Chapter -2

PERFORMANCE EVALUATION

- Performance in Service Sector Industry
- Parameters for evaluating performance
- Integrated Performance Evaluation
- Banking Sector.
The Indian Co-operative movement is one of the largest in the world in respect of its area of operation and coverage, with more than 22% of total world membership of the international cooperative alliance (ICA).

Urban Cooperative banks which are termed as primary cooperative banks under the banking regulation act, were initially organised as credit societies which in course of time incorporated banking functions and came to be known by their present description. These banks were promoted with an aim to stimulating thrift, self help and cooperation and to cater to the needs of their members in particular and non-members in general in urban and semi-urban areas.

The Economic Survey for the year 1995-96 underlined the continuing crucial role of the credit cooperatives in the economic development as they alone accounted for 67% of total short term bank disbursement followed by commercial banks with 28% and RRBs providing the balance 5% during 1994-95, for productive purpose further, the RBI has recognised the importance of U.P. urban cooperative Banks by allowing them to extend their operation to rural
areas and providing finance to agricultural activities. Some banks have recorded a higher growth rate both in deposits and advances as compared to the commercial banks and their role as an ideal institution to meet the timely credit requirements of the weaker sections of the society has been recognised by the experts.

Contrary to the above fact, there have been strong feelings expressed at various corners that the performance of cooperatives in general is not satisfactory and they are not financially viable. Over and above the liberalised economic policies including extensive reforms in banking sector have posed a threat to the survival and growth of cooperatives.

**PERFORMANCE IN SERVICE SECTOR INDUSTRY**

Performance of urban cooperative banks in service sector industries like transport, private retail trade, Education, professional & self employed persons and housing is satisfactory but these sectors in uttar pradesh is not gaining because they have no financial umbrella of UCBs for the Protection, so they are taking the help of commercial banks, but in other states the position is better.

Overall performance of urban cooperative banks in service sector industries for the year 1997, 1998 is showing in the next page.
Table (2.1): Scoring Pattern of performance of UCB’s in deployment of credit to service sector industries

(Rs. In crore)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Sector</th>
<th>As on 31-3-97</th>
<th>As on 31-3-98</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Amount</td>
<td>% of total sector lending</td>
</tr>
<tr>
<td>1.</td>
<td>Road &amp; Water Transport</td>
<td>1679.40</td>
<td>14.91</td>
</tr>
<tr>
<td>2.</td>
<td>Private Retail Trade-Essential commodities</td>
<td>356.32</td>
<td>3.16</td>
</tr>
<tr>
<td>3.</td>
<td>Private Retail Trade others</td>
<td>1117.52</td>
<td>9.92</td>
</tr>
<tr>
<td>5.</td>
<td>Professional &amp; Self employed persons</td>
<td>741.88</td>
<td>6.59</td>
</tr>
<tr>
<td>6.</td>
<td>Education</td>
<td>112.30</td>
<td>1.00</td>
</tr>
<tr>
<td>7.</td>
<td>Housing</td>
<td>1616.49</td>
<td>14.35</td>
</tr>
</tbody>
</table>

(Source: Urban banks Department, R.B.I.) - 1999

The Road & water transport, which has got 14.91% of the total credit provided sector reduced to 12.32% in 1998. Similarly Private retail trade of essential commodities also showed a downward trend so far as the credit facilities provided to the service sector industries. Private retail trade (others) in addition to small Business Enterprises and professional & self Employed persons along with education & Housing showed an increase. Although the data regarding these service sectors in Uttar Pradesh Could not be obtained because the officers of the urban bank’s Department of RBI, Lucknow (U.P.) is not
able to show the data because these banks has not been reported to RBI since 2000. Researcher also approached to the Registrar of co-operative societies but result was nil because they also collect data from RBI, but as information made available by the department, the above sector showed an increase with regard to the credit facilities provided to them by the UCBs.

PARAMETERS FOR EVALUATING PERFORMANCE

It is necessary to recognise the strengths and weaknesses of urban cooperative banks of Uttar Pradesh in the field of much needed micro credit and how best to foster and encourage UCBs in rendering this service to the small borrower who is not as welcome at the doors of commercial banks, as at the hands of UCBs. The representatives of UCBs and their federations constantly claim that they have a distinct role in the banking sector as they and the small borrower are made for each other and that any amount of expansion of branch net work of commercial banks, including RRBs, will not solve the problem of the small borrower without the presence of UCBs.

Researcher organised a survey of clients that approached UCBs on two different dates. The response of these clients is a resounding confirmation of the claims of UCBs. 85% of the clients said that they had come to UCBs because they are not entertained by the commercial banks. On two different dates, the response of these clients is a resounding confirmation of the claims of UCBs, 85% of the clients stated that UCBs provide faster service and 82% of clients felt that UCBs provide more personalised service than commercial banks. Not satisfied with this evidence, the researcher talked to the others. They also confirmed that UCBs predominantly cater to the persons of small means and they unhesitatingly stated that UCBs must be encouraged to continue and expand. Our interaction with some of the
senior level officers of commercial banks noted the same result. The State Government Officers have the same word of praise for the UCBs. The data with RBI shows that the UCBs fulfill the stipulated priority sector lending of 60% of the bank's total advances. Very few UCBs asked for reduction of 60% target though the priority sector target for commercial banks is only 40% and which is not always achieved. This shows what UCBs are in the context of giving micro credit to a multitude of small borrowers.

The service being rendered by UCBs to micro credit enterprises and small borrower, comes as sweet music to the ears of the researcher. But I also hears some harsh and unpleasant notes in the background. Some of them are too jarring to be ignored even as one loves to concentrate on hearing the sweet notes.

Increase in the number of UCBs in the last 6 years is something which requires a serious focus by the RBI. If the increase is due to relaxed entry norms and the promoters are genuine cooperators, we can relax. If the new entrants are not genuine cooperators and if some of them are promoted by the people who had to quit the NBFC sector because of stringent regulatory framework put in place by RBI, then we have a lot to worry about. Members would urge RBI to take appropriate steps to probe into the whispers we hear that some of the NBFCs are getting into UCB sector through the backdoor.

The second cause of our concern is the number of weak UCBs. It is just not the number. We should also look at the causes for the sickness, if the sickness is due to some genuine commercial decisions going wrong, the problem is less serious, but if a large number of banks became weak due to motivated actions of the Managing Committees, then there is greater cause for concern. Theoretically,
Managing Committees are answerable to the General body. This answerability works if the membership of the UCBs is genuine and the members take active interest in the affairs of the UCBs. Here again we hear some "deep throats" conveying things to the contrary that low entry capital norms have facilitated small group of persons or a few families establishing UCBs by raising the capital and taking names of voiceless persons on the membership rolls. We also found that the attendance at the General Body meetings is alarmingly low. If the low turn out at the General Body meetings is due to the Confidence of the genuine members in the impartiality, integrity and efficiency of Managing Committee to deliver the goods, the problem is less serious. But if it is because of bogus membership, the problem becomes acute.

- The third cause for concern is the quality of professionalism. If there is predominant presence of genuine cooperators in the Management Committee and General Body, their experience, common sense and commitment to the bank can partly compensate for lack of professionalism. But it what the "deep throats" say is true, lack of professionalism can be fatal to the health of the UCBs.

Thus, we find that UCBs have their great strengths but not without their share of deficiencies.

An UCB is not like any other cooperative society. The good and bad aspects of a normal cooperative society, benefit or harm only its members, since these societies are organised and run by the members and for the members. But UCBs do more than that. UCBs accept deposits from the public and, hence, their actions affect the interests of the depositors. Since depositors place their funds with UCBs in good faith, the UCBs become trustees of the depositor’s money. Hence, service to depositors becomes a higher duty than service to members.
Thus, the moment a cooperative society graduates into a bank, its actions and discipline have to be judged in altogether a different context. Champions of cooperative movement claim that since cooperatives are democratic organisations, they should be left to self discipline and outside bodies should not trample their democratic rights. This argument makes perfect sense as long as they remain normal cooperative societies. But when they aspire to take on banking functions, their democratic rights have to be subordinated to the interests of the depositors. Safeguarding the interest of depositors cannot be left only to the Management Committee and General Body. We need an external agency to play the role of an umpire. If the cooperators are not prepared to accept external discipline they are free to remain as normal cooperatives. If some existing UCBs feel uncomfortable with external discipline they have all the freedom in the world to return the deposits of the public and revert to the status of a normal society. The banking function necessitates subordination of democratic rights of the members to the duty of serving the depositors. Even the Fundamental Rights of an individual enshrined in the constitution of a great democratic country like India are subject to the similar rights of another individual. The inalienable and the unalterable Fundamental rights of one individual and when the Fundamental Right of another individual begins. UCBs, therefore, can not complain when stricter financial norms are prescribed or professional content in the composition of Management Committee is stipulated to safeguard the interests of the depositors.

INTEGRATED PERFORMANCE EVALUATION

Many studies and statistical Statements relating to cooperative movement in India, Published by the RBI and NABARD reveal that during the 20 years beginning from 1974-75 to 1993-94 the number of bank grew at the rate of 6.18 banks per annum and recorded a
compound growth rate of 0.52% over the year indicating a very poor growth. One of the key reasons for this phenomenon could be a wide regional imbalance in their growth and spread. For instance, more than 73% of total urban banks are concentrated exclusively in four states viz. Maharashtra, Gujarat, Karnataka and Tamil Nadu. In U.P. and most of the remaining states and union territories, the urban cooperative credit movement over the year is not encouraging.

A broad based membership strength is more essential for the survival and success of every cooperative organisation as it is a voluntary organisation. The membership strength has increased annually and has registered Good growth rate over the years which is reasonable. However, the membership growth is not so pleasing. This Gradual growth in membership might because of common practice followed by some of the urban banks towards admitting the members. For instance, there are two classes of members viz. Regular and nominal. The nominal members are generally admitted to enable them to borrow for a short period against readily realizable securities; the moment they pay-off their dues, they cease to be members of the bank which in fact affects the membership strength.

A sufficient amount of paid-up share capital as a part of owned funds indicates an internal financial soundness of any organisation and urban banks are no exception to it. Among all the financial indicators, the paid-up share cap. has registered the lowest growth rate in U.P. The low face value of shares, nominal members admitted just on payment of admission fee, cessation from membership and obtaining refund of shares after availing of the facilities and lack of incentives for the members to enhance their existing share holdings in the bank etc., are some of the reasons for the weak capital base. On
the other hand, a spectacular rise in the reserve funds indicate a marked inner resource strength and viability of the banks.

Deposits are the part and parcel of borrowed funds, Mobilized from both the members and non members, it is one of the important components of working funds of the banks. And, the lending activities of the banks depend upon the quantum of their working funds.

It is worth mentioning that notwithstanding a stiff competition from their counterparts viz., public sector and private sector banks, RRB and non banking finance companies (NBFC), some branches of U.P. Urban Banks made an excellent achievement in the area of deposit mobilisation.

For every banking institution, borrowing from other financial agencies is a must in order to augment its resource strength whereby the credit requirement of the people can be met. However, the percentage of borrowings to total working funds should not be too high. The urban banks are mostly understood as self reliant institutions depending upon their own funds and deposits for their operations. The urban banks borrowed intensely from their apex agencies viz. District and State Cooperative Bank as well as from other financial institutions.

With regard to working capital, an adequate amount of working cap. is of paramount importance for every economic activity, as the growth and expansion of any business organisation is largely dependent upon the degree of working funds. For the urban banks, the working funds include both the owned and borrowed funds. But, thick equity based working capital structure is felt more desirable. Similarly, it is notable that the urban banks witnessed a satisfactory
growth in credit disbursement, though there is a continuous declining trend in credit disbursement experienced by commercial banks, which may be attributed to slow down in industrial growth.

On the other hand, the 'overdues' represent the amount of interest, installment and other dues outstanding for thirty days or more after the due date. The highest compound growth rate indicates rising trend of default on the part of the borrowers on the one hand and lack of strict supervision towards recovery of loans on the other. This increasing trend of overdues is not good for the banks since it ceases to generate income for the banks. So far as the credit-deposit ratio is concerned, no significant growth is noticed and the overdue percentage to total outstanding is not satisfactory.

The overall study brings out clearly the following observations:

- The overall working growth performance of UCB's is not found to be satisfactory during the study period, but some banks have made a remarkable achievement in respect of some variables viz. paid-up share cap, reserves, deposits, working capital and credit disbursement.

- The physical growth in terms of number of banks over the years is very low, which is even less than 1%. This calls for an immediate attention of the apex Cooperative bodies, National as well as state level federation to initiate necessary steps to promote and develop urban Cooperative Banks in the state (Uttar Pradesh) where the growth is still poor, whereby the regional imbalance in their distribution and growth can be minimised. Besides, instead of promoting local area Banks (LAB) as an innovative banking institution, it would be better to develop and strengthen the existing urban cooperative Banks.
- The membership growth is observed to be reasonably good. However, steps are to be initiated to broaden the membership strength so as to have a strong equity base. This may be achieved by creating an awareness among the people about the exclusive benefits of urban banks as compared to other banking institutions.

- There is a sharp increase in borrowings during the Study period. This shows more and more dependency upon the apex financing agencies for their financial needs. Thus it is very essential for the banks to introduce some measures like raising the face value of shares, discouraging refund of share money, linking borrowing with share holdings motivating the existing members to increase their share holdings etc. to increase their own funds to become self reliant.

- The 'overdues' which is the most important indicator needs to be taken care of as it has gone up during the study period. This mounting overdues has resulted in an acute problem of recycling of funds which in turns limits the income for the banks. Keeping this in view, the banks must have to find out some suitable ways and means to speed up the recovery of overdues.

- Though there is no significant growth noticed with regard to credit-deposit ratio, they have registered an impressive C-D ratio over the years. On the other hand, some banks showed better performance in collection of credit as the overdue percentage to total outstanding credit is very low, even below 2%. In this context, the banks' sincere efforts in keeping the overdue percentage well within the reasonable limit is praiseworthy.
BANKING SECTOR

The rapidly escalating crises in certain urban cooperative banks have brought into sharp focus the vulnerability of an important arm of India’s banking & financial sector. Through acts which are reminiscent of the infamous securities scandal of more than a decade ago, certain cooperative bank management have allegedly colluded with a few high profile brokerages of Mumbai while purchasing Government securities. What is more, the ongoing scams refuse to die down. It is now feared that many more, cooperative bank scandals are yet to be exploded.

After the Madhavpura Bank (Associated with Ketan Parikh) lost hundreds of crores of rupees, the Krushi Bank scam came to the fore where the chairman and Vice-Chairman got loans without collaterals and funds were siphoned off.

There has been a common operational style in such scams. First the bosses knew closely the scamsters who siphoned off bank’s money and that regulations were just not active or effective and as such they could flout all norms. The banks fell for the unrealistic lure of added incentives, as offered by Home Trade in the range of 2 percent to 7 percent along with extravagant trade practices.

While understanding the similarities is useful in locating the underlying malaise, hasty generalisations such as of a nexus between all or at least the majority of cooperative banks and a few brokerages is not called for. Instances of poor administration of cooperative banks are coming to light, alongwith the misdeeds.

What is intriguing is that certain important suggestions made by the Reserve Bank of India—Committee on Urban Cooperative Banks
(December 1999) have not yet been implemented. It was suggested that these banks (UCBs) should be brought under prudential norms to ensure their continued financial stability. The Committee was in favour of UCBs being subjected to CRAR (Capital to Risk Assets Ratio) discipline in a phased manner, with initially lower CRAR norms being prescribed for non-scheduled UCBs as compared to scheduled UCBs.

It was also suggested that at the entry level for the new UCBs, there should be the criteria of a strong start-up capital and requisite norms for Promoters eligibility. It was recognised that certain conceptual tools like existence of credit gap and the average population per bank office may not be effective in determine the need for an urban banks in a given local. While there were some more suggestions, the government is yet to implement the changes so utterly needed to galvanise and consolidate the urban cooperative banks.

Recently, the Reserve bank of India (RBI) brought scheduled UCBs under the ambit of the Board of Financial Supervision the supervisory arm of the Central Bank. The objective is to strengthen supervision and enable the RBI to impose penalties wherever these banks violate its directives. Market intelligence cells were also set up at regional offices by the RBI to detect early signs of sickness and deterioration in financial health of UCBs, but obviously the system has not worked. Shortage of staff could be the main reason.

Somehow, the much-needed and improvements in this sector have always been shelved for reasons of inertia and apathy towards these banks, considering them as not of much consequence in the totality of the Indian banking system. But this attitude has been quite misconceived and needs an overhaul. While UCBs have developed well
in the states of Maharahtra, Gujarat, Karanataka and Tamil nadu, there is a lopsided growth in the North and north-Eastern states of the country. Even in the well-developed states, there are under-developed pockets. Out of 262 plus districts in the country, 212 districts were not yet covered by UCBs by the end of 2001.¹

Long back, the Committee to review policy on licensing of new urban cooperative banks, headed by S.S. Marathe, had suggested that UCBs in metropolitan areas should also operate in the contiguous urban agglomeratin areas.² It is said that the banks registered in urban and semi urban centres may be allowed to cover peripheral rural areas and allowed to finance non-agricultural activities there. However, by and large, this just could not happen. Perhaps it is not time to iron out the regional imbalances and to open avenues for organisation of such banks in the comparatively less developed areas by relaxing the entry point and viability norms in the less developed states and tribal areas.

Presently in U.P., the UCBs have a vast network with 177 branches of 77 UCBs, having deposits amounting to Rs. 1,29,005.31 lakh and 2 advances to the order of Rs. 81,557.11 lakh.²

This is the situation when the entire banking sector has started poaching on this small segment in the area of consumer financing when actually this activity has been the exclusive domain of UCBs. Today, the share of UCBs is less than 10 percent of the total business of commercial banks.

¹ NAPCUB, Journals, 2002
Of the total number of UCBs presently there is only one Bank having a scheduled status. It is that which is feeling the pinch of several restrictions imposed on it. Time is now ripe to examine a change in the status of bank as also the alternative streams of income generation.

This scheduled UCB is plagued by several other handicaps. For instance, there is absence of freedom in its lending operations. It has a priority sector target of 60 percent and are prohibited from lending over Rs. 1.5 crore which means that the entire corporate sector is out of the cooperative net.

The UCBs have always been opposed to strict application of the RBI’s prudential norms which apply to commercial banks as the former’s operations differ substantially from those of the later. These norms were issued on the basis of Narasimham Committee recommendations but the UCBs always felt that if they are applied strictly then functioning and profitability of cooperative banks would be seriously affected. Even now the UCBs want the government and the RBI to have a second look into this aspect.

The managements of UCBs need to be fully conscious of the urgency to improve productivity, efficiency and profitability in addition to discharging their social responsibility. The adverse impact of dual control over them has not yet been done away with and this has continued to be a serious grey area in the functioning of these banks.

While the RBI exercises control under the Banking Regulation Act of 1949, several provisions dealing with appointments, removal, super-session, and liquidation are under the direct control of the Registrar of Cooperative issued by the RBI has to be implemented through the cooperative department of the state. What is more,
incidence of political interference is quite high since cooperation is a state subject.

There is no doubt that dual control over the UCBs has only added to the problem of these banks, but what is worse is that the respective role of the two masters has not been definitely demarcated. The Banking Regulation Act of 1949 was made applicable to these banks with effect from March 1, 1966. Now it is hoped that in the scheme of the ongoing financial sector reforms, the UCBs will get a fair deal and a legal playing field will be provided for this segment of India's cooperative banking system.

In this context, it is heartening that Parliament passed on May 13, 2002 the Multi-State Cooperative Societies Bill, 2002, which seeks to strengthen cooperative societies and provide functional autonomy to them. Now democratic functioning of cooperatives as people's movement based on self-help and mutual aid will enable them to promote their economic and social well-being. The UCBs are well advised to adopt and implement what ever is good in this new legislation for their own advantage.

As for financial viability of UCBs, some amendments should be made in the Banking Regulation Act so that these banks are permitted to diversify their activities into areas like merchant banking, leasing finance, factoring, etc., Such activities will help the UCBs in improving their earning capacity. With no free-based business to speak of, money market returns average only 7 percent. While they can invest 5 percent of their deposits in public sector bonds, compared to the carte blanche enjoyed by commercial banks, they are not permitted to trade in equities and debentures. The Reserve Bank needs to make efforts to merge sick banks with other financially sound banks so that sickness does not grow.