CHAPTER I

INTRODUCTION :

In the context of planned economic growth with emphasis on social justice, the banking system has become an important instrument in the attainment of socio-economic objectives. Urban co-operative banks are an important constituent of the multi-agency banking system in the country and have a distinct role to play in the task of economic development in consonance with national priorities and policies.

Urban co-operative banks over the years, have recorded a phenomenal growth and they have assumed new and deversified responsibilities. Notwithstanding these changes, their original objective of serving the small men and weaker sections of the society should not be lost sight of. And also the pressure on banks for providing new and better services are mounting. Internally, the resources of banks are becoming increasingly scarce and their profit margins are being squeezed. Externally, the pressure of the environment are affecting the management and activities of urban banks.

Hence, it becomes necessary to study the functioning of the urban banks at grass-roots level; so that their strengths, weaknesses, opportunities and threats are examined.

This study has been undertaken to analyse the functioning of urban banks in the light of some of the following significant issues :

1. Do the urban co-operative banks have an organisational

set-up, commensurate with their operational requirements ?

2. Are the urban co-operative banks aware of their social responsibility ?
3. Are the urban co-operative banks recruiting the staff who can undertake the changing responsibility ?
4. Have they made a systematic programme to have better and effective services to their members ?
5. Have they adopted modern management concepts and techniques ?
6. Are they on the look out to simplify their procedures in the interest of their clients ?
7. Have the urban co-operative banks given enough attention towards the removal of regional disparities ?
8. Are they really meeting the needs of small men ?
9. Are they equipped to face new challenges ?
10. Are they working to meet the socio-economic objectives of the nation ?

The Problem :

The state of Karnataka is known in the co-operative sector of India. In the same way there is remarkable growth of urban co-operative banks in Karnataka. According to the latest figures available, there are altogether 1,345 urban co-operative banks in the state with 3,064 branches and Rs. 5,800 crores working capital. These banks have reached almost all the towns and cities of Karnataka. These banks play an important role in mobilising resources. This helps in the economic development of our country.

Nipani is a well known tiny city situated in the Belgaum District of Karnataka. The population of the town is 41,783 according to 1981 census and is expected to have crossed the 50,000 mark by now. Nipani is well known for growing good quality of Bidi-Tobacco in India.

There are 9 nationalised banks, 2 private sector banks, 3 urban co-operative banks and one br anch of District Central Co-operative bank in Nipani. Apart from these modern banking Institutions there are a number of co-operative credit societies. This situation gives rise to the question as to what makes them stand and progress amidst these numerous sophisticated and traditional financial institutions.

This reasearch will be useful for undrstanding their problems. To understand where they are ? Where they have to go ? Which policy they have to adopt and maintain for further growth ? The study will help to increase the efficiency of working of urban co-operative banks.

SCOPE OF THE STUDY :

In Nipani city there are three urban co-operative banks which are flourishing. Of these, two banks have been selected as a symbolical example for examining the performance and working of urban co-operative banks in Nipani city. Thus, the present study deals speci fically with i) Shri Ram Urban Co-operative Credit Bank Ltd., and The Nipani Urban Co-operative Credit Bank Ltd., Nipani, for a period of nine years, 1980 to 1988.

Only two banks have been studied and other co-operative banks or co-operative societies have not been taken into account.

These two banks have been chosen mainly because of the fact that one, Shri Ram Co-operative Urban Bank Ltd., was established in 1923, and therefore had a fairly long period of establishment and experience, and the other, The Nipani Urban Co-operative Credit Bank Ltd., which was established in 1962, was relaively young; and therefore a comparitive study was possible. A third urban bank, The Primary Teachers Co-operative Credit Bank is also providing services to the people in Nipani city, but it is comparitively young, it was established in 1976.

OBJECTIVES OF THE STUDY :

This study is undertaken :

1. To evaluate the overall performance of urban co-operative banks, and
2. To suggest measures for effective working of urban co-operative banks in Nipani city.

LIMITATIONS OF THE STUDY :

This research work has been undertaken to examine the working of Shri Ram Co-operative Urban Bank Ltd., (Ram Bank) and The Nipani Urban Co-operative Credit Bank Ltd., (Nipani Urban Bank) both in Nipani city. The data collected are mainly published data and as a consequence, the study is not in a position to verify the data. A number of informal discussions with the personnel of these banks have thrown light on the working of these banks, but these discussions are not subject to verification. To that extent, the research work must suffer. The study is limited only for nine year period, 1980 to 1988.

METHODOLOGY OF THE STUDY :

This study is mainly based on the secondary data i.e., Annual Reports of the urban co-operative banks. Wherever necessary personal discussion with bank officials about certain matters has been made.

The study also consists of library method of information collection through the use of various books, journals and reports on the subject.

A BRIEF PROFILE OF NIPANI CITY :

Nipani is a fairly well known tiny city situated in the Belgaum District of Karnataka. The population of the city according to the latest census data available roughly stands at 41,783 of which male population was slightly higher than the female population (21,141 males to 20,642 females). The scheduled caste population makes up roughly 20 per cent of the pupulation with males again slightly out numbering the females 2,930 males to 2,837 females. The city is divided into seven wards and has a 23 member City Municipal Council.

The city has a fairly long history of banking and boasts of

Nine Public Sector Commercial Banks, Two Private Sector Commercial Banks, One District Central Co-operative Bank and Three Urban Co-operative Banks, Shri Ram Co-operative Urban Bank Ltd., was established way back in 1923. This bank has served yeoman service to the people in and around the Nipani city.

The membership of this bank is spread over a fairly large area and also over a large number of proffessions and vocations. The Ram Bank continued to hold a sway over the urban co-operative banking affaris in Nipani area for considerable amount of time till two similar co-operative ventures were set up in the form of The Nipani Urban Co-operative Credit Bank Ltd., and The Primary Teachers Co-operative Credit Bank Ltd., in 1962 and 1976 respectively to further the co-operative spirit in the area. Apart from these modern banking institutions, there are 12 co-operative credit societies.

Urban Co-operative Banks act as an instrument of growth and have played quite an important role in the development process of the economy. In fact the setting up of the urban co-operative banks is perhaps an indication of the changed times, where a major shift in emphasis from security oriented lending to development oriented lending is to be emphasized. Besides these banks, Nipani has earned fame with respect to its agricultural produce, particularly tobacco. The tobacco is mainly used in the production of bidies and therefore is literally called bidi-tobacco. The tobacco leaves are processed and rolled into bidies in number of bidi manufacturing units which are in the small-scale sector. Part of the tobacco is also exported to other parts of the country for the manufacturing of cigarettes and cigars. The bidies manufactured in Nipani is distributed in and around the city and other parts of the country. One of the most striking features about tobacco trade is that the tobacco-bazar of Nipani was well-known all over India which soon after independence contributed about Rs. 5 crores to the Central Government as excise duty. It is held by many that no other place in the country produces the quality tobacco that Nipani does and therefore it is unsurpassable in tobacco quality in India.

It might not be out of place here to state that tobacco is not only the produce for which Nipani has found mentioned in the national agricultural literature. Nipani was very popular and famous for marketing of red-chillies till about 1970 when the chilly market was shifted about 22 k.m. from Nipani to Sankeswar, in Karnataka.

A similar situation has arisen with respect to jaggery production and trade. Unlike the red-chilly, however, the trade in jaggery still continues, though on a smaller scale. The jaggery trade meets the requirements of the population in and around Nipani city.

The major occupations of people in Nipani consist of tobacco processing, bidi-making, tobacco merchants and commission agents besides business in jaggery and chilles.

The main sources of revenue for the Municipal Council various type of local taxes, government grants, rents from municipal building as well as income from the municipal land.

Nipani is fortunately situated as it is not far from major trading centres like Kolhapur in Maharastra and Belgaum in Karnataka. The Bombay - Banglore national high-way No. 4 by-passes the limits of the municipal council and is only a walking distance from the centre of the city. This situational position also helps the city in its trade and developement.

Nipani is also fairly well - known for its educational institutions particularly the primary and college education. It caters to the needs of the whole not only in the city but also those who live around Nipani in the mofussil areas.

IMPORTANCE OF BANKS AND BANKING SYSTEM :

The banking system plays an important role, some times a very crucial role, in the process of economic development of a region and a country. The banks primarily help to mobilise savings of the people and make them available for the purpose of investment, which is very vitol for economic growth. Banks have also help in optimising the use of limited resources particularly in an underdeveloped country, through the process of institutionalisation of savings and investment.

In present times banks not only play an intermediary role in the mobilisation of resources and deployment of the same but also have a crucial role in the identification of productive avenues for investment and potential entrepreneurs. Banks play and have played an increasingly important role in the external trade of the a country. Specilised banking functions in this regard facilitates greater and thereby helping to earn precious foreign exchange. Apart from arranging for finance for foreign trade, these banks help in the eastiblishment of useful contacts with potential markets and buyers overseas. The banks role has thus undergone a transformation and now transcends the traditional areas; they infact get involved in varied aspects of the growth process. The development strategy in India is to promote economic growth with a measure of distributive justice. The banking system has emerged as an important instrument in this behalf. Urban co-operative banks constitute a very important part of the multi-agency banking system adopted in India.

The urban credit movement in India began roughly a century ago when the first mutual aid society was set-up in Baroda. The Co-operative Credit Societies Act of 1904 conferred legal status on such societies. In those days all the urban credit societies including the urban banks were described as non-agricultural credit societies. Such societies were expected to grow on their own volition without any governmental assistance whatsoever. The situation improved slightly for the development of urban banks received attention in 1915 when the Macglagan Committee referred to the potentialties for the organisation of such societies especially in urban localities to meet particularly the requirements of the middle-class people. The urban banking sector received a much needed fillip after 1917 with the failure of around 87 commercial banks with a paid-up capital of Rs. 1.75 crores. A large number of urban credit societies were then organised in the predominently the Bombay and Madras provinces in the period 1919 - 38. The urban credit societies, therefore got an opportunity to develop as medium for mobilising savings of persons of modest means and helping those who were then most needy. Since then the urban co-operative banks have developed more or less continueously without many serious ups and downs.

The membership of an urban bank consist of persons living in urban areas such as traders, merchants, salary earners, factory workers, labourers etc. The conditions relating to the membership of an urban banks are laid down in their by-laws. In many banks the members are classified into two groups or classes, ' A ' and ' B '. Normally the value of the share held by a member classified in the category ' A ' has a higher value. The class ' B ' members are normally called nominal members, who can abide of loan facilities aganist collaterals but have no voting rights and rights to participate in the general meetings.

The resources structure of the urban banks consists of owned funds and borrowed funds. The share capital and reserves constitute the owned funds and the deposits and borrowings from part of the borrowed funds. Owned funds constitute a real source of improving the financial position of an urban bank. Thus the borrowing power of an urban bank depends upon the owned funds raised by the bank. The R.B.I. Survey on the urban banks drew pointed reference to the importance of owned funds. According to it "the liability of the urban banks being limitted they find it necessary to build-up substantial owned funds which provide the base for the outside borrowings. The maximum borrowing power of an urban bank which is the limit for its owned funds in the rules framed under the Co-operative Societies Act or in its own by-laws. The liability of members of urban bank is generally limitted".

Among the owned funds share capital occupies an important place. The owned funds of urban banks can be strengthened only by means of increasing the amount of share capital, because increasing the reserves means a time consuming process. The share capital base of Rs. 20,000 for an urban bank was accepted by the Co-operative Planning Commission and the R.B.I.'s Survey on urban banks. After the introduction of the Banking Regulation Act, 1949 (as applicable to co-operatives), from March 1, 1966, all the urban banks were required to have Rs. 1 lakh of paid-up capital and reserves to be eligble to become 'Banks'.

The reserve funds form part of the owned funds. Reserve funds are appropriated from the net profits earned by the banks every year. In majority of the states, the by-laws of urban banks stipulate that out of profits earned by them a certain portion, gererally not less than 25 per cent should be appropriated to the statutory reserve fund every year. The Varde Committee recomonded that, " all urban banks, when they receive deposits on current account, should carry to the reserve fund atleast 25 per cent of their net profits till it equals the paid-up share capital and thereafter it may be less ". As on 30, June 1982, the reserves of all urban banks amounted to Rs. 135 crores and formed 6 per cent of their working capital.

Deposits which form part of the borrowed funds, are the main source of funds for the urban banks. Unlike other co-operative institutions, urban banks depend very little on other agencies for their resources. This was due to the fact that being one of the main objectives of urban banks. The Madras Committee on Co-operation had pointed out that, " " urban banks have done something to stimulate the habit of thrift and savings among members by the provision made for savings deposits, recurring deposits, provident fund deposits, etc. ". The Varde Committee had also emphasised this role saying that, " the main object of urban co-operative banks being the promotion of thrift among members, efforts are primarily directed towards tapping their savings ".

Urban banks accepted deposits from members and non-members. In certain cases they have tapped more deposits from non-members than members. For instance, in Tamil Nadu deposits of non-members were Rs. 64 crores as compared to Rs. 31 crores from members in 1981 - 82. This shows the confidence of the public in these banks.

Urban banks accepted fixed deposits, current deposits, recurring deposits, savings, thrift deposits etc. In addition to these in Tamil Nadu they had introduced, ' day deposit scheme '. One of the reasons for their able way of attracting deposits is that urban banks were allowed to pay 1 per cent more interest that other banks for their deposits. Though they were not able to provide all modern banking facilities like commercial banks they inculcate banking habits among ordinary people. In that sense they were able to pose stiff competition to the commercial banks. Some of the urban banks have eastablished a reputation and standing in their area comparble to commercial banks with which they compete successfully both in the provision of efficient banking services and tapping deposits ".

There was significant growth in the deposits of urban banks. The deposits which stood at Rs. 187 crores in 1970 - 71 rose to Rs. 1,543 crores in 1981 - 82 recording an increase of 725 per cent over the period. The increase in deposits was mainly due to several measures taken by the banks like the introduction of new deposit schemes and opening of new branches. Deposits constituted 71 per cent of the total working capital. The average deposit per bank stood at Rs. 139 lakhs in 1981 - 82. The growth rate of deposits was higher than that in the commercial banks which was a commendable feature.

URBAN BANKS AND THEIR RESOURCES :

Urban banks as primary units are members of the Central Co-operative Banks (C.C.B.s). They are expected to borrow from the CCBs if they are not able to meet their demands out of their own resources. But their borrowings from CCBs are very negligible. The CCBs are also reluctant to give loans to the urban banks, because they are heavily committed to the Primary Agricultural Credit Societies (P.A.C.S.). The Varde Committee had recommonded that the urban banks should be affiliated with CCBs and the latter should provide them occasional loans and overdrafts required from time to time.

Of late when the urban banks started lending small scale industries, they required larger resources. Further the Working Group on Industrial Financing through Co-operative Banks appointed by the RBI had recommonded that the RBI should provide refinance facilities to urban banks in respect of their working capital advances to approved small scale and cottage industries and funds may flow through the apex banks directly to urban banks or funds from the apex banks may be routed through the CCBs depending on the arrangements preferred by the banks. This recommondation was accepeted in 1969 and since then such refinance facilities were made available to urban banks for financing working capital requirements of 22 broad groups of approved cottage and small scale industries.

The borrowings of the urban banks stood at Rs. 102 crores in 1981 - 82 as against Rs. 12 crores in 1971 - 72. As a percentage to the total working capital, the borrowings formed only 5 per cent. This shows that the urban banks were able to depend on their own deposit resources to meet the credit needs of the members.

While lending money, the urban banks should make it a point that the finance provided by them must be most productive and useful. The Varde Committee made it a plea that, " the lending policy of urban banks should be more imaginative and in keeping with the general programmes for economic development . In other words, it should be production oriented and related to the repaying capacity of the borrower rather than the security ". The first seminar of the Chief Executives of the Urban Banks also viewed that, " there is a distinct bias in favour of un-productive loans, sizeable advances having been made in the form of fixed loans, for consumption and old debts etc. It is necessary that the lending programmes of the primary co-operative banks should be more dynamic and progressive and in consonance with the general programme for economic development of the country as a whole. While demand for funds, having regard to the nature of clientele of the banks will, no doubt, continue to be for consumption purposes and family needs, the predominance of these types of advances in the loan portfolio of a bank is an undesirable feature and increasing emphasis should be laid on grant of production-oriented finance which would increase the income of the borrowings and thereby contribute to their economic efficiency and well-being".

The All India Conference on Urban Credit Co-operatives had pointed out that, "Urban Banks should adopt a sufficiently diversified loaning system. In addition to loans to small industries, loans up to limited amounts on personal securities, larger loans on mortgage of real property or security of negotiable instruments may be made. Loans for consumption purposes should be largely connected with purposes promoting economic efficiency e.g. education, durable consumer goods etc.". The first Seminar of the Chief Executive of Urban Banks tried to fix the proportion of resources. The Seminar said, "while it is not easy to suggest any proportion of resources among different catagories of loans, it would appear advisable that the banks should ensure that at least 60 per cent of the loanable funds are granted for production purposes".

From September, 1983, a new direction has been imparted to the pattern of lendings of urban co-operative banks. As in the case of commercial banks, the urban banks have been cast with the responsibility of involving themselves in the financing of priority sectors which constitute the core of the planned economic growth of the country. However, in conformity with their stature as small man's institutions, a higher target has been fixed and urban banks have been asked to ensure that 60 per cent of their total advances should flow to the priority sectors. These sectors include among others, advance to small - scale industries, small transport operators, small businessmen, retail traders, professional and self-employed persons, housing finance etc. Detailed guidelines have been issued by the RBI to all the urban banks to ensure that they invariably attain the target.

Even within the priority sectors, it has been emphasised that the main thrust in lending should be in favour of greater orientation towards meeting the needs of the weaker sections of the community like the scheduled castes and scheduled tribes. Urban banks have been asked to earmark 25 per cent of their total priority sector lendings for this category of beneficiaries by June 1985. Therefore, they have to draw up a definite plan of action to attain the targets. They should undertake detailed studies to identify the areas of special thrust in priority sectors which would show immediate tangible results for the benefit of the weaker segments.

Urban banks should also grant assistance to small transport operators like pullers of hand carts, rickshaws, autos, taxis and delivery vans. They may also advance loans to small business men and retailers to start their own ventures as that would afford them gainful means of self-employment. Assistance may be given to small vendors, dairymen, artisans, craftsmen, garment makers etc. Loans may be given for starting small business ventures like printing process, hair-dressing saloons, laundries and to professionals like doctors, engineers, architects etc.

ROLE OF URBAN BANKS IN INDUSTRIAL DEVELOPMENT :

The contribution of small scale industries to total industrial production is substantial and the need to foster the growth of small industrial units has received considerable importance in the planning process. The urban banks are expected to finance the small scale industries and thereby to help the speedy industrialisation and removal of industrial desparities in the country. The importance of financing small scale and cottage industries by urban banks had been stressed by many committees on co-operation. The Madras Committee on Co-operation said that there is a feeling that urban banks have not done much to encourage handicrafts and cottage industries. In order to save the artisans and craftsmen from the exploitation of middlemen and money-lenders, the urban banks must come forward to finance such people.

The Co-operative Planning Committee was of the opinion that there are in urban areas, numerous persons of small means like traders, merchants, artisans, factory workers, street hawkwers and motor drivers who resort to money lenders and similar agencies for small loans and obtain them at high rates of interest. Ex-servicemen like technicians and skilled workmen like carpenters, blacksmiths, mechanics, etc. also require credit for setting up their own business. Urban banks are the most suitable agencies for financing such persons as they have intimate relationship with people of this class. The Second Seminar of the Chief Executives of the urban banks also stressed the need to spread urban banking in the country for the provision of institutional credit for cottage and small scale industries.

The Working Group on Industrial Financing through Co-operative Banks strongly recommonded that the urban banks should lend money for small scale and cottage industries. The report pointed out that their loaning must now adopt a strong bias in favour of economically productive activities rather than the financing of mere consumption and other non productive items. Apart from providing working capital loans to small-scale industrial units, at least the bigger urban banks might be expected to have enough medium and long term resources for providing block capital loans to small-scale industrial units. The by-laws of urban banks should contain a clear provision enabling them to provide such loans. Existing restrictions, if any, which inhibit them from advancing block capital loans should also be removed.

In order to enable the urban banks to take up the financing of the samll scale industrial units in a greater measure, the RBI/ NABARD has been granting concessional refinance to the urban co-operative banks. With a view to safeguarding the interest of the smaller units, concessional refinance has been made available to small scale industries upto a limit of

Rs. 2 lakhs irrespective of the period of their existence. It is also significant that the Deposit Insurance and Credit Guarantee Corporation has extended cover for the small-scale industirial advances given by the urban banks.

The Industrial Development Bank of India has recently extended term credit facilities to the urban banks to meet these requirements of the small-scale units in ten states to start with. Urban banks having 'A' or 'B' class audit classification and satisfying the broad norms of eligibility for being covered under the Small Scale Loans (SSI) Guarantee Scheme of the Deposit Insurance and Credit Guarantee Corporation are eligible for the term credit facilities. Urban banks would therefore, be able to give total finance to small industrial units.

The urban banks are at present permitted to invest up to 10 per cent of their total deposit resources or 25 per cent of their total net disposable long term resources whichever is more, towards block capital loans to small-scale industries.

The performance of urban banks with regard to the industrial financing was not satisfactory. During 1981-82 the short and medium-term loans sanctioned to small-scale industries constituted 24 per cent of the total loans advanced by the urban banks. Further, 97 per cent of loans were granted by the banks in four states viz. Maharastra, Gujarat, Karnataka and Tamil Nadu. The banks in the state of Haryana, Himachal

Pradesh, Jammu & Kashmir, Meghalaya, Orissa, Punjab, and U.P. did not advance any loans. In other states amount advanced were very negligible.

URBAN BANK's MANAGEMENT :

The mangement of an urban bank is vested with the general body, the elected Board of Directors and the paid employees working under the Secretory/ General Manager. The General body which convened ususally once in a year, is the ultimate authority of the management. The directors are elected by the members of the General body. The elected directors are expected to possess qualities of leadership and the ability to guide the bank on sound lines. In all the affairs of the bank the board of directors have to depend on the Secretory/ Manager and his colleagues. The board of directors in urban banks are better informed and efficient than other co-operatives, because they are represented by all sections of the urban elite. Whatever the urban banks achieved success there we can find the efficient non-official leadership and better management.

CONTROL OF URBAN BANKs :

The urban banks are governed by the following enactments :

1. The State Co-operative Societies Act and Rules,
2. The Banking Regulation Act (as applicable to Co-operative Banks)
3. The by-laws of the banks,
4. Directives issued by the RBI from time to time and

5. Multi-unit Co-operative Societies Act is applicable where the bank is having its branches in more than one state.

The RBI excersises the monetory discipline over the urban banks in the following manner :

1. Statutory liquidity under section 18 and 24 of the Banking Regulation Act,
2. Annual inspection of the banks under section 35 and
3. Issue of directives.

NORMS OF VIABILITY OF URBAN CO-OPERATIVE BANKS :

The Reserve Bank, has revised the norms of viability for the existing urban co-operative banks as well as for those to be newly organised in metropolitan, urban and semi-urban areas. These are as here under :

(Rs. in lakhs)

Items	Metropolitan centres with population of		Urban centres with population of		Semi-urban centres with population of
	25 lakhs and above	10 lakhs and above but less than 25 lakhs	5 lakhs to 10 lakhs	1 lakhs to 5 lakhs	less than 1 lakhs
A. Norms of viability for a bank (to be achieved over a period of 3 years)					
1. Share Capital	20	12	8	6	3
2. Reserves	4	2	2	1	1
3. Deposits	156	94	62	47	24
4. Borrowings	20	12	8	6	2
5. Loans & Advances	140	84	56	42	21
6. Working Capital	200	120	80	60	30
B. Norms of viability for a branch (to be achieved over a period of 3 years)					
1. Deposits	70	35	25	19	11
2. Advances	63	31	23	17	10

C. The norms regarding intial membership and minimum share capital required to be collected by a newly organised bank :

Type of Centre	Amount of share capital to be collected initially (Rs. in lakhs)	Initial membership
1	2	3
1. Metropolitan centres with population of		
(a) 25 lakhs and above	10.00	2000
(b) 10 lakhs to 25 lakhs	6.00	1500
2. Urban centres with population of		
(a) 5 lakhs to 10 lakhs	4.00	1000
(b) 1 lakh to 5 lakhs	3.00	700
3. Semi-urban centres with population of less than		
1 lakh	1.50	400

Source : Co-operative Bank's Diary 1989-90, Page 35 & 37

The Reserve Bank has also advised that any proposal for registration of new urban co-operative banks should take into account the above revised norms and only after satisfying that the new banks will be able to comply with the new norms the proposals may be furnished. It is also added that the revised norms of viability will have to be attained by the existing urban co-operative banks also.

The Reserve Bank of India, in order to assist the functioning of the Urban Co-operative Banks, has adopted a refinance programme for them.

Refinance Facilities to Urban Co-operative Banks under Section 17 (2) (bb) of Reserve Bank of India Act - Small Scale Industries Sector :

The Reserve Bank has made the following modifications in its scheme of providing refinance facilities to urban co-operative banks under Section 17 (2) (bb) of the Reserve Bank of India Act, 1934.

a. The concessional refinance at 2½ per cent below the Bank Rate is available only for lending to new industrial units and in respect of other units which are in existance/ under production for not more than severn years. After a period of seven years the facility would be withdrawn and the bank would have to continue to provide the finance if necessary at the normal rate of interest applicable as per the Reserve Bank's Directives.

b. The concessional refinance is available for lending to small and tiny units which enjoy the credit limits upto Rs. 2.00 lakhs irrespective of the period of their existance/ production.

c. The refinance facility under the scheme would be available only to banks which are regular in submission of the statutory and other returns to Reserve Bank. Such of the banks which default in submission of the satutory returns would not be considered for sanction of the limits and even where the limits have been sanctioned drawals would not be allowed if there are defaults in the submission of the statutory returns subsequently.

d. While fixing the credit limits the Reserve Bank would take in to account the surplus funds available with the bank on a continuing basis. However, in the case of newly organised urban banks for a period of five years from the date of their commencement of a business a liberal view would be taken and refinance assitance provided. For the purpose, the liquid asset (including funds kept with Commercial Banks) on a continuing basis in excess of optimum level of 40 per cent of the demand and time liabilities would be considered as surplus funds.

e. Urban Banks would have to maintain a separate record of the transactions pertaining to the small scale industrial units covered under the refinance facilities. For this purpose banks may have to introduce a separate heading in the general ledger for the loans and advances provided to the small scale / cottage industrial units covered under the scheme.

f. In the monthly non-overdues cover statements banks would have to report the figures of loans and advances outstanding and overdues in respect of the eligible units i.e. (i) those in existance for less than seven years and (ii) those in the tiny sector in existance over seven years and enjoying credit limits only upto Rs. 2.00 lakhs.

Besides providing these facilities, the RBI enjoins upon the urban co-operative banks to follow , in a limited way, a given investment pattern. This is done mainly to protect the interests of the co-operative movement as well as of members and depositors.

Investment of Funds by Urban Co-operative Banks as Deposits with Public Sector undertakings/ companies/ corporations/ co-operative Institutions :

The RBI has stressed that the urban co-operative banks are enjoying various concessions such as higher rates of interest on deposits, lower liquidity ratio, exclusion of borrowing from some higher financing agencies from outside liabilities etc, with the objective, among others, to promote thrift and mobilisation of resources from the community of the area of operation for the purpose of provision of credit at a reasonable rate to small borrowers. In this context, if the urban co-operative banks choose to divert such surplus funds as deposits with institutions/ companies/ corporations, etc., with a view to earn higher rate of returns etc., they hardly serve the objectives. In addition, such fixed/ term deposits kept with Institutions/ Companies etc., amounted to [illegible] unsecured advances to the concerned Institutions/ Companies thereby attracting the provisions of the RBI directive on interest rates on advances as well as maximum limit on advances. The primary co-operative banks are advised to desist from making deposits with such Institutions/ Companies/ Corporations and utilise the resources for lending to small borrowers.

PERFORMANCE PLANNING & BUDGETING SYSTEM IN CO-OPERATIVE BANKS:
For management of banks, what is known, as " Performance Budgeting " is a tool of planning as well as control. It relates to a process whereby the banks work-out a blue print of the programme of business which it would like to perform during the given period of time and ensure that such programmes are implemented. It could mean setting up of goals for different activities for a given period taking in to account past performance, the local conditions and the role is is expected to play. It is not an Annual Financial Budget, which is a forecast of income & expenditure for the coming year.

It would be desirable for the banks to have performance budget in two components- (i) Perspective plan for the bank for next five years preferably coinciding with the five year plan of the Government and (ii) Annual Operational Plan and Budget for individual branch to guide/ control their ususal activities and as a means of achieving perspective plan.

Perspective Plan :

a. It would be the responsibilty of the Board of Management of a Bank to formulate such a plan with the expert assitance of the Chief Executive of the Bank.

b. The perspective plan, as already indicated should preferably be preparied for five years coinciding with the five year plan of the Government.

c. The main object of the perspective plan is to provide on a contineous basis a direction for the growth of the bank along important dimensions.

These include :

i. Opening of new branches and extension of existing branches.

2. Total growth of deposits.

3. Total growth of advances (type wise and purpose wise).

4. Introduction of new Auxiliary Services.

5. Man power demand.

6. Training.

7. Financial Results.

Before preparing perspective plan it would be necessary to have a analysis of the economic environment in which the bank and its branches function, present and likely policies of regulatory agencies and competition from the other banks.

ANNUAL OPERTIONAL PLAN AND BUDGET :

When once the perspective plan is adopted by the bank then it would be for the Chief Executive to prepare the Annual Operational Plan and Budget. This should cover one year and while preparing this, care should be taken to assess the performance of each branch and the future prospects in consultation with the field staff. To enable the branch managers to prepare their annual opertional plan and budget it should be finalised by the Chief Executive at Head Office after personal discussion with the Managers, if necessary. The approved branch operational plan and budget will provide a basis for estimating the performance of the bank as a whole. After branch operational budgets are prepared on annual consolidated budget for the bank can be prepared.

It would be necessary to lay down a schedule for preparation and settlement of the budgets. The preparation of Annual Operational Plan and Budget of a branch should normally be completed by about April 15 of a given year and then the final budgets should be communicated to the branches before June 15, of that year so that branches can take preparatory steps to implement them in time.

The mere preparation of a budget would not yield the desired results. It would be necessary to have periodical reviews of the performance of each branch and the bank. For this purpose the banks obtain progress reports from branches on quarterly basis, and review their performance. It would be better if such reviews are made at periodical conferences of managers of the branches.