CHAPTER 1

FINANCIAL MANAGEMENT OF CO-OPERATIVE BANKS IN KARNATAKA

A STUDY OF BELGAUM DISTRICT CENTRAL CO-OPERATIVE BANK
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1.1 INTRODUCTION

The co-operative sector with a history of more than 100 years is a socio-economic development movement in the country and the role of co-operative sector in the total development process is significant. With a large network of co-operative credit institutions both in the short term as well as long term co-operative credit structure, the co-operatives have been playing an important role in the development of agriculture and allied sector and provide alternative employment as well as source of livelihood to our millions of rural population.

The short term co-operative credit structure deals with medium term credit also for agricultural purposes and it is federal in character. It is based on a three tier pattern with the State Co-operative Banks (SCBs) at the state level, Central Co-operative Banks (CCBs) at the district level and Primary Agricultural Credit Societies (PACs) at the village level. “Even today, they (co-operative banks) continue to occupy the leading position in the sphere of productive finance, despite the very strong presence that the commercial banks have now come to acquire in rural areas with their vastly large resources.”

Commercial Banks and Regional Rural Banks with a network of about 35000 branches put together account for only 38 percent of the rural credit. Whereas the short term co-operative credit structure, in existence for about a century and consisting of over 1,04,000 outlets purveys 62 percent of the total agricultural rural credit. Short term co-operative credit structure comprises 29 SCBs with 782 branches 368 DCCBs with 12178 branches and over 90000 PACs indicating that the structure has a formidable rural presence in terms of geographical coverage.

Among three tier structure District Central Co-operative Banks occupy a strategic position in the co-operative credit structure and play a key role in planning and developing the co-operative activities at district level. They shoulder a great amount of responsibility in providing financial assistance to the farmers as well as other members through their affiliated co-operative societies. The central co-operative banks are viewed as an effective channel for creating an environment for socio-economic development in the society. DCCBs perform number of functions such as raising deposits from the members as well as from non-members, borrowing from the NABARD and State Cooperative Apex Bank and making them available to the needy PACs, supervising and guiding the affiliated PACs, LAMPS, FSS., etc. DCCBs also carry on ordinary commercial banking operations such as acceptance of all types of deposits from the general public, granting of loans and advances, discounting of bills, collection of cheques and bills on behalf of customers, receiving of valuables for safe custody etc.
With passage of time these DCCBs developed both in their size in terms of their activities, operations etc. However, certain problems and difficulties have cropped up in areas of their actual functioning. One such area can be identified as financial management. With the increase in resources mobilised by the DCCBs with great efforts and also with increase in their lending activities the financial management has become more complicated. The liberalised economic policy and the resulting financial sector reforms have also posed new challenges to the DCCBs. In this context it is necessary to make a comprehensive study and to identify gaps in financial management of DCCBs.

1.2 STUDY AREA

BELGAUM DISTRICT PROFILE

The present study of Belgaum District Central Co-operative Bank Ltd. calls for an in depth look into the geo-socio-economic-techno aspects of the Belgaum District. Any research study is incomplete without the geographical, social, economic and technical survey of its study area. Hence, an attempt is made to give a brief but clear picture of Belgaum District.

The data and information are compiled from the following sources:

- Directory of Belgaum District Statistical data, Belgaum.
- Souvenir, The Belgaum Chamber of Commerce and Industries.
- Directory of Industries and Commerce, Bangalore.
- District Industries Centre, Belgaum.
- Potential Linked Plan Belgaum.
- Techno-Economic Survey of Belgaum District.
Belgaum district with a geographical area of 13.44 lakh ha. (7.05% of state) is situated in the North-Western corner of Karnataka State. Geographically the District can be divided into two regions, viz., Transitional belt along Western Ghat and Deccan Plateau. The Khanapur, Hukkeri, Belgaum and Chikkodi talukas come under transitional belt. The region has a highly undulated topography of hills and valleys. In Khanapur taluka a high percentage of area is covered by thick forest. The profile of the district in terms of geographical area, demographic features, land utilisation, labour force, etc., is presented in the below table:

Table 1.1

DISTRICT PROFILE AT A GLANCE – 31st March 1999

<table>
<thead>
<tr>
<th>1. Name of the District</th>
<th>Belgaum</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Geographical area</td>
<td>13,400 sq.kms.</td>
</tr>
<tr>
<td>a) No. of blocks/talukas</td>
<td>10</td>
</tr>
<tr>
<td>b) No. of villages</td>
<td>1164</td>
</tr>
<tr>
<td>3. Rainfall (mm)</td>
<td>Normal: 808, Actual: 1999781</td>
</tr>
<tr>
<td>4. Agriculture</td>
<td></td>
</tr>
<tr>
<td>a) Geographical area</td>
<td>13,44,382</td>
</tr>
<tr>
<td>b) Net sown area</td>
<td>8,67,176</td>
</tr>
<tr>
<td>c) Gross cropped area</td>
<td>9,91,468</td>
</tr>
<tr>
<td>d) Fallow land</td>
<td>1,02,090</td>
</tr>
<tr>
<td>e) Area brought under HYV</td>
<td>377466 ha.</td>
</tr>
<tr>
<td>f) Consumption of Chemical Fertilizer</td>
<td>118 kg/ha.</td>
</tr>
<tr>
<td>g) Changes in Cropping pattern as compared to previous year:</td>
<td></td>
</tr>
<tr>
<td>i. Area under cereals increased by</td>
<td>1.2%</td>
</tr>
<tr>
<td>ii. Area under pulses decreased by</td>
<td>2%</td>
</tr>
<tr>
<td>iii. Area under oilseeds decreased by</td>
<td>2%</td>
</tr>
</tbody>
</table>
iv. Area under cotton declined by 21%
v. Area under sugar cane increased by 6.1%
vi. Area under tobacco declined by 11.1%
vii. Total area under all crops increased by 5.9%
h) Short term credit per ha. Rs. 17,237/ha.

<table>
<thead>
<tr>
<th>5. Irrigation (Ha.) (97-98)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Net irrigated area</td>
<td></td>
</tr>
<tr>
<td>i. Canals</td>
<td>315806</td>
</tr>
<tr>
<td>ii. Wells</td>
<td>65982</td>
</tr>
<tr>
<td>iii. Lift irrigation</td>
<td>129733</td>
</tr>
<tr>
<td>iv. Other sources</td>
<td>484149</td>
</tr>
<tr>
<td></td>
<td>71942</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Less than 1 ha.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>142558</td>
</tr>
<tr>
<td></td>
<td>70173</td>
</tr>
<tr>
<td>b) Between 1 &amp; 2 ha.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>120196</td>
</tr>
<tr>
<td></td>
<td>177792</td>
</tr>
<tr>
<td>c) Above 2 ha.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>161769</td>
</tr>
<tr>
<td></td>
<td>762809</td>
</tr>
<tr>
<td>Total</td>
<td>424523</td>
</tr>
<tr>
<td></td>
<td>1010674</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Plough animals</td>
<td></td>
</tr>
<tr>
<td>b) Dairy animals</td>
<td></td>
</tr>
<tr>
<td>i. Cattle</td>
<td>51200</td>
</tr>
<tr>
<td>ii. Buffaloes</td>
<td>512634</td>
</tr>
<tr>
<td>c) Sheep/Goat</td>
<td>651564</td>
</tr>
<tr>
<td>d) Poultry</td>
<td>1342314</td>
</tr>
<tr>
<td></td>
<td>918130</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>8. Population</th>
<th>(in '000)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Male</td>
<td></td>
<td>1834</td>
</tr>
<tr>
<td>b) Female</td>
<td></td>
<td>1750</td>
</tr>
<tr>
<td>c) Total</td>
<td></td>
<td>3584</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>9. Classification of workers</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Cultivators</td>
<td>536660</td>
</tr>
<tr>
<td>b) Of (a) SF &amp; MF</td>
<td>176887</td>
</tr>
<tr>
<td>c) Agri. Labourers</td>
<td>388648</td>
</tr>
</tbody>
</table>
The major features of the district are indicated below:

**Demographic Features:**

The District’s population as per 1991 Census is 35.84 lakh (7.97% of the state) of which, 76.51% is rural as against state average of 69%. SC/ST population accounts for 13.67% of total population. The density of population at 267/sq.km. is higher than the state average of 235. The literacy level in the district (53% in 1991) is almost comparable with state average of 56%.

**Agriculture Sector:**

The district has a net sown area (NSA) of 8.67 lakhs ha. which is about 64.5% (State average 55%) of the geographical area. The area under forest is 1.90 lakhs ha. i.e., about 14% of the geographical area. About 8% of the total geographical area is not available for cultivation. The gross cropped area (GCA) is about 9.91 lakhs ha. Thus, cropping intensity is 114% (State average 115%). About 35% of the NSA is under irrigation as compared to state average of 22%. Surface water accounts for 59% of the total area under irrigation.
Cropping Pattern:

The cropping pattern in the district reveals that about 46.7% of GCA is under cereals mostly jowar (19.7%), paddy (6.8%) and other cereals (20.1%), 9.8% under pulses, 18.5% under oilseeds, 12.2% under sugarcane and 4.5% under cotton. The remaining area of about 8.3% is under plantation and horticulture (PH) crops including vegetables.

Land Holding:

There are as many as 424523 land holdings with a total area of 1010674 ha. About 50% of the total holding is held by 67555 persons whose average holding is 4 ha. and above. The other 50% is held by about 356968 persons whose average holding is less than 4 ha. i.e., about 84% of 424523 land holdings pertain to less than 4 ha. and the other 14% hold as much as 50% of the land holdings.

Innovative/New Areas of Development:

The climatic conditions are suitable for growing fruits and vegetables and as such large quantity is grown. Processing industries for fruits and vegetables can be established. Floriculture on commercial lines can also be attempted. In the western ghat region scope for establishment of industries for exploitation of medicinal herbs and forest produce exists.
**Education and Literacy:**

The network of educational institutions and the number of students in each institution are presented in the below table:

**Table 1.2**

**Network of Educational Institutions in the Belgaum District as on 31st March 2000**

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Number</th>
<th>Students</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Schools</td>
<td>3336</td>
<td>733300</td>
</tr>
<tr>
<td>High Schools</td>
<td>667</td>
<td>143127</td>
</tr>
<tr>
<td>Pre-University Colleges</td>
<td>111</td>
<td>20387</td>
</tr>
<tr>
<td>Degree Colleges</td>
<td>54</td>
<td>17863</td>
</tr>
<tr>
<td>Engineering Colleges</td>
<td>4</td>
<td>1281</td>
</tr>
<tr>
<td>Polytechnics</td>
<td>11</td>
<td>4180</td>
</tr>
<tr>
<td>Medical Colleges</td>
<td>7</td>
<td>807</td>
</tr>
<tr>
<td>Dental Colleges</td>
<td>2</td>
<td>472</td>
</tr>
<tr>
<td>Law Colleges</td>
<td>4</td>
<td>467</td>
</tr>
<tr>
<td>B.Ed., Colleges</td>
<td>3</td>
<td>300</td>
</tr>
<tr>
<td>Libraries</td>
<td>183</td>
<td>-----</td>
</tr>
</tbody>
</table>

**Industrial Scenario:**

Till 1950s Belgaum district was not on the industrial map of the Karnataka state. Particularly, Belgaum was known as a city of pensioners and poor man’s Mahabaleshwar, a renowned hill-station in the Maharashtra State.

With steady growth of infrastructural facilities like transportation, communication, banking, education etc. of exploitation on natural endowments, and of institutional support (i.e., KSSIDC, KIADB, KIMC, KSFC AND DIC) the industries grew steadily in
the Belgaum district. Availability of cheap skilled labour, absence of trade unionism, cheap land and pleasant climate were other reasons for industrialisation of the Belgaum District.

There are about 34 Medium and large scale industries established with an investment of Rs.51,017.28 lakhs providing employment to 27,571 persons. The items manufactured in these industries include sugar, aluminium, LPG cylinder, casting, cotton yarn, terry towel, refined oil, solvent extraction, glucose, granite cutting and polishing, dyeing, knitted garments, etc. There are about 21,241 registered SSIs with an investment of Rs.21,349.59 lakhs, providing employment to 81,157 persons in the district. The items manufactured are, automobile components, hydraulic equipments, auto body building, powerloom, CI casting, electric motors, bakery machineries, engineering job work, fabrication, DG set assembling, knitwear, leather footwear/products, fruit processing etc.

The existing industries in the district are mainly traditional and based on agricultural and other natural resources. They are spinning of woollen yarn, weaving of blankets, manufacturing of Kolhapuri chappals, leather tanning, silver ornaments, carpentry, tailoring, bamboo and toy making etc. Further, Belgaum is also famous for producing quality engineering, electrical etc. goods. The engineering industries form about 25% of the total SSI units. Engineering industries mainly consist of automobile components, diesel engine components, electrical engineering spares, machine tools and accessories, hydraulic presses, spares for heavy engineering industries, agricultural
implements, ferrous and non-ferrous foundries, auto body building, general job working engineering and fabrication units etc.

The district offers vast potential for development of Agro based and Horticulture based industries like processing of fruits viz., mango pulp, canning of mango, tomato juice, mango juice, dehydration of grapes, bagasse based power unit and paper and particle board manufacturing unit, cement, lime based chemicals, processing of soyabean, cotton seed oil, cotton yarn, cotton and polyester weaving, wool yarn, etc.

Natural Resources:

There are as many as 8 rivers in the district of which the principal ones are Krishna in the North, Ghatsprabha in the Centre and Malaprabha in the South. The district lies in the Krishna basin. Main sources of irrigation are Malaprabha and Ghataprabha projects besides a number of Minor irrigation projects and irrigation wells. There are 5.12 lakh cattle, 6.52 lakh buffaloes, 9.05 lakh sheep and 4.37 lakh goats. The number of poultry birds is 9.18 lakh.

Belgaum district is fairly endowed with mineral resources. The important minerals found are bauxite in Belgaum and Khanapur talukas, kaolin clay in Khanapur, limestone in Bailhongal, Gokak and Khanapur talukas. The major forest produce are teak wood, rose wood, matti, honne, nandi, soft wood trees, jungle wood, bamboos and canes. The minor forest produces are tamarind, honey, wax, cashewnuts, gum, fodder grass and
medicinal plants. There is ample scope for setting up of industries based on these products.

Transport and Communication:

The district is well connected by roads, rails and air ways and by excellent network of posts and telegraphs and telephones.

Table 1.3
Belgaum District Road Network

<table>
<thead>
<tr>
<th>Types of Roads</th>
<th>Distance (Kms.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Highway</td>
<td>210</td>
</tr>
<tr>
<td>State Highway</td>
<td>732</td>
</tr>
<tr>
<td>Major District Roads</td>
<td>2340</td>
</tr>
<tr>
<td>Other District Roads</td>
<td>53</td>
</tr>
<tr>
<td>Village Roads</td>
<td>2543</td>
</tr>
<tr>
<td>TDB Roads</td>
<td>5458</td>
</tr>
<tr>
<td>Forest Roads</td>
<td>490</td>
</tr>
<tr>
<td>Irrigation Dept. Roads</td>
<td>482</td>
</tr>
<tr>
<td>Municipalities Roads</td>
<td>922</td>
</tr>
<tr>
<td>Total Road ways</td>
<td>10200</td>
</tr>
</tbody>
</table>

During 1999-2000 the district had 10200 Kms. Roadways. The railway was introduced way back in 1887 by the British. In 1999-2000 the district had a total of 220 Kms. Broad gauge.

In 1940, to cater the needs of Maratha military regiment and air force, aerodrome was built at Sambra, 8 Kms. from the Belgaum city.
In the year 99-2000 the district had 718 posts and 532 telegraph offices and 174 telephone exchange connecting 101221 telephones.

**PERFORMANCE OF CREDIT AGENCIES IN BELGAUM DISTRICT**

The Credit Agencies in the district consist of CBs, RRB, DCCB, KSCSARD Bank and KSFC. All the agencies have been performing their role with regard to the disbursement of credit to priority sector and various government sponsored programmes. The salient features of their involvement, resource base, strengths, etc., of these agencies are highlighted below.

Table 1.4

**PERFORMANCE INDICATORS OF THE CREDIT DELIVERY SYSTEM**

**KEY BANKING STATISTICS**

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Co-operatives</th>
<th>RRB</th>
<th>CB</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CCB</td>
<td>LDB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of Banks</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>27</td>
</tr>
<tr>
<td>No. of Branches</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Rural</td>
<td>59</td>
<td>81</td>
<td>68</td>
<td>208</td>
</tr>
<tr>
<td>b) Semi Urban/Urban</td>
<td>36</td>
<td>19</td>
<td>146</td>
<td>211</td>
</tr>
<tr>
<td>Total</td>
<td>95</td>
<td>10</td>
<td>100</td>
<td>214</td>
</tr>
<tr>
<td>No. of staff per Br/Society</td>
<td>8</td>
<td>12</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>No. of loan accounts</td>
<td>264341</td>
<td>39932</td>
<td>108078</td>
<td>209917</td>
</tr>
<tr>
<td>No. of Loan A/Cs per Br.</td>
<td>2782</td>
<td>3993</td>
<td>1081</td>
<td>981</td>
</tr>
<tr>
<td>Avg. population per Br.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avg. No. of villages covered per Br./Society</td>
<td>12</td>
<td>116</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>Total Deposits as on 31.3.2000</td>
<td>44601</td>
<td>508</td>
<td>22395</td>
<td>178589</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>------</td>
<td>----</td>
<td>-------</td>
<td>--------</td>
</tr>
<tr>
<td>Avg. Deposit per branch</td>
<td>469.48</td>
<td>50.8</td>
<td>223.95</td>
<td>834.53</td>
</tr>
<tr>
<td>Growth in Deposits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) 2000 over 1999</td>
<td>20.8</td>
<td>12.1</td>
<td>29.1</td>
<td>13.9</td>
</tr>
<tr>
<td>b) 1999 over 1998</td>
<td>24.6</td>
<td>44.3</td>
<td>12.8</td>
<td>24.4</td>
</tr>
<tr>
<td>Total loans outstanding</td>
<td>48323</td>
<td>5431</td>
<td>21615</td>
<td>76507</td>
</tr>
<tr>
<td>% increase in O/s.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) 2000 over 1999</td>
<td>9.3</td>
<td>5.9</td>
<td>39.1</td>
<td>1.6</td>
</tr>
<tr>
<td>b) 1999 over 1998</td>
<td>14.6</td>
<td>8.7</td>
<td>7.2</td>
<td>9.3</td>
</tr>
<tr>
<td>Outstanding per A/c</td>
<td>0.18</td>
<td>0.14</td>
<td>0.20</td>
<td>0.36</td>
</tr>
<tr>
<td>Outstanding per branch</td>
<td>508.66</td>
<td>54.31</td>
<td>216.15</td>
<td>357.51</td>
</tr>
<tr>
<td>% of Agri. Adv. to Total Adv.</td>
<td>30.4</td>
<td>80</td>
<td>55.5</td>
<td>35.9</td>
</tr>
<tr>
<td>CD Ratio</td>
<td>96.5</td>
<td>42.8</td>
<td>48.8</td>
<td></td>
</tr>
<tr>
<td>DCB position &amp; % of Recovery 1998</td>
<td>72.8</td>
<td>50.4</td>
<td>71</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>66.8</td>
<td>55.4</td>
<td>80</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>66.6</td>
<td>55.3</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>% of OD to Loan O/s.</td>
<td>25.6</td>
<td>17.07</td>
<td>NA</td>
<td></td>
</tr>
</tbody>
</table>

**District Central Co-operative Bank:**

The Belgaum DCCB was established in December 1918 with a share capital of Rs.5,000. The DCCB with its large network of 95 branches and 526 PACs has been supporting agricultural activities in the district. As per the guidelines from NABARD, the bank had prepared Development Action Plan (DAP) and has implemented the same successfully. Of the 526 PACs 488 have been brought under BDP.
The quantum of loan issued has declined from Rs.58540 lakh in the year 97-98 to Rs.52158 lakh during the year 1999-2000. The percentage of recovery has also come down from 72.9% to 67.3% during the same period. Further, other important features are: A) Expenditure on management as at the end of March 2000 stood at 2.34%. B) The financial margin decreased to 3.75 in 1999-2000 as compared to 3.98 in the year 1998-99. C) The bank’s net margin for the year 1999-2000 worked out to 0.78 as compared to 0.57 for the year 1998-99. D) During 1999-2000 out of 95 branches, 9 are running in loss, of which five are running in loss for more than 3 years.

Profit has marginally increased for the year 1999-2000 to Rs.365.10 lakh from Rs.293.28 lakh mainly because the average cost of funds has come down from 8.84 in 1998-99 to 8.62 in 1999-2000.

The district credit plan 1999-2000 envisaged a share of 42.3% for the bank under priority sector disbursements, against which the actual share of the bank stood at 36.4% of the total priority sector disbursement under DCP. For the year 2000-2001 the bank has proposed to participate to the extent of 39.8% of the total priority sector targets under DCP.

Malaprabha Grameena Bank:

The Malaprabha Grameena Bank (MGB) with its HO. at Dharwad, sponsored by Syndicate Bank, is functioning in the district with a network of 100 branches, of which 16 are urban. It has three area offices in Belgaum district. So far as the Belgaum District
is concerned, deposits stood at Rs.22,395 lakh and advances at Rs.21,614 lakh resulting CD ratio of 96.5% as on 31.3.2000. The recovery effected by the bank was 84% as on 30.6.2000 for Belgaum district.

The district credit plan 1999-2000 envisaged a share of 13.9% for the bank under priority sector disbursements, against which the actual share of the bank stood at 19.5% of the total priority sector disbursement under DCP. For the year 2000-2001, the bank has proposed to participate to the extent of 16.5% of the total priority sector targets under DCP.

**PCARD Banks:**

The long-term credit co-operative structure consists of 10 PCARD Banks functioning under the overall supervision and guidance of the district office of the KSCARDB at Belgaum. Low recovery position, low level of business and high transaction cost are the common features which have led to heavy losses of these banks. Although some of the PCARDBs of the district have taken corrective measures under the DAP, much more needs to be done.

The performance of the PCARD banks in recovery front has not been good. During the year 96-97 the recovery, which stood at 57.3% of the demand declined to 50.4% in 1997-98, however, the same, rose to 55.4% in 98-99 and to 55.3% in 1999-2000. The percentage of recovery was low in respect of Ramdurg and Soundatti PCARDBs. All the PCARDBs had accumulated losses, and Ramdurg PCARDB (Rs.100.72 lakh) recorded the highest followed by Soundatti PCARDB (Rs.82.28 lakh) in
the total accumulated losses of Rs.378.87 lakh of all the PCARDBs of the district. However, the PCARDBs of Athani, Chikkodi, Hukkeri and Khanapur made a small profit during the year 1999-2000.

The DAPs prepared by the PCARDBs are under implementation and the district level Task Force Committee monitors the same. The performance of the banks vis-à-vis targets of the DAP has not been good. As per the plan, the PCARDBs are required to achieve a growth rate of 20% in share capital, borrowings, loans outstanding and disbursements and 10% in recovery.

**PACS:**

There are in all 526 PACS in the district. Of these the DCCB has selected as many as 488 PACS under BDP. Of the above, 448 PACS collect deposits and as many as 252 extend loan for non-agricultural purposes also. As many as 168 PACS are equipped with safe and counter. As many as 316 PACS are doing the PDS business also. For the year 1999-2000 PACS are reported to have extended a loan of Rs.226.92 crore under Agriculture and Allied Sector.

**Commercial Banks:**

There are 19 public sector and 8 private sector banks operating in the district with a total network of 214 branches, of which 68 are rural and 146 are semi urban/urban branches.
The total deposits of the CBs as at the end of March 2000 stood at Rs.1785.89 crore, which showed an increase of 13.9% over the deposits as at the end of March 1999. Similarly, the loans outstanding increased to Rs.765.07 crore from Rs.752.90 crore recording an increase of 1.6% over the loans outstanding as at the end of March 1999. The share of CBs in the total deposits and advances in the district as at the end of March 2000 stood at 73% and 55.3% respectively. The CD ratio worked to 42.8%, which was lower than the average CD ratio at 48.8% in the district.

Poor recovery is one of the constraints faced by the commercial banks too, which is rendering them weak and affecting the credit flow. Low recoveries are particularly reported under Government sponsored programmes/schemes.

KSFC:

The Belgaum Zone of KSFC started functioning in 1992 and covers Belgaum, Bijapur and Uttar Kannada districts. Though the KSFC assists all types of industries, focus of the corporation is mainly towards supporting small scale and tiny industries. Other types of assistance provided are: i) Composite loan to rural entrepreneurs who want to set up very small size industrial projects, ii) Assistance under State Government scheme of VISHWA, iii) Assistance to transport operators, iv) Assistance to women entrepreneurs and SC/ST entrepreneurs.
1.3 STATEMENT OF THE PROBLEM

The problem of study is "FINANCIAL MANAGEMENT OF CO-OPERATIVE BANKS IN KARNATAKA – A STUDY OF BELGAUM DISTRICT CENTRAL COOPERATIVE BANK".

1.4 REVIEW OF EXISTING LITERATURE

A few individuals and institutions that have conducted surveys on cooperative credit in India are:

1. ‘The committee on co-operation’ appointed in the year 1915 under the chairmanship of Sri C.D.Maclagan to review the progress made during 1912-15 and to suggest appropriate measures. The committee stressed the need for evolving certain norms about the structure, financial management, role of co-operative department, supervision over primaries, building adequate reserves, gradual discouragement of individual member and production oriented loans etc.

2. ‘The Royal Commission on Agriculture - 1928 in India’ which studied the working of cooperative movement as a whole and stated that the co-operative credit movement failed in many states due to the internal defects which could be rectified by maintaining a high standard of efficiency in work.

3. ‘The Cooperative Planning Committee - 1945’, which is also called Sariya Committee enquired into the possible ways of improving the financial strength of CCBs and suggested the coverage of more population under the co-operative fold with the help of starting co-operatives in a wide range of fields.

5. 'The Rural Banking Enquiry Committee - 1949' under the chairmanship of Sri. Purushotamdas Thakurdas observed that the co-operative banking structure was to be reorganised as it was not strong except in Bombay and Madras.

6. 'The All India Rural Credit Survey Committee - 1951', under the chairmanship of Sri. A.D.Gorwala was appointed by the RBI to diagnose the problems faced by the co-operative credit movement in strengthening its base for bettering the rural people. In its conclusion, it stated that though cooperation had failed in India it must succeed.

7. 'An Evaluation Committee - 1956', was appointed by the Bombay State Co-operative Bank Ltd. to analyse the various aspects of crop loan system. It found that many cooperative societies excluded the small farmers and the crop sharers in giving loans and in several cases, membership was refused on personal grounds.

8. 'The Committee on Co-operative Credit - 1959', was appointed under the chairmanship of Sri. V.L.Mehta to review the adequacy of co-operative credit, has recommended to strengthen the internal resources of co-operatives with the help of linking share capital with borrowings, increased State contribution and measures for mobilising adequate deposits. It has also recommended limiting the borrowing power on the basis of owned funds and recovering the advances through linking of credit with marketing.

9. 'The All India Rural Credit Review Committee - 1966', which was appointed under the chairmanship of Sri. B.Venkatappaiah to reassess the rural credit situation after
implementing the suggestions of All India Rural Credit Survey Committee, recommended increased State contribution to share capital, procedure for streamlining the crop loan system, reorganisation of CCBs at the rate of one bank for a district, etc.

10. A study team was appointed under chairmanship of Dr. C.D.Datey by the RBI in December 1972 to study the position of over dues at various levels of three tier cooperative credit systems and to ascertain the causes. It has stated that inefficiency of the management is one of the causes for poor recovery and suggested that there should be many controllable causes, such as timely disbursement of loans, timely recoveries, minimisation of lengthy procedures etc.

11. The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) was appointed under the chairmanship of Sri B.Shivaraman by RBI on 30th March 1979. The Committee considered that in the context of fast changing rural scene as a result of increased economic prosperity, it is high time that PACs take steps to spread banking habits and mobilise deposits in rural areas.

12. The Agricultural Credit Review Committee headed by Dr.A.M.Khusro, was set up by the Reserve Bank of India in 1986 to review the rural financial system in the country, to assess the credit requirements of the agricultural sector during the next decade and to make recommendations for improving the quality of credit and strengthening its efficiency and effectiveness. This committee felt that the CCBs, besides exercising supervisory functions over the PACs, should extend to them legal and other help when needed, function as liquidity reservoir and balancing centre for PACs. The task
of CCBs, in promoting the activities and performance of PACs, is closely connected with the development activities in the area and, therefore, the CCBs will have to play an important role in district development planning and district credit planning.

13. A Committee on the Financial System under the chairmanship of Sri M. Narasimhan has been set up by Government of India in 1991 and the committee submitted its report in November 1991. Though the Narasimhan Committee Report of 1991 has not examined the co-operative credit and banking sector, some of the recommendations for the purpose of implementation by commercial banking sector have been made applicable to co-operative credit and banking sector also. Government of India set up a High Level Committee under the chairmanship of Sri M. Narasimhan in 1997. The Committee has submitted its second report.

14. The Government of Karnataka, seized of the magnitude of the problem of District Central Co-operative Banks in the State and the need for proper solution, appointed a committee to go into the various implications of the issue based on relevant data and to suggest remedial measures. The committee was headed by the Chairman of the Apex Bank. The committee was appointed vide G.O.No. CMW 210 CCB 92 dated 24-12-1992 of the Department of Co-operation, Government of Karnataka. Recommendations of the committee included:

i) Elimination of Non-viable PACS.

ii) Encouraging produce pledge loans.

iii) Management of funds by PACS.

iv) Better Business development of PACs etc.

15. The Co-operative Banking Sector has for long been recognised as principal institutional agency for providing agricultural credit in the country. Though they operate at the district and state levels, the prudential regulations have been made applicable to them with a view to emphasizing the need for them to function on sound lines at par with other banking institutions. Taking cognisance of the need to revamp co-operative banks on an urgent basis, to examine the demands for infusion of additional capital as had been done for the nationalised commercial banks, to facilitate the co-operative credit structure to transform itself into a viable and self-sustaining system and in recognition of the continued relevance and catalytic role of the co-operative banks in the development of Indian Rural Economy, the Government of India appointed a Task Force on Revival / Restructuring for Co-operative Banks on 9th April 1999. The Task Force was headed by Sri Jagdish Capoor, Deputy Governor, Reserve Bank of India with representatives drawn from Ministry of Finance, Ministry of Agriculture, Government of India and NABARD. The Terms of Reference for the Task Force were as under:

i) To review the functioning of the Co-operative Credit Structure and suggest measures which would make them member driven professional business enterprises.

ii) To study aspects relating to the costs, spreads and effectiveness at various tiers of co-operative credit structures and make suitable recommendations for their rationalisation and improvement.
iii) To study the financial performance of the co-operative bodies and make recommendations for improving their financial health so that they can become efficient and cost effective instruments for delivery of rural credit.

iv) To review the existing supervisory and regulatory mechanism for co-operative credit institutions and suggest measures for strengthening the arrangements.

The Task Force submitted its report to the Government of India on 24th July, 2000. A gist of the recommendations contained in the report is incorporated in this note. The Task Force recognises that there is an urgent need to initiate measures for the rehabilitation of Cooperative Banks. However, it does not recommend across-the board rehabilitation of all loss-making banks and it shall be confined to potentially viable units only. The turnaround of such institutions must be achieved in five to seven years. (Paras 6.03 and 6.06 of the Report).

The Central and State Governments should take the lead in the formulation of rehabilitation /revamping package. For the purpose of revamping, the PACs should be kept at centre-stage. The package should have two components, viz., (a) rectification of imbalances at the DCCBs-PACs level and (b) wiping out the existing unprovided for bad debts and accumulated losses of DCC Banks. (paras 6.04, 6.08 and 6.09 of the Report).
The revitalisation package for co-operative banks shall be a four dimensional programme encompassing financial, operational, organisational and systemic aspects (paras 6.03 and 6.06).

Thus these official studies on CCBs have focussed on overall working of the Central Co-operative Banks but not an in depth assessment of performance in a particular aspect.

The individual efforts in evaluating the performance of these banks are very few. They are:

5. Management of Central Co-operative Bank – A case study of Krishna District by Kutumb Rao, etc.

Valuable information may be found in the above studies. But most of the studies are made on overall performance or organisational structure but studies on micro level problems seem to be very few.
Dr. S. S. Hugar, in his study on “Financial Analysis of District Central Co-operative Banks in Karnataka”, 1986 has attempted to apply modern tools and techniques of management accounting to throw light on the financial and operational dimensions of all the District Central Co-operative Banks in Karnataka as a whole.

Dr. M. R. Shollapur, in his study on “Credit Management in Central Co-operative Banks”, 1991 evaluated efficiency and effectiveness of credit management of Central Cooperative Banks. He suggested that there should be provision of credit in right quantity, at right time, to the right borrower and timely recovery would go long way in ensuring the success of the credit management.

Many scholars considered the field of financial management as of having greater significance than any other area of management. There are some sporadic attempts to study each component of financial management of Central Co-operative Banks separately. A comprehensive work on financial management of Central Co-operative Banks encompassing the entire gamut of financial management is not available. It is essential, in view of the growing importance for District Central Co-operative Banks, to make a comprehensive study and to identify gaps in financial management.

1.5 RATIONALE OF PRESENT STUDY

The District Central Co-operative Banks play an important role in provision of finance to agriculture and rural development. With the passage of time these central cooperative banks developed both in their size including nature of their operations and
scope of their activities. With these developments certain problems and difficulties cropped up in the various areas of their functioning. Finance is one of such areas and the Central Co-operative Banks have to manage it very efficiently. With the increase in resources mobilised by Central Co-operative Banks with great efforts and also with increase in their lending activities, the task of financial management has become more complicated and need special skill and expertise to handle such situation for managing the show efficiently. Hence effective financial management of District Central Cooperative Banks has become a primary condition for the survival and for its growth.

1.6 OBJECTIVES OF THE STUDY

The broad objectives of the study are:

1. To study the origin, growth and development of the Central Co-operative Banks in the State in general and the Belgaum District Central Co-operative Bank in particular with a historical perspective;

2. To review the working progress of Karnataka State Co-operative Apex Bank Ltd., Bangalore and District Central Co-operative Banks in Karnataka;

3. To study the method and procedure employed in collection of share capital, deposits and borrowings and asses their effectiveness;

4. To study the management practices and their effectiveness in channelising the funds in the form of different types of loans to agricultural and non-agricultural purposes;

5. To study Top 20 Accounts and to examine the problem of over dues and the bank’s efficiency in recovering the loans.
6. To suggest remedial measures in the light of the empirical study for effective financial management of the Belgaum District Central Co-operative Bank Ltd., Belgaum.

1.7 HYPOTHESES

The present study is triggered to test the following hypotheses:

1. With the increase in finance from the Government, the Reserve Bank of India and NABARD, diversification of activities and profitability of the bank has increased;

2. With the increase in working capital, the deposit of the bank has increased proportionately;

3. With the development of modern management tools, techniques and practices there has been greater infusion of professionalism in the management of the bank and the bank has sound financial management;

4. With the increasing emphasis on agriculture, advances made by the bank to agriculture and allied activities has been good;

5. With the growth of the bank, collection position becomes better and the magnitude of over dues is lessened;

6. Over the years, the short-term as well as long-term solvency position of the bank has been better.

1.8 METHODOLOGY

The present study has been pursued with both primary as well as secondary data. Primary data is collected through questionnaires, interviews and observations. Stratified
random sampling technique had been employed for the purpose of collection of data through questionnaires. Questionnaires were served to 250 members who had taken loan from the Bank and 250 customers who had different types of accounts in the Bank. The interview technique was adopted to collect information of the bank. Information is collected from officials like General Manager, Deputy General Managers, Assistant General Managers, Branch Managers, Inspectors / Sale Officers and Supervisors in the form of opinions through interview method. With the view to understand the better working of the Belgaum District Central Co-operative Bank, continuous observation visits were made. Moreover, to elicit first-hand information and to know the working of the bank better, personal visits to many branches, societies and self-help groups, interview and discussions with their office bearers have been conducted.

The secondary data required for the study was collected from the following sources:

A. National level and State level:
   i. Annual reports, audit reports, DAP and MoU reports of Karnataka State Bank Co-operative Ltd. Bangalore.
   ii. Basic data on Central Co-operative Banks, National Federation of State Cooperative Banks Ltd., Navi Mumbai.
   iii. NAFSCOB Bulletin, Navi Mumbai.
   iv. Co-operative movement in India published by NABARD.
   v. Dossier on co-operatives published by NABARD.
   vi. Registrar of Co-operative Societies, Bangalore.
vii. Annual reports of CCBs in Karnataka State.

viii. Published records of Research Evaluation Cell, Co-operative Department and Government of Karnataka, Bangalore.

ix. RBI Bulletins.

x. Directives and circulars issued by RBI.


B. District Level:

i. Lead Bank reports, Syndicate Bank, Belgaum.

ii. District credit plans for Belgaum district.

iii. Files of the technical group for Belgaum district.

iv. Files of the Joint Registrar of Co-operative Societies, Belgaum.


vi. Annual Action Plans for Belgaum District.

vii. NABARD District Office Belgaum.

viii. District Statistical Office Belgaum.

C: Data from Belgaum District Central Co-operative Bank Ltd., Belgaum:

i. Annual Reports.

ii. Audit Reports.

iii. Inspection Reports of the Apex Bank and NABARD.

iv. Proceedings of the Board Meetings and Executive Committee Meetings.

v. Overdue Registers.
Periodical Returns of the Branches.


viii. Files of Legal Action.


x. Self-help Group Registers.

xi. Kisan Credit Card Registers.

xii. Top 20 Accounts of Belgaum District Central Co-operative Bank.

xiii. Loan Registers of BDCCB.

xiv. Investment Registers of BDCCB.

xv. Cash Reserve Registers of BDCCB.

xvi. Liquid Asset Registers of BDCCB.

xvii. PACS Registers of BDCCB.

Published work of eminent authors related to banking and especially co-operative banking related articles in various newspapers etc., are also used as external source of secondary data. In order to present the policy changes various committee reports are also studied.

1.9 DATA PROCESSING AND STATISTICAL TOOLS

The data collected for the study are analysed by using various accounting, statistical tools such as ratios, percentage, link relatives, co-efficient of correlation and co-efficient of variation, tables, graphs and charts have also used at places to represent
the data. The positive and negative growth of various parameters are worked out in percentage which provide an in depth evaluation of yearly and average growth rate.

1.10 PERIOD OF STUDY

The study about Financial Management of Belgaum District Central Co-operative Bank is confined to 6 years period, starting from 1995-96 to 2000-01. This period is selected because of implementation of Deregulation of Interest Rates for credit cooperatives both on deposits and loans by RBI in the month of October 1994.

Prudential norms to co-operative credit institutions in short term co-operative credit structure are also made applicable during this period. To instill a sense of prudency in their operations and also to enable the banks to have transparency in their financial position, income recognition, asset classification and provisioning norms have been made applicable to State Co-operative Banks and District Central Co-operative Banks from the year 1996-97 as per the instructions issued by RBI in its circular dated 22nd June 1996.

1.11 SCOPE OF THE STUDY

The proposed study is limited to a Central Co-operative Bank whose area of operation is confined to the District of Belgaum in the State of Karnataka. The results of the study will be applicable particularly to the Belgaum District Central Co-operative Bank Ltd. Belgaum and broadly to District Central Co-operative Banks in Karnataka.
State. It is possible to make broader generalizations as the study has used highly sophisticated techniques.

1.12 LIMITATIONS OF THE STUDY

1. The primary data collected through administering questionnaires has its own limitations. In the analysis part of the study the researcher, using his own observations, has made an attempt to reduce these limitations.

2. Since the questionnaires covered various aspects, the respondents were unable to answer certain questions. As such logical conclusions were drawn on the basis of the replies obtained.

3. Since the data are obtained from more than one source, there may be slight discrepancies between one source and another about the same variable.

4. Due to time lag in the publication of official data, it became difficult to give very recent data of State Co-operative Apex Bank and all the District Central Co-operative Banks in Karnataka. Analysis of the performance of the State Co-operative Bank and the District Central Co-operative Banks in Karnataka is confined to six years period starting from 1993-94 to 1998-99.

5. While computing the percentages and averages, the figures are approximated. Therefore, sometimes the totals may not exactly tally.
CHAPTER – 1

FINANCIAL MANAGEMENT OF CO-OPERATIVE BANKS IN KARNATAKA –
A STUDY OF BELGAUM DISTRICT CENTRAL CO-OPERATIVE BANK.

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1.3 Statement of Problem.
1.4 Review of the Research Work
1.5 Rationale of the Present Study.
1.6 Objectives of the Study.
1.7 Hypotheses.
1.8 Methodology.
1.9 Data Processing and Statistical Tools.
1.10 Period of Study.
1.11 Scope of the Study.
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1. **Financial Return:**

   Financial return is the sum of interest earned on advances and investments i.e., return generated by the bank by deploying its funds in loans and investments.

2. **Financial Cost:**

   Financial cost is the sum of interest paid on deposits and borrowings i.e., cost incurred on the resources raised by the bank.

3. **Financial Margin:**

   Financial Margin is the difference between financial return and financial cost.

4. **Cost of Management:**

   Cost of management includes salaries and other allowances.

5. **Administrative Cost:**

   Administrative cost includes all other operating expenses like rent, rates, taxes, depreciation, postage, stationery etc.

6. **Transaction Cost:**

   Transaction cost is the sum of cost of management and administrative expenses.

7. **Operating Margin:**

   Operating margin is the difference between financial margin and transaction cost.

8. **Risk Cost:**

   Risk cost includes provisions made during the year against bad debts, over dues, interest and other debts i.e., incremental bad / doubtful debts which have to be provided in full.
9. **Miscellaneous Income**:

Miscellaneous income includes income from commission, brokerage and other receipts i.e., income earned from other than loans, advances and investments.

10. **Net Margin**:

Net margin is operating margin (-) risk cost (+) miscellaneous income and it reflects the ability of the bank to produce a surplus after meeting all costs.

11. **Non-Performing Assets**:

If interest / installments are not realised for two quarters, they are considered as non-performing assets.

12. **Standard Assets**:

Standard Assets are performing assets.

13. **Sub-Standard Assets**:

Non-performing assets over two years are called sub-standard assets.

14. **Doubtful Assets**:

Non-performing assets up to two years.

15. **Loss Assets**:

Non-performing assets in which there is little / negligible, realisable value of security. In case of non-performing assets in unsecured loans, they are treated as loss assets and 100% provision is required to be made.
16. Provisioning Norms on Non-Performing Assets:

Table 1.5

Provisioning Norms on Non-Performing Assets

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>PROVISIONING %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Standard (performing)</td>
<td>Nil</td>
</tr>
<tr>
<td>2. Sub-Standard</td>
<td>10% of balance outstanding</td>
</tr>
<tr>
<td>3. i. Doubtful up to 1 year</td>
<td></td>
</tr>
<tr>
<td>a. Secured</td>
<td>20% of realisable value up to 1 year i.e., 3 years NPA</td>
</tr>
<tr>
<td>b. Unsecured</td>
<td>100% of balance outstanding</td>
</tr>
<tr>
<td>ii. Over 1 year up to 3 years</td>
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</tr>
<tr>
<td>a. Secured</td>
<td>30% of realisable value over 1 year and up to 3 years, 4 &amp; 5 years NPA</td>
</tr>
<tr>
<td>b. Unsecured</td>
<td>100% of balance outstanding</td>
</tr>
<tr>
<td>iii. Above 3 years</td>
<td></td>
</tr>
<tr>
<td>a. Secured</td>
<td>50% of realisable value over 3 years NPA of over 5 years</td>
</tr>
<tr>
<td>b. Unsecured</td>
<td>100% of balance outstanding</td>
</tr>
</tbody>
</table>
For example:

<table>
<thead>
<tr>
<th></th>
<th>Amount Outstanding</th>
<th>Providing Rate in %</th>
<th>Provisioning Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loans and Advances out of this:</td>
<td>1478.57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Standard Assets.</td>
<td>1382.95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii. Non-performing Assets.</td>
<td>95.62</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Provisioning Norms:

<table>
<thead>
<tr>
<th></th>
<th>Amount Outstanding</th>
<th>Providing Rate in %</th>
<th>Provisioning Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Sub-standard Assets.</td>
<td>41.65</td>
<td>10%</td>
<td>4.17</td>
</tr>
<tr>
<td>ii. Doubtful - up to 1 year:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Secured.</td>
<td>2.29</td>
<td>20%</td>
<td>0.46</td>
</tr>
<tr>
<td>b. Unsecured.</td>
<td>7.53</td>
<td>100%</td>
<td>7.53</td>
</tr>
<tr>
<td>Over 1 year up to 3 years:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Secured.</td>
<td>2.44</td>
<td>30%</td>
<td>0.73</td>
</tr>
<tr>
<td>b. Unsecured.</td>
<td>3.76</td>
<td>100%</td>
<td>3.76</td>
</tr>
<tr>
<td>Above 3 years:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Secured</td>
<td>24.43</td>
<td>50%</td>
<td>12.21</td>
</tr>
<tr>
<td>b. Unsecured</td>
<td>13.52</td>
<td>100%</td>
<td>13.52</td>
</tr>
</tbody>
</table>

In case of NPA in unsecured loans, these are treated as loss assets and 100% provision is required to be made. Thus for unsecured loan NPAs, the bank is required to provide 100% in doubtful assets irrespective of years.
### NPA PROVISION

<table>
<thead>
<tr>
<th></th>
<th>NPA</th>
<th>PROVISION</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.e., up to 1 year</td>
<td>7.53</td>
<td>7.53</td>
</tr>
<tr>
<td>up to 2 years</td>
<td>3.76</td>
<td>3.76</td>
</tr>
<tr>
<td>up to 3 years</td>
<td>13.52</td>
<td>13.52</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24.81</td>
<td>24.81</td>
</tr>
</tbody>
</table>

In other words every NPA in unsecured loans has to be provided for with an equivalent amount. This has put double burden on the banks. On the one hand bank is losing interest on provisioning and also loanable funds available with the banks get reduced and they lose out on income.

17. **Prime Lending Rate:**

Prime lending rate is the minimum interest rate charged by a bank for credit limits of over Rs.2 lakhs. In other words it is the lowest rate of interest offered by a bank to its prime borrowers. RBI has given full freedom to banks for fixing the prime lending rate.

18. **Volume of Business:**

The volume of business in Central Co-operative Banks comprises of deposits and advances (deposits + advances).

19. **Efficiency:**

Efficiency of Central Co-operative Banks is measured with the help of productivity of labour because Central Co-operative Bank is a labour intensive bank and service is the main motto of Central Co-operative Banks. So labour productivity is
measured by taking volume of business per staff, per staff advances, per staff deposits and per staff collections.

20. **Cash Reserve Ratio:**

The RBI in its circular No. ACD/BL/V3/2066,72-73, dated 19-9-1972 has clarified that only the following assets will be reckoned for cash reserve (CRR).

i. Cash on hand.

ii. Balance in current account with RBI.

iii. Balance in current account with SBI.


v. Balance with Notified Banks.

21. **Liquid Assets:**

An asset is liquid, if it can be converted into cash immediately or reasonably soon without a loss of value. Liquid assets for statutory liquidity ratio (SLR) are:

1. Cash on hand

2. Gold

3. Unencumbered approved securities valued at price not exceeding current market price

4. Balance in current account with RBI, SBI and notified banks

5. Only that portion of the cash and bank balance in current account with the above banks which is in excess of 3% can be reckoned as available for liquid assets.

22. **Money at call and short notice:**

   The inter bank lending is called as money at call and short notice.

23. **Investments:**

   The investment portfolio of CCBs refers to Government securities and share of Co-operative Societies.

24. **Equity:**

   It refers to the shareholders' (members') funds or internal capital. Equity consists of paid up capital (+) reserves (+) surplus (+) fictitious assets. Equity is also referred as owned capital.

25. **Productivity in Banking:**

   Productivity in banking refers to the quality and cost of services rendered by the banks to their respective clientele in their area of operation, their effectiveness in mobilising deposits and utilisation of funds.

26. **Liquidity:**

   Liquidity refers to the ability of the banks to meet their current obligations.

27. **Credit:**

   Financial assistance provided by co-operative banks, commercial banks and regional rural banks.

28. **Co-operative Credit:**

   Credit provided by co-operative institutions like PACs, CCBs, etc.

29. **Rural Credit:**

   A part of total credit provided to rural masses.
30. **Banking System:**

The financial institutions functioning in a particular district, put together is referred to as banking system.

31. **Financial Stake:**

Relative share of owned funds in the total working funds of the Central Co-operative Bank.

32. **Working Funds:**

Aggregate of share capital, reserves and surplus, deposits and borrowed funds.

33. **Return on Investment:**

Percentage of Net Profit to the working funds of the Central Co-operative Banks.

34. **Spread:**

Excess of interest income over interest expenditure.

35. **Burden:**

Aggregate of manpower expenses and other operating expenses.

36. **Rural Branch:**

A branch located at a place with less than 10,000 population.

37. **Urban Branch:**

A branch located at a place with more than 10,000 population.

38. **Scale of Credit:**

Per acre rate of expenditure required for each crop as decided by the Technical Group (TG) at the district level.
39. **Technical Group (TG):**

A Committee consisting of knowledgeable persons from Government Departments, Co-operative Banks, Commercial Banks, Regional Rural Banks and other institutional agencies.

40. **Credit Gap:**

The difference between the credit potential estimated and actual credit provided.

41. **Over dues:**

A part of loan outstanding which has become due for repayment but which has still remained unpaid by the Primary Agricultural Credit Societies at the end of each year.

42. **Board:** Board of Directors.

43. **Agricultural Credit:** Credit provided for agricultural operations.

44. **Non-Agricultural Credit:** Credit provided to the purposes other than agriculture.

45. **Short-term Credit:**

Crop loans to raise different crops and all other loans generally repayable within one year. Under Section 21 (1) of the NABARD Act 1981, the repayment period shall not exceed 18 months.

46. **Medium-term Credit:**

Credit advanced to purchase of bullocks, bullock-carts, to undertake minor irrigation activities, to construct cattle sheds, to undertake dairy, piggery etc., for a period usually 18 months to 5 years. Under Section 24 of the NABARD Act 1981, the repayment period of this loan is less than 18 months and not more than seven years.

47. **Credit Mix:**

Pattern or composition of total credit provided by the Central Co-operative Banks.
48. **Cash Credit:**

It is a financial limit sanctioned to the societies up to which they can draw at any time.