## INTRODUCTION

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1.1 Co-operative Banks:

Bank and banking are the most important and major factors in today’s world economy. Each and every transaction is routed through banking. Not a single business is possible without banking activity. The bank and business are both interrelated.

The activities and facilities provided by the banks such as collection of deposits from small investors, lending, finance and leasing, cash credit, letter of credit, routine transaction are very important for economic growth on the whole.

There is Reserve Bank of India at the centre of banking regulation in India.

There are three types of banks in India:

(1) Commercial banks.
(2) Co-operative banks.
(3) Other Institutions.

There are two types of commercial bank, i.e. commercial banks in the public sector and commercial banks in the private sector.

Among co-operative banks there are state co-operative banks, central bank, agricultural banks and land development banks.

Other institutions include government, public sector and other private sector institutions.
In the first category fall the primary co-operative banks which are small sized units organized in the co-operative sector which operates both in urban and non-urban centers. They finance small borrowers in industrial and trade borrowers in industrial and trade sectors, besides professionals and salaried classes. Regulated by the Reserve Bank of India, they are governed by the Banking Regulation Act, 1949. Banking laws (Co-operative societies) Act, 1965, Negotiable Instrument Act, 1881 and Contract Act, 1872.

Co-operative credit institutions occupy an important position in the terms of their reach, volume of operations and the purpose they serve. Rural co-operative banks play a pivotal role in the rural credit delivery system with credit co-operative forming almost 70 percent of the rural credit outlets. Rural co-operative banks accounts for around 30 percent or rural deposits and 40 percent of the outstanding loans and advances of the banking system for agriculture and rural development. About 55 percent of the short term production loans for the agriculture sector come from co-operative credit institutions. Urban co-operative banks (UCBs), on the other hand, aim at mobilization of saving from the middle and low-income urban groups and purvey credit towards the weaker sections. The majority of credit from UCBs is channelized towards priority sector segments.

Before the advent of the co-operative institutions availability of credit in rural areas was inconspicuous. Agricultural and related activities were starved of organized, institutional credit and were dependent entirely on unscrupulous money lenders.

As part of the government efforts to create an organized pattern of credit in their section of society. A new type of institutional, based on the principles of co-operative organization and management, suitable for problems particular to Indian conditions was setup. These banks were conceived as substitutes for money lenders, it provides timely and adequate short term and long term institutional credit at reasonable rates of interest.
The co-operative banks in India have been around for more than a century and will continue to play a major role for many centuries to come.

The co-operative banks enable a whole gamut of activities such as production, processing, marketing, distribution and servicing through the entire length and breath of the country. These co-operative banks perform all the main banking functions of deposit mobilization, supply of credit and provision of remittance facilities. Urban co-operative banks also provide functions mainly in the agricultural and rural sector, the urban co-operative banks operate in semi urban, urban and metro – politan areas also. The UCBs as a group performed better even in comparison with the scheduled commercial banks during 1998 – 99. However, there is sufficient heterogeneity in the performance of UCBs with members more than 1900 at present. While a large number of these banks have shown creditable performance, a fair number of them have shown sings of persistent weakness.

1.2 Performing and non – performing assets:-

The importance of Performing and Non Performing Assets is increasing day by day from the formation of Shri M. Narsimham Committee or Banking Sector reform in 1991. We can say that it is the second land mark in banking sector in India after nationalization of banks. After nationalization of banks, it has been given much attention on the lending policy of nationalized banks but not much attention was given on the aspects of recovery of the advances of the nationalized banks by Reserve bank of India.

In April, 1992, it was decided to implement the Narshimham Committee’s recommendations on financial sector reforms in a phased manner over a three year period commencing from the accounting year 1992-93. Income Recognition Assets Classification (IRAC) and provisioning norms were introduced in our country with a view to reflecting a true picture of financials of Banks on the basis of their booking the
income on actual basis than on accrual basis and also to classify assets according to the level of risks attached to them.

The Reserve Bank has issued directives from 31-03-1993 and presented a new concept of “Income Recognition”. This is done on the recommendations of Shri M. Narsimham Committee.

According to this classification, it is stated as to classify their credit facilities into two parts:

(1) Performing Assets.

(2) Non – Performing Assets.

According to this classification, it is stated as to

(i) When the income must be said to recognize.

(ii) What provision for doubtful debts should be made, and

(iii) Full provision should be made for loss assets.

The Banks are required to classify their advances (Assets) into four broad categories:

(1) Standard Assets

(2) Sub standard Assets

(3) Doubtful Assets, and

(4) Loss Assets

instead of erstwhile health code system.

A standard asset is one (i) which does not disclose any problems and (ii) which does not carry more than normal risk attached to the business. Such an asset is
Performing Asset and not NPA. Sub standard, doubtful and loss Assets are individually and collectively known as Non – Performing Assets (NPA).

The problem of Non – Performing Assets (NPAs) is ravaging some of the even advanced economies like Japan. According to an assessment by one of the international rating agencies, the real level of NPAs of China may be over 50 percent and for Indian system it can be placed at over 20 percent, after making a marginal allowance for ever – greenning. Though soothing in comparison, it is not a matter of comfort. The interest bearing assets of Indian banks have so far derived comfort from a large proportion of them being held in the form of sovereign debt paper or sovereign guaranteed advances. The non – performing assets of Indian banks (both advances and investments taken together) form only around 5 percent of the total assets at the end of March 2001. But this facet will undergo rapid change at any time if the defaults undergo guaranteed advances to undertakings of the some of the state governments escalate any further.

Recovery of non – performing assets has become critical performance area for all banks in India. As per RBI report, March 2001, the gross NPA of all the scheduled commercial banks and primary co-operative banks have gone up to Rs. 54,773.16 Crores (12.4%) and to Rs. 5589 crores (12.1%) respectively.

Hence, on the basis of recommendations of Narsimham Committee, the Reserve Bank issued guidelines on income recognition, asset classification provisioning and other related matters in April, 1992 which have been modified from time to time and suggestions received.

As reduction in non – performing assets is essential for proper utilization of resources of banks and improving their profitability, various strategies are to be developed in this respect.

In order to ensure that guidelines issued by the Reserve Bank are properly followed it is necessary to have audit / inspection of the work done by banks.
It is not anymore lenders’ problem alone.

But equally that of borrowers too!

The high level of NPAs in banks and financial institutions has been a matter of grave concern to the public as bank credit is the catalyst to economic growth of the country and any bottleneck in the smooth flow of credit, one cause for which is the mounting NPAs, is bound to create adverse repercussions in the economy. NPAs are not therefore the concern of only lenders.
Figure 1.1

The organizational structure of co-operative credit institutions in India.

Source: Report on Trend and Progress of Banking In India – 2008-09.