CHAPTER II
CHAPTER II

ORIGIN AND GROWTH OF CENTRAL CO-OPERATIVE BANKS IN INDIA, TAMILNADU AND SALEM DISTRICT AND REVIEW OF PREVIOUS STUDIES

2.1 INTRODUCTION

The central co-operative banks occupy a position of cardinal importance in the co-operative credit structure. They form an important link between the apex co-operative bank and the primary agricultural credit Banks. The success of the co-operative credit movement largely depends on their financial strength.

HISTORICAL RETROSPECT

When the Co-operative Societies Act was passed in 1904 there was no provision for the formation of central banks. The sponsors of the co-operative movement expected that the rural credit societies would be able to attract substantial deposits from the members and well-to-do sections of the village community and their savings would be available to meet the needs of the needy in the villages. It was also contemplated that any deficiency in the funds would be made good by loans from the Government.

ORIGIN OF CENTRAL CO-OPERATIVE BANKS

The first central bank was registered in Uttar Pradesh in 1906 as a Primary society. But the first perfect central bank in the modern sense saw the light of the day in the former Central Provinces and Berar. In Rajasthan, the first central co-operative bank was started in 1910 at Ajmer. But the revised Act stimulated the growth of the central financing agencies and within a few years a large number of such banks were established. The period from 1906 to 1918 may be called the period of origin of the central banks in various parts of the country. A decade from 1919 to 1929, which was roughly the period between the end of the first world war
and the onset of the world-depression, was marked by the expansion of co-operative banking system. The number of central co-operative banks increased from 233 in 1919-20 to 588 in 1929-30 while their membership increased from 1.22 lakhs to 1.91 lakhs. The total working capital moved from Rs.6.43 crores to Rs.30.90 crores.

2.2 TYPES OF CENTRAL BANKS

The central co-operative banks can be classified under three heads according to their constitution:

1. Banks whose membership is confined to individuals.
2. Banks whose membership is confined to societies.
3. Banks which include both individuals and societies among their member.

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<thead>
<tr>
<th>Table 2.1</th>
<th>Progress of Central Co-operative Bank</th>
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<tr>
<td>1. Number of central Banks</td>
<td>505</td>
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<td>2. Membership (in lakhs)</td>
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<td>3. Share capital (Rs. in crores)</td>
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<td>4. Deposits (Rs. in crores)</td>
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<td>5. Working Capital (Rs. in crores)</td>
<td>56.37</td>
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<th>Average per Bank</th>
<th>i. Share Capital</th>
<th>ii. Deposits</th>
<th>iii. Working Capital (Rs. in lakhs)</th>
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Source: RBI Bulletin report on Trend and Progress of Banking in India 2006-07
Figure 2.1
Progress of Central Co-operative Bank in India

Reference Table 2.1
(1) Banks Confined to Individuals

These are banks wherein membership is entirely of individuals or in which societies are admitted as shareholders on exactly the same footing as individuals, without any special provision for their adequate representation on the board of management. The Maclagan Committee (1915) was of the opinion that such banks should not be registered under Co-operative Societies Act. There are now no such banks in the country.

(2) Banking Unions

Banking unions are those in which only primary societies are allowed to become members. In such banks the shareholders, borrowers and lenders are the same. The Maclagan Committee was in favour of such type of 'pure' banks in which only societies could be the members. This type of central bank is considered to be of the best type because the conflict of interests between the shareholders and the borrowing societies is eliminated by the identification of the two parties.

(3) Banks with Mixed Constitution

Banks with mixed constitution are allowed to become the members of the banks. Mixed type of the societies are not only assigned a certain proportion of shares but also given separate representation on the board of directors. This type is considered to be better one as it provides a combination of both rural and urban population. In such a case bank management vests in a board of directors elected from both the societies as well as individuals. A large majority of the central co-operative banks in India are of this type\(^2\).
2.3 OBJECTS AND FUNCTIONS OF CENTRAL CO-OPERATIVE BANKS

The chief object of central co-operative banks is to meet the credit requirements of member societies. The finance agricultural credit societies are meant for production purposes, marketing societies for marketing and supply operations and industrial and other societies for working expenses. They work as an intermediary to link the primary societies with the money market. Further, the central banks serve as balancing centre for adjusting the surplus and deficiency of the working capital of the primary credit societies.³

NORMAL COMMERCIAL BANKING FACILITIES

Besides providing loans, the central co-operative banks also provide certain normal banking facilities to members such as acceptance of deposits, remittance fund, collection of cheques, etc. In some states they are responsible for supervision and inspection of primary societies.

THE MAIN OBJECTS OF A CENTRAL CO-OPERATIVE BANK:

i. To act as a balancing centre of finance for the primary societies in the district by providing them with funds when they have a shortage and by serving as a clearing house for their funds, which are surplus;

ii. To encourage thrift and collect savings from members and others;

iii. To safeguard investing the reserves of primary societies;

iv. To provide other banking facilities to the members;

v. To develop and extend banking facilities in rural areas;

vi. To develop the co-operative movement in the district on sound lines and to act as friend, philosopher and guide

vii. To supervise, guide and control the working member societies.
Central Co-operative Banking functions in European countries

It is worthwhile mentioning that there is a difference in the function of central co-operative banks in India and European countries. In the latter the chief function of a central co-operative bank is to take money where and when is plentiful and to distribute it where and when it is lacking; in the former, its chief function is to supply capital drawn from outside the movement to societies. This is evident from the fact that in India borrowed capital forms about 50 per cent of the total working capital while in European countries the same is considerably less.

SIZE AND AREA OF OPERATION

For the efficient functioning of a central co-operative bank it is imperative that its area of operation should be such that it may have sufficient business turnover so as to employ the necessary staff, meet the overheads and build up a strong reserve fund. At the same time, it is also necessary that its area of operation should become so unwieldy that it may not be able to supervise and co-ordinate the work of primaries.

A central bank should cover as large an area as it is compatible with convenience and efficiency. Although it may commence on a small scale, it cannot expect ultimately to work at a profit unless it has a considerable capital either at once within a reasonable time, with at least 200 to 250 societies. Subject to the above considerations it is always well to adhere as far as possible to administrative divisions and to avoid the creation of banks intended permanently to deal with any area exceeding a district.4

2.4 MEMBERSHIP

The membership of the central co-operative bank generally consists of PACB registered within the area of operation of the bank and the individuals.
Figure 2.2
Total number of members of SDCCB

Source: Progress report of SDCCB
2.5 BRANCH BANKING

For the effective linking of the central co-operative institutions with the societies at the primary level, the Rural Credit Survey Committee deemed it necessary that the central financing agency at the headquarters, should have branches at some intermediate level between villages and the district headquarters. Branch banking the pan of central co-operative banks has assumed added significance in view of the unprecedented increase in the number of primary agricultural credit societies and their loan operations. It is increasingly felt that the branches of the central banks would also help in expediting the processing of loan applications such as prompt and convenient disbursement of credit would also help in attracting, rural deposit. In most of the states an expended programme of branch banking has been followed. The number of branches of the central banks moved from 759 in 1950-51 to 7,919 in 1981-82 and the average per bank moved from 1 to 23 during the same period. It has been noticed that these branches are being opened with a view to cater to the needs of the borrowing societies and not with the basic objectives of tapping rural deposits.

2.6 SOURCES OF WORKING CAPITAL

The sources of working capital of a central co-operative bank consist of following:

(1) Share capital,

(2) Reserves and other funds,

(3) Deposits from members and non-members,

(4) Borrowing from
   i. State Co-operative Banks
   ii. Reserve Bank of India, and
   iii. Government

(5) Grants from Government
Share capital

The share capital of a central co-operative bank is subscribed by the affiliated societies and individual members. The face value of the share varies from Rs. 50 to 100. Under the later by laws of the central banks the affiliated societies are bound to subscribe in proportion to their borrowings. The primary credit societies should contribute to the share capital of central co-operative banks at the rate of 1/20 of their borrowings. Recently, the Reserve Bank has suggested that the Central Bank should collect from the primary share capital up to 10 per cent of their borrowings. In order to strengthen the financial structure of these banks and to enforce confidence of the public the state government has been participating in the share capital of the central co-operative banks.

Statutory And Other Reserves

At present the central co-operative banks maintain three types of reserves:-(1) statutory reserve fund, (2) bad and doubtful debt reserves, and (3) other reserves.

Besides maintaining the statutory reserve fund, most of the central banks now maintain bad and doubtful debt reserves. The main object of keeping is to keep at the disposal of the bank authorities funds from which bad debts can be written off.

The significance of these reserves has increased in recent years as many of the central banks have been providing lavish credit facilities to their affiliated societies.

Agricultural Credit Stabilization Fund

The Rural Credit Survey Committee had recommended that agricultural credit stabilization fund was constituted by Reserve Bank at the national level and in the co-operative credit institutions at different levels so that short-term loans for agricultural purposes could be converted into medium term if repayment became difficult on account of famine, drought, etc. Though the National Agricultural
Figure 2.3

Share capital of SDCCB during pre and post computerisation

Credit (Stabilization) Fund was constituted by the Reserve Bank as early as 1956, the stabilization arrangements have not yet made much headway at the state and central co-operative level.

**Owned Funds**

The owned funds of the central co-operative banks consist of share capital and other reserves. On account of increase in the amount of share capital and reserve, there has been significant rise in the amount of owned funds of these banks. The importance of strengthening owned funds of the central banks is very great as in most of the States the maximum borrowing limits of a central bank are related to its owned funds.

**Deposits**

The third important source of working capital of the central co-operative bank is deposits. The importance of deposits of the co-operative banking structure is to provide a satisfactory service to any programme of agricultural production hardly needs to be emphasised. All the committees and commissions have stressed that the central banks must tap deposits from urban and rural areas so that they may be able provide funds in large quantities to, primary societies for agricultural development.  

**Difficulties in Mobilising Deposits**

It has often been pointed out that the district central co-operative banks have not succeeded in mobilizing savings because of the keen competition from the Commercial banks. It has been contended that the commercial banks have succeeded in accelerating the pace of deposits as they are paying higher rate of interest. These banks also found it difficult to attract deposits as their deposits did not enjoy the facility of insurance. Bedsides, there are restrictions in some States on the investment of surplus funds by local bodies, educational institutions, etc., in co-operative banks.
The state government have been trying to remove many of these handicaps and hurdles. The State governments have passed orders authorising institutions like panchayat-raj bodies, municipalities, educational institutions etc. to deposit their savings to co-operative banks.

**Reasons for customers preference on commercial Banks**

The people prefer commercial banks vis-a-vis the co-operative banks not because of high rate of interest or because their deposits are covered by Deposit Insurance Scheme, but largely due to the quality of services offered and the establishment of more intimate relations with the clients.

The study reveals that the commercial banks by their patience and perseverance and efficient management have infused enough confidence in the minds of the depositors: By and large the co-operative banks have not shown any spirit of enterprise and imagination in mobilizing deposits as most of the commercial banks have lately done. The directors and other officials of the commercial banks have been found to exert their personal influence in getting deposits for their banks. The busy bees of the co-operative banks being mostly politicians and other influential persons, however hardly find any time for such odd jobs. Because of this indifference and apathy deposits have failed to keep pace with the growing demand for rural credit. Other reasons cited for the failure of central co-operative banks to attract deposits are: (i) lack of offices in potential centres. (ii) poor management and low efficiency, (iii) poor quality loaning and heavy overdues. (iv) inferior status (v) lack of facilities for discounting cheques and other banking services, (vi) inconvenient location of offices and lack of suitable buildings. (vii) identification of banks with a political party or group.

In matters of deposits the position of central co-operative banks is most crucial and from the point of developing a sound and-self-reliant co-operative credit structure. It is imperative that these banks make the utmost efforts to mobilize resources by way of deposits.
Borrowings

In addition to deposits, borrowing from other agencies, such as loans from state co-operative banks, governments, Reserve Bank of India, commercial banks also constitute an important source of working capital of the central co-operative banks. The total borrowings of the central banks did not show any substantial rise during the first plan period.

i. Borrowing from Apex Bank (State Co-operative Bank)

The Apex bank has always been the main source for the bulk of the borrowings of these banks. The borrowing limit of these banks is generally linked with their owned funds, i.e., paid up share capital and reserve fund. Their limits have been raised from time to time to help these banks to acquire sufficient borrowing capacity to meet the growing demands of the affiliated societies. At present the credit limit is 0 to 15 times of their owned funds.

ii. Borrowing from the Government

The central co-operative banks also borrow from the Government but such loans form a very negligible proportion of the total working capital of these banks.

iii. Borrowing from RBI

Formerly the Reserve Bank of India did not provide loans directly to the central co-operative banks. The Reserve Bank provided short and medium-term loans to state co-operative banks, which they used to distribute among the central banks. On account of the weak position of some of the state co-operative banks they could not meet the required credit needs of the central banks. The Reserve-Bank of India therefore, drew a scheme under which central banks were classified as A, B, C and under the scheme, banks falling under A, B and C classes are eligible for loans from the Reserve Bank. 'C' class banks are, however, given loan on the recommendations of the Registrar and against Government guarantee.
iv. Borrowing from commercial Banks

Some of the central co-operative banks also obtain advances, overdraft and cash credit accommodation from commercial banks on usual terms and conditions and on securities acceptable, by the commercial banks.

Dependence on Borrowings

In most central banks the dependence on borrowings exceeded one half of their loan business. The Rural Credit Review Committee has reported that the expectation from these banks would increasingly rely on their own resources and would not depend on outside borrowings has hardly been fulfilled. Despite the substantial increase which has occurred in the total turnover and financial strength these banks have not been able to reduce their dependence on borrowings other than deposits in any truly significant measures.  

2.7 LOAN OPERATIONS

The central co-operative banks advance loans to the affiliated societies for financing agriculture. Short-Term loans are given upto 12 months for financing seasonal agricultural operations while medium-term loans are given for a period ranging from one to three years to purchase bullocks, milch cattle, pumping-sets, digging or repairs of wells and improvement of land.

Purposes of short term loans

The loans and advances for agricultural proposes accounted for a very large share of the total advances in respect of short-term loans, while the industrial and other purposes came next.

Purposes of medium term loans

The medium-term loans are generally given for the purchase of bullocks, improvements to land and irrigation. But the medium-term loans formed only 9.6 per cent of the total loans and advances. Some of the reasons which accounted for the-slow progress of medium-term credit have been stated as below:
(i) The medium-term resources in the co-operative credit structure being limited, the central co-operative banks depend mainly on the higher financing agency, viz, the apex bank, for such funds.

2.8 RATE OF INTEREST

The rate of interest on loans and advances charged by the central co-operative bank varies according to the purpose of the advance.

In most other states this rate was between 8 to 13 per cent.

Security

The central co-operative banks advance loans to societies on the security of promotes executed by the borrowing societies. All the society level, the loans are secured by personal security of solvent members and mortgage of lands. These also serve as security for central banks loans to the society.$^{12}$

Management

The management of the central co-operative banks generally vests in a board of directors consisting of 12 to 15 members. The requirements for a director of such a bank were advocated by the Maclagan Committee, which held that the work called for technical skill rather than for ordinary probity and knowledge and should be well within the capacity of any professional man.

In most of the newly started central banks and in few cases in the older ones government officials were found to be chairmen of the board. On account of pressure from the top, non-officials have been nominated the board of some of the central banks in many states. Party politics and group elements are reported to be rife in management of these banks at present.$^{13}$
2.9 PROFILE OF THE SALEM DISTRICT CENTRAL CO-OPERATIVE BANK

The British Government has introduced the co-operative department in India. The SCCB was registered on 06.01.1909 and started its function on 26.01.1909 in the name of "Salem Urban Co-operative Bank". The bank's origin was at central level and later it was turned into state level. The bank was registered as "Central Co-operative Bank" in 1942. In 1981, the name was altered as "Salem District Central Co-operative Bank".

In 1912, certain rules and regulations were framed to form a central co-operative society. In addition, the co-operative law was framed in 1919 and it came into practice. In India, there are 17 State Co-Operative Banks and Especially In Tamil Nadu, there are 23 district centers, out of which there are only 8 centers licensed with Reserve Bank of India and one among them is Salem District Central Co-operative Bank. The Salem District Central Co-operative Bank received its license from the Reserve Bank of India in 1987.

Before 1981, the co-operative banks were supposed to issue agricultural loans only. But after 1981, the Registrar of Co-operative Societies permitted. The District Central Co-operative Banks, which have deposits of Rs.200 crore, and above to issue non-farm sector loans to the members for their economic development. There are 59 branches in and around Salem and Namakkal districts and 380 primary agricultural cooperative banks, which are affiliated to Salem District Central Co-operative Bank. These primary agricultural co-operative banks are divided as 10 area offices, which are situated in the main centers of Salem and Namakkal districts.
The area offices are at:

1. Salem Area Office
2. Omalur Area Office
3. Mettur Area Office
4. Valappadi Area Office
5. Attur Area Office
6. Sankari Area Office
7. Rasipuram Area Office
8. Namakkal Area Office
9. Trichengode Area Office
10. Velur Area Office

These primary agricultural cooperative banks are also permitted to issue non-farm sector loans to the members for their economic development, but its deposit should be Rs.50 lakhs and above.

The bank has admitted 1963 members of cooperative institutions, such as; weavers' society, milk society, employers cooperative society, house construction society, sugar mills etc., and they are categorized under 'A' class. And the primary agricultural cooperative societies are categorized under 'B' class. Apart from that there is the category 'C'. A person can be an associate member only when he fills the membership application which is amounted to Rs.5/-.

The main function of the bank is to get surplus funds from the public in terms of deposits and lending the amount to the public viz., individuals, partnership firms, educational institutions, and cooperative societies in the form of loans. They provide loans mainly for agricultural purpose with a less rate of
interest. They also provide non-farm sector loans to the public viz., housing loan, business development loan, education loan, medical loan etc. Their primary motive is to serve the public with a satisfactory and reasonable profit. In simple words, the cooperative bank has its base as service, its operations as building its employees as pillars and its profit as peak.

**OBJECTIVES OF SDCCB**

The Salem District Central Cooperative Bank limited is registered as an urban society under Co-Operative society Act of 1904. Its operation may extend to all part of the Salem and Namakkal Districts. Its object shall be:

1. Collection of funds for financing cooperative societies registered or deemed to have been registered under the Madras Cooperative Societies Act 53 of 1961 and affiliated to it.
2. To develop, assist and coordinate the work of the affiliated supervising unions and to secure for them financial help where necessary.
3. To organize special types of societies in case where there is not undertaken by the unions.
4. To serve as the recognized exponent of non-official cooperative opinion in the area.
5. To convene cooperative conference in the area served by the bank.
6. To control the expenditure relating to the surplus funds of liquidated societies.
7. To undertake such other work as will promote the cause of co-operation in general and to carry out the above objects in particular.
8. To start branches in the operative jurisdiction of the bank wherever necessary and to appoint necessary staff and incur expenditure for the conduct of meeting.
9. To guarantee the loans advanced or credit granted to any affiliated society by the Government, State Bank of India or any other agency with in such limits is may be agreed to between the guarantor and guarantee and charge commission there on.

10. To issue guarantee for the deposits mobilized by the primary agricultural cooperative banks. 15

The bank may also carry on general business of banking not repugnant to the provisions of the cooperative societies Act and the rules framed there under.

BORROWING LIMIT

The borrowing limit of this bank shall be 30 times of its paid up share capital plus reserve fund or such enhanced limit as may be fixed from time to time by the Registrar subject to the restrictions, if any, imposed by him with effect from 11.09.1990.

FUNDS

The bank will ordinarily obtain funds from the following sources:

1. Share subscription.
2. Deposits.
3. Miscellaneous fees and receipts.
4. Other borrowings

The funds of the bank shall primarily be utilized for the purpose of granting loans to co-operative societies within the district registered or deemed to have been registered under the Tamil Nadu co-operative Societies Act 30 of 1983 and Associate members. The lending limits of short term and medium term loans shall be in such proportion as may be prescribed by the Registrar from time to time.
BOARD OF MANAGEMENT

The management of the bank shall be vested in a board consisting of:

1. One representative to be elected by the General body of local supervising union affiliated to the bank from among the members of the governing body of such union. Such representative shall be a representative of a share holding society of the bank.

2. One representative to be elected by delegates of societies not affiliated to union from among themselves.

3. Two representatives to be elected by the general body of this bank from among its individual shareholders. So elected one shall be from individual shareholder holdings fixed deposits in the bank free of encumbrances.

4. One representative of the state Co-operative bank who shall be a resident within the area of operations of the central Co-operative bank to be nominated by the board of the bank, if it holds shares in the bank.

5. One representative to be elected by delegates of weavers' societies affiliated to the bank.

6. One representative to be elected by delegated of primary marketing societies affiliated to the bank.

CONTRIBUTION MADE OUT OF NET PROFITS:

The Central Bank shall out of its net profits as declared by the competent authority for the purpose of the Cooperative Societies Act in respect of any cooperative year, contribute:16

1. 3% of the net profit to the cooperative research and development fund.

2. 2% of the net profit to the cooperative educational fund.

3. A sum not less than 20% of the net profit each year shall be received of the reserve fund.
4. 15% of the net profit shall be set apart towards agricultural credit stabilization fund to be utilized in accordance with the rules that may be prescribed by the registrar form time to time.

5. Payment of honorarium to the board members (including president and vice president) shall not exceed 10% of the net profits.

6. Towards payment of dividend on shares to member at a rate not exceeding 14% per annum on the paid up value of each share held by each, calculated on full months.

7. Of the reminder 5% of the net profits may be carried to bad debts reserve out of the balance such sum as may be decided upon in the general body may be carried to a reserve for depreciation on investment.

8. Out of the balance if any, a sum not exceeding 10% of the net profits may be carried to building fund and dividend equalization fund respectively.

9. A sum not exceeding 10% of the net profit may be set apart as common good fund for carrying out any of the objects specified in section 2 of the Charitable Endowments Act vi of 1890 viz., education of cooperators in the principles of cooperation, relief to the poor, education, medical relief and the advancement of any other object of general public utility but excluding a purpose which relates exclusively to religious teaching or worship.
2.8 REVIEW OF PREVIOUS STUDIES

A review of important earlier studies on the issues relevant to the research problem undertaken is attempted here with.

M.R. Shollapur has conducted a study titled “A case study of Central Co-operative Bank at Belgaum District in Karnataka”. He has analysed the pattern of distribution of the branches on the basis of geographic location, profitability and integrated pattern of distribution of branches17.

R. V. Mishra in his article entitled 'National Policy on Co-operatives' has focussed on the review of the co-operative movement, the basic elements of the co-operative policy in the context of the new economic environment, the role of co-operatives in the national policy and the promotion of the co-operative policy for specific programmes like decentralised economic development, the development of self-relying democratic co-operative institutions, the removal of exploitation at the gross root level, association with the process of the planning of economic development and social change, the reduction of regional imbalances in co-operative development, the promotion of co-operative identity and gender integration and the development of women co-operatives18.

D.K. Dash in his study titled “A case study of Nawanagar Co-operative Bank, Jam Nagar in Gujarat” has attempted an evaluation of the financial performance of the Nawanagar Co-operative Bank through the application of ratio analysis. For a proper evaluation of the bank, a number of ratios have been computed under four broad heads namely operational ratios, profitability ratios, productivity ratios and solvency ratios. An analysis of the operational ratios reveals that there exists scope for improvement in several areas. Profitability analysis does not depict a rosy picture of the bank but insists that efforts need to be made to improve the scenario. Productivity ratios denote that the human resources of the bank are highly effective and efficient. A period of five years commencing from 1993-94 to 1997-98 has been studied for the purpose19.
Prem S. Sharmar in his article entitled "Partnership between the Co-operatives and the Government" has traced the growth of co-operative movement, the negative impact of state support to co-operatives, the new economic policy and its impact on co-operatives, the national co-operative policy and the role of the NABARD.\textsuperscript{20}

S.S. Sisodia in his article entitled "Impact of New Economic policy on Co-operative Movement in India", has highlighted the major impact of the new economic policy on the co-operative movement and has evaluated its strength and weaknesses in developing enough professionalism to be able to choose the right kind of opportunity in keeping with its strength\textsuperscript{21}.

In his study titled "Resource Management - An Appraisal of the Nadia District Central Co-operative Bank", B. Chakraborty has described the performance of the Nadia District Central Co-operative Bank. He has studied various factors such as deposits, borrowings and deployment of funds. The study is divided into three sections. In the first section, the progress of the bank with regard to the trends in the mobilisation of working capital is examined. The second section discusses the way of deployment of funds and overdues. The last section gives a few suggestions for better resource mobilisation and deployment of resources\textsuperscript{22}.

B.S. Vishwanathan, in his article entitled "Measures for Revitalising Co-operative Banks" has emphasised the critical role of co-operative credit institutions and the government strategy for revitalisation of co-operative banks. He has also elucidated capital adequacy norms and recommended the setting up of an apex level co-operative bank in the form of a Co-operative Bank of India.
B. Subramanyam, in his article titled "Co-operative Credit Sector A Perspective for 2000 A.D.", reviews the present agricultural rural credit delivery system, its strengths and weaknesses and the new economic policy reforms initiated in the year 1991-92.23

Sanjay Kumar Venna and A.R. Srinath in their article entitled, "Major Co-operative Developments at a Glance -1998" evaluate the recommendations and reports of major committees of the year 1998, the role of the National Co-operative Union of India and other related information of the co-operative banking sector.24

P. Puyalvanan in his study titled, "A study on Cost of Management, Productivity and Profitability of Central Co-operative Banks in Tamilnadu", has critically examined working capital, deposits, loans issued, gross income with the cost of management and productivity and profitability ratios.25

Prem S. Sharma in his article entitled "Revitalisation of the Co-operative Credit Institutions" has enumerated the various issues to be incorporated in the Ninth Plan and various factors affecting the co-operative credit institutions like problems of overdues, strengthening of PACS, commercial orientation, regular recycling of funds, professionalisation and accountability and discipline norms of the NABARD.26

In the article written by Jayanti Lal Jain and M. Swaminathan titled "Deregulation of Interest Rates on Deposits and its Impact", reviews the stages of deregulation, the steps taken by the RBI regarding inflation and interest rates, capital account convertibility norms and the impact of deregulation.27

In his article titled "Sustaining India's Co-operatives" Gopi N. Ghosh has stated that co-operatives today are handicapped by continuing government control, shrinking government assistance, lack of direction and irrelevant strategies to
grow in a competitive environment. He also found sustainability in co-operatives which provides resilience to an organisation to grow and survive on a long term basis.  

U. Thirupathi Rao in his article titled "Deposit Mobilisation by the District Central Co-operative Bank of Srikakulam in Andhra Pradesh" has attempted to review the operational performance of the management and the role of leadership of the bank in mobilising deposits. As regards the role of the leadership, the individual role of the president and directors of the banks in deposit mobilization has been examined.

"Performance of the Karim Nagar District Central Co-operative Bank in Andhra Pradesh" is a study conducted by Enuganduia Chandra Shekar et al. It is an economic analysis and they have analysed the various financial ratios. They are solvency ratios, profitability ratios, liquidity ratios and efficiency ratios. The strength of the bank has been analysed for a period of 10 years from 1985-86 to 1994-95.

D.P. Garg in his article titled "Autonomy to Co-operatives in India" has examined the impact of the role of the Indian government on the autonomy of the co-operative movement. He has analysed the status of autonomy to co-operatives as envisaged by various committees and commissions and the policy statements made by the government from time to time. Further he has also offered suggestions to restore the autonomy of the co-operative movement.

Rajeshwar Dayal in his article titled "Liberalisation and Co-operatives in the New Millennium" has traced out the policy changes like the deregulation of state enterprise, the reduction in tariff barriers and the creation of the appropriate climate to promote private investment in infrastructure development, manufacturing and information technology.
R.V. Mishra, in his article titled "Co-operative Sector: Problems and Prospects", has highlighted the growth of co-operatives, the adoption of the policy of state support to co-operatives, membership and leadership, financial sector reforms since 1991, deposit mobilisation strategy, establishment of the Co-operative Bank of India with the approval of the Government of India and the RBI, recent policy initiatives in co-operatives taken by the government, co-operative marketing, rehabilitation programme for sick units, role in the agro-processing sector and future vision of co-operative movement. The future vision of the co-operative movement will have to be based on efficiency parameters relating to the promotion of management excellence, control and operational costs, improvement of operational efficiency and strengthening of financial resource base. However, such a vision of the co-operative movement will take this movement with a robust outlook into the next millennium.33

A.P. Dash in his study titled "Analysis of Financial Performance of District Central Co-operative Banks of Maharashtra" has made an in-depth analysis of the financial performance of the bank through a composite index. A composite index is a symbolic representation of the overall performance of any organization. With the help of various ratios for each bank, Z score is obtained. The Z score is a composite index that reflects the total performance of the bank for the year 1995-96.34

R.K. Meena in his article titled, "Perceptions of the Impact of Liberalisation on Co-operatives in Rajasthan" has stressed the need for various strategic options worked out by the co-operatives to meet the challenges emerging out of liberalisation. Strategic options are followed for the purpose. These are strengthening the important sectors, professionalisation of management formulation of action plans, liberalisation in the co-operatives, structural reforms in the co-operative sector thrust on export promotion and creation of facilities and development of proper management information system.35
N. Namasivayam in his study titled "Performance Evaluation of Ramnad District Central Co-operative Bank" has analysed the deposit mobilisation of the bank. The structure, composition and performance of the bank in respect of the mobilisation of deposits are examined. He has assessed the credit analysis of short term agricultural credit and medium term loans outstanding and overdues. Further he has analysed the financial strength of the bank through common-size statement and ratio analysis with a view to evaluate the financial strength and profitability of the bank. The period of study covered is 13 years from 1971-72 to 1983-84.36

C. V. Nair in his article titled "Financial Sector Reforms and Co-operative Banking" has discussed the new economic policies, approach to financial sector reforms under the new economic policies and the impact of the new economic policy on co-operative banking. He has also pointed out the challenges before the co-operatives, certain specific measures to face the challenges and the problem of recovery and the asset reconstruction fund.37

In the article written by Prem S. Sharma titled "Financial Sector Reforms and the Co-operatives," eludicates the promotion of prudential norms, interest rate structure and financial reforms of co-operatives.38

R. V. Rao and M.B. Rao in their article entitled "Impact of New Economic Policy on Co-operative Institutional Framework", examine the impact of new economy policy on co-operative organisations and the main features of the new economic policy.39

M.Mohandas has conducted a study on the "Deposit Mobilisation Campaigns by Co-operative Banks". He has evaluated the genesis of deposit mobilisation campaigns in Kerala, targets and achievements for District Central Co-operative Banks, Urban Co-operative Banks and PACBs and the performance of the Trichur District Central Co-operative Bank. The study is based on the monthly data on outstanding deposits and advances collected from the Trichur
District Central Co-operative Bank, covering the period from 1979-80 to 1987-88. The study also sheds light on the structural improvement of deposits and impact on lending. It is found that the deposit mobilisation campaigns have helped the bank to increase appreciably the quantum of working capital.40

M.C. Bhandari and P. Puyalvanan in their article titled "Changing Paradigms for Co-operatives" have traced the genesis and development of credit co-operatives over the plan periods. It was found that, the process of widening and deepening of rural credit has adversely affected the health of the financing institutions.41

P. Uma Sankar in his article titled "Enhancing Effectiveness of Co-operatives -Major Problems and Policy Implications" has stressed the need for adoption of the 'green house approach' for co-operative development based on the principles of self-help, organisational flexibility, active participation of members and also bringing in people especially women into the co-operative fold in order to make co-operatives effective and vibrant.42

An article presented by R. V. Misra titled, "Co-operative Policies Needed for Reorientation" emphasizes the need for the reorientation of co-operative policies in the light of the developments and regulation of the co-operatives and defines the role and responsibility of the government with regard to provision of financial aid and support services to co-operatives. In the wake of new market forces, it is found that the markets are better suited to initiate development and the role of government vis-a-vis co-operatives should undergo a transformation.43

G. Narayanan has presented an article on "Interest Rate Deregulation - Lending Policies". He has explained the purpose of the introduction of banking sector reforms. He has also talked about the deregulation policy and its effects. He has also explained the relationship between the interest rates and the lending and prospects of lending in a deregulated environment.44
B. Niranjan Raj Urs, in his article titled "Some Analytical Tools for Effective Management of PACS", has suggested that the performance appraisal is an important tool for the effective management of an organisation. He has provided handy scientific instruments to measure the performance of PACS. However, he has also explained the limitations of some of the tools while applying which one has to be more careful. The performance of co-operatives has to be evaluated not in terms of economic results but in terms of member participation and their need satisfaction.45

Amit Basak (2009)46 discussed in his article that Urban Cooperative Banks (UCBs) figure among the vital segments of the banking industry of the country. They essentially cater to the credit needs of persons of small means. Though some UCBs have performed creditably in the recent years, a large number of them have shown discernible signs of weakness. The operational efficiency is unsatisfactory and characterized by low profitability, ever-growing Non-Performing Assets (NPAs) and relatively low capital base. The large-scale sickness in the UCBs has shaken the public confidence in cooperative banks. In this context, this paper makes an attempt to examine the working and financial performance of the UCBs. To make the analysis simpler and presentable, the author takes up the Contai Co-operative Bank Ltd., one of the leading UCBs in West Bengal for a case study. The objective of the study is to identify and analyze the trend, progress and problems of this bank, to throw light on the problems of swelling NPAs and to offer some meaningful suggestions for improving the efficiency and effectiveness of this bank. The study is based on secondary data and other information provided by the bank in its published annual reports. The relevant data have been collected for the period from 1995-96 to 2006-07. This data have been analyzed with the help of statistical tools like ratios, percentages, averages and trend analysis, chi-square test, and multiple regression analysis.
Victor Murinde; Joram Kariisa-Kasa (1997)\textsuperscript{47} this paper analyses retrospectively the financial performance of the East African Development Bank. Three methods of analysis, derived from a selective review of the literature, are applied, namely the standard financial ratios; statistical moments such as the mean, range and standard deviation of balance sheet and related accounts; and the Subsidy Dependence Index. The results show that the bank’s historical performance has been disappointing. It is suggested that the bank should engage proactively in the identification, promotion and post-evaluation of projects. Further research is proposed in order to encompass analytically the financial, developmental and technological functions of the bank.

Willie E. Hopkins and Shirley A. Hopkins (1998)\textsuperscript{48} examined an integrative model of relationships among managerial, environmental, organizational factors, strategic planning intensity, financial performance and tested using data from 112 banks. The results suggested that the intensity with which banks engage in the strategic planning process has a direct, positive effect on banks’ financial performance, and mediates the effects of managerial and organizational factors on banks’ performance. Results also indicated a reciprocal relationship between strategic planning intensity and performance. That is, strategic planning intensity causes better performance and, in turn, better performance causes greater strategic planning intensity. Finally, the results hold implications for other financial services institutions subject to similar conditions that banks must operate under.

Dutta, Probal and Bose, Sudipta (2007)\textsuperscript{49} In today’s corporate world, board diversity is a much talked-about topic and gender diversity is an important aspect of board diversity. Gender diversity refers to the presence of women on corporate boards of directors. In this paper, an effort has been made to examine whether an association exists between the financial performance of commercial banks in Bangladesh and presence of women on the boards of directors of these
banks and in order to examine the existence of this association, a non-parametric test, namely Kruskal-Wallis H test has been conducted, but the test has yielded conflicting results at different significance levels.

Carlos Pestana Barros, Nicolas Peypoch and Jonathan Williams (2006)\textsuperscript{50} This paper proposes a framework for benchmarking European co-operative banks and the rationalization of their operational activities. The analysis is based on the Luenberger productivity indicator. A key advantage of this method is that it allows for both input contraction and output expansion in determining relative efficiencies and productivity changes. Benchmarks are provided for improving the operations of those banks which perform worse than others. Several interesting and useful managerial insights and implications arise from the study. The general conclusion is that, between 1996 and 2003, productivity increased for the majority of European co-operative banks.

Inmaculada Carrasco (2004)\textsuperscript{51} The phenomenon of globalization has an effect on all the fields of economic and financial activity. In this increasing competitive environment, the majority of the Spanish credit institutions have been integrated in a cooperative banking group: the Grupo Caja Rural. In other countries of long cooperative tradition, important credit institutions have responded to challenges presented by economy internationalization and the increasing competence in financial markets with the abandonment of mutuality and cooperative model. These changes have been justified by companies in order for their own survival and business growth necessities. In Spain, the reaction has been the opposite. In spite of that, some elements can make one think of a possible demutualization process in the Grupo, due to the trivialization of cooperative principles.
Asher, Mukul G (2007)\textsuperscript{52} To argue a case for a paradigm shift in the way urban cooperative banks (UCBs) are managed, governed, and regulated in India to enable them to enhance their contributions to achieve greater degree of financial inclusion, and more broad-based growth. The paper first surveys the quantitative importance of the UCBs in India, and their key performance indicators. Various official reports by the country's Central Bank, the Reserve Bank of India (RBI), and other relevant organizations are used extensively. The paper then identifies key areas of reforms, centering primarily on the current business model, governance and regulation practices, and capital adequacy. It then argues for a change in a paradigm shift by the UCBs, and how better governance and regulatory structure can assist this shift. The paper finds that if the UCBs are to remain relevant and play a significant developmental role in India, they will require same quality of governance and regulation as well as professionalism and modernization as the mainstream commercial banks. The governance and regulatory structures need to be brought in conformity with India's current and prospective economic structure; and relevant laws modernized. This requires a paradigm shift in the role of UCBs. The research has been based primarily on secondary sources, particularly various reports by the RBI, the country's Central Bank. Better understanding of the reasons for differences between well-governed and financially sound UCBs on one hand, and those that are not, requires focused interviews and more searching examination of the operating environment and financial statements of a sample of the UCBs. This could be the next stage of research. This paper represents a part of public debate on ways of integrating the UCBs into the mainstream banking sector. This is an important public policy issue as even though the UCBs represent relatively small proportion of the total banking assets, they still represent a systemic risk to India's financial system, and without reforming them, broad-based economic growth would be difficult to achieve.
Niels Hermes and Robert Lensink (2004) This article analyses the relationship between foreign bank presence and the performance of the domestic banking sector and takes into account the role of the level of development of the financial sector of the recipient country. They use data of 982 banks in 48 countries for 1990-96 and they find support for the hypothesis that financial development does matter. In particular, they show that foreign bank presence is associated with higher costs and margins of domestic banks at low levels of financial development while it is associated with falling costs and margins of domestic banks at higher levels of financial development.

Leighther and Lovell (1998), using two different specifications of the provision of bank services showed that total factor productivity varied markedly under two different objectives. Illustratively, when the direct objective of profit maximization by the banks was considered, factor productivity increased sharply; in contrast, when the indirect objective of facilitating growth while safeguarding safety and soundness of the banking system was taken into consideration, productivity growth exhibited a decline, such differing objectives, not surprisingly, have differing implications for risk-taking behaviour by banks. Under the first scenario, risk-taking tends to be dictated by the individual bank’s profitability considerations, which in turn, will impinge on bank productivity, while in case of the latter, risk-taking will be largely governed by financial stability considerations of the central bank, and to that extent, will impinge indirectly upon productivity.

Pasiouras, Fotios and Sifodaskalakis, Emmanouil (2007) In this study, they employ the Malmquist index to examine the total factor productivity change in the Greek cooperative banking, using a balanced panel dataset of 78 observations from 13 banks over the period 2000-2005. They estimate two models, one based on the intermediation approach, and one based on the production approach. The results are mixed. The first model indicates a small decrease (3%) in total factor productivity whereas the second model indicates an
increase by 6.6%. They also compare the results on the basis of banks' size and find that TFP growth is higher for smaller banks on average over the entire period of our analysis. However, this relationship between size and productivity is not robust across the years. Furthermore, the differences between the groups are not statistically significant.

**Martin Cihik and Heiko Hesse (2007)** Cooperative banks are an important, and growing, part of many financial systems. This paper empirically analyzes the role of cooperative banks in financial stability. Contrary to some suggestions in the literature, they find that cooperative banks are more stable than commercial banks. This finding is due to the lower volatility of the cooperative banks' returns, which has lower profitability and capitalization. This is most likely due to cooperative banks' ability to use customer surplus as a cushion in weaker periods. We also find that in systems with a high presence of cooperative banks, weak commercial banks are less stable than they would be otherwise. The overall impact of a higher cooperative presence on bank stability is positive on average but insignificant in some specifications.

**Gutierrez, Eva (2006)** This paper argues that the governance framework of cooperative banks may hamper raising capital, particularly at time of distress, complicating the bank resolution process? specially for large banks? and may not provide adequate incentives to control banks' management. Reforms should preserve the positive characteristics that make cooperative banks a valuable addition to the Italian financial system, while providing enough flexibility and incentives for banks to adopt a suitable governance model. Their empirical analysis suggests that cooperative banks may enjoy a higher degree of monopoly power than commercial banks. Thus, regulations and the enforcement of antitrust policies should ensure a leveled playing field.
Desai B M and Namboodiri N V (1995)58 This paper is about how Anand Farmers Service Cooperative Bank could be successful under the same macro rural credit policies that governed most rural financial institutions. This bank is innovative in both the spirit of its cooperation and rural banking. It could be so because of (1) strategy of nothing succeeds like success howsoever small it is, (2) organizational continuity that has made this bank democratic, decentralized and yet accountable, and (3) organizational principles of vertical structure, high density, larger reach and diversified services for rural clientele. The paper also shows that these three factors have enabled this bank to be financially viable and growth-oriented. And it concludes with some suggestions on what macro rural credit policies may continue and which of them need modifications to extend the experiment of this bank.

Inmaculada Carrasco (2004)59 The phenomenon of globalization has an effect on all the fields of economic and financial activity. In this increasing competitive environment, the majority of the Spanish credit institutions have been integrated in a cooperative banking group: the Grupoaja Rural. In other countries of long cooperative tradition, important credit institutions have responded to challenges presented by economy internationalization and the increasing competence in financial markets with the abandonment of mutuality and cooperative model. These changes have been justified by companies in order for their own survival and business growth necessities. In Spain, the reaction has been the opposite. In spite of that, some elements can make one think of a possible demutualization process in the Group, due to the trivialization of cooperative principles.

Panayiotis P. Athanasoglou, Evangelia A. Georgiou and Christos C. Staikouras (2009)60 This paper assesses the evolution of output and productivity in the Greek banking industry for the period 1990–2006. Three main categories of bank output were estimated based on modern theoretical approaches, while for the
estimation of output and productivity (partial and total factor) they relied on the index number method (Tornqvist index). They also considered the effect of labor quality on banks’ productivity and the contribution of total factor productivity to bank output growth. Bank output and labor productivity outpaced considerably the respective GDP growth and labor productivity of the Greek economy during the period under examination. Capital and total factor productivity have also improved remarkably mainly since 1999, due to the structural changes that took place within the industry, capital (mainly IT) investments and improvement in the quality of human capital.

The previous studies have been reviewed to find out the research gap. The review of previous studies made above highlights such as management of Central Co-operative Banks, co-operative policy in the new economic environment, financial performance of the Central Co-operative Bank and impact of computerization on co-operatives.

2.9 SUMMARY

The Co-operative societies Act was passed in 1904. The First central co-operative bank was started in 1910 at Ajmer. The Central Co-operative Banks can be classified under three heads according to their consideration. 1. Banks whose membership is confined to individuals. 2. Banks whose membership is confined to societies. 3. Banks which include both individuals and societies among their member.

The chief object of Central Co-operative banks is to meet the credit requirements of member societies. They finance agricultural credit societies for production purposes, marketing societies for marketing and supply operations and industrial and other societies for working expenses. They work as an intermediary to link the primary societies with the money market. Further the central banks serve as balancing centre for adjusting the surplus and deficiency of the working capital of the primary credit societies.
The central co-operative Banks also provide certain normal banking facilities to members such as acceptance of deposits, remittance fund collection of cheques etc.,

A central bank should cover at least 200 to 250 societies.

The sources of working capital of a central co-operative bank consist of the share capital, reserves and other funds Deposits from members and non-members, borrowing from stage co-operative banks reserve bank of India and Government and Grants from Government.

Borrowing from apex Bank (SCB) at present the credit limit is 0 to 15 times of their owned funds.

The Central co-operative banks advance loans to the affiliated societies for financing agriculture. Short-term loans are given upto 12 months for financing seasonal agricultural operations while medium term loans are given for a period ranging from one to three years for purchase of bullocks milch cattle pumping sets digging or repairs of wells and important of land.

The SCCB was registered on 06.01.1909 and started its function on 26.01.1909 in the name of “Salem Urban Co-operative Bank”. The bank was registered as “Central Co-operative Bank” in 1942. In 1981 the name was altered as “Salem District Central Co-operative Bank”.

In Tamilnadu out of 23 district centres only 8 centres have the licence of Reserve Bank of India and one among them is Salem District Central Co-operative Bank. The Salem District Central Co-operative Bank received its license from the RBI in 1987.
The District Central Co-operative Banks which have deposits of Rs.200 core and above issue non-farm sector loans to the members for their economic development. There are 59 branches in and around Salem and Namakkal District and 380 primary agricultural co-operative banks which are affiliated to Salem District Central Co-operative bank. These primary agricultural co-operative banks are divided as 10 area offices which are situated in the main centres of Salem and Namakkal Districts. The bank has admitted 1963 members of co-operative institutions.

Contribution made out of net profits are 3% of the net profit to the co-operative research and development fund. 2% of the net profit to the co-operative educational fund.
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