SUMMARY OF FINDINGS PROBLEMS IN THE WORKING OF THE SALEM DISTRICT CENTRAL CO-OPERATIVE BANK LIMITED AND SUGGESTIONS FOR IMPROVEMENT

FINDINGS

The Salem District Central Co-operative Bank Limited has no branch expansion during the three years i.e. 1988-89, 1989-90 and 1990-91. It has maintained only 58 branches from 1988-89 onwards. The share capital showed an increasing trend in all the years of the study made but the percentage of increase annually was the minimum in 1987-88. Between 1981-82 and 1987-88, the membership increased marginally. The membership decreased in 1988-89 by the withdrawal of membership by 34 'B' class members. The reserves and surplus of the Bank increased in all the types, the overall increase being 2.1 times. There is a remarkable increase in the amount of deposits of the bank in all the years of the study period. This Bank has maintained the same level of fixed deposits in all the years and the deposits showed a four-fold increase in total. Investments were made at the same level throughout the period of study by this Bank but declined in 1990-91 considerably.

Borrowings showed a fluctuating trend in all the years of the study made but increased to the maximum extent in 1990-91. Because this bank borrowed a large sum from Tamil Nadu State Co-opera-
tive Bank in that year. The amount of outstanding loans and advances increased from 1981-82 to 1990-91 but the overdues showed the highest percentage at 32.53% in 1990-91 compared to all the other years. Bad debts showed an increasing trend in all the years of the study made except 1990-91, the final year of the study period. Loans granted under Scheme Lending showed a declining trend in the period 1985-86 and 1990-91 whereas as normal lending expressed fluctuating trend during the same period. Interest received on deposits and loans increased year by year when compared to the interest paid by the Bank. The Bank has earned net profit showing a fluctuating trend till 1986-87 and after 1986-87 the net profit gradually decreased year by year and stood at Rs.20.79 lakhs as net loss in 1990-91. The amount of outstanding interest on the deposits made by the customers and borrowings from the Tamil Nadu State Co-operative Bank exhibited an increasing trend throughout the period of study. The amount increased 50 times within a decade. The Bank sanctioned the loans to the members more than the target fixed under the Integrated Rural Development Programme in all the years of the period of study. Loan-deposit ratio is almost satisfactory in all the years maintained by the Bank.

Thus the performance of the Salem District Central Co-operative Bank during the study period 1981-82 to 1990-91 is good.
2 PROBLEMS OF THE SALEM DISTRICT CENTRAL CO-OPERATIVE BANK LIMITED AND SUGGESTIONS FOR IMPROVEMENT

The Salem District Central Co-operative Bank Limited ranks first in collection of deposits and sanction of loans and advances among all the Central Banks of our State. As per the Reserve Bank of India directives, this bank has to maintain 5% of owned funds and reserves in cash and 25% in liquid assets and the remaining is used for lending activities. Out of the amount allocated for loaning operations, it has to grant 40% of the amounts for agricultural operations. The interest rate granted by this Bank on the deposits collected is 13.5% where as the lending rate to agricultural operations is 9% p.a. So the Bank incurs a heavy margin of loss on the sanctioning of these loans. The security margin is also lower in the advances granted to the peasants than that of non-farm sector. The Bank is unable to meet the requirement of non-farm activities which reduces the income earning capacity to a large extent.

The Reserve Bank should change its directives reducing the percentage of the funds to be kept in liquid assets as well as the part of the funds to be allocated for granting loans and advances to agriculture and its allied activities. The lending rate to the agricultural operations should be increased to the extent of minimising the margin between the
interest rate of the deposits collected and the loans sanctioned. By reducing the funds that should be allocated for agricultural sector the Government should encourage this Bank granting loans and advances to the non-farm activities. This paves the opportunity of increasing the income earning capacity of Bank.

This Bank sanctions loans and advances even to the primary societies which have high overdues outstanding against them. At the same time no privilege is given to the primary societies which have no overdues or low overdues either in sanctioning loans in large amount or in advances.

The Bank should follow a policy of charging differential rates of interest on its loans to the primaries on the basis of the performance of the latter. The primary credit co-operative societies managed well with minimum overdues should be made eligible for borrowing at lower rate of interest. On the other hand, those credit societies with mounting overdues should be charged penal rates of interest on their borrowings from the central bank.

Loans are disbursed to the agriculturists mostly in cash by the primary societies. This, sometimes tempts the borrowers to misuse the loan amount spending it for consumption purposes. This central bank is also not able to have proper control and supervision over the proper utilisation of loans sanctioned by the primaries.
This Bank should help the primary societies simplifying the procedures and formats so as to be easily observed by the illiterates and poor farmers. Loans should be given in instalments. The instalments should be disbursed at the appropriate time in kind such as seeds at the time of sowing and cash during harvesting seasons. One or two officers of this Bank should be charged with the specific responsibility of reviewing the requirements of credits to small farmers and availability of finance for specified areas.

Competition from Urban co-operative banks in sanctioning jewel loans and consumer loans is severe. Target is fixed for this Bank for the sanctioning of consumer loans every year. Once the target is reached, the Central Bank does not issue any consumer loan, thus driving the consumers to contact the urban co-operative bank which is in the habit of issuing consumer loans largely. Besides the number of jewel loans issued every month is also limited which diverts the customers to other financial institutions.

The present ceiling and targets on the sanction of jewel loans and consumer loans should be eliminated. These loans should be sanctioned to a large extent to attract a number of customers. So the income earned by this Bank will increase.

Though the amount of overdues is the lowest in the Salem District Central Co-operative Bank among all the Central Co-operative banks in Tamil Nadu, the amount of overdues is increa-
sing annually in this Bank. The amount of overdues under principal and interest in 1985-86 at Rs.238 lakhs and Rs.3 lakhs increased to Rs.2489 lakhs under principal and Rs.21 lakhs under interest in 1990-91 respectively.

A programme of rehabilitation should be drawn up for this Bank to have concerted effort in recovering overdues by all possible methods. It should make all efforts to reduce the possibilities of delay in sanctioning loans.

The share capital contributed by the Government of Tamil Nadu has not increased during the past 4 years. The Bank has not opened any branches in Kolli Hills and Vennandur Blocks because it becomes impossible to collect Rs.10 lakhs within a year of their establishment as deposits from those areas to fulfil the rule of the Government of Tamil Nadu.

The State Government should make a long term deposit with this Bank so as to enable it to absorb the overdue and be in a position to operate on the credit limit available to it from the higher financing agencies. The minimum deposit to be collected by a branch within a period one year from the date of its establishment, should be liberalised by reducing the amount from Rs.10 lakhs to Rs.5 lakhs. The state contribution to the share capital of this Bank should be considerably increased to enable the Bank to sanction a large amount of loans to agricultural operations without affecting its lending to other sectors.
In rural areas this Bank finds very difficult to get borrowers for non-farm activities. Because nationalised banks particularly Canara Bank charges 14% interest on the loans and advances sanctioned on the jewels and the period of repayment in that bank is also two years. So this bank is unable to fulfil the requirements of non-farm activities charging interest at 19½% and lending for one year.

A cadre of qualified and trained personnel should be created for scrutiny and sanction of loan application, for keeping close contact with the borrowers during the service of the loan, for assessing the need for the loan particularly when it is required for development purpose and for non-farm activities by the individuals. They have to assess the repaying capacity and checkup financial and technical background of the borrowers. Steps should be taken to sanction loans for non-farm activities under concessional rate of interest.

This Bank is unable to have the operations associated with foreign exchange dealings, though it has all the technical as well as organisational facilities to carry over them properly.

This Bank performs all the banking operations of Commercial Banks. So the Government policy of not including the co-operative banks in foreign exchange dealings should be changed and these types of banks should be encouraged to have such transactions.

To improve the quality of working performance of this Bank, it has to take certain steps stated below: As the bulk of the resources of this bank consists of borrowed funds and
deposit of short term nature, it is not prudent to lock up funds in long term investment and such as purchasing shares in other co-operative institutions. Steps should be taken by this Bank to buildup appropriate cadres at the managerial level so that such employees may be in a position to function with the requisite degree of independence. This helps to attract persons of competence and experience to the service of this Bank. As there are no records of tenancy rights, suitable administrative measures should be taken in updating land records, consolidation of land holdings, registration of the rights of share croppers etc. This Bank should help in creating enough managerial flexibility for handling agricultural and manpower resources. The Tamilnadu State Co-operative Bank should sanction a higher rate of interest on the deposits and investments made by this Bank with it.

3 CONCLUSION

To sum up, it may be noted that the progress of the Salem District Central Co-operative Bank during the last ten years has been remarkable, both from the view point of working capital, deposits and lending operations. It has recorded substantial increase in its owned funds. It has considerably reduced its business activities with individuals and is financing the growing needs of the primary societies. But steps should be taken vigorously to increase their lending operations towards agriculture and its allied operations and to reduce the mounting overdues on the loans sanctioned and launch a vigorous campaign for recoveries.