Chapter - V

Financial Structure of Uttar Pradesh State Co-operative Village Development Bank Ltd.
CHAPTER – V

FINANCIAL STRUCTURE OF UTTAR PRADESH STATE COOPERATIVE VILLAGE DEVELOPMENT BANK LTD.

The discussion in the previous chapter enlightened that organisational structure of Uttar Pradesh State Cooperative Village Development Bank Ltd. is unitary in character, with branches that deal directly with the borrowing members. This bank looks after the affairs of its branches and functions not only as their guardian but also as the lender in the last resort. In this context, the present chapter analyses the sources of finance of the Uttar Pradesh State Cooperative Village Development Bank Ltd., which, in turn, provides funds to its branches for disbursement of long-term loans to farmers.

Financial Structure of U.P. State Cooperative Village Development Bank Ltd.

The Uttar Pradesh State Cooperative Village Development Bank Ltd. is not a “Bank” in the strict sense though it deals with money and is engaged in borrowing and lending operations. It is not involved in other normal banking activities. Credit operations form only a part, though an important one, of normal banking operations. Nevertheless the Uttar Pradesh State Cooperative Village Development Bank Ltd. is an important financial institution in the State’s rural credit sector for providing long-
term investment credit at reasonable rate of interest to a very large number of farmers for various development activities and projects.

Unlike other banking institutions, Uttar Pradesh State Cooperative Village Development Bank Ltd. does not raise funds through normal banking operations of raising deposits like saving accounts, current accounts, time deposits, etc. In 1972-73, it started raising deposits from public for a period to exceeding two years when the scheme or Rural Debentures was replaced by the said deposits. The Bank is dependent mainly on outside financial resources for its loaning operations.

The bank's source of finance mainly consist of the following sources.¹

I. **Borrowed Capital**
   1) Ordinary Debentures
   2) Rural Debentures
   3) Special Development Debentures

II. **Owned Fund**
   1) Share Capital
   2) Reserve Fund

III. **Fixed Deposits**

IV. **Interim Finance**

V. **Miscellaneous**
   1) Admission Fee
   2) Other Fees

¹ Based on information gathered from Annual Reports and officials of the Uttar Pradesh Shakari Gram Vikas Bank Ltd., 2001-2002, Lucknow.
3) Grants and subsidies
4) Marging of Interest

The aforesaid sources of finance are analysed below in respect of their scope, limits and importance in overall funds available with Uttar Pradesh State Cooperative Village Development bank Ltd.

**Debentures**

The main source of working capital for Uttar Pradesh State Cooperative Village Development bank Ltd. is the floatation of debentures. The salient features of the debenture issued by the U.P. State Cooperative Village Development Bank Ltd. are:

(i) It is a certificate acknowledging the debt.
(ii) It is issued under its seal.
(iii) It carries interest rate ranging from 4.5 to 9 percent and is redeemable after periods ranging from seven to fifteen years.
(iv) It is generally issued against the mortgage charge created on land when the bank advances long-term credit to the borrowers. Thus, a series of debentures is floated by the Bank, only after it has collected sufficient mortgage rights that become the effective tangible assets of the Bank.
(v) It carries a general charge on the assets of the bank and is fully guaranteed by the State Government regarding the repayment of the principal and interest.
(vi) It is treated as trustee securities under the Indian Trust Act and approved securities under the Reserve Bank of India Act, 1934.

From the above, it is revealed that the Bank is initially required to advance loan to the borrowers from its owned resources and to the extent they fall short of the requirements, it has to procure interim accommodation from co-operative or commercial banks. Thus, the bank should obtain the valid mortgage security for the amount of the proposed issue of debentures to be made to the NABARD, and the guarantee of repayment of principal amount and payment of interest should be secured from the State Government.

The U.P. State Cooperative village Development Bank Ltd. floats the following types of debentures:

(i) ordinary Debentures,
(ii) Special Development Debentures, and
(iii) Rural Debentures.

1. Ordinary Debentures

They are the most important source, as even today a large portion of the financial requirements of the Bank for lending purposes is met from this source. These debentures are secured by the first mortgage of land, the estimated value of which is not less than the amount of loans. From the interim finance availed by the Bank through overdraft, loans are initially provided to the farmers and mortgages are obtained. After a sizeable amount is collected through mortgage, the Bank sends a proposal to the Government with the request for floatation of a debenture issue for a specified
amount. The proposal also contains the terms and conditions under which the bank would like to float the series. On obtaining the approval of the Reserve Bank of India, the Government issues guarantee resolution ensuring payment of interest and repayment of the principal to the debenture holders. Because of this guarantee, the debentures are classed as trustee securities under the Indian Trust Act (1882) and also as approved securities under the Insurance Act (1938) and the Banking Companies Act (1949). The important agencies subscribing to these debentures are institutional investors like other State Cooperative land Development Banks, commercial Banks, Cooperative Banks, the State Bank of India, the life Insurance Corporation of India, the Reserve Bank of India and other financial institutions, Statuary Boards, Thrusts and provident Funds. The State and the Central Government have also been contributing to this fund liberally. Usually, the debenture programme for Uttar Pradesh State Cooperative Land Development Bank is decided by the Reserve Bank of India every year keeping in view the programme projected by the Bank and the resources available from the debentures issue to the various agencies mentioned above. The support to the debentures that would be made available by these agencies is also indicated. This ensures success of the series of debentures to the extent the programmes are approved by the Reserve Bank of India. Some of the connected issues like determining the programme, making available support to the aspects which do not require detailed analysis as they are directly concerned with the policy of the Reserves Bank of India. The rate of interest offered by the Bank on ordinary debentures is 7.3 per cent per annum for a period
of 10 years and 7.5 per cent for a period of 15 years. The borrowing programme of the Bank through ordinary debentures issue has shown a steady increase from year to year, as would be evident from the following.

For the first time, the Bank took a bold step to stand on its own feet when the scheme of the floatation of ordinary debentures was launched by the Bank during the financial year 1963-64 and the debentures amounting to Rs. 68.00 lakhs were sold. The bank continued with its policy to float ordinary debentures in the subsequent years and sold these debentures to the tune of Rs. 375.00 lakhs, Rs. 1,684.00 lakhs, Rs. 864.42 lakhs, Rs. 1,430.00 lakhs and Rs. 405.00 lakhs during the financial year 1965-66, 1970-71, 1975-76, 1980-81, 1984-85 respectively. And on 30th June, 1988, the bank was indebted to the ordinary debenture-holders to the extent of Rs. 200.00 lakhs.

Table 5.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rs. in Lakhs)</td>
</tr>
<tr>
<td>1963-64</td>
<td>68.00</td>
</tr>
<tr>
<td>1965-66</td>
<td>375.00</td>
</tr>
<tr>
<td>1970-71</td>
<td>1,684.00</td>
</tr>
<tr>
<td>1975-76</td>
<td>864.42</td>
</tr>
<tr>
<td>1980-81</td>
<td>1,430.00</td>
</tr>
<tr>
<td>1984-85</td>
<td>405.00</td>
</tr>
<tr>
<td>1987-88</td>
<td>200.00</td>
</tr>
</tbody>
</table>

*NOTE:* Thereafter debenture issue seased.

*Source:* Compiled from *Various issues of the Annual report of Uttar Pradesh Cooperative village Development Bank Ltd*
2. **Rural Debentures**

The encouragement of thrift and mobilization of rural saving are one of the foremost aims of the co-operative movement. There has been substantial increase in rural income on account of two factors: (1) rise in agricultural prices due to inflationary prevailing during the various plan period, and (2) increase in agricultural productivity due to adoption of modern techniques in the field of agriculture. This offered an opportunity to the co-operative to mobilize rural saving and build up their financial strength by increasing their internal resources. The need for the mobilization of savings from rural areas arises not only in the context of expanding rural credit, but from broader considerations, i.e., a development economy requires, as a condition of the growth, that saving of the community be increasingly promoted, institutionalized, and channelled for the purpose of development.

On the recommendations of the All India Rural Credit survey Committee, a new type of Land Development Bank Debentures, viz., rural debentures, mainly intended for rural areas, came into being. These debentures are issued for specific projects of development in which villages are keenly interested wither because the project are directly beneficial to them or they are beneficial to those whom they like most because of regional affinity or some other factors. If the purpose of debentures is to provide loans to the higher productivity through development of minor irrigation works, this may have more or less a direct appeal to the local cultivators. At the same time, the debentures related to some important much publicised major irrigation works
established in their State may have an appeal which is less direct, but not necessarily less strong. As against the debentures intended to draw saving from the money market are issued during the slack season when money is available in the market, these rural debentures are usually issued at the time of harvest and sale of crop produce when money is available with the cultivators. Moreover, regarding the choice of the period of repayment, these debentures are so designed as to suit the requirements of the rural investors.

The U.P. State Cooperative Village Development Bank Ltd. raises resources mainly through flotation of debentures which are mainly purchased by the institutional investors like Insurance Companies, Commercial and Co-operative Banks, Trusts and Charitable Institutions. The time of issue and conditions and terms of these debentures are not attractive to the large body of individuals who have small saving to invest and particularly to those who reside in rural areas.

The All India Rural Credit Survey Committee (1954) felt that there is good scope for land development banks to mobilize and collect rural saving. Hence, a special type of debentures called "Rural Debentures" were recommended by the committee, intended for rural areas. The main features of these debentures as envisaged by the committee were as under:

"These rural debentures should, as far as possible, be for specific projects of development in which the village is interested in different degrees, according as they are of direct benefit to him, or of benefit to those with whom he shares as fellowship of
interest because of their belonging to his district or region or State. Thus, if the purpose of the debentures is to provide loans to the cultivators in his own locality to prepare their lands for the highly productivity made possible by a minor irrigation work of the district, this may be of more or less direct appeal to the local cultivator, at the same time, a debenture similarly related to some important and much publicised major irrigation work established in his State may have an appeal for him which is less direct, but not necessarily less strong. Just as the debentures intended to draw savings from the money-market are issued during the slack season when money is available with the market, so should these rural debentures, as far as possible, be issued at the time of harvest and sale of crop when money is available with agricultural classes. So also, in regard to period of repayment, etc. these debentures should be so designed as to suit the requirements of the rural investor.

The above recommendation was considered by the Standing Advisory Committee on Agricultural Credit of Reserve Bank of India at its seventh meeting held in Bombay on 9th and 10th October, 1957 and suggested that the Central Land Development Banks may float rural debentures as an integral part of the schemes for mobilizing rural savings. In pursuance of the

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recommendations of the All India Rural Credit Survey Committee and Standing Advisory Committee on Agriculture Credit, the Reserve Bank of India formulated a scheme of rural debentures in November, 1957 and recommended it to the banks for implementation. The salient features of the scheme were:

1. Land Development Banks should grant loan for purposes for a period of 6 or 7 years against mortgage of land. On the strength of these mortgages they were to float a special series of rural debentures.

2. The floatation was to be timed so as to take place during the month immediately succeeding the harvest to that the money would be available with agriculturists from sale of their crops.

3. The exact time and the terms and conditions relating to the issue price, period of maturity and rate of interest were to be fixed in consultation with the Reserve Bank of India, the period debentures being as a rule, co-terminus with the period of mortgage and the rate of interest being fixed slightly than that on ordinary debentures.

4. The debentures were to be made available only to individuals (especially those in rural areas) as distinguished from institutional investors, such as banks, societies, trusts, etc. An exception was however, made subsequently in regard to subscription from village panchayats.

5. The Reserve Bank of India was to subscribe to the short fall in public subscription, subject to a maximum of two-thirds of an issue.
The progress made under this scheme was however, not very encouraging as the land development banks found it difficult to advance loans for 6 to 7 years, the demand at that time being mostly for 15 years or more. Consequently, in September, 1958, the Reserve Bank of India revised the scheme. The main features of revised scheme were as under:

1. The Central Land Development Bank might ordinary issue loans for period extending upto 15 years for which they might issue a series of rural debentures in two parts, one part for 7/15 share of total might be for 7 years and be made available to the public and other part (8/15) be for 15 years (i.e. 8 years) beyond the period fixed for the public and be offered for subscription to the Reserve Bank of India.

2. The series can be floated at any time of the year, but not be on gap for more that 4 months.

3. The rate of interest offered to the Reserve Bank was 1 Percent less than what was offered to individuals.

4. The rural debentures should open for subscription only to individuals.

The scheme continued in the same form exception for the changes made in the rate of interest from time to time.

Various incentives were offered by the bank but even then the scheme of rural debentures could not become popular. The working group of Rural Debentures set up in 1970 by the RBI under the Chairmanship of R.K. Seshari observed the failure of the scheme as follows:

"It will be seen that the Reserve Bank of India has been consistently trying to popularise the issue of
rural debentures over a period of more than a decade. The response, in spite of these efforts, has not so far been very good. Rural debentures have not proved to be attractive in the past, as the terms and conditions on which they are being issued, including in particular that rate of interest, have not been competitive. While the agricultural surpluses in several parts of the country have been substantial during the last four years, this prosperity has not been reflected to any extent in the mobilisation of resources through debentures, rural or otherwise.\(^7\)

To make rural debentures popular and tap the rural savings in 1970-71, the reserve Bank of India put on condition for making the banks eligible to the full supported programme. This condition insisted floatation of rural debentures to the extent of 5 percent of ordinary debentures programme of the banks in developed States and 2.5 percent of ordinary debentures programme of banks in weaker States.

The entire scheme in all its aspects was reviewed by the Agricultural Credit Board of the RBI at its meeting held in August 7, 1975 and made the scheme voluntary instead of mandatory. But in order to enable the banks to collect substantial amount by floatation of rural debentures for 10 years, the rate of interest at 10.24 percent thereon was kept in confirmity with the interest rates on other rural savings schemes. Under the revised scheme,

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the issue of debentures neither had guarantee from the State Government nor any contribution by the Reserve Bank of India.

After declaration the issue of rural debentures voluntary instead of mandatory, the land development banks have not made any efforts in this sphere and become dependent on the outside resources but Agricultural Credit Board of RBI was of the opinion that there is still need for the land development banks to make efforts to mobilise rural savings in order to augment their resources. This is all the more necessary now than ever before in view of the fact that the banks are expected to involve to some extent, their own disposable resources in their lending. Moreover, if additional income generated in the rural sector is not mobilised it was apprehended that a large portion of this income in this sector would either be unproductively used or hoarded. This will on the hand increase the inflow of money in the public and deprive the economy of capital for productive purposes on the other. However, the total amount of savings available in rural areas is limited and number of persons in a position to save is relatively small. It is, therefore, essential that these saving should be to the maximum possible extent to be available for co-operative development. They can take the form of shares and deposits in co-operative organisations and rural debentures/deposits in land development banks. At present, the flow of such savings particularly to the land development banks is almost nil and consequently they have to depend to considerable extent on funds from outside through co-operative banking system. Government

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8 Reserve Bank of India Circular No ACDLDB 692/Cl-75/6 dated November 5, 1975.
and Reserve Bank of India and other institutions. This is turn has been restricting their lending operations. To some extent, it may be due to competitions of National Saving Movement which has active support of the State Government machinery.

However, almost all the expert committees, viz., All India Rural Credit Review Committee (1969), The Working Group on Rural Debentures (1971) as well as the Conference of State Ministers of Co-operation held in New Delhi, in January, 1973 were in favour of continuing the scheme. The Committee of Co-operative Land Development Banks (1975) has recommended the continuation of the scheme and made following suggestions to make the scheme of rural debentures successful:

(i) The need for mobilizing rural savings can not be over emphasized especially in the context of the large resources needed by Co-operative Land Development Bank. The Central Land Development Bank should, therefore, made determined and earnest efforts to collect sizeable amounts by way of rural debentures instead of pleading for scraping of the scheme.

(ii) Instead of the present procedure for effecting reduction in the supported programme for ordinary debentures for failure to collect the required amount of rural debentures, the Reserve Bank may introduce an alternative scheme for offering certain incentives to the Bank to make necessary organisational arrangement efforts for the purpose. For instances, the Reserve Bank may allow an additional amount, by way of an incentive, towards share capital contribution in the case of Central Land Development
Banks whose performance in respect of collection of rural debentures of fixed deposits is found to be satisfactory.

(iii) The Central Land Development Bank should introduce special schemes for rural debentures for certain specific areas where ARC refinanced scheme have implemented or are under implementation. Such schemes have a fair chance of success since the banks have already established or will be establishing close contracts. With a large number of individual cultivators in these areas, cultivators may be encouraged to subscribe towards rural debentures along with the instalments towards repayment of the long loans borrowed by them. In addition, the amounts raised through a special scheme of rural debenture, if sizeable, could be earmarked by the Central Land Development Bank for investment in agriculture by cultivators in the same area as this will give a sense of involvement to the investors in the development of the area and thus make the scheme of rural debentures popular.

(iv) The Reserve Bank may consider revising the permissible rate of interest on rural debentures in the light of the recent increase in interest rates. Similarly, the interest to be allowed by Land Development Banks on fixed deposits may be revised suitably by the Reserve Bank so as to enable the banks to offer attractive rates which compare favorably with those offered by the State Co-operative Banks, Central Co-operative Banks, Central Co-operative
Banks and Commercial Banks, and are fact, higher than those offered by these institutions.

(v) The Reserve Bank may reconsider its views in respect of the reference received from the National Co-operative Land Development Banks Federation for introducing the scheme for awarding prizes to debentures holders. The prizes to be awarded in the case of rural debentures may be in the form of useful agricultural machinery and implements in case the winner prefers these to cash prizes.

(vi) Central Land Development Banks should collect fixed deposits only from rural areas and only in that case should such deposits be reckoned while assessing achievements on accounts of the targets for rural debentures.

(vii) While individual incentives of the staff of the banks in the form of commission for collection of contributions towards rural debentures may not be offered, the performance of the staff in the matter of issuing rural debentures or collecting fixed deposits should be given due weightage in deciding upon their promotions either in the normal course or otherwise or in the matter like giving advance increments.

(viii) Each Central Land Development Bank should have at least one development officer whose main function will be to organize efforts for mobilizing rural savings by flotation of rural debentures/certificates or by collecting fixed deposits. The person to be appointed as
development officer should have some background and experience in the line. He should prepare special schemes for debentures/certificates for specific areas and also organize publicity required for collecting fixed deposits.

(ix) The state Governments and Bank may formulate suitable schemes providing for the sale of rural debentures through village official and payment of commission to them on the lines of the scheme for small savings suggested by the Reserve Bank in its circular to the banks issued on 29th January, 1964.

(x) The publicity that is being undertaken at present by banks regarding sale of rural debentures and collection of fixed deposits is inadequate. The National Co-operative Land Development Bank Federation could play a useful role making arrangements with the All India Radio for suitable announcements in Regional Languages under the rural or commercial board casting programmes. If the federation is required to make payment for these announcements, it may approach the Government of India for providing grants to it for the purpose. 9

The above measures suggested by committee on co-operative land development banks are very attractive for tapping the rural savings. Therefore, it is suggested that rural savings scheme should be continued and the scheme may be revised on the basis of

recommendations of the said committee along with the following additional points:

(1) Mobilisation of rural savings should be in the form of Farmer’s Savings Certificates and fixed Deposits instead of Rural Debentures. Since the debentures are issued on particular date which may not be suitable to the farmers, the proposed issue of certificates/deposits shall be a continuous process so that farmers may be encouraged to invest whenever they have savings.

(2) In order to enable the banks to collect substantial amount through deposits/certificates, the interest rate thereon should be in conformity with the interest on other rural savings and national saving certificates respectively.

(3) The currency of Farmer’s Savings Certificates should be 7 years and 10 years for public and RBI respectively and fixed deposits should be for 1 to 5 years.

(4) The RBI should provide long-term funds upto 15 years, to the extent the amount collected through farmer certificates from the public at a fairly low rate of interest. This together with the contribution from the RBI will be utilised for the long-term productive loans to agriculturists, at a relatively low rate of interest.

(5) Farmers savings certificate should be treated on par with national savings certificates for various purposes.

(6) Field Officers should be posted at least at the Block Level who will be given the charge of supervision and follow up of the bank loans, as well as, work of mobilisation of rural savings.
The Reserve Bank of India accordingly formulated a scheme of rural debentures in 1957, the main object being mobilisation of rural savings. Since then, scheme has undergone several changes. However, the concept has remained almost the same i.e., tapping rural savings to supplement the resources of the State Cooperative Land Development Banks. Under this scheme, the Land Development Banks used to extend loans for the period upto 15 years and on the Strength of these mortgages, issued rural debenture series divided in two parts, one for 7/15th, of the total amount made available for subscription by individuals, and the other part 8/15 of the amount subscribed entirely by the Reserve Bank of India.

While recognising the importance of rural debentures in mobilising the savings and need for collection of a specified amount in relation to debenture programme of the Bank as stipulated by the Reserve Bank of India, the difficulties experienced by the Bank, which paved the way for its failure, deserve mention here. From the viewpoint of investment, rural debentures did not find much favour for several reasons. This happened because of the imposition of various rigid terms and unattractive yield in spite of the fact these debentures were guaranteed by the Government and were, thus approved trustee securities. An interest of 6.25 per cent offered for 7 years' duration was found to be very unattractive as compared to the then existing interest rates on the deposits with the commercial banks and cooperative banks and some small-scale schemes of the Government. The investment lacked liquidity, as they were redeemable only after 7 years. Investment in rural debentures
meant locking of founds for 7 years, denying its availability till period of maturity. Though they were transferable, yet it was hard to find a buyer in actual practice. Although the Bank could repurchase it for its sinking fund requirements, it had no interest to go in for such repurchases firstly because it was uneconomical and secondly because the Bank had to repurchase the holding of the Reserve Bank of India in the same proportion. Owing to these reasons, it was found difficult to convince the investors to subscribe to these debentures. Besides, the Reserve Bank of India had imposed certain other restrictions on collection from individual who were loanees or prospective loaness or close relative of the loanees. They were not allowed to subscribe within a period of one year from the date of loan advancement. The procedure prescribed by the Bank for compulsory investments of certain amounts in rural debentures required to be made by the loanees who benefited from the Bank’s earlier loans and who were interested in the second and subsequent loans, had also been disallowed by the Reserve Bank of India. Relaxation in both the terms and conditions of the rural debentures and the restrictive policy were not approved by the Reserve Bank of India inspite of the representation made by the State Cooperative Land Development Banks and the National Cooperative Land Development Bank’s Federation, Bombay. Consequently, the Uttar Pradesh State Cooperative Land Development Bank dropped the scheme of rural debentures in 1972-73.
Table 5.2

**Floatation of Rural Debentures by the Bank**

(Rs in Lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965-66</td>
<td>4 00</td>
</tr>
<tr>
<td>1967-68</td>
<td>20 00</td>
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<tr>
<td>1968-69</td>
<td>75 00</td>
</tr>
<tr>
<td>1970-71</td>
<td>41 85</td>
</tr>
<tr>
<td>1971-72</td>
<td>198 19</td>
</tr>
<tr>
<td>1972-73</td>
<td>30 00</td>
</tr>
<tr>
<td>30th January, 1982</td>
<td>36 00</td>
</tr>
</tbody>
</table>

(Outstanding)

*Source* Various issues of the Annual Report of U P Village cooperative Development Bank Ltd

The above table shows that when the Bank started selling the rural debentures during the financial year of 1965-66 it sold debentures worth Rs 4 00 lakhs.

The Bank continued its policy of selling these debentures in subsequent years and on 30th June, 1982, the Bank had Rs 36 00 Lakhs worth of outstanding rural debentures.

After dropping the scheme of issuing Rural Debentures in the years 1972-73, the Uttar Pradesh State cooperative Village Development Bank Ltd had decided to issue only one type of Debenture, i.e., “Special Development Debentures” The Debentures issued by the Bank since its inception to the end of March 2002 are show in the Table 5.3
**TABLE - 5.3**

Growth of Debentures issued by Uttar Pradesh State Cooperative Village Development Bank Ltd.

(1960-61 to 2001-2002)

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Debenture issued in the year</th>
<th>Percentage increase as compared to previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1965-66</td>
<td>3.83</td>
<td>100.00</td>
</tr>
<tr>
<td>1970-71</td>
<td>19.22</td>
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<td>1975-76</td>
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<td>1980-81</td>
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<td>1985-86</td>
<td>40.44</td>
<td>-17.62</td>
</tr>
<tr>
<td>1990-91</td>
<td>141.29</td>
<td>249.38</td>
</tr>
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<td>1991-92</td>
<td>149.99</td>
<td>6.16</td>
</tr>
<tr>
<td>1992-93</td>
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<td>2000-01</td>
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</tr>
<tr>
<td>2001-02</td>
<td>729.22</td>
<td>32.59</td>
</tr>
</tbody>
</table>

*Source:* Progress at a glance, 36th Annual Report, U P Shalan Gram Vikas Bank Ltd, Lucknow
Special Development Debenture

Since the establishment of the Agricultural Refinance and Development Corporation (now merged with the National Bank for Agriculture and Rural Development) in 1963, the Land Development Bank have been provided with another source for obtaining refinance from the said Corporation for certain special schemes of agricultural development. Such scheme are required to be approved by Agriculture Refinance and Development Corporation to become eligible for refinancing facility. A special development debentures series is issued on collection of sizeable mortgages by advancing loans in the scheme areas as per term of the special scheme. The State Government is required to subscribe to the extent of 25 per cent of the debentures floated under the special schemes while the remaining 75 per cent are made available by the National Bank for Agriculture and Rural Development (NABARD). However, in case of schemes for development of minor irrigation, Government liability was to subscribe only 10 per cent of the debentures, the rest 90 per cent was to flow from the NABARD. While refinancing facility made available to the beginning was uniform at 6 per cent, the rate now governing the debentures is at 6.5 per cent for 9 years period and 7.5 per cent for 15 year period. After the establishment of the Agriculture governing the debentures is at 6.5 per cent for 9 years period and 7.5 per cent for 15 period. After the establishment of the Agriculture Refinance and Development Corporation, the Uttar Pradesh State Cooperative Village Development Bank Ltd. formulated various special development schemes involving large
funds raised by availment of refinance through the special development debentures which were an important source supplementing the finances of the Bank.

One of the recommendation of the All India Rural Credit Survey Committee was to shift the emphasis in the loan policies of the land development banks in favour of loans for proposes instead of loan for the repayment of old debt. The committee felt that there was need for the loan development banks to provide loans for productive purposes under special project of agricultural development or land improvement such as construction of major and medium irrigation prospects, and also scope development of plantation and horticulture crops.

In order to meet the credit need for such special development scheme the survey committee recommended the issue of “special development debentures”. Since then such debentures are being issued by the Bank to the extent of loans advanced to it by NABARD. Such advances are given for financing specific schemes of agricultural development only after a through technical-cum-financial scrutiny of the project, and approval by the NABARD. They are subscribed by the NABARD and the State Government. The levels of refinance available from ARDC/NABARD since 1st September, 1981 are as under.

Purpose | Rate of ARDC/NABARD Refinance
---|---
(1) (i) Minor Irrigation | 95%
(ii) Special Schemes for diversified purposes under capital subsidy scheme for identified small farmers. | 95%
(2) Diversified Purposes (other than Farm Mechanisation) | 
(i) Small Farmers (other than under special scheme referred above) | 90%
(ii) Other Farmers | 85%
(3) Farm Mechanisation | 75%

The involvement of the State Government is kept with a view to ensuring technical help from it in the implementation of the development project.

Floatation of debentures has been the main and only source of raising loanable funds for the land development banks. Conventionally these banks heavily relied on floatation of ordinary debentures. Later on, however with the establishment of Agriculture Refinance and Development Corporation and subsequently inflow of funds on large scale from International Finance Institutions like World Bank and International Development Association, special debentures assumed importance. Even if the objective of either of the debentures is same, there are the following basic differences in to sources of loanable funds available to land development bank:

(1) **Repayment or Redemption Period**: The Period for issue of ordinary debentures is normally 10 and 15 years while the
duration of loan is from 7 to 10 years. As against this, the period for issued of special debentures correlated to the period of loan sanctioned to the borrowers till 1978-79. Since certain problems were face in the this arrangement with individual borrowers, the present practice followed is to issue special debentures for a period which is longer by two years than that of repayment period.

(2) **Rate of Interest:** At present, the Bank raises its loanable funds through ordinary debentures at the interest rate of 8 percent per annum. For special debentures it is @8.5 percent. On the other hand the Bank charges the interest @ 12 percent per annum on advances for all purposes and advances to minor irrigation, and land development purposes. This shows that the interest earned from lending under ordinary debentures is slightly higher than that of special debentures.

(3) **Repayment or redemption terms:** In case of ordinary debentures the interest is be paid half yearly and principal to be paid on maturity of debentures while the special debentures are redeemed annually on a pro-rate basis and interest to be paid annually on the outstanding debentures.

(4) **Subscribers:** The investment in ordinary debenture is made by the life Insurance Corporation. State Bank of India, Reserve Bank of India, Central and State Government, Commercial Banks, Co-operative Institutions and sister Land Development Banks while the special debentures subscribed only by the State Government and NABARD.
(5) **Purposes of Advances:** Under the ordinary debentures the banks are entitled to advance loans only for land development investment in minor irrigation schemes, purchase of rights in land and only such other purposes while are basically land based. The non-land based activities which are subsidiary to agriculture such as dairy, poultry, sericulture etc. are not covered under ordinary debentures programme. The loan under special debentures, however, include both land based as well as non-land based activities.

(6) **Investment in Sinking Fund:** Recoveries made under ordinary debenture scheme are to invested in sinking fund and such a provision does not exist in the case of special debentures as the loan period and debenture period are co-terminus and the repayment of special debentures is to be made in equal yearly instalments.

**Types of Special Debentures**

The special development debentures are classified according to the special development projects undertaken by the Bank as follows:5

(i) **Debentures Under ARDC Old Projects:** These type of debentures were issued under the old schemes of Agriculture Refinance and Development Corporation. The term of floatation of such debentures concids to the periods of the loan distributed it its members. The principal amount is to be redeemed on the expiry of the

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5. By the courtesy of Assistant Director, U.P. Co-opreative Land Development Bank Ltd., Srinagar.
period and interest to be paid half yearly due on 1st March and 1st September, of each year.

(ii) **Debentures Under IDA Projects:** These debentures were floated to the extent of the amount distributed in the area of IDA projects for the period of 7 to 15 years (i.e., the period for loan distributed to the borrowers) in different sets. Interest are to be paid yearly on 1st April each year. The principal amount are to may and be paid on each year in annual instalments calculated on the basis of the repayment schedules.

(iii) **Debentures Under ARDC Credit Projects:** These debentures are issued to the extent of loan distributed in the area where schemes are implemented for a period of 7 to 15 years corresponding to the period of loan distributed to the members. The interest is paid half yearly on 1st September and 1st March of each years and principal amount is paid yearly. The amount of annual instalment fixed according to the repayment schedules.

The permission for issue of special development debentures are granted by NABARD instead of the Reserve Bank of India. The permission for issue of debentures granted on the basis of the fiscal and financial targets of different project areas. If any branch has distributed loans exceeding the limit fixed under the provisions of Regulation of Advances, no permission for the floatation of debentures for the excess amount is granted to the Branch. The excess amount of loan distributed by the Branch has to be met out of it own resources.
Redemption of Debentures – Maintenance of Sinking Fund

The U.P. State Cooperative Village Development Bank Ltd. raise large amount of loanable fund from debentures. The mode of repayment of ordinary debentures, rural debentures and special debentures (old ARD scheme) are fixed on maturity. The special debentures (except old project), which are mainly subscribed by ARDC are redeemed on the basis of equated annual instalment system. For the purpose of repayment of former debentures, a special sinking fund system is being followed and the later the annual payments are made.

Sinking Fund is a device which has been created to redeem the debentures after their maturity. Under sinking fund, the banks are required to contribute to these funds annually, such sum out of loan recoveries as together with interest, would be sufficient to amortise the amount of debentures fully on maturity. The importance of maintaining sinking funds for amortisation of debentures was stressed by the Reserve Bank of India in 1936 in a circular on the Financing of Land Mortgage Bank of India. It was observed that “the creation of a sinking fund is in fact a guarantee of those who invest in the debentures and will have sufficient funds to meet its liability when debentures fall due for repayment. Land Mortgage Bank by maintaining regular sinking fund for the redemption of debentures will increase the popularity of their debentures with genuine investors and should eventually be able to find a market for them without the guarantee of the Government.”

The main object of the constitution of sinking fund advised by the Reserve Bank of India was to create a sense of security in the mind of the investors about the bank’s ability to honour the
claims of the debenture holders as the sinking fund provides an additional guarantee to the investors in addition to the State Government guarantee for the repayment of principal interest. The Government who is the guarantor of the debentures will also be satisfied with this scientific arrangement.

In the earlier years, the bank had to constitute a sinking fund separately for each series of debentures floated on the advice of the Reserve Bank of India and this was discontinued following the recommendations of Conference of Land Mortgage Banks convened by the Reserve Bank of India in September, 1960 that there need not to be separate sinking funds for the different series and that the banks might have a common sinking fund for all the series to be used by them for the redemption of any maturity series. The above recommendation was later endorsed by the Standing Advisory Committee and accepted by the Reserve Bank of India. Thus, at present the land development banks are required under their bye-laws to constitute a common sinking fund to redeem the debentures on maturity for all series of debentures in the floatation.

The different methods are followed with regards to contribution to the sinking fund, viz., 'Equated Instalment System' and 'Fixed Instalment System'. In the equated instalment system, the banks are required to pay into the sinking fund and equated contribution together with compound interest sufficient to redeem the debentures at the end of the period for which debentures are issued. In the fixed instalment system, the banks are required to contribute into the sinking fund, a sum equal to the amount of the series. Divided by the number of years, for which the series has
been issued. The former method scientific and later method is simple. Any how, the basis of both sinking funds and objectives are the same.

Investment of Sinking Fund

The amount of sinking fund has to be invested outside the business of the bank. It, therefore, becomes necessary for the bank to invest the amount in a manner, which would satisfy three important tests, viz., safety, profitability and liquidity. The investment have to be safe because any deterioration in the value will eventually affect the ability of the banks to meet their commitments to the debenture holders in such a manner that there is optimum yield. Liquidity is important from the point of redeeming the debentures on time.

The amount credited to the sinking fund can be invested at present in the following pattern as prescribed by the Reserve Bank of India:

(i) Not less than 20 percent in Government and other trustee securities including bonds issued by the Agriculture Refinance Development Corporation of which not less than 10 percent should be in Government securities. Within this permissible limit the bank can invest in units issued by the Unit Trust of India not exceeding 5 percent of the total investment in sinking fund at any point of time;

(ii) Upto 40 percent in fixed deposits with the State Cooperative Banks under certain conditions, with Commercial Banks, Central Cooperative Banks under classification of A & B can also be made eligible for this
deposit as they help LDBs in subscribing their debentures; and

(iii) The balance of 40 percent in their own debentures or those of the Sister Land Development Banks. But the banks need to keep investment in their own debentures to the minimum as this takes away the very basis of the scheme of mutual support.

The pattern of investment was examined by the study group appointed by the committee on LDBs and the following recommendations were made:

"While considering any changes in the present of investment of sinking fund, it is necessary to ensure that the investment not only conform to the three cardinal principles of liquidity, safety and profitability, but also that the funds are retained as far as possible with the cooperative sector in view of the large resources needed by this sector."

Thus the investment of sinking fund of the bank fully satisfied the above recommendation, i.e., the investment assures the liquidity, safety and profitability as about above 90 percent investment of sinking fund within the cooperative sector.

II - Owned Capital

A strong position of owned funds is desired for the reason that it is available free of cost to the Bank and can be profitably invested in lending or it can be a substitute for interim accommodation obtained from the State Bank of India. It is also desirable because it enables the Bank to absorb overdues that are
likely to arise during the course of its lending operations. It may, however, be necessary to examine as to what constitute owned funds of the Bank. They consist of Share Capital, Statutory Resource funds and other funds. The growth of owned capital of the Bank has been presented in table 5.4 for the period from 1960-61 to 2001-2002.

The Table shows that the Bank started its operation in 1960-61 with Rs. 0.16 crore as its owned Capital. The Owned Capital of the Bank was Rs. 0.95 Crore in 1965-66, Rs. 6.80 Crore in 1970-71 and Rs. 10.50 Crore in the financial year 1975-76. The Bank recorded an increase of 493.75 percent, 615.79 percent and 186.76 percent in their respective Preceding years. The Bank on its increasing trend in owned Capital each year, but its percentage increase as campers to the proceeding year was not can start as it is exigent from the table that in the year 1980-81 its owned capital was Rs. 44.66 crore which is 129.03 percent more than preceding year but the progress in percentage come down in the next year, i.e., in the financial year 1985-86 it was only to percentage increase and owned capital was Rs. 76.27 crors. Like wise the Owned Capital amounted to Rs. 106.53 crors in 1990-91, Rs 115.80 in 1991-92 and Rs. 183.05 crore in the year 1995-96. The percentage increase as compose to the preceding year were recorded as 39.67 percent, 8.70 percent and 17.05 percent which was ups and down trend. Keeping it progressive tracking owned Capital, the Bank was having Rs. 202.50 crore in 1996-97, Rs. 209.29 crore in 1997-98 and 2276.24 crore in 1998-99 and it reached to Rs. 246.77 crore in 99-2000, Rs. 283-99 crore in 200-01 and at the end of March 2002 it was Rs. 309.45 crore. The percentage increase as compose
<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Percentage increase/Decrease Over Preceeding Year</th>
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</thead>
<tbody>
<tr>
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<td>0.16</td>
<td></td>
</tr>
<tr>
<td>1965-66</td>
<td>0.95</td>
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<td>615.79</td>
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<td>1975-76</td>
<td>19.50</td>
<td>186.76</td>
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<td>1980-81</td>
<td>44.66</td>
<td>129.03</td>
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<td>1985-86</td>
<td>76.27</td>
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<td>2000-01</td>
<td>283.99</td>
<td>15.08</td>
</tr>
<tr>
<td>2001-02</td>
<td>309.45</td>
<td>8.97</td>
</tr>
</tbody>
</table>

to preceding years was 10.66 percent in 1996-97 which fall to 3.31 percent in 1997-98 and again it recorded an increase and reached to 8.59 percent in 1998-99, 1999-2000 and 15.08 percent in 2000-2001. At the end of 2001-2002 it achieved 8.97 percent increase.

From the analysis of the Table 5.4 we can conclude that the Bank has recorded an increase in its owned Capital each year. But its percentage increase as compared to preceding year was not constant, it was having up and down trend.

**Share Capital**

Share Capital is the primary and the basic source of funds. The share capital, besides, being a source of financial strength to a banking institution, are of special significance to the land mortgage banks as they serve the needs of interim finance required by them. The Uttar Pradesh State Cooperative Village Development Bank Ltd. issues two types of shares, viz., Type A-Share of State Government and Type B-share of borrowing members. Under the bank's policy, to enroll as a member, one has to purchase a share of Rs. 10.00 and to pay Rs. 1.00 as entrance fee. The Uttar Pradesh State Cooperative Village Development Bank Ltd. collects its share capital from the borrowers at the rate of 5 percent of loan advance in multiples of Rs. 20.00. Every borrower is required to purchase at least one share of Rs. 10.00 at the time of the submission of loan application to become the member of the Bank. The rest of the 5 percent is generally collected by a deduction from the borrowed amount at the time of advance.
The State Government also makes a contribution to the share capital. The amount of contribution to the share capital of U.P. State Cooperative Village Development Bank Ltd. is decided by the State Government from time to time on the basis of the economic position of the Bank. In order to ensure adequate share capital contribution, the all India Rural Credit Survey Committee (1954) had recommended that the proportion of share capital to be contributed by state Government, subject to minimum of 51 percent, might have to be of a much large proportion than in the case of apex banks or central banks. The committee felt that the size of the Government contribution to share capital should ordinarily be such as to help establish, irrespective of the proportion of private share capital forthcoming, an adequate number of central land mortgage banks whose financial structure enables them to borrow adequately and lend adequately. The above recommendation was made in view of the huge requirement of funds for the accelerating agricultural development under the Five Year Plans.

Again, the All India Rural Credit Review Committee (1969) recommended a modification on State contribution of share capital of Central land Development Banks (CLDB). The Committee viewed that “we do not attach special significance to the mere proportion of State contribution to total share capital but do consider that it should be substantial in the case of young institutions as well as those which contemplate a steep increase in these operations. It is a welcome feature that the relatively weak

CLDBs have generally received substantially contribution from the Government. It may well be that in some other case too, there is need for larger participation by State Government than it obtains at present. It is suggested that instances of this type may be examined since increased contribution may be called for by factor such as sizable expansion of loan operations or relatively slow growth of member's share capital.²

The National Agricultural Credit (long-term operations) Fund has been utilized for granting long-term loans to the State Government at concessional rate of interest to enable them to contribute to the share capital of co-operative institutions. The Uttar Pradesh State Cooperative Village Development Bank Ltd. has collected its share capital of worth Rs. 167.69 crore by the end of March 31, 2002. The share capital of the Bank comprises shares held by state Government and shares held by individual members of the Bank. The growth of share capital of Uttar Pradesh State Cooperative Village Development Bank Ltd. has been shown in Table 5.5

The table 5.5 reveals that the share capital of the Bank has continued to improve right from the beginning. During the financial year 1960-61 the Bank had Rs. 0.15 crores worth of share capital which went up to Rs. 6.10 crores during the year 1970-71 which was 593.18 percent increase to its preceding year. The progress in share capital of the Bank was registered during 1985-86 and 1990-91 when it has Rs. 35.21 crores and 53.27 crores as its share capital. The percentage increase in share capital in the

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² Reserve Bank of India: All India Rural Credit Committee Report, 1969, p. 768.
<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Percentage increase/Decrease Over Preceding Year</th>
</tr>
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<tr>
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<tr>
<td>1997-98</td>
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<td>1998-99</td>
<td>107.58</td>
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<tr>
<td>99-2000</td>
<td>127.11</td>
<td>18.15</td>
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<tr>
<td>2000-01</td>
<td>150.65</td>
<td>18.52</td>
</tr>
<tr>
<td>2001-02</td>
<td>167.69</td>
<td>11.31</td>
</tr>
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</table>

Source: Progress at glance, 36th Annual Report, U P Shakan Gram Vikas Bank Ltd, Lucknow
same period as compared to the preceding year was 24.77 percent and 51.29 percent respectively. The amount went up to Rs. 68.25 crores in 1993-94 and Rs. 82.51 crores in the year 1995-96. The reason for this increase in the share capital of the Bank was the fresh regulatory provision imposed by Reserve Bank of India.3

Keeping its progressive trend, the share capital of the Bank went up to Rs. 92.21 crore in 1996-97, Rs 107.58 crore in 1998-99 and Rs. 150.63 crores in 2000-2001. The percentage increase in the share capital of the Bank in the year was 11.75 percent, 20.64 percent and 18.52 percent as compared to preceding year. At the end of March 2002 the share capital of the Bank was Rs. 167.69 crores which was 11.31 percent more than the prurient year.

The percentage increase in the share capital of the Bank between 1991-92 to 1996-97 was between 8 percent to 11 percent, but it came down to 2.81 percent in 1997-98 due to adverse political condition. After wards the increase in share capital of the Bank was between 11 percent to 20 percent which can be said a satisfaction growth.

**Working Capital**

The Working Capital of the Uttar Pradesh State Cooperative Village Development Bank Ltd. consists of debentures, share capital, cash credit and overdraft. The Table 5.6 shows the growth of working capital of the Bank.

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### TABLE - 5.6
GROWTH OF WORKING CAPITAL OF UTTAR PRADESH STATE COOPERATIVE VILLAGE DEVELOPMENT BANK LTD.  
(1960-61 TO 2001-2002)  
(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Share Capital</th>
<th>Working Capital</th>
<th>Woned Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>0.15</td>
<td>0.16</td>
<td>0.16</td>
</tr>
<tr>
<td>1965-66</td>
<td>0.88</td>
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<td>57.78</td>
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<td>115.80</td>
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<td>1992-93</td>
<td>61.82</td>
<td>879.32</td>
<td>120.40</td>
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<td>68.25</td>
<td>977.94</td>
<td>128.07</td>
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<td>1994-95</td>
<td>74.07</td>
<td>1129.15</td>
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<td>82.51</td>
<td>1287.82</td>
<td>183.05</td>
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<td>92.21</td>
<td>1465.56</td>
<td>202.55</td>
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<td>1997-98</td>
<td>89.62</td>
<td>1673.93</td>
<td>209.26</td>
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<td>99-2000</td>
<td>127.11</td>
<td>2191.50</td>
<td>246.77</td>
</tr>
<tr>
<td>2000-01</td>
<td>150.65</td>
<td>2528.58</td>
<td>283.99</td>
</tr>
<tr>
<td>2001-02</td>
<td>167.69</td>
<td>2983.96</td>
<td>309.45</td>
</tr>
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</table>

In table 5.6 an attempt have been made to analyse the trend and growth of working capital of Uttar Pradesh State Cooperative Village Development Bank since 1960-61 to 2001-2002. In the financial year 1960-61, the working capital of the Bank was Rs. 0.167 Crore. Which increased to Rs. 9.15 crore in 1965-66 recording an exceptional increase of 5618.75 percent. This is because the Bank has started its working in 1960 and over the past 5 years it had to build up a strong financial base to meet out the growing demand of cultivators for long term loans. This was also the period of 3rd five year plan where in emphasis was laid down on the development of agriculture. The state of Uttar Pradesh being an agriculture oriented State, it had to look after the welfare of its peasantry and thereby provide a basis for the development of State as a whole.

The increasing trend of the Bank continued till 1980-81, when the working capital amounted to Rs. 361.85 crore recorded 59.51 percent increase over 1975-76. Thereafter the progress was having ups and downtrend till the end of 1992-93.

After 92-93 the Bank maintained it progressive trend continuously. It was between 11 Percent to 18 percent.

The Bank was having Rs. 2528.58 crore as its working capital at the end of the financial year 2000-2001 which was 15.38 percent more than the preceding year.

The working capital reached to Rs. 2983.96 crore at the end of March, 2002, which is 18.01 percent in increase as, compare to the last financial year 2000-2001.
Reserve Fund

The other important constituent of owned funds is the reserve fund of the Bank. Under the provision of the bye-laws of the Bank, at least 25 percent of the profit has to be diverted to reserve fund of the Bank every year. This fund belongs to the Bank and is intended to meet the unforeseen losses. The fund may be invested in Government or trustee securities or in the business of the Bank in such proportion as may be decided by its Board of Directors with the permission of the Registrar, Co-operative Societies, as per provision of the bye-laws. Normally, the owned funds of the Bank are utilised in its business mainly for collection of mortgage on the strength of which debentures are floated. If the owned funds are looked in any other form, i.e., general investment or in meeting sinking funds commitments, the Bank may have to avail itself of interim accommodation to a considerable extent at high rate of interest ranging from 9.00 to 9.25 percent at present.

Interim Finance

Interim Finance is important source of finance of the Bank. Debentures, which are the main source of funds of the land development bank, are floated on the security of mortgage. Executed mortgages, without payment of consideration do not form part of a valid security. It is necessary to convert executed mortgage into paid or effective mortgages so that they may become valid security for debenture floatation. It is essential for the Bank to make interim financial arrangements to bridge the time gap between the period of execution of mortgage deeds and
floatation of debentures. This arrangement of providing financial accommodation is called 'Interim Finance'.

The interim finance is provided in the form of cash credit and overdrafts by following institutions:

(a) State/District Co-operative Banks
(b) State Government
(c) State Bank of India and its subsidiaries, and
(d) Commercial Banks

In Uttar Pradesh, the Uttar Pradesh State Co-operative Bank/District Co-operative Banks and State Bank of India are providing the maximum amount of interim finance to the Bank in the form of cash credit and overdrafts respectively. The State Government have to stand as running surety for the payment of principal amount together with interest on the amount of interim finance.

The Bank has to pay higher rates of interest on cash credit and overdraft. It paid interest @ 10.5 per cent to the State Co-operative Bank. It will be beneficial for the Bank to enhance its internal resources and reduce its dependence on such external resources.

Uttar Pradesh State Co-operative Village Development Bank Ltd. found that there was good scope for attracting fixed deposits and they can be used as interim finance for which they pay high rate of interest. They, therefore, approached the Reserve Bank of India in 1969 for permission to accept fixed deposits. In June 1971, the Reserve Bank of India approved the scheme of collecting deposits by land development banks in view of their inability to tap rural savings by floatation of rural debentures from individuals.
only (except borrowers or their reductions within a period of year from disbursement of the loan or before such disbursement) for a period exceeding one year but up to two years at 8 per cent interest. The Bank also required to keep at least 10 per cent of total deposits accepted and outstanding on any day in liquid form either by way of (i) cash with itself, (ii) current deposit account with the State Co-operative Bank, and (iii) unencumbered securities of State or Central Government.

Deposits do not play any significant role as a source of finance of Uttar Pradesh State Cooperative Village Development Bank Ltd. The mortgage banking is entirely different from the deposit banking. The Bank generally does not deal in short-term deposits.

Although, the sources of financial arrangement (mostly borrowed) already discussed were found to provide adequate funds to the Bank for financing its lending operation, the dependence on borrowed funds is not a good indication for any progressive institution. Thus, the Uttar Pradesh State Cooperative Village Development Bank Ltd. should consider proposed scheme for tapping the rural savings. It will also fulfil requirements set by the Reserve Bank of India Act.

Management of Funds

The Uttar Pradesh Cooperative Village Development Bank Ltd. came into existence for extending the facilities of long-term credit to the farmers of their respective places. As already observed in this chapter, the owned funds of the Uttar Pradesh Cooperative Village Development Bank Ltd. form a faction of the
loaning operation. The bulk of resources, are, therefore, raised by the Bank by way of borrowing in the form of floatation of debentures. The Bank can float debentures only after advancement of loans, which form a cover for such floatation. As the Banks owned resources are meagre, they raise resources for their initial loaning by way of borrowing for a short period as an interim accommodation from the State Co-operative Bank/ NABARD. The proceeds of the floatation of debentures are expected to be mainly utilised to liquidate the short-term borrowings under interim accommodation, which is comparatively costly. The debentures are redeemed on the basis of repayment schedule out of the amount of recovery made from borrowers and sinking -fund maintained for this purpose.

Uttar Pradesh Cooperative Village Development Bank Ltd. on its part provides loans to the farmers through its branches which are located at the District/ Tehsil/ Block levels. Branches of the Bank can issue loans either from their owned funds and or from funds provided by the NABARD. Similarly they have to remit the amount received by them on account of recoveries from borrowers. This process continues throughout the year at the Apex and Base level.

From the pattern of working of Uttar Pradesh State Cooperative Village Development Bank Ltd. and its branches, it appears that there is very little scope for accumulation of idle funds at any level. Moreover, the Reserve Bank of India has been issuing instructions from time to time on this subject to help the Bank in the proper management of funds. The important instructions are as under:
(1) Utilization of owned funds and recoveries effected by State Land Development Bank for issue of fresh loans instead or drawing on interim accommodation for the purpose and using interim accommodation at the time of making appropriations towards sinking funds to the extent the recoveries have been diverted for loaning.

(2) Proper planning of the debentures floatation to avoid unprofitable development of resources.

(3) Contribution to the sinking fund at proper rimming to ensure optimum utilization of their resources.

(4) Introduction of a system of reimbursement by State Land Development Bank for funds to be provided to Branches of SLDBs by making use of temporary, Cash credit facilities from commercial or co-operative banks.

(5) Evaluation of appropriate procedures where by the recoveries affected by the branches of the Bank are passed on quickly to the SLDBs so that wastage of resource is avoided at any level.

However, in practice, accumulation of idle funds is found to be taking place both at the level of apex and level of branches resulting in the loss of interest to the Bank.

The Committee on Co-operative Land Development Banks has identified the causes of idle funds which are indicated below:

(i) In the case of Central Land Development Banks, the problem of idle funds arises due to drawls on interim

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accommodation coupled with floatation of debentures at a period when the banks have either received considerable amount of recoveries or the recoveries are to be received shortly after the debenture floatation. It may also arise in case interim finance has been utilised for initial loaning although the bank has adequate owned funds for the purpose or when debentures proceeds have not been to repay outstanding under the interim accommodation. In the case of banks which do not have adequate funds and have to depend on interim accommodation for initial operations, the problem of idle fund can arise if they do not use part of the recoveries in excess of the requirements of sinking fund for fresh loaning as also when they do not follow a systematic procedure for making contribution towards the sinking fund.

(ii) In case of Primary Banks, the problem of idle funds arises mainly because they do not utilised the amount from the Central Land Development Bank. Promptly in issuing loans or they do not pass on the recoveries to the latter regularly. The primary banks are found to be doing this because of the apprehension that the Central Land Development Bank may not provide them with funds promptly resulting in delay in disbursement of loans at their end. The building up of idle funds also arises when there is considerable delay on the part of primary banks in disbursing second or subsequent instalments of loans which may be either due to non-receipt of utilization certificates in respect of the earlier instalments or
because borrowers do not approach the Bank for drawing the amount. In general, the problem of idle funds arises because of lack of proper understanding in regard to the period when banks need funds for disbursement and the period when they receive recoveries from cultivators.

Apart from the reason given above, the problem of idle funds in Central Land Development Bank can also arise because of unsystematic management of funds and lack of proper prospective in regard to the availability of resources from time to time. For example, in the case of one Bank it was observed that even when it had adequate owned funds, it was utilized interim accommodation for giving loans to cultivators. The Bank was also not following the system of clearing the outstandings in respect of interim accommodation after each debenture floatation. At times, the Bank was found to be having large amounts in call deposits with commercial banks, although it was raising resources on account of interim accommodation at a comparatively higher rate of interest. The problem of idle fund is also found to arise because of inordinate delays in making repayments by primary banks to the Central Land Development Bank.

It is needless to mention here that the working results in the form of profits or surplus are realised not merely from the margin that banks retained on loans, but depend greatly on the efficient management of funds. Thus, proper management of funds of U.P. State Cooperative Village Development Bank Ltd. has greater significance particularly as it had to handle mostly the borrowed
funds. Therefore, the Bank should carefully plan the development of their own disposeable resources in the most profitable manner and make determined efforts to reduce their independence on interim accommodation because resources to such borrowings is costly.

The above discussion indicates that the transactions of SLDB and its branches/PLDBs are generally confined to the cash. Hence, the study of cash management by the U.P. State Cooperative Village Development Bank Ltd. has been undertaken.

Measurement of cash balances is an important part of the cash management. The relevance of cash balance in the study of cash management is because of its important role in an organisation. It is the cash which keeps an organisation going. Hence, every organisation has to hold necessary cash for its existence. But in the modern business world, no business can afford the luxury of having too much of cash because of its non-availability particularly due to ever increasing difficulties and cost of borrowings. Moreover, cash being the least productive of assets incurs for organisation as opportunity cost through its non-use Louis K. Brandt has amply emphasised the fact of opportunity cost of cash as under:

"The cost results from holding cash inactive in the bank or on the premises of the enterprise instead of employing it profitability in operations. This cost is present regardless of the amount in the balance but it becomes more significant as the quantity of cash increases. When the stock of cash falls to very low
levels, cost consideration becomes secondary in importance to liquidity risk.\textsuperscript{11}

In other words, there are distinct economic disadvantages in maintaining cash inventories which are too far below or above actual demand. It is therefore, desirable that the cash balances in the bank as well as in the organisation be minimised as much as possible at lowest figures adequate to meet current obligations.

The U.P. State Cooperative Village Development Bank Ltd. has adopted the system of raising funds for its lending operation almost through floatation of debentures as already discussed in the chapter. The Bank is providing the long-term credit to the farmers of the State through its branches located at Tehsil/Block headquarters. For this purpose the Head Office provides funds to its branches. The branches have been asked to maintain three accounts, viz. General Accounts, Loan Account and Recovery Account with the branch of respective District Cooperative Bank. The General Account is to be maintained for the purpose of payment of salary of staff and to meet the recurring and non-recurring expenses. The Loan Account at branches being operated to disburse loans to borrowers and recovery account in maintained to deposit the amount recovered from borrowers which is to be passed on to the Head Office. There is no provision to transfer the money from one account to other.

During the past years the U.P. State Cooperative Village Development Bank Ltd. has changed the system of providing the funds to the branches for loaning by the Head Office directly.

Under the present system, the branches have to send their requirements to the District Office weekly or whenever they require funds. Thereafter, the District Office shall send the consolidated demand for the district to the Head Office. The Head Office provides the funds to the District Office which are to be distributed among the branches of the district as per their requirements. The Branch Manager is made responsible to deposit the recovery amount in the recovery account and pass it on to the Head Office directly through bank draft. Besides this, the Head Office has delegated the powers to avail cash credit facilities from District Cooperative Bank to the extent of Rs.2 lakhs to each branch. Inspite of the above arrangement, the U.P. State Cooperative Village Development Bank Ltd. has huge amount in the shape of cash and bank balances at branch level as well as at Head Office level. The reasons are the same as described by the Committee on the Cooperative Land Development Banks. The cash and bank balances of the U.P. State Cooperative Village Development Bank Ltd. as on 31st March, 1999-2000 and 2000-2001 have been presented in the Table 5.7

Table 5.7 indicates that the cash and bank balances of the branches were Rs.3.81 crores at the end of 31st March 2000. It increased to Rs.4.12 crores at the end of financial year 2000-2001. On the other side, the cash credit and overdraft account balances of the branches were Rs.2.02 crores and Rs.2.98 crores in the financial year 1999-2000 and 2000-2001 respectively. Similarly, the cash and bank balances at the Head Office were Rs.2.72 crores in the year 1999-2000 and Rs.1.78 crores at the end of financial year 2000-2001. There were no cash credit and bank overdraft at
the Head Office. An amount of Rs. 13.56 crores and Rs. 1.78 crores was in transit which is quite handsome amount. If we add up the cash credit and bank overdraft amounts, with the money available in the cash and bank balances, the figure come to Rs. 18.07 crores and Rs. 10.81 crores for the respective year which is a big amount kept idle with the branches and at the Head Office.

**Table 5.7**

**Idle Cash and Bank Balance of Uttar Pradesh State Cooperative Village Development Bank Ltd. : (as on 31st March)**

(Rs. in Crores)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>1.</td>
<td>Branch Balance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>Cash and Bank Balance</td>
<td>3.81</td>
<td>4.12</td>
</tr>
<tr>
<td>(b)</td>
<td>Cash Credit and Bank overdraft</td>
<td>2.02</td>
<td>2.98</td>
</tr>
<tr>
<td>(a)</td>
<td>Net Balance (a-b)</td>
<td>1.79</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Head Office Balance</td>
<td></td>
<td>1.14</td>
</tr>
<tr>
<td>(a)</td>
<td>Cash and Bank Balance</td>
<td>2.72</td>
<td>1.78</td>
</tr>
<tr>
<td>(b)</td>
<td>Cash Credit and Bank Overdraft</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>(c)</td>
<td>Net Balance (a-b)</td>
<td>2.72</td>
<td>1.78</td>
</tr>
<tr>
<td>3.</td>
<td>Cash in Transit</td>
<td>13.56</td>
<td>7.89</td>
</tr>
<tr>
<td>4.</td>
<td>Total Net Cash and Bank Balance</td>
<td>[1(c) + 2 (c) + 3]</td>
<td>+18.07</td>
</tr>
</tbody>
</table>

*Source: compiled from the Balance sheet of Uttar Pradesh State Cooperative Village Development Bank Ltd. for the respective years.*

This indicates the attitude of the Bank which is not using the money recovered for further lending. This attitude is based on their conservative thinking of keeping money very secure for redemption of debentures and contribution towards the sinking
fund only. Similarly, the branches are maintaining three different accounts for different purposes and they are not empowered to transfer money from each other. In other words, the branches are bound to avail the cash credit and bank overdraft for loaning operations, although there is sufficient amount in the General and Recovery Account. Such practice is ultimately bound to block the liquid resources as well as resulting in loss of interest, as the U.P. State Cooperative Village Development Bank Ltd. should not receive any return on cash and bank balances, while it has to pay the interest at higher rate on cash credit and overdraft account balances than other sources. The practice of maintaining separate accounts for different purposes is old technique of controlling of diversion of money for other purposes which has been adopted by the Government Departments and Social Institutions, were the cost of funds has no consideration as they have to receive the funds on account of aids, grants, etc. In the case of U.P. State Cooperative Village Development Bank Ltd. dealing with borrowed funds, the maintenance of separate account is not justified, as diversion of money can be controlled through modern financial techniques viz. Funds flow statement, cash budgeting, etc.

The table further, shows that there is a big amount of cash in transit every year, which indicates that the present system is more time consuming and also there are chances of loss in transit. The District Managers have powers to distribute the funds to the branches as per their requirements, but they have no power to transfer the funds of one branch to an another branch of the district even the branch has the sufficient idle funds in its account and other is in acute need of funds.
Thus, the U.P. State Cooperative Village Development Bank Ltd. has the idle fund at the level of branches and also at the level of Head Office. This position is not beneficial to the Bank. Therefore, it is suggested that U.P. State Cooperative Village Development Bank Ltd. who should evolve the system to flow the funds from the Head Office to branches and vice-versa, as under:

1. District Office should open a 'Central Account' in respective District Cooperative Bank of the district and ask the branches to maintain their account in the branches of Districts Cooperative Bank at their headquarter.

2. The branches should function as pay office of the District Office in the matter of cash receipts and payments. The branches of District Cooperative Bank should be directed to send the debit/credit notes for payments and receipts respectively to the District Cooperative Bank under intimation to District Office of the U.P. State Cooperative Village Development Bank Ltd.

3. The District Office should have close contact with the District Cooperative Bank and should have a clear and up-to-date position of the account. If the balance of the Central Account exceeds the subsequent weekly requirement of the branches of the district, it should be remitted to the Central Account, at U.P. State Cooperative Bank, Lucknow under intimation to Head Office or Vice-Versa.

For this purpose, an Assistant Manager (Accounts) should be deputed in the district office to look after and supervise the funds. In this connection, they should be trained with modern financial techniques.
(4) At the Head Office level, the Bank should open a Central Account in U.P. State Cooperative Bank, Lucknow and watch the position. If there is any deficit, it should be, recouped from drawing the cash credit and overdraft account from NABARD/U.P. State Cooperative Bank. The amount of cash credit and overdraft accounts should be repaid early through floatation of debentures. At present the NABARD has allowed the banks to float the debentures once in a quarter or even once in a calendar month.

(5) If the U.P. State Cooperative Village Development Bank Ltd. has not sufficient funds for redemption of debentures or for contribution towards the sinking funds, the Bank should draw the deficit amount from cash credit and overdraft for the time being.

(6) In case the amount available in Central Account exceeds the subsequent requirements, it should be utilised redemption of special debentures before the due date or invested into call deposits.

To conclude it may be said that if the U.P. State Cooperative Village Development Bank Ltd. adopts the above suggested system of flow of funds between Branches and Head office, it shall definitely minimise its liquid fund (cash and bank balances) which would result into low cost of funds on the one hand and make funds available without delay to the branches for providing the loan to the farmers on the other hand.