Chapter - I

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Co-operation is a system in which individuals with limited resources are enabled to take part in an organised activity for mutual benefit through mutual sharing of responsibility for management on the basis of equal partnership with the principle of ‘one man one vote’ and it permits every member to retain his identity and have a equal control over the business along with others irrespective of the shareholdings. Profit identical to ethical conduct of business is welcome but only second to economic interest of its members. Thus it may be constructed that the purpose of co-operation is socio economic in nature and it aims to save the “have-nots” from the exploitation of the ‘haves’.

The international Labour conference at its 50\textsuperscript{th} session in 1966 defines, the term ‘Co-operation’ as below:

“A co-operation is an association of persons who have voluntarily joined together to achieve a common through the formation of a democratically controlled organisation, making equitable contribution to the capital required, and accepting a fair share of the risk and benefits of the undertaking in which the members actively participate. Co-operative planning committee 1948 commended co-operative movement in the
following words: "The co-operative society has an important role to play as a suitable medium for the democratisation of economic planning. It provides the local unit which can fulfil the dual function of educating public opinion in favour of the plan and executing it".

The Japanese Law of 1921 defines, "a cooperative society as an association having legal existence formed by persons of modest means in order to promote and develop according to the principles mutually exercised by the members of their occupations and for the improvement of their economic conditions".

Dr. B.K. Shingh wrote that "the co-operative societies have but only one objective, the socio-economic development of the common man especially the downtrodden.

In Bengal co-operative organisation is called, "Samavaya". Rabindranath Tagore observed that "only co-operative system may solve the problems of poverty in India".

J.M. Mishra defines, "co-operation is the way of life where people unite democratically in the spirit of natural and to get the largest possible gains to the things and services they need".
Mahatma Gandhi states that, "Co-operation is non-violence". A cooperative society should therefore be organised with the willing consent of the constituents. Love, understanding and fellow feeling should be no room for compulsion in any form.

Mr. H. Calveri defined co-operation "as a form of organisation, wherein persons voluntarily associate together as human beings, on a basis of equality, for the promotion of the economic interests of themselves".

"A co-operative society is an enterprise formed and directed by an association of users, applying itself the rules of democracy and directly intended to serve both its own members and the community as a whole".

The Indian Co-operative Societies Act of 1912 has not given any definition of co-operation. Section 4(c) considers a co-operatives society as "a society, which has its object the promotion of the economic interests of its members in accordance with co-operative principles".

PRINCIPLES OF CO-OPERATIVE

Cooperation is an economic institution for the promotion of economic interest of members. It suits to all political and economic
systems. It has greater significance in the developing countries. Such
countries have high degree of illiteracy, social obsession, ill-health,
problem of women and children. Cooperation is visualised as a potent
instrument to play an important role in the socio-economic transformation
of such societies.

The credit of starting the cooperative movement goes to England.
The industrial revolution of 19th century brought a trail of problems.
While capitalist industrialists became richer, the working class suffered
and they were no better than strife. They struggled hard even to get the
necessities of life. Hard hit by the capitalist society, workers and less-
privileged had to protect themselves of their interest.

Credit goes to ROCHDALE PIONEERS, who in 1844 laid down
certain basic principles for cooperation, which are valid even today.

1. Sale of goods at prevailing market prices.
2. Payment of fixed rate of interest on capital
3. Distribution of profit in the form of dividend on purchases
   according to the business done by them.
4. All purchases and sales to be in cash.
5. Both sexes to have equal rights.
6. Each member to have one vote and no more.
7. Regular and frequent meetings to be held for the purpose of
discussing society’s business.
8. Accounts to be properly kept and audited balance sheet to be presented to members.

The principles of **ROCHDALE PIONEERS** as summarised below is accepted all over the world.

1. Democratic control
2. Open membership
3. Limited interest on capital
4. Patronage dividend
5. Cash trading
6. Political and religious neutrality and
7. Promotion of education.

**Elaboration of the Principles**

1. **Democratic Control**

   One of the basic principles of cooperation is democratic control. Democracy is the basis for cooperation. The general body of the society, representing all the members is supreme. It is the final authority on all matters pertaining to the society. The day to day business will be conducted by a committee or board of directors who are elected by the members. Every member will have one vote only irrespective of shares held by him.
2. **Open Membership**

Anyone eligible to become a member should be admitted in a cooperative society. No member can be denied membership on the basis of religion, caste or political consideration. It should be noted that only people who are eligible. A person who is not residing within the area of operation of the society cannot become a member of that society. So also, for example, in a fisheries cooperative society, if he has not taken fishing as his profession, he cannot get membership in that society.

3. **Limited interest on capital**

In a cooperative society, a member can get only a limited amount of interest on capital. The maximum amount of 13 to 14% is restricted by the cooperative societies Act, of the state, Cooperative are not investment proposition. It is a device to meet the economic needs of the members.

Motive being service motive, limited interest on capital alone would be allowed to members on their share capital.

4. **Patronage dividend**

A cooperative society having sufficient profit, after providing for statutory and other reserves, if there is surplus, it could be distributed to members according to the business done by the member with the society. It should be understood that patronage dividend in cooperative is not
distributed on the basis of shares held by the members. In a consumer store, the patronage dividend will be distributed according to the purchasing made by the member from the society during the year. In a milk supply society the patronage dividend will be distributed according to the quantity of milk supplied to the society by the members and in a weavers’ cooperative society on the basis of quantity of cloth woven by the member for the society.

5. Cash Trading

Cooperative societies, particularly consumer/stores adopt only cash sales. Credit sales is a taboo for cooperatives, as credit sales would encourage extravagant purchase beyond ability and needs, bringing misery to the buyer.

6. Political and Religious Neutrality

Members may belong to any political party or religion on the basis of their affinity to a particular denomination, they cannot be discriminated and refused admission.

7. Promotion of education

Every cooperative society is highly interested and has taken it as a part of its work to educate members, committee members and their personnel in co-operation and allied matters.
STATEMENT OF THE PROBLEM

There are certain defects observed in a pilot study made and the performance of the Co-operative urban bank ltd., Omalur.

The Omalur Co-operative urban bank has not outlined the borrowing power conferred on it to fullest extent. It is noticed that the Omalur Urban Co-operative Banks have not utilized the available lovable funds to the maximum extent.

Omalur is a taluk Head quarter. Majority of the people in this area are poor and illiterates. They are borrowing money from finance companies and money leaders at a usurious rate of interest, say more than 30%. In order to save the poor artisans business men and economically backward sections of the society from the clutches of money lenders and non-banking finance companies, OUCB was started. Though the OUCB is doing yeoman service to the members, the outstanding overdues are growing every year. The repayment of the loan by members is very essential for the good performance of any bank including OUCB. So the researcher has made an attempt to study the various problems of the OUCB and to suggest various measures to overcome such problems.
REVIEW OF THE PREVIOUS STUDIES

Special Officer in Tamilnadu state Apex cooperative bank has made an attempt on, “Co-operative Urban bank in Tamilnadu and need for diversification of advances”. He pointed out that there are 133 CUBs in Tamil Nadu state, that too at a concessional rate of interest to enable them to provide working capital finance to small scale industry, only two Co-operative Urban Banks (CUBs) availed it.

“Operation efficiency of Urban banks-study of the Guruvayur co-operative urban bank Ltd.,” is a study conducted by C.A. Jaboy and others. The study is made to understand how Urban Co-operative Banks by their very existence in urban centers have to complete with the urban branches of commercial banks.

The difference between primary Agricultural Credit Societies (PACS) and Urban Co-operative Banks.

The following are the differences between PACS and urban banks.

1. Area Coverage

Generally a small area of less than 2000 hectares of cropped land will be covered by the primary agricultural co-operative societies. But in the case of Urban Co-operative Bank it covers in are of the Taluk.
2. **Type of Beneficiaries**

Under PACS all types of members will be benefited irrespective of their land holding such as big, medium or small. UCB will cater to the needs of the people excepts for agricultural purpose.

3. **Nature of credit purpose**

The business of PACS includes providings short term crop loans and mediums terms loans for agriculture and allied activities. It also undertakes supply of farm inputs, distribution of essential commodities and other to all members. The CUB all along by their traditional outlook were making advances for jewel loans, Business cash credit, House loan, Contractions Loan, Vehicle Loan, mortgage loans, Surety loans, and loans against deposits. The requirements of the credit in rural and semi urban areas are mostly met by the CUBs for purposes other than agriculture.

4. **Subsidy for loans**

The subsity for PACS members are to an extend of 33.33% of the members loan. No subsidy is offered to the loans of CUB members.
OBJECTIVES OF THE STUDY

- To study the actual utilisation of the borrowing powers by the Omalur Co-operative urban bank Ltd.,
- To study the need and extent of diversification in then granting of loans urban co-operation banks.
- To study the extent of the idle funds lying with the Omalur Co-operative urban bank Ltd.,
- To study problems of Omalur co-operative Urban Ltd., and
- To offer suggestions for overcoming the problems and to improve the working of Omalur co-operative Urban bank Ltd.,

WORKING DEFINITIONS OF CONCEPTS

MEMBERS

Membership in this bank shall be of two kinds viz., ‘A’ and Associate member class. The term member where ever used in the study represent only ‘A’ class members. An members may get only jewell loans and will not be entitled to any other privileges of membership in the bank.

BANK

In this study where ever the term ‘Bank’ is used is mean for Omalur Co-operative Urban Bank (OUCB, Omalur, Salem Dt.)
**LOANS**

Loans mean loans given to member only but no members can claim a loan as a matter of right.

**OVER-DUES**

Failure to repay the loan within the stipulated period is called overdue loan. It can also be referred as default of repayment of loan within the specified time by the member borrower.

**GEOGRAPHICAL AREA**

The area of operation of the OUCB shall be confined entire Omalur Taluk.

**PERIOD OF STUDY**

The study covered 8 years. For this study the researcher has taken data for 8 years from 1998-1999 to 2005-2006.

**METHODOLOGY**

The study is based on the annual reports and other statistical records maintained by the Omalur Co-operative urban bank for the period of 8 years viz., 1998 to 2006. Besides, direct information’s have also been obtained from the secretary, Directors of the bank and other officials.
of Co-operative department of the TamilNadu Government, as well as Urban Bank Department of the RBI, Chennai.

Secondary data and information were collected from various books and periodicals pertaining to the relevant matter of the subject under study. The sources of secondary data are noted at appropriate pages.

TOOLS OF THE STUDY

The following tools were used in this study.

SCHEDULE FOR THE BANK

In this schedule details of operations of the bank have been collected such as membership, share capital, deposits, loans issued, collection of loans from members, etc.,

The annual statement, audit report, Bye-laws, relevant, papers ledgers, documents and records were referred for the study.

PILOT STUDY AND PRE-TESTING

The pilot study was conducted. In the pilot study the schedule was pre-tested and the same was revised accordingly. A revised schedule was administrated to Omalur Co-operative Urban Bank.
FIELD WORK AND DATA COLLECTION

The Researcher carried out the fieldwork as per the schedule. First of all the researcher approach the president and special officer of OUCB for getting permission to visit the OUCB Omalur (Salem Dt.)

The president of OUCB and the special officers were interviewed the researcher using the schedule prepared for this purpose.

Data were collected from the records of the bank through the schedule for the bank. As the data for the study is concerned for 8 years, some of the Auditor’s reports and Annual report were referred to.

The schedule for OUCB constituted the main tool of data collection. After filling the schedule a check up was made to ensure competence and accuracy. After completion of the schedule the directors and some members were interviewed and the views were recorded in separate sheet.

The problems of the societies were discussed with the president, special officer, secretary and staff members of OUCB and were noted in the schedule.
Regarding data collection the researcher has utilized the library facilities, Salem Sowdeswari College (Self-financing Courses Wing) Library Salem (Salem Dt).

FRAMEWORK OF ANALYSIS

Information relating to the bank was collected through the schedules. From the schedules, relevant one way and two-way tables have been prepared. From the tables prepared year wise average of the various parameters have been arrived. For some of the tables, year wise percentage change was calculated.

LIMITATION OF THE STUDY

The period of study is confined to 8 years viz., 1998 to 2006 in view of the non-available of past records beyond 8 years.

A comparative study of the performance with Co-operative Urban Banks in other district as well as all India level not been made since figures pertaining to the same are not available.

The study is limited to the facts data, which are taken from the annual reports, audit reports, programs, ledger and other documents of the Omalur Co-operative Urban Bank.

In the present study year refer to the co-operative year, which commences on 1st April every year-ends on 31st March of next Calendar year.