, funds, shares, debentures, debenture stock, bonds, obligations; securities, and investments of all kinds, the purchasing and selling of bonds, scripts or other forms of securities on behalf of constituents or others, the negotiating of loans and advances the receiving of all kinds of bonds, scripts or valuables on deposit or for safe custody or otherwise, the providing of safe deposit vaults; the collecting and transmitting of money and securities;

2. Acting as agents for any government or local authority or any other person or persons; the carrying on of agency business of any descriptions including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as an attorney on behalf of customers.

3. Contracting for public and private loans and negotiating and issuing the same.

4. The effecting, insuring, guaranteeing, under writing participating in managing and carrying out of any issue, public or private of State,
Municipal or other loans or of shares, stock, debentures or debenture stock of any Company, Co-operative Society, Corporation or Association and the lending of money for the purpose of any such issue;

5. Carrying on and transacting every kind of guarantee and indemnity business.

6. Managing, selling and realizing any property or any right, title or interest in any such property which may form the security or part of the security for any loans or advances or which may be connected with any such security;

7. Managing, selling and realizing any property which may come into the possession of the co-operative bank in satisfaction or part satisfaction of its claims;

8. Undertaking and Executing Trusts;

9. Undertaking the administration of Estates as executor, trustee or otherwise;

10. Establishing and supporting or aiding in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the co-operative bank or the dependents or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent
objects or for any exhibition or for any public, general or useful object;

11. The acquisition, construction, maintenance and alteration of any building or works necessary or convenient for the purposes of the co-operative bank.

12. Selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the co-operative bank;

13. Acquiring and undertaking the whole or any part of the business of any person or company or co-operative society; when such business is of a nature enumerated or described in this sub-section;

14. Doing all such other things as are incidental or conducive to the promotion or advancement of the business of the co-operative bank;

15. Any other form of business which the Central Government may, by notification in the official gazette, specify as a form of business in which it is lawful for a co-operative bank to engage.

NON-PERFORMING ASSETS

OVERDUE AND NON-PERFORMING ASSETS (NPA)

The main purpose of any banking activity is its lending. Lending only yields revenue to the bank and fulfills the social obligation as to granting required loan at the right time to right purpose. When
repayment is prompt, there is no risk on the part of the bank. But in most of the cases this is lack of prompt payment in time which results in more non-performing assets in Salem District Central Co-operative Bank Ltd., Salem -1

WHAT IS NON-PERFORMING ASSETS (NPA)

Banker’s International settlement is arrived at International Banking Conference held in 1988 in America.

A committee has been constituted in our country under the Chairmanship of Mr.Narasimman, former Governor of RBI to elucidate the applicability of Income Recognition and Assets Classification (IRAC) Norms in our country. Based on the recommendations of this committee IRAC Norms were introduced in Commercial Banks in 1993. The norms were implemented with same modifications in 1997 to our State Apex Co-operative Banks and District Central Co-operative Banks.

Accordingly loans disbursed and other assets being treated as NPA. The interest and income recoverable from these were considered on actual basis and not on accrual basis.

NPA NORMS FOR CROP LOANS

The installment due unpaid for a period of 12 months, the crop loan becomes NPA.
OTHER SHORT TERM LOANS

If installment on short-term loan and jewel loan stands due for 6 months, it becomes Non-performing Assets.

SSI, SRTO, HOUSING ETC: (which required gestation period / moratorium)

This will be considered as NPA from the date of default of installment.

MEDIUM TERM LOANS

The time limit to consider as NPA is six months.

Cash Credits:

a) If stock cover is not available / insufficient, then the loan become NPA.

b) Overdue i.e. excess drawn over limit sanctioned.

c) Excess of Drawing Power.

d) Amount debited, but not recovered in 6 months.

e) Interest out of order for the past 6 months.

The above cases are considered as out of order. If the above position persists, on the last day of the financial year end (31st March) the entire loan will be considered as Non-performing Assets.
CONSORTIUM ACCOUNT

Consortium Account is not applicant for PACBs and is applicable only for individuals who has availed various type of Loans/Limits. If this is the case if any one account stands overdue the entire loan accounts shall be treated as Non-performing Assets (NPA).

BILL DISCOUNTED

If bill is discounted and if it is not met on due date, it will be considered as Non-performing Assets immediately.

ASSETS CLASSIFICATION

| i) Standard | ii) Substandard | iii) Doubtful | iv) Loss |
| Assets      | Assets         | Assets        | Assets   |

i) Standard Assets:

All the loans not falling any of the above categories will come under this type. Up to 31.3.1999 no provision was needed. After 1.4.1999 a contingent provision of 0.25% is required against these assets.

ii) Substandard Assets:

Overdue of loan installments below 3 years will come under this type. 10% provision is required for this Substandard Assets.
iii) **Doubtful Assets:**

This can be classified under two types

a) Secured  

b) Unsecured

Unsecured loans between 3 to 6 years needs 100% provision

Secured Loans can be further classified as

<table>
<thead>
<tr>
<th>Period</th>
<th>Doubtful Assets-I</th>
<th>Doubtful Assets II</th>
<th>Doubtful Assets III</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 to 4 Years</td>
<td></td>
<td>4 to 6 years</td>
<td>6 Years &amp; above</td>
</tr>
</tbody>
</table>

Provisions required to be made namely 20%, 30% and 50%

**LOSS ASSETS**

There is no time limit for this type of loan. This becomes loss assets from the date on which it was sanctioned.

The following components make a loan to loss assets.

a) Misutilisation

b) The Applicant or Guarantor demises

c) The Applicant or Guarantor become insolvent

d) The Applicant or Guarantor leaves their place.

e) Mortgaged document was missing.

f) Decree, exception and time bared documents.

g) The loan classified by the auditor or inspection people to be loss assets.
100% provision is required for the above type of loan. The auditor or inspection people while classifying should furnish the grounds on which it is classified as Loss Assets.

OBJECTIVES OF THE STUDY

The study is based on the following objectives:

1. To review the origin of the Salem District Central Co-operative Bank, Salem-1.

2. To study about the performance of the Salem District Central Co-operative Bank, Salem-1.

3. To study about the lending and overdue of lending of the Salem District Central Co-operative Bank Ltd, Salem-1.

4. To examine about the level of non performing assets of Salem District Central Co-operative Bank Ltd, Salem-1.

5. To study about the problems faced by the Salem District Central Co-operative Bank, Salem-1.

6. To suggest measures for the improvement of the Salem District Central Co-operative Bank Ltd., Salem – 1.

METHODOLOGY

Only Secondary Data are used for this study. Various statistical tools are used for testing six hypotheses. They are Regression and Correlation Analysis. Trend analysis is also used for findings of
projected information about loans, NPA etc. Primary data are not used for the study.

AREA OF THE STUDY

The study is confined to the Salem District Central Co-operative Bank Limited, Salem – 1 only. This study mainly covers the position of NPA of SDCCB Ltd., Salem-1 for the past 5 years i.e 2000-01 to 2004-05.

DATA COLLECTION

The data pertaining to the present study is mainly based on the information collected directly from the authorities of the Salem District Central Co-operative Bank Ltd, Salem – 1.

The required secondary data collected from various sources. Care was taken to collect all the relevant data with reference to the particular period of the study.

Data used for the study are secondary. The secondary data consists of Printed Materials, Journals, Auditor’s Report, Annual Report etc. Also the interview with Executives of the Salem District Central Co-operative Bank Limited by the researcher is made. A discussion with bank employees is also done by the researcher for collecting the information about the problems of the Salem District Central Co-operative Bank Limited, Salem – 1.
HYPOTHESES

The study is based on the following six hypotheses.

1. There is no significant relationship between Amount of NPA and Loans sanctioned. (NULL)

2. There is no significant relationship between Amount of NPA and Loans outstanding. (NULL)

3. There is no significant relationship between Amount of NPA and Number of members. (NULL)

4. There is no significant relationship between Deposits and Loans sanctioned. (NULL)

5. There is no significant relationship between rate of dividend and net profit. (NULL)

6. There is no significant relationship between Loans sanctioned and Loans outstanding. (NULL)

LIMITATIONS OF THE STUDY

1. The study covers Salem District Central Co-operative Bank Limited, Salem-636 001 alone. The study is confined to the ‘A study of the position of Non-Performing Assets (NPA) of Salem District Central Co-operative Bank Limited, Salem-1”.

2. The study covers the period of 5 years only. i.e., from 2000-01 to 2004-2005.
3. Exact overdue amount in various loan accounts could not be obtained because of the NPA norms. When it is over due for the prescribed period the entire limit sanctioned is being treated as NPA. Hence exact over due portions could not be obtained accurately.

4. For Loans and Advances to staff, only cumulative outstanding figure is obtained.

5. Figures taken in this report is being obtained from previous annual report copies and audited statements alone.

6. A comparative study of the NPA with other Central Co-operative Bank has not been made.

7. The information given by the bank officials are taken as authentic.

CHAPTERISATION SCHEME

The study is organized into five chapters.

First Chapter: It Contains the introduction of the Co-operative Banks - Co-operative movement in India – classification of co-operative banks – meaning and functions of the District Central Co-operative Banks.

It also explains the objectives of the study, methodology, data collections, hypotheses and limitations of study and chapterisation scheme.
Second Chapter: It deals with Profile of the Salem District Central Co-operative Bank Ltd Salem – 1.

Third Chapter: It explains the Performance Evaluation of the Salem District Central Co-operative Bank, Non-performing Assets, NABARD and its role etc. It also deals with problems faced by the Salem District Central Cooperative Bank Ltd, Salem – 1.

Fourth Chapter: It deals with Analysis and Interpretation of data.

Fifth Chapter: It deals with main findings of the study and various suggestions to improve the performance of Salem District Central Co-operative Bank Limited Ltd. Salem – 1 with conclusion.