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**A STUDY OF THE CO-OPERATIVE BANKING SYSTEM
IN KERALA**

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Cochin University of Science and Technology
For the Award of the Degree of
Doctor of Philosophy in Management
Under the Faculty of Social Sciences

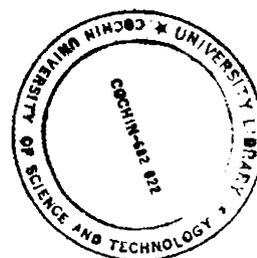
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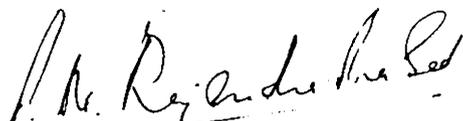
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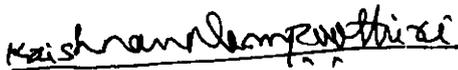
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K. KRISHNAN NAMPOOTHIRI.

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C H A P T E R I

I N T R O D U C T I O N

1.1.1 The role of banks in economic development and prosperity of a nation does not need any emphasis. It is specially so in developing countries like India. Banks are not merely dealers in money, but also manufacturers of money. They act as a link between those who require finance and those who have finance in the form of savings, but are unable to make an effective and productive use of it. Besides, they become manufacturers of money by virtue of their lending operations. It is doubtful whether any bank is confined only to these primary functions of accepting deposits and lending them. Most of the banks are discharging a number of other valuable agency and general utility services.

1.1.2 The role of banks in rural reconstruction, elimination of poverty and illiteracy, establishment of primary health centres and the like are considerable. Banks provide financial help to the needy to pursue their higher education and later on to employ themselves in some meaningful and useful activity. In India, banks are the biggest employers, next only to the Railways and

the Postal Department and their potentiality for employing educated unemployed is increasing with the establishment of more and more branches, especially in rural areas. Consequent to nationalisation of banks, the very concept of banking has undergone a sea change. Security oriented lending has been replaced by purpose oriented lending.

Banking in India :

1.2.1 Banking is of very ancient origin in India. Evidences of borrowing and lending of money even during ancient times have been found. Ancient Indian banking resembled modern private banking to a great extent. Like modern banking, ancient banking also operated on the basic motives of profit making and security. It was unorganised and it functioned on family lines without any outside control. However, the fact remains that ancient banking was not as purposive as modern private banking.

1.2.2 The unification of currency by the East India Company, beginning of European banking in India, the establishment of "The General Bank of India" (1786), establishment of presidency banks, enactment of the 'Imperial Bank of India Act 1920', the Reserve Bank of

India Act 1934, The Banking Company's Act 1949 and its subsequent amendments, nationalisation of banks etc. are milestones in the development of the Banking Industry in India.

1.2.3 At present, there are different types of banks in India. An exhaustive classification of these banks into various categories is not an easy task. On the basis of functions, they can be divided into Commercial Banks, Exchange Banks and Industrial Banks. Taking ownership and management as the basis, they can be classified into Nationalised Banks, Joint Stock Banks and Co-operative Banks. From the point of view of inclusion or otherwise of these banks in Schedule (2) of the Reserve Bank of India Act, they can again be classified into scheduled or non-scheduled banks.

1.2.4 Of these banks enumerated above, co-operative banks have their own salient and distinctive features. They are set up with built-in safeguards but are handicapped by serious infirmities. At the very outset, it is worthy of stating that they are different from other banks and co-operative societies. Co-operative Banks in this study refer to those banks which are registered under the Co-operative Societies Act 1904 and are controlled

by the provisions of the Banking Regulation Act and under the direct purview of Reserve Bank of India. Only co-operative banks have this dual control. However all co-operative societies do not come under the direct purview of Reserve Bank of India. (refer 2.2.1 and 2.3.1)

Co-operative Banking in India :

1.3.1 The concept of co-operative banking in India was first introduced in the year 1904, when the first Co-operative Credit Societies Act was passed. The Act gave a legal status to the credit societies. The first urban co-operative credit society was registered at Conjeevaram in Madras province. This was followed by the registration of one society each in Dharwar District and Bangalore city. But the operations of these societies were confined only to lending. The Co-operative Credit Societies Act, 1912, expanded the original idea and made it possible for the establishment and organisation of Central Co-operative Banks and unions of non-credit societies as well.

1.3.2 The development of urban co-operative credit societies did not receive much attention till 1915, when the Maclagan Committee referred to the potentialities for the organisation of such societies as a means for

training the upper and middle urban classes in ordinary banking principles¹. The failure of several local joint stock banks in the country at that time gave sufficient impetus to the growth of urban co-operative credit societies. It was then realised that urban credit societies are the institutional agencies best suited for collecting local savings and for offering relief to those who were in the clutches of money lenders, by providing them with financial accommodation.

1.3.3 The passing of the Bombay Co-operative Societies Act, 1925, was another milestone in this respect. The economic boom created by the second world war provided a stimulus to the growth of such societies in India. They grew not only in number, but also in size, diversifying their activities considerably.

1.3.4 For the healthy promotion of Co-operative Banking in India, the Reserve Bank of India, in 1952, started inspection of State and Central Co-operative Banks and Central Land Development Banks. But this was on a voluntary basis, where the institutions had agreed to allow the Reserve Bank of India to inspect them. All

1 Hajela T.N. - Principles, Problems and Practice of Co-operation - Shiva Lal Agarwala and Company - Agra - 3, 1979 - page 220 & 461.

this time, these institutions were registered and administered under the Co-operative Societies Acts in force in various states and remained outside the scope of Banking Companies Act which came into force in March 1949 because "co-operation" was a state subject.

1.3.5 However, the rapid growth in the operations of Co-operative Banks made it necessary to bring them under the purview of the Reserve Bank of India. In addition, the statutory control by the Reserve Bank of India was a pre-requisite for extending the benefits of Deposit Insurance Scheme to the Co-operative Banks. In view of these considerations, the Banking Laws (applicable to co-operative societies) Act, 1965, was enacted to extend the operations of certain provisions of the Reserve Bank of India Act, 1934, and the Banking Companies Act, 1949, to Co-operative Banks. As a result, the Banking Company's Act 1949 was renamed as the Banking Regulation Act 1949. It came into force on 1st March 1966. Thus the enactment of the Act has vested the Reserve Bank of India with various statutory powers of control and supervision over the Co-operative Banks. But, the Registrar of Co-operative Societies of the state concerned continues to be the authority to decide matters regarding incorporation and management of these banks. Further

the provisions of the Act are in addition to the existing rules and regulations of these banks. Thus Co-operative Banks are required to comply with the provisions of the Banking Regulation Act as well as other laws applicable to them. But in respect of matters specifically provided for in the Banking Regulation Act, the provisions of the said Act will prevail over the provisions of the Co-operative Societies Act. However it is worthwhile to note that a lion's share of the registered co-operative societies do not come under the purview of Reserve Bank of India and the Banking Regulation Act. (refer 1.4.i and ii)

1.3.6 The Co-operative Banking System in India consists of 3 tiers in a state set up - State Apex Bank or State Co-operative Bank, Central Banks or District Co-operative Banks and Primary Co-operative Banks at the basic level. At present, State Co-operative Banks and Central Co-operative Banks are under the National Bank for Agriculture and Rural Development (NABARD). (refer 1.6.3)

1.3.7 It is to be noted that all primary co-operative societies do not come under the Banking Regulation Act and the direct purview of the Reserve Bank of India.

Co-operative Societies at the primary level can generally be classified into two viz: Agricultural Societies and Non-agricultural Societies. The Non-agricultural Societies, in turn can again be classified into two : Non-agricultural Credit Societies and Non-agricultural Non-credit Societies. Of these, only those Non-agricultural Credit Societies which satisfy certain prescribed conditions (see 1.4. i and ii) come under the Banking Regulation Act. As on 30.6.1977, there were 1544 Co-operative Banks in India coming under ^{the} Banking Regulation Act. The break up is as follows²:

State Co-operative Banks	=	28
Central Co-operative Banks	=	354
Primary Co-operative Banks	=	1162

Total	=	1544
		=====

Primary Co-operative Banks :

1.4.1 The term Primary Co-operative Banks, in this study, as stated earlier, refer to those Co-operative Banks at the primary level which are governed by the Banking Regulation Act and are under the direct purview of the Reserve Bank of India.

2 Davar S.R. - Law and practice of Banking - Progressive Corporation (P) Ltd. - Bombay - 1976 - pages 15-17.

Definition and Features :

1.4.2 According to section 5 (c c c) of the Banking Regulation Act, a Primary Co-operative Bank is given the meaning assigned to it in the Reserve Bank of India Act 1934. The Reserve Bank of India Act defines a Primary Co-operative Bank as a "co-operative society other than the primary agricultural credit society". (Section 2 (c iii)). To have a clearer understanding of the term, the following salient features of the important sections of the Banking Regulation Act are to be examined.

- a) The primary object or principal business of a Primary co-operative bank is the transaction of banking business. The forms of business are as specified in section 6 of the Banking Regulation Act.
- b) According to section 8 of the Banking Regulation Act it should not undertake trading activities.
- c) As per section 11, the aggregate value of its paid up capital and reserves should not be less than one lakh rupees. Here, value means real or exchangeable value and not nominal value as per books of accounts.
- d) A Primary Co-operative Bank cannot admit any other co-operative society as a member.

1.4.3 However, societies which are not governed by the Banking Regulation Act, may also use the term 'Bank' as part of their name. Eg. Co-operative Land Mortgage Banks and Service Co-operative Banks. Many of them are undertaking trading activities side by side with banking business and all of them are Agricultural Credit Societies. Hence, such societies, though generally called Co-operative Banks, are excluded from the scope of this study.

Primary Co-operative Banks in Kerala :

1.5.1 There are 55 Primary Co-operative Banks in Kerala as on 30.4.1986, which are governed by the Banking Regulation Act and are under the direct purview of Reserve Bank of India (see appendix - 1). Of them 4 are Employee's Co-operative Banks. Needless to say, they are expanding with a useful framework of banking facilities which have their own place of importance in the banking structure in this part of our country. All the Primary Co-operative Banks in Kerala, except the four Employee's Co-operative Banks, are called Urban Co-operative Banks. But a number of them are located at semi-urban or rural areas. Their distribution is uneven and many urban areas do not have Urban Co-operative Banks. At the same time, when compared to Agricultural Credit Societies, Urban Banks

have not progressed much. One of the reasons for this is that a major part of village population is agriculturists and the village population out-weighs urban population.

Central Co-operative Banks :

1.6.1 Central Co-operative Banks, otherwise called District Co-operative Banks, lie at the middle in the pyramidal structure of the Co-operative Banking System in India. It is expected to act as a friend, philosopher and guide to the registered primary co-operative societies in the District. The main object of the District Co-operative Banks is to arrange the supply of finance to the constituent member societies for distribution to their members in different types of loans and to exercise proper supervision and control over affiliated societies. They collect deposits from members and non-members and do banking business. All Primary Co-operative Societies can get affiliated to the Central Co-operative Banks, irrespective of whether they are governed by the Banking Regulation Act or not.

1.6.2 Apart from financial assistance, control and supervision, they conduct periodical conferences of the representatives of the primary societies³. They provide

3 Development Role of State & Central Co-operative Banks - Reserve Bank of India (Agricultural Credit Department), Bombay - Edn. 1973 - page - 18.

the necessary guidelines on lending policy and procedures of the Bank, on matters relating to the development of primaries, resource mobilisation, recovery of dues etc. A number of incentives like rebate on interest and fertiliser distribution grant are provided towards strengthening and stabilising the societies.

1.6.3 To discharge the rural credit functions which were carried out by the Agricultural Credit Department of the Reserve Bank of India in relation to Co-operatives (other than Primary Co-operative Banks), the Central Banks and State Co-operative Banks are now brought under NABARD (National Bank for Agricultural and Rural Development). As a result, Central Banks have played a vital role in the field of institutional credit in rural India.

1.6.4 These "secondary credit institutions at the District Level" not only bring about an equalisation of credit requirements of their co-operatives, but most of them, are closely associating themselves with the I.R.D.P./D.R.D.P. Programmes of the Agricultural Department. In the field of Industrial Finance, their contribution is highly commendable.

1.6.5 As on 30th June 1986, there were 13 District Co-operative Banks in Kerala. Kasarcode District does not have its own Central Bank. (see appendix II)

State Co-operative Bank :

1.7.1 The State Co-operative Bank or the State Apex Bank is the top most bank in the co-operative banking system in a state set up. It acts as the advisor and supervisor of all co-operative banks and societies in the state. Besides the usual banking business, it issues necessary directions and guidelines to the Central Banks and tries to bring about a uniformity in the activities of co-operative societies in the state.

1.7.2 As the leader of the co-operative credit structure in the state, it has to accept the responsibility to identify weak Central Co-operative Banks and draw programmes of rehabilitation or revitalisation for them. "The State Co-operative Banks should also concern themselves with the re-organisation and revitalisation of primary agricultural credit societies in different regions of their area of operation. In fact there is already, a programme for the rehabilitation and revitalisation of central co-operative banks, including the central sector plan scheme"⁵.

5 "Developmental Role of State & Central Co-op. Banks" - Reserve Bank of India (Agricultural Credit Department), Bombay - Edn. 1973-page - 18.

1.7.3 Apart from these special functions, the State Co-operative Banks are in close and constant touch with Central Co-operative Banks through periodical conferences, seminars etc. "It is also one of the basic duties of the State Co-operative Banks to ensure that the defects and weaknesses pointed out by the Reserve Bank of India, in its inspection reports on central co-operative banks and urban co-operative banks are remedied by them and that suggestions for development are carried out by these banks"⁶.

1.7.4 For Kerala, the State Co-operative Bank is "The Kerala State Co-operative Bank Ltd". Its Head Office is at M.G. Road, Trivandrum, with Regional Offices at Ernakulam, Calicut and Trivandrum and has eleven branches. Membership is restricted to District/Central Co-operative Banks in Kerala and the Government of Kerala.

Need for the Study :

1.8.1 When compared to other firms in the banking industry, co-operative banks have a number of distinctive features like dual control, open membership, democratic management etc. Again, from the point of view of the Banking Regulation Act, there were only 51 Primary Co-operative Banks in Kerala as on 30.6.1984, 48 of them

6 *ibid*

being urban banks. "The Reserve Bank of India has now apparently come to the conclusion that, with the growth of branches to over 50,000 and each branch on an average serving a population of 13,000 in urban areas and 16,000 in rural and semi-urban areas, there is no need for banks to grow in terms of number of branches, but, on the other hand, they must enter a stage of consolidation"⁷.

The Reserve Bank of India feels that even "the commercial banks have to build a new image, as far as their operational efficiency and customer service are concerned"⁸. According to Mr. Goiporia, Chairman, Indian Banks Association, "only about 20% of the resources raised by banks were available for lending at commercial rates of interest"⁹.

1.8.2 If this is the situation in commercial banks, still worse is the case with the co-operative banks. In the predominantly agricultural economy of our country, State Co-operative Banks and Central Co-operative Banks have been traditionally dealing mainly with the provision of agricultural credit. The financial, functional and organisational strengthening of co-operative institutions was strongly emphasised by the 'All India Rural Credit Survey Committee' 1954¹⁰.

7 ibid

8 ibid

9 ibid

10 ibid

1.8.3 Regarding the operational aspects of co-operative banks, especially at primary and central levels, the situation is not pleasant. This is reflected by slackness in internal checks, misappropriation of funds by staff and management, under-utilisation or non-utilisation of financial assistance from apex banks, etc. In addition, 20% of Primary Co-operative Banks are classified as weak and rehabilitation committees are constituted by the Registrar of Co-operative Societies for closer supervision of their operations and for taking steps to improve their functioning. The operational efficiency of a bank is related to its internal organisational system, quickness with which it transacts its business, the degree of service it provides to its constituents etc. Thus to make a comment on the operational efficiency, a study of these factors is necessary.

1.8.4 The developmental aspects include mobilisation of resources, employment of funds, loan policies and procedures and management and administration. The funds of a bank can be own funds, deposits and borrowings. When compared to commercial banks, co-operative banks are too backward in the mobilisation of resources. The plea that branches of other banks exist in the area, should not be an excuse for this. Realistic planning and dynamic approach are highly necessary. Here, much depends

on the efficiency of management. Equally important is that the quality and variety of services rendered by these banks should improve.

1.8.5 It is doubtless that there is a large quantitative increase in co-operative credit. But when it is examined in relative terms, the score is not so pretty.

1.8.6 In Kerala, there were 51 Primary Banks as on 30.6.1984, 13 Central Banks and one State Co-operative Bank. Action has been taken to organise new urban co-operative banks in 20 municipal towns. As on 30th June 1984 there were 3.25 lakhs members in the primary banks with a total of Rs. 5,153.75 lakhs of deposits ie. average number of 'A' class membership is 6,430 and average deposit per bank is Rs. 101.05 lakhs. The total deposits of 12 Central Co-operative Banks as on 30.6.1984 was Rs. 19,173.75 lakhs. (Data collected by Survey)

1.8.7 The Central Banks are district level apex banks for all the co-operative societies in the district concerned and State Co-operative Bank is the apex bank for all co-operative societies in the state concerned. Thus, for co-operative banking system and co-operative credit system the difference is only at the primary level.

1.8.8 Thus, to evaluate the working of Co-operative Banking System in Kerala, the study should cover primary,

central and state co-operative banks. Besides no study has yet been conducted on the "Co-operative Banking System in Kerala". Hence, it is proposed to conduct a systematic study to evaluate the working of the co-operative Banking System in Kerala.

Objectives of the study :

1.9.1 Co-operative Banks, as stated earlier, have many distinctive features. Open membership is one of the fundamental principles or tenets of co-operative enterprise and endeavour. The Reserve Bank has been persuading the urban co-operative banks and Registrars of co-operative societies to follow the broad policy of open membership. Similarly, the District Banks are required to keep membership open to every registered primary co-operative society in its area, unless otherwise disqualified. How far these banks have succeeded in carrying this out, is one of the most important objectives of this study.

1.9.2 The membership of urban co-operative banks, at present, consists of regular or share holder members and nominal or associate members. The nominal members do not subscribe to share capital, nor do they have the right of voting. They are not entitled to dividend and do not have any liability in the case of the bank being wound up. Enrolment of a good number of nominal members on a continuing

basis and providing them credit facilities on equal footing with the regular members amount to dilution of the basic concept of nominal membership. Therefore another objective of this study is to evaluate the effect of nominal membership on the performance of these organisations.

1.9.3 In spite of the various measures adopted by Reserve Bank of India under the Banking Regulations Act 1949 (As applicable to co-operative societies) and introduction of statutory inspection at periodical intervals, it is observed that some banks exhibit serious financial and operational weaknesses. Those banks whose bad and doubtful debts, other 'bad' assets and accumulated losses reach 25% or more of the own funds, or whose overdues as at the end of the co-operative year included 50% of the loans outstanding are identified as weak and are brought under the programme of rehabilitation. There were 26 primary co-operative banks in 7 states which were identified as weak, with reference to their financial position as on 30.6.1971¹¹. The number gradually increased over the years and as on 30.6.1982 as many as 94 banks forming 7.4% of the total number in the country in 14 states have been classified as weak banks¹². In Kerala, as on 30.6.1984,

11 Report of the Second meeting of the standing advisory committee for Urban Co-operative Banks - Reserve Bank of India (Urban Banks Department), Bombay - 1984 - page - 64.

12 *ibid*

11 banks were classified as weak banks¹³. Hence, the third objective of this study is to highlight the problems and prospects of co-operative banks in general and of weak banks in particular.

1.9.4 A fourth object of the study is to examine the nature and extent of control and assistance exercised by the State Co-operative Bank on Central Co-operative Banks and Primary Banks and by the Central Co-operative Banks on Primary Banks.

1.9.5 Last but not the least important objective is to analyse the operational, managerial and financial efficiency of co-operative banks - State, Central and Primary and to make recommendations to tone up their functioning and to suggest solutions to remove the manifold difficulties which they face.

Hypotheses :

The study seeks to prove or disprove the following hypotheses.

1.10.1 Co-operative Banking has great scope in the banking industry. But it has not made much impact on the banking system of the state.

1.10.2 The Government and Reserve Bank of India have to give more effective attention to the vast potential of this industry.

1.10.3 The nature of management and appointment and administration of staff require serious attention.

1.10.4 The Primary (urban) Co-operative Banks should be given a separate common cadre as Central Banks are largely concerned with agricultural societies. The existance of Central Co-operative Banks has not favoured the growth of Urban Co-operative Banks.

1.10.5 The underlining principle of open or universal membership is yet unknown to many co-operative banks in the state. This is a challenge to the principles of co-operation and therefore more effective measures are necessary on schemes of membership in co-operative banks.

1.10.6 The co-operative department in the state should have a separate cell with specially trained staff for co-operative banks coming under the purview of Reserve Bank of India and the Banking Regulation Act.

1.10.7 The ranking of banks by the department, should be based on performance and financial position and not on working capital alone, as is being done now.

Methodology :

1.11.1 No study has yet been conducted on the Co-operative Banking System in Kerala. The Report of the Madhavadas Committee (1978) covered Urban Co-operative Banks alone and that also for all the banks in the country. In this project, which is a census study, survey method and interview method are relied upon. This is mainly descriptive and analytical in character and tables have been incorporated wherever necessary. The population size as on 30.6.1984 was as follows :

Primary (urban) Co-operative Banks	-	51
District Co-operative Banks	-	12
State Co-operative Bank	-	1

The number was arrived at from the records of the Reserve Bank of India, Kerala State Co-operative Bank, District Co-operative Banks and Co-operative Department Offices. For availability of data and reliability of conclusions all the units are taken into consideration. Many visits were made to each bank to interview the members of the board of directors, the chief executive officer and the staff members.

1.11.2 To study the working of the banks, reports and accounts from 1.7.1980 were collected and examined. Depth

interviews were conducted at all banks, using pre-constructed and pre-tested interview schedules.

Besides, the Bye-laws, Annual accounts and reports were collected for 4 years.

1.11.3 The primary data collected were classified and tabulated before making statistical and logical analysis.

1.11.4 For documentary evidence, sufficient footnotes are given wherever secondary data are used.

Scope and Limitations of the Thesis :

1.12.1 The co-operative credit structure in a state set up consists of 3 tiers - Primary Societies at the base, District Co-operative Banks at the middle and State Co-operative Bank at the top. But, some Societies at the primary level are governed by, in addition to Co-operative Societies Act, the Banking Regulation Act. Thus they are under dual control. In addition, they are working under the direct purview of Reserve Bank of India. The scope of this study is restricted to such Primary Societies, District Co-operative Banks and State Co-operative Bank.

For the evaluation of the working of Co-operative Banks, the board of directors and staff were interviewed with the help of pre-constructed and pre-tested interview schedules. However, the share holders and customers were

not interviewed mainly because almost all respondents were reluctant to provide copies of an exhaustive list of share holders and non-share holder customers, for the purpose of maintaining secrecy. This being an individual work, it was found physically and financially very difficult to extend the study so as to cover the share holders and non-share holder customers. Limitations of time were also responsible for restricting this study.

The period of study was restricted to 1980-'81 to 1983-'84 as the data relating to earlier periods were firstly not available from all banks and secondly the prior data was considered out of date for the purpose of the study.

Scheme of the Report :

1.13.1 The thesis is divided into five chapters and the following are the chapter headings :

Chapter	1	Introduction
Chapter	2	Primary Co-operative Banks
Chapter	3	District Co-operative Banks
Chapter	4	State Co-operative Bank
Chapter	5	Conclusions and Recommendations

1.13.2 The first chapter introduces the subject of the study. It explains why the study was undertaken and the

objectives, hypotheses, methodology etc. of the study are explained.

1.13.3 The second chapter traces the evolution and history of primary (urban) co-operative banks in Kerala. A careful attempt is made to explain the position of these banks in Kerala against the all India background. The resources position, managerial and personnel aspects, financial and operational features etc. of these banks are examined in this chapter. The second chapter ends by briefly reviewing the present problems and prospects of the primary banks and suggesting measures for further expansion and development.

1.13.4 Chapter III is concerned with the working of District Co-operative Banks/Central Banks. In the agricultural sector of the Indian economy, these banks have been traditionally dealing mainly with the provision of agricultural credit. The agricultural sector has been accorded a high priority in development plans. The efficiency with which a Central Co-operative Bank carries on with its day-to-day operations would indicate its ability to shoulder greater responsibilities. It is the net effect of various factors such as quality of administration, pattern of its membership, nature of personnel administration, availability and utilisation of funds etc. These factors are examined

in this chapter, as also, the position and performance of these banks in the pyramidal structure of co-operative banks.

1.13.5 Chapter IV deals with the Kerala State Co-operative Bank. Being the state level apex bank for co-operative institutions, its activities like assistance extended to and control exercised on District Co-operative Banks and Primary Banks are examined in addition to tracing its history and development. Its contribution to the co-operative movement in the state is also examined, based on which suitable recommendations are made for further development.

1.13.6 Chapter V summarises the conclusions and recommendations of the study.

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C H A P T E R - II

PRIMARY CO-OPERATIVE BANKS

Origin & Development of Co-operative Banks :

2.1.1 England is considered to be the birth place of the co-operative movement. The industrial revolution and the resultant prosperity for some and misery for others had a direct bearing on the origin of the co-operative movement. Side by side with the industrial prosperity, the gulf between the working class and the factory owners also increased. The 'Corn Laws' enacted by the then British Government resulted in the sky-rocketing of prices and adulteration of food stuff¹⁴. The working classes protested against this and attempted to root out the evils. Many movements took place - the important ones were friendly societies, trade unions, and co-operative movements.

2.1.2 If England is considered to be the birth place of consumer Co-operatives, Germany is the cradle of Credit

14 Balan T.S. - Co-operation: Principles and Practice - published by the Author, Trichur - 1982 - P - 14

co-operatives in the world. Mr. F.W. Raiffeisen and Mr. Schulze Delitzsch were the two pioneers of the co-operative credit movement in Germany¹⁵. They tried the self-help methods which brought them considerable success.

2.1.3 Though the idea of co-operation was borrowed from Western countries, unlike in European countries, co-operative movement in India was introduced as a state policy. It was initiated and supported by all the state governments. This feature is still dominant in the movement. Again, the co-operative movement in India is identified with co-operative credit movement¹⁶.

2.1.4 Due to the prolonged British rule, the economic stability of Indian villages was totally damaged¹⁷. To the British, India was a supplier of raw materials and a consumer of their finished goods. This resulted in the destruction of cottage and small scale industries. But in the absence of any other alternative, agriculture became the only resort of the Indian masses. This increased the importance of land.

15 ibid page 25

16 ibid page 36

17 ibid page 36

2.1.5 The majority of the agriculturists were forced to depend on money lenders for the capital required for the agriculture. In addition to the very high rate of interest, the money lenders used unhealthy and usurious practices against the illiterate peasants. The saying that Indian farmers are born in debt, live in debt and die in debt proved true and really apt. The acute distress and misery led the farmers to riots. In 1875, the government was forced to seek the help of the military to solve the situation. The Deccan Agricultural Relief Act (1879), the Agricultural Loans Act (1884), Land Improvement Loans Act (1885) etc. were some of the relief measures taken by the government. Though the intention of these Acts was to provide necessary funds to the agriculturists directly from the government, it failed to render any commendable help¹⁸. This gave the necessary push to the co-operative movement to get started.

2.1.6 Sir Frederick Nicholson's report (1895) favoured the working of co-operative credit societies. The Famine Commission Report (1901) also endorsed this

18 *ibid* page 37

view. Meanwhile, Dupernex in U.P., Maclagan in ^{the} Punjab and Lyon in Bengal organised a few co-operative societies on voluntary basis¹⁹.

2.1.7 In 1901 a committee was appointed under the chairmanship of Sir Edward Law by the Government of India to report on the possibilities of starting co-operative societies in India. The committee recommended in favour of the co-operative movement. As a result, the first Co-operative Credit Societies Act 1904 was passed. Thus the co-operative movement was formally inaugurated in India in 1904.

2.1.8 This Act had certain serious drawbacks²⁰.

1. there was no provision for the organisation of non-credit societies
2. it did not envisage Central Banks and other federal societies
3. the basis of classification of societies into urban and rural was un-scientific

19 ibid

20 ibid

2.1.9 A new Co-operative Societies Act was passed in 1912 by the Government of India. This Act provided ample incentives for the alround development of the co-operative movement. It contained provisions for non-credit societies. Societies were classified into limited and unlimited on the basis of liability. The use of the term "co-operative" was restricted to co-operative societies coming under this Act only. The growth and development of the co-operative movement in India is much indebted to the recommendations of the Maclagan Committee²¹.

2.1.10 The states in India, at that time, were enjoying legislative powers. The first Co-operative Societies Act in the Cochin State was passed in the year 1913 and in the Travancore State in the year 1914. The Montague - Chelmsford Act 1919 made co-operation a provincial subject. The Bombay Province framed its Co-operative Act in 1925 and the Madras Province in 1932. At present each state in India has a separate Co-operative Societies Act.

2.1.11 The past eight decades witnessed an alround development in the movement. The number of co-operative

21 *ibid* page 38

societies increased considerably with a proportionate expansion in its volume and variety. At present, the co-operative movement in our country has come to be regarded^{as}/a third powerful sector, next to the private sector and the public sector. It caters to the needs of the people in different walks of life, providing financial and other assistance. On the basis of the kind of services rendered co-operative societies can be broadly divided into credit societies and non-credit societies. Both these types of societies are found in the agricultural and non-agricultural sectors.

2.1.12 For the healthy promotion of co-operative banking in India, in 1952 the Reserve Bank of India started inspection of State and Central Co-operative Banks and Central Land Development Banks. But this was purely on a voluntary basis where the institutions had agreed to allow the Reserve Bank of India to inspect them. But these societies remained outside the scope of the Banking Companies Act which came into force in March 1949, because co-operation was a state subject.

2.1.13 However, the considerable increase in the operation of co-operative banks made it necessary to bring them under the purview of the Reserve Bank of India.

In addition, the statutory control by the Reserve Bank of India was a pre-requisite for extending the benefits of Deposit Insurance Scheme to the Co-operative Banks. In view of these considerations the Banking Laws (applicable to the co-operative societies) Act 1965, was enacted to extend the operation of certain provisions of the Reserve Bank of India Act 1934 and the Banking Companies Act 1949, to Co-operative Banks and the Banking Companies Act 1949 was renamed as the Banking Regulation Act 1949. It came into force on 1st March 1966. Thus the co-operative banks are required not only to comply with the provisions of the Banking Regulation Act but also with other laws applicable to them except in respect of matters specially provided for in the Act. However, powers in regard to incorporation, management etc. of these banks continue to vest with the Registrar of co-operative societies of the state concerned.

2.1.14 In this thesis the term "Primary Co-operative Banks" refers to those co-operative credit societies which come under the said act and the direct purview of the Reserve Bank of India.

Definition of "Primary Co-operative Bank" :

2.2.1 An analysis of the salient features of the important sections of the Act brings out the true nature of these banks.

2.2.2 Section 5 (ccc) of the Banking Regulation Act defines a Primary Co-operative Bank in the same way as given in the Reserve Bank of India Act 1934. According to section 2 (c iii) of the Reserve Bank of India Act 1934 "a Primary Co-operative Bank means a co-operative society other than a primary agricultural credit society,

1. the primary object or principal business of which is the transaction of banking business;
2. the paid up share capital and reserves of which are not less than one lakh rupees, and
3. the bye-laws of which do not permit admission of any other co-operative society as a member".

Features of Primary Co-operative Banks :

2.3.1 The above definition makes it clear that a Primary Co-operative Bank should be a co-operative non-agricultural credit society.

It can carry out only those forms of businesses which have been specified in Section 6 of the Banking Regulation Act in addition to the business of banking. As per Section 9, it is not allowed to hold any immovable property except for its own use for a period exceeding seven years from the date of acquisition of the property or from 1st March 1966 which ever is later. According to Section 11, it should have a minimum of one lakh rupees by way of its paid up capital and reserves, unless permitted in writing by the Reserve Bank of India. A co-operative bank, as per Section 14 A, shall not create a floating charge on the undertaking, property or any part thereof. A co-operative bank is required to maintain a cash reserve with itself or in Current Account with the Reserve Bank of India or the State Bank of India or the State Co-operative Bank of the state concerned or with any other bank notified by the Central Government in this behalf. These banks notified under this section are the State Bank of India and its associate state banks and the 20 nationalised banks. However, for a Primary Co-operative Bank, the cash reserve can be maintained with the Central Co-operative Bank of the respective district. Under Section 20, it shall not grant loans on the basis of the security of its own shares. Unsecured loans to

directors are subject to the directives issued by the Reserve Bank of India from time to time. Section 21 of the Act empowers the Reserve Bank of India to frame policies regarding loans and advances by co-operative banks in general or by any co-operative bank in particular. Section 22 makes it compulsory for a co-operative bank to obtain a licence from the Reserve Bank of India to carry on banking business. Banks which were in existence on 1.3.1966 were required to apply to the Reserve Bank of India for a licence within a period of 3 months and were permitted to carry on business if licences were granted or until they were informed that licences cannot be granted to them. The State Co-operative Banks and Primary Co-operative Banks should obtain prior permission from the Reserve Bank of India for opening new branches in their areas of operation (Section 23). Like other banks, every co-operative bank, as per Section 29 & 30, has to prepare its profit and loss account and balance sheet in the prescribed form. A copy of the duly audited annual accounts signed by the principal officer of the bank and at least 3 directors, should be submitted to the Reserve Bank of India. The balance sheet is also required to be published in one of the local newspapers. Normally these provisions are to be complied with before 31st December, each year.

2.3.2 Section 35 & 35 A of the Banking Regulation Act empowers the Reserve Bank of India to inspect co-operative banks. In the case of Primary Banks, the Reserve Bank of India can authorise the state co-operative Bank to carry out the inspection on behalf of the Reserve Bank of India. The Reserve Bank of India can recommended to the Central Government to order a moratorium in respect of a co-operative Bank (Section 45). The power to issue such a moratorium, however, vests with the Central Government.

Primary Co-operative Banks in Kerala :

2.4.1 A separate act called "The Kerala Co-operative Societies Act 1969" for co-operative societies in Kerala came into force with effect from 15th May 1969. As on 1st July 1984 the total number of co-operative societies in Kerala was 13026²² of which 7711 were under the Co-operative Department and 5315 under other departments. The societies under other departments were as follows²³:

22 Co-operative Guide 1986 - Kerala State Co-operative Inspectors and Auditors Association - Trivandrum - page - 6

23 ibid

Handloom	484
Coir	506
Khadi	1589
Other industrial	1245
Dairy	1131
Fisheries	360

	5315
	====

On the above date (1-7-1984) the number of Primary Co-operative Banks coming under Banking Regulation Act was 51 of which 3 were Employee's Co-operative Banks. Since then 4 more were established including one Employees Co-operative Bank, but they have not been included in the study. All the Primary Co-operative Banks other than Employee's Co-operative Banks are called Urban Co-operative Banks by virtue of their location and they are covered by the definition given to primary co-operative banks in the Banking Regulation Act.

Classification of Primary Co-operative Banks :

2.4.2 Under the existing classification based on working capital, the co-operative banks coming under the Banking Regulation Act are sub-classified into 4 classes as follows :

Class I

Banks with working capital of Rs. 50 lakhs and above.

Class II

Banks with working capital between Rs. 25 lakhs and Rs. 50 lakhs.

Class III

Banks with working capital between Rs. 10 lakhs and Rs. 25 lakhs.

Class IV

Banks with working capital below Rs. 10 lakhs.

In this study, the term 'working capital' refers to funds available for day to day working viz. paid-up-capital + reserves and surpluses + borrowings + deposits - Investment in fixed assets.

2.4.3 According to the above classification, as on 30.6.1984, 32 banks were in class I, 10 in Class II, 6 in Class III and 3 in Class IV²⁴.

24 Data collected in response to question No. 2 in the interview schedule.

2.4.4 16 Banks had obtained banking licence from the Reserve Bank of India²⁵.

2.4.5 Based on Audit Classification for the year 1984, 19 banks each were in class A and class B, 8 banks in class C and one bank in class D. The audit classification of 3 banks for the year was not available²⁶. To one bank the Audit Classification was not applicable for 1984 since it had not completed 2 years of existence.

Objectives of Primary (Urban) Co-operative Banks :

2.5.1 The operation of Primary (Urban) Co-operative Banks, when compared with commercial banks is not so voluminous. But the co-operative banks form an important segment of the banking system because they mobilise deposits from a very large number of persons mostly representing middle and low income groups. In a country like India, where problems of poverty and unemployment are massive, the governmental efforts alone cannot do much. What is more required is self-help and mutual help. This is the aim of the thrift and credit societies and

25 ibid

26 ibid

Primary Co-operative Banks.

2.5.2 The Indian Central Banking Enquiry Committee (1931) observed that²⁷ the duty of urban banks should be to try to do to the small trader, the small merchant and the middle class population what the commercial banks are doing to the big trader and the big merchant. The joint stock banks are not interested in developing the business of small loans because the cost of advancing and recovering them is high²⁸. The Rural Banking Enquiry Committee (1950) also commented on the role that Primary (Urban) Co-operative Banks could play in providing banking facilities.

2.5.3 To provide credit on reasonable terms to the middle class is another objective of these banks. By financing individual industrialists and artisans working in urban and semi urban areas, they are expected to make a significant contribution to industrial development.

2.5.4 Thus the basic objectives of Primary (Urban) Co-operative Banks are promotion of thrift among members

27 Report of the Committee on Urban Co-operative Banks 1978 - Reserve Bank of India (Agricultural Credit Department) Bombay - p - 26

28 *ibid*

and non-members, provision of credit on reasonable terms to persons of limited means, and provision of banking services to customers. Thus a new dimension has been added to the operation of these institutions in recent years with their recognition as appropriate agencies for financing cottage and small-scale industries carried on by individuals as well as firms and joint stock companies²⁹.

Membership and Share Capital :

2.6.1 One of the distinguishing features of co-operative societies and banks is open membership. This means that a co-operative bank should not be confined to any particular community or caste. It should be open to all eligible persons who wish to avail themselves of the services of the bank and are prepared to abide by the obligations of membership, provided they are residing or are employed in the area of operations of the bank. "The membership of urban banks consists, predominantly, of individuals"³⁰.

29 ibid

30 ibid page 132

2.6.2 The membership of the Primary (Urban) Co-operative Banks is generally of 2 types - regular members and associate or nominal members. In this report the regular members are called 'A' class members and nominal members are styled 'C' class members. In addition to this, for state participation in share capital, some banks have another class of shares. In this report such shares are named 'B' class shares.

2.6.3 'A' class shareholders are the regular members of the bank and are entitled to voting right and dividend. They have a right to get, a copy of the audited accounts and annual report of the bank and to attend and participate in the general meetings and/or special general meetings of the bank.

2.6.4 'B' class shares are meant for state participation in share capital. This is desirable to strengthen the equity base of urban banks. In Kerala 25 banks do not have B class membership. The respondents to the schedule in respect of these banks gave two reasons for this :

1. There is no positive provision in the Co-operative Societies Act for government participation in urban banks. However the banks are precluded from issuing shares to the government.

2. Nomination of persons on the boards of banks by the state government does not help the bank in any way.

2.6.5 Persons who are not already members are admitted as nominal or associate members for a specific purpose, for a temporary period. The term specific purpose covers the following³¹:

- a) to stand surety for a borrowing member of the bank.
- b) to borrow occasionally for a temporary period against certain tangible securities such as gold ornaments, fixed deposit receipts, insurance policies etc.

2.6.6 They are admitted as nominal members on payment of an admission fee of a nominal amount. They do not subscribe to the share capital nor do they have the right of voting or right of participation in management. Similarly they are not entitled to receive **dividend**. "While providing for nominal membership or associate membership, it was expected that it would constitute only

a small percentage of the total membership³².

2.6.7 In Kerala, as on 30th June 1984, the average number of 'A' class members per bank was 6432 and 'C' class members per bank stood at 13048. 10 banks did not have nominal membership. Thus for the remaining which have 'A' class and 'C' class members, the average 'A' class members per bank stood at 6898. For the four years ending 30th June 1984, the 'A' class membership increased by 29.32% in total whereas the increase in those banks where there is only 'A' class and no 'C' class membership, A class members increased by 32.4%. At the same time the increase in the 'C' class members for the above period was 29.86%. On the other hand for the 41 banks where there are 'A' class and 'C' class members, the increase in the 'A' class membership for the period was 27.59% only.

2.6.8 The total 'A' class membership on 30.6.1984 was 2,95,856 and 'C' class membership stood at 4,43,615 excluding 6 banks from where data were not available. For the 10 banks which did not have 'C' class membership, there were 53,245 members as on 30.6.1984.

2.6.9 However, the underlying principle of open membership is not satisfied by all the banks. In 5 banks, it was found that the demand for shares was not met at all. The respondents at these banks expressed that this was due to the scarcity of funds and also due to the fear of the bank becoming unwieldy due to excessive membership. In 7 banks, the application forms were issued only on a written request and that also with the consent of the board of directors. Besides, three of these banks insist on getting the application recommended by one of the directors. Twenty two respondents expressed the view that the board of directors are anxious to admit as members only persons recommended by them. This, unfortunately, is an unhealthy tendency which has to be stopped at any cost. For that, the public has to be properly educated about the role and functions of the co-operative banks. Similarly the Co-operative Department and the government should be more vigilant in this respect.

2.6.10 The following table gives the classification of banks on the basis of 'A' class and 'C' class paid up capital.

T A B L E - 1

Classification of banks on the basis of 'A' class and
'C' class paid-up Capital

Paid up share capital - 'A' class in lakhs rupees									
	0-5	5-10	10-15	15-20	20-30	30-40	40-50	Total	
Paid up capital 'C' Class in lakhs rupees	Nil	4	3	2	Nil	1	1	Nil	11
0-10000	6	7	4	1	1	Nil	Nil	19	
10000-20000	5	4	2	1	1	Nil	Nil	13	
20000-30000	Nil	Nil	1	Nil	Nil	Nil	Nil	1	
30000-40000	1	Nil	1	Nil	Nil	Nil	1	3	
40000-50000	Nil	Nil	1	Nil	Nil	Nil	Nil	1	
50000-60000	1	Nil	Nil	Nil	Nil	Nil	Nil	1	
above 60000	Nil	Nil	Nil	Nil	Nil	1	Nil	1	
Total	17	14	11	2	3	2	1	50	

Source : Data Collected in response to question
no. 3(a) in the interview schedule.

Branches :

2.7.1 In terms of section 23 of the Banking Regulation Act 1949 (as applicable to Co-operative Societies), no co-operative bank can open a branch without obtaining permission and licence from the Reserve Bank of India. This is because, the Reserve Bank intends to bring about an orderly and healthy growth in the branch expansion programme of Urban Banks.

2.7.2 In Kerala, 25 banks did not have branches as on 30.6.1984. The remaining banks had branches as follows :

T A B L E - 2

Classification of banks based on number of branches

No. of branches	1	2	3	4	5	6	15
No. of banks	9	7	6	1	1	1	1

Source : Data collected in response to question
No. 5 in the interview schedule

Management :

2.8.1 The need for competent and adequate staff and efficient management in the growth and prosperity of a bank is of primary importance. In the wider sense, as it is often used, the term management includes the general body, board of directors, the Chief Executive Officer and other managerial staff³³. In the context of the numerous and varied activities of these banks and the keen competition that they have to face from commercial banks and private financiers, it has become necessary for them to be well equipped with competent and adequate management.

General Body :

2.8.2 A vigilant general body of members can contribute much to the sound management of a bank. Participation in general body meetings is a right and also a responsibility of every member. In the democratic form of management, directors are elected by the members and hence the members have every right to see that the elected representatives are functioning in the best interests of the bank.

33 Report of the Committee on Urban Co-operative Banks - Reserve Bank of India (Agricultural Credit Department) Bombay - 1979, page - 203

2.8.3. But, however, the data collected in response to Question No. 22 and 23 in the interview schedule, give a disappointing picture in this regard. In three banks, monetary incentives are offered to share holders to attend the meetings and the average strength at the meetings for the last four years is more than 70%. In all other banks the average participation is less than 15%. 12 respondents said that they had to use personal influence to constitute the necessary quorum. This is not a good indication. It is necessary that the members of a bank are sufficiently imbued with the importance of their participation in the bank's working. It is seriously felt that members should be sufficiently educated in this regard. For this, the bank can organise meetings, seminars, group discussions etc. The Federation or Association of Urban Banks can do much in this regard by publishing suitable literature and periodicals. In addition to this, suitable provisions should be incorporated in bye-laws of the Banks and Co-operative Societies Act.

Board of Directors :

2.8.4 In a dynamic society like ours, banks also should be dynamic to cater to the needs of the growing population. The operations of co-operative banks, both

in volume and nature have increased considerably. But "the attitude of urban banks towards administrative principles, procedures, systems and methods continues to be not sufficiently responsive. The traditional outlook about employment of minimum staff at minimum cost still appears to prevail in many of the banks"³⁴.

2.8.5 The board of directors should be able to direct the functioning of the bank. They have to form plans and policies specifically required for each particular bank. They have to see that the funds of the bank are most effectively utilised and that necessary action is taken in accordance with the inspection and audit reports. They must also ensure that the relationship between staff and customers is smooth and healthy.

2.8.6 The number of directors vary from bank to bank. In addition to the elected representatives, there can be directors representing the state government if the state government is contributing to the share capital of these Primary Banks. There were 27 banks with government nominees in the board as on 30.6.1984. Of the remaining 24 banks, one bank did not have an elected

34 *ibid* page 378

board on that date. The details in respect of another bank were not available. Thus the details of 49 banks in respect of board of directors are given below.

T A B L E - 3

Table showing the details of directors

Elected representatives	Government nominees	Total no. of dirs.	Number of banks
12	3	15	1
11	3	14	1
11	2	13	1
9	3	12	2
9	2	11	5
11	Nil	11	1
7	2	9	13
9	Nil	9	7
7	1	8	2
8	Nil	8	2
5	2	7	2
7	Nil	7	11
5	Nil	5	1
T o t a l			49

Source : Data collected in response to question number 7 in the interview schedule.

2.8.7 In the light of views expressed by respondents it is felt that the directors should have the basic minimum qualification i.e. to read, write and understand things without the help of others. However there are no provisions with regard to this either in the Co-operative Societies Act or in the bye-laws of the banks. Many Chief Executive Officers have stated that they find it difficult to get along with the directors who do not have sufficient educational background. Very often, the plans and policies of the directors are meant for the immediate satisfaction of customers belonging to their party or group and are contradictory to the policies laid down by the Department and the Reserve Bank of India.

2.8.8 As on 30th June 1984, 49 banks had a total of 440 directors of whom 35% did not possess even S.S.L.C. and another 35% were S.S.L.C. holders, 23% were graduates, 5% post graduates and 2% had S.S.L.C. with additional qualifications. The absolute figures are as follows:

T A B L E - 4

Details regarding educational background of board of directors

Below S.S.L.C.	S.S.L.C.	Under graduates, but with S.S.L.C. and additional qualifications	Graduates	Post Graduates
154	154	7	103	22

Source : Data collected in response to question No. 8 in the interview schedule.

2.8.9 Hence the Reserve Bank of India and the State Government should see that a director has a prescribed minimum qualification ie. the ability to read and write. Again those contesting for directorship should have completed at least 2 years as regular members³⁵ and they should have had an operating account with the bank atleast for the same period. This is because only those having continued association with the bank should be eligible to seek election.

2.8.10 Besides, to improve the working of the bank, and to ensure co-operation and co-ordination of directors, there should be continuous programmes to develop themselves into a competent administrative body.. It can be in the form of conducting workshops, seminars, periodical training, conducting study tours to other banks etc., on a compulsory basis. The State Co-operative Union and the National Federation of Urban Banks can frame the necessary policies for this.

Board Meetings :

2.8.11 The second part of the primary functions of a bank ie. lending is done in a co-operative bank after obtaining sanction from the board of directors, on individual applications, except in the case of gold loans. For this,

the members of the board have to meet promptly at periodic intervals. Failure to do so may call for share holder's dissatisfaction, which in turn, will have an adverse effect on the progress of the bank. For the four years ending 30 June 1984, only 40 banks could conduct the board meetings in time. In all other cases there were adjournments of board meetings due to lack of quorum. This is not a healthy indication. The bye-laws of the banks should contain necessary safeguards in this regard. For example, the absence of a director in two or three consecutive board meetings, should result in the termination of his directorship.

2.8.12 "In the formation of policies, political aims are given more importance in the banking industry to-day. This is the reason for the problems faced by this sector. If economic development is stressed more than political aims, many of the problems can easily be solved"³⁶. This opinion of Justice U.L. Bhat is really apt in the case of Co-operative Banking also. Of the total directors in the primary banks, 77% contested for directorship under the banner of political parties. This is natural in elections in a democratic set up. If the government was

36 Malayalammanorama daily dated 14.4.1986, Cochin edition - page - 8 (translation)

alert and resourceful, it would have sent specialists or at least persons with practical know-how in the banking industry to the board as nominees. But none of the government nominees as on 30.6.1984 possessed such skill or knowledge. Besides 8 respondents expressed the view that the political background of directors affected the deposit mobilisation of the banks adversely.

Chief Executive Officer and Staff :

2.8.13 The Chief Executive Officer is the connecting link between the board of directors and the staff. The success of a bank depends much on the competence of the Chief Executive. The finance management of a bank, in accordance with the Act and the directions of the Reserve Bank of India is the main task of the Chief Executive. When the directors are handicapped for want of practical knowledge in banking, it becomes the sole responsibility of the Chief Executive to enlighten them. Delegation of authority and division of work among the staff is another important policy for the Chief Executive.

2.8.14 Every bank in Kerala has a full-time, paid, Chief Executive though designated differently as Secretary, General Manager, Manager etc. The power of appointment

to this post is vested with the board of directors. The appointment may be either by promotion from among the staff or by direct recruitment. All the banks follow the same procedure for direct appointment like advertising the vacancy in the local newspaper, conducting written test or interview or both. The minimum qualifications, terms and conditions of appointment etc. are contained in the Co-operative Societies Act.

2.8.15 Regarding the staffing pattern there was no uniformity in the banks visited in connection with this study. "Since Urban Banks are of different sizes and of varying volumes of work and operations, it is not practicable to suggest any uniform norm either in the organisational set up or in the staffing pattern both at the head office and the branches of Urban Banks"³⁷. The highest number of staff including Chief Executive Officer was 102 and the lowest 8.

2.8.16 In this report the total staff are categorised as follows :

- a) Chief Executive Officer - usually designated as Secretary or General Manager or Manager.

37 Report of the Committee on Urban Co-operative Banks - Reserve Bank of India, Bombay - Edn. 1978 p - 213

- b) Officers - consisting of Assistant Secretary/
Deputy General Manager/Assistant Manager,
Chief Accountant and Accountants.
- c) Clerks - consisting of Senior Clerks, Junior
Clerks, Cashiers and Typists.
- d) Sub-staff which includes Defedars, Attenders,
Peons and Sweepers.
- e) Others - including watchmen, record keepers and
bill collectors, drivers, gold appraisers etc.,
whose appointments are on a full time basis.

2.8.17 Every Primary Co-operative Bank in Kerala has a Chief Executive Officer. Excluding him, the numerical relation of officers and clerical staff is shown in Table 5 on page 59.

2.8.18 The numerical relationship between the Staff including the Chief Executive Officer and Sub-staff in the banks interviewed showed the following position and is shown in Table 6 on page 60.

2.8.19 The minimum staff considered necessary by the Committee on Urban Banks appointed by the Reserve Bank of India headed by Shri. K. Madhava Das was one Chief Executive Officer, 2 officers in metropolitan cities and

T A B L E - 5

Table showing Staff Composition

Clerical Staff							
Officers	0-5	5-10	10-15	15-20	20-25	above 25	Total
NIL	1						1
1	3	1	1				5
2	1	3					4
3	1	7					8
4		4	1				5
5		2	1				3
6	1	3	4				8
8			5	1			6
9		1		1		2	4
10				1			1
12					2		2
13			1			1	2
16						1 clerks 67	1
Total	7	21	13	3	2	4	50

Source : Data collected in response to question No. 14
in the interview schedule.

T A B L E - 6

Table showing the distribution of banks on the basis
of various class of staff

Sub- staff	Secretary, Officers and Clerical Staff						Total
	0-10	10-20	20-30	30-40	40-50	above 50 (84)	
0-5	12	14	-	-	-	-	26
5-10	7	7	1	-	-	-	15
10-15	-	1	2	1	2	-	6
15-20	-	-	1	-	-	1	2
20-25	-	-	-	1	-	-	1
Total	19	22	4	2	2	1	50

Source : Data collected in response to question
number 14 in the interview schedule.

one officer in urban and semi-urban centres, 3 clerks in metropolitan and urban centres and 2 in semi-urban centres and 2 sub-staff for each bank. This norm is satisfied by all banks in Kerala except one in semi-urban area in the matter of officers. Yet, many banks are under-staffed, when compared to the above norms. At present, the number of staff is fixed on the basis of

classification of banks on the basis of working capital. All the respondents except two complained that the vacancies resulting from the upgradation of banks from the existing class to a higher class is pending for approval by the department and this adversely affects the functioning of the bank.

2.8.20 The procedure for recruitment of staff varies from bank to bank. 18 banks follow the same procedure i.e. advertising the vacancies in a local newspaper, conducting written test through an independent outside authority, conducting interview for those who come up in the test and preparing and publishing a rank list. 27 banks do not prepare and publish a rank list including waiting list. In 4 banks, only an interview is conducted by the board of directors for the selection of staff. In one bank both the test and interview are conducted by the board.

2.8.21 The data collected in response to question No. 6 (a) and (b) and question No. 19 (d) reveal that 14 banks give preference to local hands in the appointment of staff. As on 30.6.1984, 17 banks did not have any employee from outside the area of operation of the bank concerned. The data of one bank was not available.

For the remaining 33 banks, 19 banks have less than 5 employees from outside the area of operation and 8 banks had more than 5 but less than 10. For the other two banks the number of employees from outside the jurisdiction was 15 and 20.

2.8.22 Today, co-operative banks have to compete with commercial banks in many respects. Hence the recruitment and training of staff requires serious attention. Promotions are purely based on seniority and no system of efficiency evaluation or merit rating is found in any bank. No doubt, this will not improve the quality of the staff. If the most efficient and least efficient are allowed to occupy the same chair, it will lead to deterioration of quality of the bank staff. For the four years ending 30.6.1984, the number of persons who resigned from the banks seeking employment in some other field was 58. The total number of staff, excluding the Chief Executive Officers, as on the above date for 50 banks was 1,178 resulting in an average of 23.56 per bank.

2.8.23 Hence, it is felt that the Primary Co-operative Banks coming under the Banking Regulation Act should be given a common cadre in the state level and a separate department should be formed under the State Co-operative

Bank for this purpose. The staff requirements of the banks should be met by this department in consultation with the Co-operative Department. For this, it can follow the procedures of the Banking Service Recruitment Board (B.S.R.B.) meant for the nationalised banks. The training of the staff should be conducted periodically on a compulsory basis. Promotions should be based on seniority-cum-efficiency and not on seniority alone. For this, competitive objective type examinations and interviews should be conducted and the confidential reports sent by the Chief Executive Officer and board should also be taken into account. This will enable the banks to get the right man in the right place. Besides, as it is done by a common body for all the co-operative banks in the state concerned, the selection can be from a larger group and hence considerable savings in cost of recruitment can be effected.

2.8.24. Regarding monetary benefits, perquisites and non-monetary benefits there was no uniformity in these banks. For example, of the 51 banks as on 30.6.1984, only 9 banks were providing housing loans to the staff. 7 banks provided vehicle loans and cash credits. Other banks did

not have any provision in this regard. 18 banks were not covered by the Employees Group Insurance Scheme to provide retirement benefits. In one bank, no measures had been taken to provide for gratuity. The views expressed by the respondents in response to question numbers 17, 21 and 22 in the interview schedule reveal that the staff had protests in this regard. Many of them have stated that the managements were not caring for their demands which have already been met by many other banks in the same field.

2.8.25 It is true that the perquisites and fringe benefits available to the staff depend on the working, funds and profits of the bank. Yet, there should be some uniformity in this respect. As stated in 2.4.2, banks are now classified into 4 classes based on working capital. This is not scientific. Yet, worse is the fact that above Rs. 50 lakhs of working capital all banks were classified in class I. As on 30.6.1984 the working capital of 3 banks had exceeded Rs 3 crores. This reflects the lack of imagination of the department in classifying the banks. Working capital reflects only one side of the working of a bank. A more realistic classification should consider

the following factors giving due weightage for each factor :

- a) Deposits - Advances
- b) Number of transactions
- c) Audit classification
- d) Dividend
- e) Viability and
- f) Working capital

2.8.26 The monetary and non-monetary benefits, perquisites and fringe benefits should be based on the above classification and uniformity should be maintained by banks falling in the same class. The State Co-operative Bank can frame policies in this regard.

2.8.27 The data collected in response to question No. 17 in the interview schedule revealed that 28 banks, for the four years ended 30-6-1984, did not have the problems of labour turnover. The data for one bank was not available. For the remaining 22 banks the labour turnover ratio i.e

$$\frac{\text{Number of employees replaced during the period}}{\text{Average number of employees during the period}} \times 100$$

was less than 15% for the four years period.

2.8.28 In all the banks in Kerala, the board of directors is the loan sanctioning authority except for gold loans. The minimum period between 2 meetings is one week and the maximum period is one month. Even for the premature payment of deposits, board's sanction is required, whereas in commercial banks, the branch managers can sanction small loans without consulting the Head Office. Therefore in urban banks also small loans and small deposits should be under the powers of the Chief Executive Officer. The amount of such loans and advances should be based on the classification of the banks and therefore should vary from bank to bank. This will strengthen the relationship between staff and customers.

2.8.29 In the light of views expressed by the respondents, in response to question Nos. 12 and 13 in the interview schedule, it is found that there exists mutual co-operation and healthy relationship among and between share holders, staff and board of directors in 44 banks. In 7 banks the relationship between staff and board of directors was not satisfactory. Neither the directors nor the members of the staff were prepared to disclose the reasons and effects of this.

Dividend :

2.9.1 The 'A' class share holders of a co-operative bank are entitled to a maximum of 10% by way of dividend. The average rate of dividend, for four years ending 30.6.1984, declared by banks in Kerala :

TABLE - 7

Table showing the classification of banks on the basis of dividend declared

<u>Dividend rates</u> (per cent)	<u>Number of banks</u>
10	24
9 - 10	1
8 - 9	2
7 - 8	7
6 - 7	Nil
5 - 6	1
4 - 5	1
3 - 4	2
2 - 3	1
1 - 2	4
Nil	7
Data not available	1

Total	51
	=====

Source : Data collected in response to question number 21 in the interview schedule

Viability of Urban Co-operative Banks :

2.10.1 Urban Banks have an important role to play in the field of banking in urban and semi-urban areas. An area is said to be metropolitan where the total population is over 10 lakhs and if the population is above one lakh but less than 10 lakhs, it is called an urban area. A semi-urban area is one where the population is less than one lakh³⁸. The development of Urban Banks should be on dynamic and innovative lines and for this, economic viability is absolutely essential.

2.10.2 An institution can be deemed as viable, if the income earned is adequate to cover its expenditure and leaves a certain amount of surplus to pay a reasonable return on capital³⁹. Thus the ability to earn profit is a basic requirement, but merely because

38 Ibid P 71

39 Report of the Committee on Urban Co-operative Banks- Reserve Bank of India, Bombay Edn : 1979 page 69.

an institution is working at a profit, it cannot be deemed as viable⁴⁰. Banks with very low level of operations are making profits, keeping its management and establishment expenses at the minimum. Therefore, a more realistic approach to viability is to see whether or not an urban bank is able to carry out the role assigned to it. A viable unit should be able to adequately tap the potential both by way of collection of deposits and by way of lendings in its area of operations. Efficient management and quantitative and qualitative adequacy of staff, are required for this. In other words "viability is closely linked to efficiency of operations and management" 41.

2.10.3 Apart from the efficiency of management and adequacy of staff, area of operation, location of the bank, number of branches etc. are factors determining the efficiency of a bank. The norms of viability, therefore, should consider all these factors. The norms of viability

40 ibid

41 ibid P 70

prescribed by the Committee on Urban Co-operative Banks in regard to share capital, reserves, deposits, borrowings and working capital are as follows :⁴²

	Rs. in lakhs		
	<u>Metropolitan Centres</u>	<u>Urban Centres</u>	<u>Semi-urban Centres</u>
Share capital	6.00	4.50	2.25
Reserves	1.20	0.90	0.45
Deposits	44.00	33.00	17.70
Borrowings	6.00	4.50	1.50
Loans and advances	40.00	30.00	15.00
Working capital	57.00	43.00	22.00

2.10.4 The above norms are to be attained by a bank at least by the end of 5th year. "However in order to ensure the sound growth of urban banks, the Reserve Bank has been stipulating the collection of a minimum share capital of Rs. 3 lakhs prior to licensing of a new bank. Depending on the area proposed to be served and the banking facilities available in the area, suitable relaxations are made in this regard⁴³."

42 ibid page 76

43 ibid

2.10.5. The non-viability of Primary (urban) Banks is due to a number of reasons. Section 11 of the Banking Regulation Act states that no co-operative Bank shall commence or carry on banking business in India unless the aggregate value of its paid up capital and reserves is not less than one lakh of rupees. Here value means the real or exchangeable value and not the nominal value as shown by the books of accounts. On account of erosion in the value of assets, and in turn, depletion of the realisable value of paid up capital and reserves to a level of less than Rs. one lakh, banks may become unable to satisfy section 11 of the Act. Very high rate of overdues is another reason for the non-viability of banks. When overdues are large, a sizeable portion of the own funds are eroded in the event of non-recovery of overdues.

2.10.6 There is another class of weak Urban Banks in the sense that their business is very low in spite of their existence for a long time and they are not viable. "On the basis of recommendations of the Committee on Urban Co-operative Banks, it has been decided that such banks should be identified and they should be given a programme of revitalisation to meet

the level of viable business within a period of 3 to 5 years as per the standards referred"⁴⁴; Failure to meet the level of viability may call for voluntary or compulsory merger with the adjoining Urban Banks or even liquidation in case of no other alternative.

2.10.7 Non-availability of well qualified and competent hands to function as a Chief Executive Officer might be one of the factors contributing to the weakness or stagnation in the business of an Urban Bank⁴⁵.

Providing a common cadre for Primary (urban) Co-operative Banks and recruiting staff including the Chief Executive Officer by a common outside independent authority can solve this problem. This is because the common cadre will enable inter-bank transfers and above all, the selection of staff can be from a larger group.

2.10.8 The Reserve Bank of India prepares lists of weak Urban Co-operative Banks and circulates these among the Registrars of Co-operative Societies and the State

44 "Back ground materials for the Regional Seminar of Directors and Chief Executives of Primary (urban) Co-operative Banks and District Co-operative Banks"- Kerala State Co-operative Bank Ltd., Trivandrum Edn: 1983 page 7.

45 *ibid*

Co-operative Bank. On the basis of this list, the State Co-operative Bank assists the Primary Banks concerned to overcome their weaknesses and to emerge as viable units within as short a period as possible.

2.10.9 A weak bank, as per the norms adopted by the Reserve Bank of India, is one whose bad and doubtful debts, other bad debts and accumulated losses exceed 25% of the own funds or whose overdues exceed 50% of the outstanding loans ⁴⁶. The healthy growth and development of co-operative banking has been adversely affected to some extent by the existence of such weak and non-viable banks. Such banks are brought under a scheme of rehabilitation. Review Committees are set up by the Co-operative Department and the Apex Bank is required to set up a rehabilitation cell to monitor the programme and evaluate the progress.

2.10.10 In India, as on 30.6.1976, there were 115 Primary (urban) Banks under rehabilitation, which figure has come down to 71 at the end of June 1982 ⁴⁷. In addition to this, there were 30 banks as on 30.6.1982 which were not satisfying Section 11 (1)

46 *ibid*

47 *ibid*

(minimum requirement of capital and reserves) and Section 22(3) (a) (ability to pay present and future depositors) because of heavy erosion in the value of assets and other operational defects. As on 30.6.1982, there were 8 banks under rehabilitation in Kerala. The number increased to 9 as on 30.6.1985, by removing two banks from the list of weak banks and bringing 3 more banks to the list⁴⁸.

2.10.11 The latest development in this line is the suggestion to revise the norms of viability which has been in vogue ever since 2nd June 1979. The Reserve Bank has now proposed, after studying the position of several Urban Banks to revise the norms necessitated as a sequel to various instructions issued by the Reserve Bank governing lending policy as well as interest rates on deposits. Since 1979, interest rates on advances, especially to the weaker sections and priority sectors have undergone a downward revision affecting the profitability of Urban Banks. At the same time the cost of deposits have gone up on account of upward revision of the rates of interest on

48 Reserve Bank of India, Trivandrum - Circular No. UBD (T) No. INSP. /K025 (A) - '86 dated 14.3.1986.

deposits. The cost of management (establishment) has also increased considerably resulting in lower margin of profit. The proposed norms are as under :

Rs. in lakhs

Item	For Banks		For Branches	
	Urban Centre	Semi-Urban Centre	Urban Centre	Semi-urban Centre
1. Share capital	9.00	4.00	-	-
2. Reserves	2.00	1.00	-	-
3. Own funds (1+2)	11.00	5.00	-	-
4. Deposits	70.00	32.00	30.00	15.00
5. Loans and Advances	70.00	30.00	25.00	13.00
6. Working capital	90.00	40.00	-	-
7. Borrowings	9.00	3.00	-	-

2.10.12 In the above proposed norms, borrowings may not be necessary, if the bank is able to achieve the required level of working capital with own funds and deposits. If the revised norms are implemented, the number of weak banks in Kerala will become 10 as on 30.6.1985.

Employment of Funds, Profit and Profitability :

2.11.1 The term profit, from the accounting view, refers to the excess of income or revenues over expenses for a given period. But the term profitability is composed of two words 'profits' and 'ability'. Ability means earning power or operating performance of the concerned investment⁴⁹. Thus the term profitability can be defined as the ability of an investor and investment to earn a positive return from its use.

2.11.2 The general health of a firm is very much reflected in the health of its earnings. This is true in case of co-operative banks also. When a bank fails to attain and maintain a reasonable return from its investment at least to run at break-even, it can be called a sick unit. Co-operatives are not rigidly profit-oriented, but they cannot afford losses. Even the bye-laws of the banks are silent about the level of profit earnings. But they deal with the distribution of net profits. "This clearly indicates that the profit is neither the yardstick for measuring the efficiency and achievement of the co-operatives nor the profit motive

49 "Profitability in Co-operatives" by G. Anjaneyalu and Dr. D. Dakshinamurthy - "The Co-operator" page 289 Vol. XXIII No. 11 Dec, 1985.

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is new to co-operatives. Rather, the surplus earned enables the co-operatives both to eat their cake and have it" ⁵⁰.

2.11.3 At the same time, these institutions have to take up great social responsibilities. To fulfil this and function as economically viable units, a sufficient return on capital is necessary. Thus the profitability concept should be viewed with a new meaning in co-operatives and should aim at reasonable profit maximisation in view of the following ⁵¹.

- 1) The attainment of social and economic welfare of members.
- 2) A reasonable rate of return on the sum invested must accrue to the society.
- 3) The rate of return should be higher than the cost of capital or cost of loan.
- 4) The invested money must be recovered giving scope for expansion.

50 ibid

51 ibid

2.11.4 For the economic viability of an institution, the income earned should cover its expenditure adequately and leave a certain amount of surplus to pay a reasonable return on capital. Profit, being the excess of income over expenditure, much depends on the relation between sources of funds and applications of funds. Paid-up share capital, accumulated profits, deposits and borrowings constitute the source of funds. These funds are employed in the form of cash and bank balances, investments, fixed assets, loans and advances etc.

2.11.5 The data collected revealed wide variations in the amount and proportion of resources and investments. Therefore it became necessary, to classify these banks, into different groups and sub-groups.

2.11.6 In this report, for the purpose of analysing profit and profitability, the Primary Co-operative Banks^{are} divided into three categories viz: Employees Co-operative Banks, Banks under rehabilitation and Economically viable banks. Of the 51 banks under study,

3 fall in the first category, 9 in the second and the rest in the third. The numbers of banks included in each category are taken as on 30.6.1985 and the total number as on 30.6.1984.

2.11.7 All the Employees Co-operative Banks as on 30.6.1984 were economically viable units and were making profits as per Profit and Loss Account. But the rate of increase in the operating profit i.e., net profit as per Profit and Loss Account plus non-operating expenses minus non-operating income of one bank, taking 1980-'81 as base year was negative. The net profits for the year 1983-'84 as compared to 1980-'81 of the 3 banks have increased by 60.42%, 124.53% and 43.16%. The bank whose operating income index was negative for the year 1983-'84 had surplus funds with it. (Data collected in response to question No. 27 in the interview schedule).

$\frac{\text{Advances outstanding on 30th June}}{\text{Deposits outstanding on 30th June}} \times 100$ on 30.6.1984 was only 108.52% as against 124.73% on 30.6.1981. Yet, worse is the fact that, Rs. 4.13 lakhs was outstanding under borrowings on 30.6.1984. Another bank also had excess funds with it on the above date. Its rate of

growth in the operating profit with 1980-'81 as base year was 41.95%. Its advances-deposits ratio on 30.6.1981 was 82.49% and 82.23% on 30.6.1984. The 3rd bank had no excess funds with it and its advances-deposit ratio reached 262.88% on 30.6.1984 from 118.16% on 30.6.1981. Again the increase in operating profit of the bank was 525% in 1983-'84 compared to 1980-'81. In several cases, ratios exceeded 100 because own funds and borrowings have also been used for advances.

2.11.8 Besides, the operating profit to working capital ratio of the bank which showed highest increase in operating profit was 2.18% for the year 1983-'84 while it was 1.81% and 1.02% for the other two banks. In addition, investment in fixed assets also varied widely. It is shown in table 8 on page 81.

T A B L E - 8

Table showing sources of funds, profits and related ratios

Serial Number	1	2	3
Own Funds	40.50	14.87	41.94
Deposits	117.31	19.21	226.85
Borrowings	4.13	23.16	NIL
Working capital	136.48	54.48	258.17
Fixed assets	7.21	0.40	0.86
Funds level	Surplus	No excess no deficit	Surplus
Net profit 1980-81	1.92	0.53	3.29
Net profit 1983-84	3.08	1.19	4.71
Operating profit 1980-81	2.17	-0.28	3.29
Operating profit 1983-84	1.39	1.19	4.67
Increasing net profit	60.42%	124.53%	43.16%
Increasing operating profit	-35.94%	525%	41.95%
Advances deposit ratio on 30.6.1981	124.73%	118.16%	82.49%
Advances deposit ratio on 30.6.1984	108.52%	262.88%	82.23%
Operating profit to working capital ratio (1983-84)	1.02%	2.18%	1.81%

Source : Data collected in response to question No. 34 and 35 in the interview schedule and data taken from the Profit and Loss Account and Balance Sheet of respective banks.

2.11.9 The structure of deposits and advances reflects the cost consciousness and income consciousness of the banks. Of the total deposits on 30.6.1984, more than 50% was by way of fixed deposits. Current deposits and savings bank deposits are less expensive. But two banks do not have current accounts as on the above date and for the other, deposits in current account form only 0.09% of the total deposits. On the same date, the share of savings deposits in total deposits were 27.44%, 26.70% and 15.13% respectively.

2.11.10 Irrespective of the purpose, period or amount, loans and advances are charged ~~at~~ a flat rate and the schemes of lending and rates of interest vary from bank to bank. Above all, their present lendings do not satisfy the norms for lending fixed by the Reserve Bank of India, since they are formed with limited interests i.e. welfare of a particular group, as membership is restricted to a particular class of employees. These banks do not provide membership or credit facilities to the general public. Loans are sanctioned ignoring the purposes for which they are intended.

2.11.11 On the basis of the above it is found that, these banks should be excluded from the control of Banking Regulation Act. This is because they are classified as Primary Co-operative Banks only because they accept deposits from non-members. Their credit operations are restricted to members and are in the forms of surety loans, hire purchase loans and gold loans. Loans issued are mostly for consumption purposes. From the point of view of economic development of the society, these banks cannot play any positive role. Therefore, there is no justification in permitting these banks to accept deposits from non-members. Hence it is recommended that the Employees Co-operative Banks, presently classified as Primary Co-operative Banks, should go out of the purview of the Banking Regulation Act and the direct control by the Reserve Bank of India. In addition, they should not be allowed to take deposits from non-members and to use the word 'bank', 'banker' or 'banking' as part of their names.

2.11.12 At the same time, the contribution by these banks, to the economic welfare of its members

cannot be ignored. The credit requirements of salary earners cannot be met by commercial Banks as the loans are often required for consumption purposes. An easy solution to this is a net work of such societies. It should be noted that, the working of these societies cannot be compared with any other co-operative society in the State. Therefore, the State Government should take necessary steps to protect and promote such societies by introducing a separate division in the office of the Registrar of Co-operative Societies for better control, making provisions for recovering loan instalments from the monthly salary of employees and to avoid bad debts and overdues etc.

2.11.13 As on 30.6.1985, 9 banks were under the scheme of rehabilitation because of their economic non-viability. (Refer - Viability of Urban Banks - 2.10.10). The accumulated losses viz. debit balances in the Profit and Loss Accounts of five of these banks outweighed their accumulated profits in the form of reserves and funds. As a result, the net own funds i.e. paid up capital plus reserves and funds minus accumulated losses of two banks as on 30.6.1984 were negative. Details of funds and its employment as on 30.6.1984 and their relation with profits are given in Table No. 9 on page 85

Table showing details of funds and profits

Serial number of Banks	1	2	3	4	5	6	7	8
Deposits	20.61	39.50'	63.35,	10.64,	9.05,	4.76,	39.49,	32.45
Own funds	-0.04	1.75'	5.34,	7.09,	3.58,	-1.13,	5.03,	4.40
Total Reserves	38.52	51.38,	83.03'	42.47'	24.97'	8.28'	58.65'	36.85
Net profit	-3.80	1.06'	-3.60,	0.93,	1.08,	-0.57,	-0.86,	0.16
Operating profit	-3.80	1.06,	10.83'	0.93'	1.10'	-1.39'	-1.62'	-3.7
Borrowings	17.95	10.13'	14.34,	24.74,	12.34,	4.65,	14.13,	NIL
Advances outstanding ÷ Deposits outstanding x 100	144.00	97.82'	100.68,	310.43,	229.94,	89.71,	102.58,	81.76
Deposits outstanding ÷ Total Resources x 100	53.50	76.88'	76.30,	25.05,	36.24,	57.49,	67.33,	88.06
Borrowings outstanding ÷ Total resources x 100	46.60	19.72'	17.27,	58.25,	49.42,	56.16,	24.09,	NIL
Over dues as a percentage to loans outstanding,	11.00	10.60'	41.80,	38.42,	12.00,	45.26,	20.60,	6.16

Source : Absolute figures from Annual Accounts of respective banks.

Note : Data were not available in respect of one bank.

2.11.14 For 5 banks, borrowings were the main source of funds. For them, the operating income was far insufficient to meet even its operating expenses. As a result, erosion of funds was experienced by these banks. The percentage of overdues to loans outstanding on 30.6.1984 was very high for 3 banks. The overdues were 41.8%, 38.42% and 45.26%.

2.11.15 The ratio of interest paid to total expenses and interest received to total income varied widely from bank to bank. The range for the former for the 1983-'84 was $58.93\% - 30.35\% = 28.58\%$ and for the latter it was $85.1\% - 47.06\% = 38.04\%$. The average ratio of interest received to total income for other viable banks worked out to 78.95% whereas the same for the non-viable banks was 69.88%. Similarly the average ratio of interest paid to total expenditure for viable banks was 47.63% while it was 42.79% for non-viable banks. This indicates lower volume of banking operations.

2.11.16 On the basis of assets and liabilities of a viable bank in a semi-urban area, as suggested by the Committee on Urban Co-operative Banks ⁵², the deposits

52 "Report of the Committee on Urban Co-operative Banks"- Reserve Bank of India, Bombay, Edn. 1979 page 80

advances ratio i.e. $\frac{\text{Advances outstanding}}{\text{Deposits outstanding}} \times 100$ comes to 84.75%. All the Primary Co-operative Banks under rehabilitation as on 30.6.1985 are in Semi urban areas with the exception of one which is in an urban area. The details of the one banks were not available. The ratios of seven banks show greater dispersion. The range (largest ratio - smallest ratio) was 310.43% - 89.71% = 270.72%. The average ratio (\bar{x}) of the 7 banks was 153.59% and the median ratio stood at 102.58.

2.11.17 The existence of a very high advances-deposits ratio can be due to many reasons like excessive dependence on borrowed funds, a very high share of own funds in total resources, minimum investment in fixed assets and other investments etc. The ratio of deposits to total resources as suggested by the Committee is 80.82%. But no bank in this category had attained the ratio as on 30.6.1984. The average was 56.11% and the median ratio was 57.49%. On the other hand, the suggested share of borrowings in total resources is 6.85%, but all the 7 banks had a higher ratio as on 30.6.1984. The average ratio was 38.79%. Thus, it is observed that all the non-viable banks in the

semi-urban areas suffer from excessive dependence on borrowed funds.

2.11.18 The only bank which was non-viable in the urban sector disclosed an advances - deposits ratio of 86.83% as against the standard ratio of 90.91 as suggested by the Committee on Urban Banks. The data collected by the survey reveals that the bank has surplus funds with it. This is harmful for the economic health of the bank. By introducing new schemes of advances or by enhancing the maximum limit of existing schemes, the excess funds should be employed. It had no borrowed funds as on 30.6.1984 and the ratio of deposits to total resources was 88.06%. This is 11.14% more when compared to the ratio based on assets and liabilities of a viable bank in an urban Co-operative Banks. In this report the term surplus funds or excess funds refers to working capital - (loans and advances + variable cash reserves as prescribed by the Reserve Bank of India + other contingency reserves).

2.11.19 In the category of economically viable Primary (urban) Co-operative Banks other than Employee's Co-operative Banks, there were 39 banks covered by this

report. 8 of them are located in urban areas and 31 in semi-urban areas as per 1981 census.

2.11.20 Paid-up share capital, Reserves and Surpluses, deposits and borrowings constitute the total resources of the banks. The total resources of the 8 banks in the urban area as on 30.6.1984 was Rs. 1,584.47 lakhs resulting in an average of Rs. 198.06 lakhs. As regards the share of components in the total resources, wide variations are visible. Only two banks in the category had borrowed funds as on 30.6.1984 and the amounts outstanding were Rs. 5.70 lakhs and Rs. 0.30 lakhs. For 6 banks more than 80% of the total resources was from deposits. The share of deposits in total resources of the other two banks was 55.19% and 76.71%.

2.11.21 When compared to other sources of funds, share capital is least expensive because the maximum dividend payable is only 10%. But all banks are not paying dividend at this rate. A viable bank should be able to declare a dividend of at least 6%⁵³. The entire own funds of a bank are not available for lending. A portion of it is always used for investment

53 'Report of the Committee on Urban Co-operative Bank, Reserve Bank of India', Bombay Edn. 1979 page 348.

in fixed and other assets and in purchase of shares of the central or apex bank. Therefore about 75% of own funds could be deemed as available loanable resources ⁵⁴.

2.11.22 Deposits form a lion's share of total resources of all banks. Though costlier than own funds, accepting of deposits forms the primary function of a bank. Size and structure of deposits ranged widely from bank to bank. Nearly one third of the deposits has to be statutorily maintained in the form of liquid assets and only the balance amount is available for lendings. Therefore, about 65 per cent of deposits is available for lendings ⁵⁵. The cost of deposits depends on the rate of interest on deposits which are subject to the directives of the Reserve Bank. Of the total deposits, fixed deposits form more than 50 per cent. According to the views expressed by the respondents the average cost of deposits is taken at 9%.

2.11.23 For the lending operations, Urban Banks are mostly self-reliant institutions depending on their own funds and deposits. Borrowings are costlier when compared to other constituents of the funds. In the light of views expressed by the Chief Executive

54 *ibid*

55 *ibid*

Officers of banks interviewed, the cost of borrowings on an average, come to 12%. Unlike deposits or own funds, normally, 100 per cent of the borrowings can be used for lending operations. The various sources of funds and related ratios are given below:

TABLE : 10

Table showing size and structure of total resources of Primary Banks in the urban centres (viable units only)

(Rs. in lakhs)						
Seri- al No.of Banks	Total own funds	Depo- sits	Borro- wings	Total Reso- urces	Share of own funds in total re- sources as a per- centage	Share of Deposits in total resources as a per- centage
	Rs.	Rs.	Rs.	Rs.		
1	50.25	337.62	0.30	388.17	12.95	86.98
2	26.09	209.57	NIL	235.66	11.07	88.93
3	34.59	168.35	NIL	202.94	17.04	82.96
4	22.45	264.45	NIL	286.90	7.83	92.17
5	37.70	53.46	5.70	96.86	38.92	55.19
6	25.17	82.89	NIL	108.06	23.29	76.71
7	10.77	52.63	NIL	63.40	16.99	83.01
8	29.58	172.90	NIL	202.48	14.61	85.39
Total	236.60	1341.87	6.00	1584.47

Source : Data collected by the Annual Reports

Note : Percentage share of borrowings is not calculated and hence the total of last two columns need not reach 100%.

2.11.24 Based on the Balance Sheet of a viable Urban Co-operative Bank in the urban centre, as suggested by the Committee on Urban Co-operative Banks, the desirable ratios of own funds, deposits and borrowings to total resources are 12.59%, 76.92% and 10.49% respectively. Based on these ratios, all the banks in this category except two are well placed in the matter of own funds and deposits.

2.11.25 The total resources of a bank are employed in the form of cash in hand and at banks and investments to satisfy the liquidity criterion. A portion of it is always invested in fixed assets and the balance in the form of lendings. Cash with banks and investments will earn some revenue to the bank but cash in hand will not earn anything. A lion's share of the income of a bank comes from interest received on loans and advances. Based on the Balance Sheet of a viable bank in an urban area, as suggested by the Committee on Urban Co-operative Banks, a desirable size of cash and bank balances is 4.62% of total resources, investments 22.82%, loans 69.93% and fixed assets and other assets 2.63%⁵⁶. Interest charged on loans and advances vary from bank to

56 *ibid* page 369

bank. Yet, on the basis of views expressed by the respondents, on an average, loans will fetch 14%.

2.11.26 Based on the requirements suggested by the Committee on Urban Co-operative Banks, about 70% of the total resources can be used for lending and the margin i.e. the difference between cost of funds and revenue earned from the employment of it is 4.12% of total resources⁵⁷. But however, on the basis of the report, fixed expenses like staff remuneration, rent, rates, taxes, electricity, directors fees and allowances etc and variable expenses will come to 2% of total resources⁵⁸. Thus, a viable bank in an urban area should earn a minimum of 2.12% of total resources as operating profit.

The following table shows the ratio of loans and advances outstanding to total resources as on 30.6.1984 with operating profit and ratio of operating

57 ibid page 369

58 ibid page 76, 77 and 78

profit to total resources for the year 1983-1984.

Table ; 11

Table showing ratio of loans outstanding to total resources, operating profit and ratio of operating profit to total resources as on 30.6.1984.

Serial No. of Banks	Loans outstanding Total resources x100	Operating Profit Rs (lakhs)	Operating profit Total resources x100	Ratio of operating expenses other than interest paid to total resources
1	81.21	0.88	0.23	4.09%
2	68.28	1.73	0.73	4.01%
3	70.32	3.07	1.51	2.92%
4	56.52	4.72	1.65	2.76%
5	83.19	7.54	7.78	5.49%
6	62.55	1.86	1.72	6.51%
7	80.74	1.02	1.61	7.79%
8	77.04	1.49	0.74	8.05%

Source : Absolute figures from Annual Reports

2.11.27 From the above it can be observed that 3 banks do not show the desirable ratio of loans to total resources. The data collected from these banks reveal that they had surplus funds with them as on 30.6.1984. No doubt, this reflects the inefficiency of management. Either by introducing new schemes of loans and advances or by enhancing the maximum limits of existing schemes of loans, the excess funds should be deployed more effectively.

2.11.28 On the basis of the ratio of operating profit to total resources, it is observed that no bank has shown the suggested ratio except one. But in all the cases, the ratio of operating profit to total resources has exceeded the suggested ratio. In spite of a very high operating expenses ratio, 3 banks have, comparatively, a high operating profit ratio because, in addition to banking business, they are conducting chitties. Though it is sanctioned by the co-operative department, the Reserve Bank of India has not given permission to it. Conducting chitty business is out side the scope of banking business as per section 6 of the Banking Regulation Act. As such it is a matter of contravention of law and therefore the Reserve Bank should take necessary action in this regard.

2.11.29 In the case of Primary (urban) Co-operative Banks located in the semi-urban areas, the norms suggested by the Committee on Urban Comperative Banks working with a reasonable amount of efficiency were as follows ⁵⁹:

<u>Source of funds</u>	<u>Share in total funds</u>	<u>Application of funds</u>	<u>Share in total funds</u>
Own funds	12.33%	Cash in hand and with bank	4.84%
Deposits	80.82%	Investments	23.93%
Borrowings	6.85%	Loans	68.49%
		Fixed and other assets	
	----- 100.00% =====		----- 100.00% =====

A margin (as explained in 2.11.26) of total resources should be available. However, fixed and variable expenses as explained in 2.11.26 will show 2.55%. Of total funds and therefore the operating profit, at the minimum will be $4.16 - 2.55 = 1.61\%$ of total resources.

2.11.30 The volume of own funds, deposits and total resources showed a wide range as on 30.6.1984. For example own funds of banks ranged from Rs. 4.33 lakhs to 96.46 lakhs while deposits ranged from Rs.25.99 lakhs

59 ibid page 80, and 372.

to Rs. 825.04 lakhs. The average own funds per bank was Rs. 23.05 lakhs while the average deposits per bank was Rs.139.84 lakhs. The median value of owned funds worked out to Rs. 16.42 lakhs and median value deposits Rs 7941 lakhs. The range for total resources was Rs. 908.15 lakhs and Rs. 34.18. A frequency distribution related to own funds, deposit, borrowings and total resources is given in Table No. 12 on page 98.

2.11.31. The average total resources of a bank, as on 30.6.1984 worked to Rs. 167.65 lakhs. The median value of resources was Rs. 84.38 lakhs. This indicate the dispersion of banks.

2.11.32 For the year 1983-'84 two banks did not earn any profit. Instead, their operating losses were 0.55% and 0.72% of the total resources. For the remaining 29 banks in the semi-urban area the ratio of operating profit to total resources ranged from 0.10% to 5.65%. The details were shown in table No. 13 on page 99.

Table showing distribution of banks on the basis of Own funds,

Deposits, Borrowings and Total resources as on 30.6.1984

Own funds Class (Rs lakhs)	Deposits		Borrowings		Total Resources		
	Number of banks	Class (Rs lakhs)	Number of banks	Class (Rs lakhs)	Number of banks	Class (Rs lakhs)	
0 - 10	9	0-100	17	0-10	12	0-100	16
10 - 20	7	100-200	4	10-20	1	100-200	5
20 - 30	6	200-300	3	20-30	1	300-400	3
30 - 40	1	300-400	1	30-40	1	400-500	2
40 - 50	1	400-500	1	Banks with, out borro- wed funds		900-1000	1
50 - 60	1	800-900	1		12	Data not available	4
80 - 90	1	Data not available	4	Data not available	4		
90 - 100	1						
Data not available	4						
	31		31		31		31

Source : Annual Reports

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TABLE : 13

Table showing classification of banks on the basis of ratio of operating profit to total resources for the year 1983-'84.

<u>Class</u>	<u>Number of banks</u>
up to 1 per cent	11
1 per cent to 2 per cent	6
2 per cent to 3 per cent	4
3 per cent to 4 per cent	2
4 per cent to 5 per cent	0
above 5 per cent	2
Data not available	4

Total	29
	=====



Source : Annual Reports

2.11.33 The rate of operating profit of 16 banks was below the suggested minimum of 1.61% of total resources. 7 of them had surplus funds with them but other 2 banks complained of shortage of funds. Analysis of the ratio of loans and advances outstanding to total resources revealed that 19 banks had advanced more than the suggested proportion. For 4 banks, whose operating.

profit was less than 1.61% of total resources, the ratio of loans outstanding to total resources was less than 68.49%. At the same time they had surplus funds with them as on 30.6.1984. For all the banks the ratio of expenses (as explained in 2.11.26) to total resources was more than 2.55%. Thus it can be inferred that low ratio of advances to total funds, holding funds idle, and excessive use of funds for administration and office expenses are the reasons for low profitability. A classification of banks on the basis of loans-resources ratio and possession of funds is given below:

TABLE : 14

Table showing the position of funds as on 30.6.1984

Classes of ratio of loans out standing to total funds as on 30.6.1984	<u>Position of funds as on 30.6.1984</u>			
	Surplus	Deficit	Neutral	Total
50 - 60	4	NIL	NIL	4
60 - 70	4	NIL	2	6
70 - 80	4	1	8	13
80 - 90	2	2	NIL	4
Total	14	3	10	27

Source : Data collected in response to question No. 27 in the interview schedule and Annual Reports

Note : Data of 4 banks were not available.

2.11.34 Usually the Primary Banks, do not write off debts due as bad debts. For the four years ended 30.6.1984, only 7 banks have written off dues as bad debts and that also once each. For the seven banks, the average amount written off was Rs. 13,430/- for the said period. But, the problem of excessive overdues is experienced by almost all banks. The ratio of overdues to loans outstanding as on 30.6.1984 ie. $\frac{\text{over dues}}{\text{loans outstanding}} \times 100$ varied from 0.8% to 45.26%. The simple arithmetic mean for the above was 17.73% and median 16.19%. It is doubtless that creation of reserves for overdues in the form of provision for bad and doubtful debts has affected the profits of the banks and also the availabilities of funds. To solve this problem, an easy solution is to restrict the volume of unproductive loans.

Area of Operations

2.12.1 Data collected in response to question number 6 in the interview schedule reveal that there exists a wide imbalance in the jurisdiction of each bank. 36 banks use the term 'urban' or 'town' as part of their names. But, all of them are not situated in urban areas.. Many urban centres like Ernakulam do not have an urban

co-operative bank and are not covered by any of the nearby banks. Of the 1281 urban banks in India, 996 are in Maharashtra, Gujarat, Karnataka and Tamilnadu⁶⁰. This shows that nearly 78% of the banks are established in 4 States. In Maharashtra and Gujarat, urban banks have branches throughout the State and even outside the State⁶¹. On the otherhand, in Kerala, the jurisdiction of all the Primary Co-operative Banks is restricted to a few villages or Municipality. These two extremes point out the absence of and need for a national policy by the Reserve Bank of India, regarding the area of operations of Primary Banks. At present, permission from the Reserve Bank is necessary for Primary Banks to extend their area of operation. The respondents to the interview were unanimous in that the Reserve Bank is refusing applications for extention of area of operations of Primary Banks mainly on two reasons :

- a) the area applied for is not an urban area.
- b) the area applied for has sufficient banking facilities.

60 "Urban Co-operative Banks-New lending policy & problems"
Dessertation submitted in the Regional Seminar of Urban
Banks held on 20.7.1985 at Tripunithura - page 3.

61 ibid p. 19

2.12.2 The adequacy or otherwise of banking facilities cannot be determined only on the basis of number of bank branches and population. At the same time, to maintain mutual knowledge, understanding and cohesion among members and to avoid the dilution of its co-operative character, the area of operation of Primary Banks should not be too large or unrestricted. Therefore it is found, that, the Reserve Bank should have a national policy in this regard taking into account the suggestion made by the Madhava Das Committee on this issue, which are ⁶²:

- a) "Urban Banks having their area of operation confined to the area of municipal limits of the town may be permitted to extend the operational limits to the adjoining rural areas i.e., up to the peripheral limits in conformity with the definition of 'Urban agglomeration' as given in the Urban Land (ceiling and Regulations) Act 1976".
- b) "It is desirable to permit banks in metropolitan centres to operate through out the limits of the metropolitan area".

62 Report of the Committee on Urban Co-operative Banks- Reserve Bank of India-Bombay-1979 p. 111 and 112.

- c) "The tendency to organise more than one bank in the same area of a city without adequate scope is not desirable".

2.12.3 In addition to the above norms, however, sufficient flexibility should be provided for, under certain circumstances. For example, if an urban bank is weak and operations are limited, considering the requirements of the area, the formation of a new bank in that area should be allowed.

Other Facilities in Primary Co-operative Banks

2.13.1 The primary functions of a bank are accepting deposits and providing loans and advances. But this dual role of a bank is not enough for its healthy existence. To-day, almost all banks are undertaking a number secondary services, like collection and payment of funds for the customers, providing safe deposit locker facilities etc. Similarly, newer and newer schemes of deposits and advances are necessary to attract more and more customers. Location of the bank, amenities to customers like chairs, fans, drinking water etc. are other factors which influence the number and volume of transactions in a bank.

2.13.2 The data collected from respondents in response to question numbers 29, 30, 31 and 32 in the interview schedule revealed that many Co-operative banks have to go much ahead in this regard. As on 30.6.1984, only 21 banks could provide safe deposit locker facilities. Facilities for collection and payment of funds for the customers were available only in 21 banks, 7 banks had evening counter facilities and one bank had holiday counter in addition to evening counter. 26 banks had facilities for bank draft transactions free of cost. 34 banks were availing the benefits of Mutual Arrangement Scheme, Kerala (MASK). But, 6 banks, on the other hand, were not rendering any of the above secondary services.

2.13.3 During the four year period ended 30.6.1984, 13 banks had not introduced any new scheme of deposits or advances. Yet worse is the fact that 9 out of them had surplus funds with it and 2 were running short of funds. This shows the lack of dynamism on the part of management which retards the development of a bank. The banks with surplus funds could have introduced new schemes of advances and banks which suffered from deficiency of funds could have introduced new schemes of deposits.

Other Findings

2.14.1 According to section 18 and 24 of the Banking Regulation Act, every Primary Co-operative Bank is required to maintain a Cash reserve not less than 3% of total time and demand liabilities with itself or in current account opened with other banks notified by the Central Government. Similarly, not less than 25% of the total time and demand liabilities should be maintained in cash or approved securities. Though, all banks have strictly followed these regulations during the period under study, all respondents expressed the opinion that, they should be allowed to make investments outside the co-operative movement. They have complaints that the Central Co-operative Banks are not impartial in interest rates on deposits by urban banks and other Co-operative Societies. In this regard, it is felt that the Primary Banks should be allowed to keep accounts with other District Co-operative Banks to maintain the statutory reserves, provided, they are not availing any financial assistance from the District Co-operative Bank to which they are affiliated.

2.14.2 All respondents were unanimous that, there exists severe redtapism, and bottle necks in the State Co-operative Department in matters connected with sanctioning orders, settling arbitrations, responding to communications etc. The department is much concerned with agricultural societies and the department staff lack proper training in banking. The classification of Primary Banks on the basis of working capital alone and grouping all banks having more than Rs. 50 lakhs working capital in class I reveals the lack of imagination and working knowledge of the Co-operative Department. To solve this problem, the department should be sufficiently staffed and they should be given periodical training on a compulsory basis. In addition, the establishment of a separate cell solely meant for Primary Co-operative Banks, coming under dual control, with sufficiently trained staff is desired.

2.14.3 Preparation and publication of annual accounts i.e., profit and Loss Account and Balance Sheet is necessary for a bank coming under the Banking Regulation Act. It is observed that the Co-operative Banks should give up the existing form of Profit and Loss Account and

Balance Sheet. At present, the annual accounts contain detailed information regarding amounts written off as bad debts and reserves created for bad and doubtful debts. If the public is allowed to know the real position of bad and doubtful debts in a bank, it may dilute the confidence of the public in the bank. In addition, it may act as a stimulation to defaulters. Therefore it is advisable for the co-operative banks to adopt the form of Profit and Loss Account and Balance Sheet prescribed for the commercial banks by the Reserve Bank of India.

Conclusions and Recommendations

2.15.1 One of the basic principles of Co-operation is open membership. Membership of all primary societies is open to all eligible persons who wish to avail themselves of the services of the bank and are prepared to abide by the obligations of membership, provided they are residing or employed in the area of operations of the bank. But in 5 banks, the demand for shares was not met at all. In 7 banks, even the application forms (to apply for shares) are issued only on a written request and that also with the consent of the board of

directors. Besides, 3 of these banks insist on getting the application recommended by one of the directors. No, doubt, this is an unhealthy tendency which has to be stopped at any cost. In addition to educating the public, the Co-operative Department and the State Government should be more vigilant in this regard.

2.15.2 The participation of members in the working of the banks and general body meetings gives an unsatisfactory picture. In three banks, where monetary incentives are offered to shareholders to attend the meetings, the average strength in the meetings for the four years ending 30.6.1984 is more than 70%. In all other cases it was less than 15%. 12 respondents said that they had to use personal influence to constitute the necessary quorum. The members should be sufficiently educated in this regard. This is possible by conducting seminars, group discussions, workshops etc. If necessary, suitable provisions should be incorporated in the bye-laws of the banks and the Co-operative Societies Act.

2.15.3 The study has revealed the qualitative insufficiency of board of directors, resulting from the absence of a proper educational background and excessive political influence. Hence it should be made compulsory for those who contest for directorship :

- a) that they have a prescribed minimum qualification ie., the ability to read write and understand things without the help of others.
- b) that they have completed atleast 2 years as regular members.
- c) that they have had an operating account with the bank atleast for the same period.

This is because only those having continued association with the bank should be considered eligible to contest for directorship.

2.15.4 To develop the board of directors into a competent administrative body, there should be continuous programmes in the form of periodical training, conducting workshops, seminars, etc. on a compulsory basis.

2.15.5 Except in the case of gold loans, all types of loans in a Primary Bank are given only after obtaining sanction from the board of directors on individual applications. The study revealed that only 40 banks could conduct the board meetings in time during the period of 4 years ended 30.6.1984. In all other cases there were adjournments of board meetings due to lack of quorum.

This is not a healthy indication. The Bye-Laws of banks should contain necessary safeguards in this regard. For example, the absence of a director in two or three consecutive board meetings should result in the termination of his directorship.

2.15.6 In 27 out of 51 banks, the board of directors had government nominees as on 30.6.1984, But none of them were specialists or atleast persons with practical know-how in the banking industry. This shows the lack of interest from the governments side in the development of Co-operative Sector.

2.15.7 There was no uniformity in the staffing pattern in the banks visited in connection with this study. Many banks are under-staffed. The number of staff required for a bank is fixed on the basis of classification of banks as per Section 30(c). As per this section, working capital forms the sole basis of classification. (refer 2.4.2 and 2.8.24). Yet worse is the fact that, all banks whose working capital exceeds Rs. 50 lakhs are put in class one. This is unscientific and reflects the lack imagination of the Co-operative Department in classifying the banks. A more realistic classification is

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recommended considering deposits, advances, number of transactions, audit classification, rate of dividend, viability and working capital. The number of staff required for each bank, their monetary and non-monetary benefits, perquisites and fringe benefits etc. should be based on the above classification and uniformity should be maintained by banks falling in the same class.

2.15.8 The procedure for recruitment of staff varies from bank to bank. Adequacy, both quantitative and qualitative, of staff including the Chief Executive Officer is a must for every bank. This is especially so when they have to compete with commercial banks in many respects. Hence the recruitment and training of staff requires serious attention. Therefore it is recommended that the Primary Co-operative Banks coming under the Banking Regulation Act should be given a common cadre in the State level and a separate division should be formed under the State of Co-operative Bank for this purpose. The Staff requirements of the banks should be met by this division so that the selection of staff can be from a larger group in addition to considerable savings in cost of recruitment and training and ensuring better quality.

2.15.9 At present, the promotion of staff in all banks, is based on seniority only. To ensure that efficiency is rewarded sufficiently, all banks should adopt a scheme of merit rating and efficiency evaluation.

2.15.10 To avoid the delay in transactions and enrich the banker customer relationship, like commercial banks, small loans and small deposits should be under the powers of the Chief Executive. The amount of such loans and deposits should be based on the classification of the banks and therefore will vary from bank to bank.

2.15.11 Of the 51 banks under study, as on 30.6.1985, 9 banks were identified as weak and were under rehabilitation. Very high rate of overdues, erosion in the value of fixed assets, keeping idle funds etc. are the major reasons for this. To overcome this, the amounts of overdues should be kept at minimum by continuous monitoring and by taking appropriate steps for recovery. Besides, excessive dependence on borrowed funds should be reduced and establishment and administration expenses should be kept under proper check. Similarly, by introducing new schemes of loans or increasing the maximum limit of existing schemes, the excess funds could be deployed.

2.15.12 An analysis of the sources and employment of funds revealed that the Employees Co-operative Banks credit operations are restricted to members and membership is restricted to a particular class of employees. They do not provide membership or credit facilities to general public. Majority of the loans sanctioned are for consumption purposes and not in accordance with the directions of the Reserve Bank of India. Therefore, it is recommended, that Employees Co-operative Banks presently classified as Primary Co-operative Banks should go out of the purview of the Banking Regulation Act and the direct control of Reserve Bank of India. Besides, they should not be allowed to take deposits from non-members and to use the word 'Bank', 'Banker' or 'Banking' as part of their names.

2.15.13 At the same time, in the economic welfare of salary earners, the Employees Co-operative Banks play a vital role. Similarly, the working of these societies cannot be compared with any other Co-operative Society in the State. Therefore, the State Government should take necessary steps to protect and promote such societies by introducing a separate division in the office of the

Registrar of Co-operative Societies for better control making provisions for recovering loan instalments from the monthly salary of employees to avoid bad debts and overdues etc.

2.15.14 In all cases, more than 50% of the deposits were from fixed deposits. Fixed deposits are costlier when compared to savings deposits and current deposits. Therefore, the banks should try to canvass more deposits under savings and current deposits schemes.

2.15.15 For 3 banks, the deposit advances ratio was very low resulting from idle funds. No doubt, this reflects the inefficiency of management. Either by introducing new schemes of loans and advances or by enhancing the maximum limits of the existing schemes, the excess funds should be deployed more effectively.

2.15.16 At present, conducting chitties is not allowed by the Reserve Bank of India. But there are banks which conduct chitties with the sanction of Co-operative Department. This reflects the contradiction between the two Act viz. Co-operative Societies Act and the Banking Regulation Act. Therefore, the Reserve Bank should take necessary actions in this regard.

2.15.17 In addition to low ratio of advances to total funds, holding funds idle and excessive dependence on borrowed funds, excessive use of funds for administration and office expenses is found to be another reason for low profitability in these banks. Adopting innovations in management like man power planning, merit rating and efficiency evaluation of staff etc. can solve this problem to a good extent.

2.15.18 Regarding the area of operation of Primary Banks, there exists a wide imbalance. Considering the position of urban banks in Kerala with reference to the position of similar banks in other states and analysing the view points expressed by respondents, it is recommended for the formulation of a national policy by the Reserve Bank of India regarding the stipulation of area of operations of Primary Co-operative Banks. While formulating such a policy, the suggestions made by the committee on Urban Banks headed by Shri. K. Madhava Das should be considered.

2.15.19 It is seen that many banks lack dynamism in its working. They have to improve much in the field of discharging secondary services and providing better amenities to customers.

2.15.20 The Primary Co-operative Banks should be allowed to invest funds with any Co-operative Bank they like. This is because, there is no uniformity in the interest rates on deposits offered by District Co-operative Banks in Kerala on deposits from urban banks and other Primary Societies.

2.15.21 In the light of views expressed by the respondents, it is seen that, the present mode of functioning of the Co-operative Department in the State is not conducive to the development of these banks. To improve the efficiency of the department, it should be sufficiently staffed and compulsory training should be given to the staff at periodical intervals. In addition, it is desired to have a separate cell with specially trained staff in the department solely meant for the Primary Co-operative Banks coming under dual control.

2.15.22 Amounts written off as bad debts and reserves created for doubtful debts by the Co-operative Banks are clearly shown in the Profit and Loss Account and Balance Sheet of these banks. No doubt, this is harmful to the banks. The awareness of the public regarding bad and

doubtful debts of a bank will adversely affect the public confidence in the bank and may tend to increase the irrecoverable debts in future. Therefore, it is recommended that Co-operative Banks **should** follow the Commercial Banks in the preparation and publication of final accounts.

• • • •

C H A P T E R - IIICENTRAL CO-OPERATIVE BANKSIntroduction :

3.1.1 Central Co-operative Banks, otherwise called District Co-operative Banks, are leaders of the co-operative movement in the district. As an important link between the Apex Co-operative Bank and the primary co-operative societies, they have to play a vital role in the promotional and developmental aspects of co-operative institutions especially at the primary level. "A strong and sound primary credit structure would lend strength and stability to the central financing agency"⁶³ They have to direct and supervise the credit and non-credit societies both in the agricultural and the non-agricultural sectors. The District Co-operative Banks "should closely watch the progress in the implementation of the scheme for reorganisation of primary agricultural credit societies into viable units, so that, difficulties if any, arising therefrom are looked into and suitable steps taken to overcome them"⁶⁴.

63 Developmental Role of State and Central Co-operative Banks - Reserve Bank of India (Agricultural Credit Department), Bombay 1973 page - 19

64 ibid page - 20

3.1.2 The main objective of Central Co-operative Banks is to meet the credit requirements of the member societies. They serve as a balancing centre for adjusting the surplus and deficit in the working capital of the primary credit societies. For this, they establish branches at various centres in the district and create funds on convenient terms. Besides, they encourage thrift and collect savings from members and non-members. They arrange for the supervision and inspection of the affiliated societies and undertake measures conducive to co-operative movement in their area of operation⁶⁵.

3.1.3 Commercial Banks cannot act as a substitute for Central Banks, because the activities of the former are mainly on commercial lines and are more security-oriented. Usually they grant short-term accommodation only⁶⁶.

Types of Central Banks :

3.2.1 On the basis of membership provided, Central Banks can be divided into two categories, viz: the Pure

65 "Theory, History and Practice of Co-operation"
International Publishing House, Meerut 24, 1962 -
page - 248

66 *ibid*

Type Central Banks and the Mixed Type Central Banks⁶⁷. The Mixed Type Central Bank has, as its members, both primary societies and individuals. On the other hand, in the Pure Type, only primary societies are allowed to become members. The advantage of the Pure Type over the other is that, the principles of co-operation can be fully satisfied as full attention to affiliated societies is possible. In Kerala, all the Central Co-operative Banks are included in the Pure Type as on 30.6.1984.

Central Co-operative Banks in Kerala :

3.3.1 Before the formation of the Kerala State, the present Kerala State Co-operative Bank was the Apex Co-operative Bank for Travancore State. For Cochin State, the Cochin Central Co-operative Bank was the Apex Bank. The Malabar Co-operative Central Bank, which was affiliated to the Madras State Co-operative Bank, was the Apex Co-operative Bank for Malabar. As a result of the formation of the Travancore-Cochin State in 1954, the Travancore Central Co-operative Bank was granted the

status of Apex Bank and the Cochin Central Co-operative Bank started functioning as Affiliated District Co-operative Bank. Its Head Office, then, was at Trichur.

3.3.2 After the formation of the Kerala State, the Malabar Co-operative Central Bank got affiliated to the Travancore-Cochin State Co-operative Bank. Till the formation of the first four District Co-operative Banks in 1958, there was a two-tier system of co-operative credit, the Travancore-Cochin State Co-operative Bank giving loans direct to the primary societies.

3.3.3 As per the recommendations of the Rural Credit Survey Committee, in 1958, District Co-operative Banks were established at Trivandrum, Quilon, Kottayam and Alleppey by converting the branches of the State Co-operative Bank functioning at these places. This marked the beginning of the three-tier structure of the co-operative movement. Following the re-organisation of District Co-operative Banks on the basis of Revenue Districts in 1961, the Cochin Central Co-operative Bank was bifurcated into Ernakulam District Co-operative Bank and Trichur District Co-operative Bank.

3.3.4 In May 1963, the Malabar Co-operative Central Bank was trifurcated, forming the Palghat District Co-operative Bank, the Cannanore District Co-operative Bank and the Calicut District Co-operative Bank. On 31.1.1973 the Idukki District Co-operative Bank was formed. District Co-operative Banks for Malappuram, Wynad and Pathanamthitta Districts were established in 1970, 1982 and 1985 respectively.

3.3.5 As on 30.6.1984 there were 12 District Co-operative Banks in Kerala of which of had obtained banking licence from the Reserve Bank of India. Since then, one more District Co-operative Bank was established at Pathanamthitta, but it has not been included in this study. The Kasargod District does not have a District Co-operative Bank and as such, the primary societies there are functioning under the Cannannore District Co-operative Bank. All these banks are in class 'A' based on Audit Classification (Source - question no. 3 of the interview schedule).

Membership and Share Capital :

3.4.1 The membership of District Co-operative Banks consists of primary societies, State Government and

Kerala State Co-operative Bank. But till the passing of the "Kerala Co-operative Societies Act, 1969, banks like Trivandrum District Co-operative Bank had a mixed type of membership - individuals and primary societies. The Bye-Laws of all the District Co-operative Banks provide eligibility for admission as member to every co-operative society working within the area of operation of the bank. The total membership of all the 12 banks on 30.6.1984 was 4711 as against 4308 on 30.6.1981 for 11 banks. The increase in membership on 30.6.1984 on the basis of 30.6.1981 is 9.35%.

3.4.2 The total paid up share capital of all the banks on 30.6.1984 was Rs. 1853.56 lakhs, resulting in an average of Rs. 154.46 lakhs. The median value of share capital as on the above date is worked out to be Rs. 156.38 lakhs and the range was Rs. 91.24 lakhs and Rs. 210.51 lakhs. Compared to 30.6.1981, the increase in share capital for eleven banks as on 30.6.1984 is 20.57% (Source - computed from Annual Reports). As on 30.6.1981, there were only 11 District Co-operative Banks.

3.4.3 The data collected in response to question numbers 7, 8 and 9 in the interview schedule reveal that the principle of open membership is not satisfied

by any bank. All primary societies working within the area of operation of the District Co-operative Banks are eligible for membership in the bank. This does not mean that all primary societies should become members of the bank. However, when a primary society needs financial accommodation from its higher authority, it should be allowed to become a member, unless otherwise disqualified. But the data collected reveal that there were instances where membership was denied to primary societies, only because they are not agricultural societies. The arguments advanced by the authorities of the District Banks in this regard are -

- a) District Co-operative Banks are basically agricultural societies.
- b) If non-agricultural societies like school and college societies, fishermen's societies, marketing societies etc. are admitted, the very nature of District Banks will be lost and due importance to agriculture cannot be given.
- c) Such societies can have financial assistance from other sources.

- d) If membership is provided to all societies that apply for it, the agricultural societies will not have sufficient representation in the board.
- e) Many societies apply for membership only to have a hand in the management.

3.4.4 It is true that the agricultural sector forms the back-bone of our economy. But this is not a valid excuse for denying membership to eligible societies. By exploring more sources, the bank can cater to the needs of member societies without injuring the agricultural societies. A District Co-operative Bank is the apex society of all primary societies of the district and not of agricultural societies alone. To give sufficient representation to agricultural societies in the management, the Bye-Laws of the banks can be suitably amended. However, all needy societies, unless otherwise disqualified, should be admitted as members. The Registrar of Co-operative Societies and the State Government should make sure that one of the basic principles of co-operation-open membership-is not neglected by the District Co-operative Banks.

Management and Staff :

3.5.1 The General Body of the members is the ultimate authority in all matters relating to the administration of the bank. It meets at least once a year in which the Audit Certificate, the Annual Report on the working, Final Accounts etc. are considered. Thus all Central Co-operative Banks in Kerala have a pyramidal type of administrative set-up and the General Body forms its base.

3.5.2 The management of the bank vests in a Board of Directors. The constitution of the Board of Directors and the number of Directors in the Board vary from bank to bank. All banks have Government nominees on the Board. For Wynad District Co-operative Bank, all members on the Board as on 30.6.1984 were Government nominees, as it was a newly constituted bank. The Trichur District Co-operative Bank had 3 special invitees on the Board as on 30.6.1984 in addition to elected and nominated members. A classification of banks on the basis of Directors is given in Table 15 on page 128.

3.5.3 In order to streamline the work, all Central Banks have several sub-committees like Executive Committee, Law and Liquidation Committee, Loan Committee,

T A B L E - 15

Table showing the classification of banks on the
basis of elected and nominated members as
on 30.6.1984

		Government Nominees				
Elected members		2	3	4	5	Total
Less than 5						
5 - 7						
7 - 9		1	1		2	4
9 - 11			5			5
11 - 13			2			2
Total		1	8	-	2	11

Source : Data collected in response to question
number 10 in the interview schedule.

Note : Wynad District Co-operative Bank is not
included in the above table.

Building Committee etc. The members of the sub-committee are selected by the members of the Board of Directors from among themselves. The number of members in such sub-committees varies from bank to bank.

3.5.4 The data collected in response to question Nos 13 and 14 in the interview schedule reveal that in all banks the actual number of Board meetings held was more than the minimum number as stated in the Bye-Laws concerned. In addition, there were no instances of postponement of Board meetings due to the lack of quorum except in two banks. Even in these two banks, the number of meetings postponed is less than 5 during the period of 4 years ending 30.6.1984.

3.5.5 In consultation and with the approval of the Board or the concerned sub-committee, the Chief Executive takes the necessary decisions. The designation of Chief Executive Officer in Central Co-operative Banks in Kerala is 'General Manager'. He is the custodian of the properties of the bank. His responsibilities include placing of loan applications of societies before the Executive Committee or the Board as the case may be, with his recommendation, to arrange for the holding of meetings of the Executive Committee or the Board and to

look after the day-to-day administration. He is assisted by two Deputy General Managers in 9 banks 3 Deputy General Managers in two banks and only one Deputy General Manager in one bank.

3.5.6 As per the data collected in response to question no. 5 of the interview schedule the staff of the District Co-operative Banks in Kerala are divided into 9 categories. They are :

1. General Manager
2. Deputy General Manager
3. Executive Officer/Inspector of Branches/
Senior Branch Manager
4. Branch Manager/Superintendent/Chief Accountant/
Marketing Officer
5. Senior Accountant/Senior Inspector/Chief Cashier
6. Accountant/Inspector/I Grade Typist
7. Clerk/Cashier/Steno-Typist/Typist/Typist-cum-
Clerk/Telephone Operator/Telex Operator
8. Record Keeper/Bill Collector/Duffedar/Shroff/
Driver/Caretaker
9. Peon/Watchman/Lift Operator

3.5.7 Salaries and other monetary and non-monetary benefits to the staff in all the District Co-operative Banks are as per the agreement signed in the presence of the Chief Minister of Kerala, Minister of Co-operation, and Minister of Labour by the representatives of the employees of the District Co-operative Bank and the managements of the District Co-operative Banks on 8th June 1983 with effect from 1st July, 1982. The problem of labour turnover is not experienced by any bank in Kerala. The labour turnover ratio i.e.

$$\frac{\text{Number of employees replaced}}{\text{Average number of employees}} \times 100^{68} \text{ for the 4 years}$$

ending 30.6.1984 was zero for 7 banks and for the remaining 5 banks it was less than 0.60% (Source - question no. 19 of interview schedule).

3.5.8 The total number of staff on 30.6.1984 of all the District Co-operative Banks in Kerala was 2965 resulting in an average of 247 employees per bank including the Chief Executive Officer. Data collected in response to question number 15 in the interview schedule reveals that there exists a healthy and smooth relationship between staff and management.

68 Bhar B.K. - Cost Accounting Methods and Problems - Academic Publishers, Calcutta 1979 - page - 132

3.5.9 Data collected in response to question no. 21 in the interview schedule reveal that the nature and process of appointment of the staff are more or less similar in all banks. The vacancies are advertised in newspapers, and the applicants have to appear for a written test conducted by an independent outside authority. Top scorers in the written test are interviewed by the Interview Board consisting of the members of the Board of Directors, the Chief Executive Officer being present as an observer. But only 8 banks publish rank lists including waiting lists. Three banks do not publish the waiting list but the interview results are recorded in the minutes book. Another bank, publishes the rank list, but does not publish the waiting list.

3.5.10 In order to ensure public confidence in the appointment of the staff, immediate publication of the rank list including the waiting list should be insisted upon. This list should be valid atleast for one year. Besides, a copy of the rank list including waiting list should be sent to the Registrar of Co-operative Societies.

3.5.11 Promotion of staff in District Co-operative Banks is solely based on seniority. Unlike in commercial banks, where promotion test, interview etc. are

conducted, considering the 'C.A.I.I.B.' qualification and confidential reports, efficiency evaluation and merit rating are absent in these banks (question no. 20). As it is the district level authority for all the co-operative societies, it has to be well-equipped with competent staff. For this, there should be development facilities on the basis of efficiency linked with seniority, but seniority should not be the sole criterion. In this context, conduct of the written tests and interviews, consideration of confidential reports, provision of giving weightage marks for higher qualifications, etc. are advisable. At any rate, to protect the morale of the staff, efficiency should be rewarded sufficiently, periodical training should be given for different categories of staff separately on a compulsory basis. The State Co-operative Bank, in consultation with the Registrar of Co-operative Societies and the State Government, can issue necessary guidelines in this regard.

3.5.12 In the light of views expressed by the respondents in response to question nos. 15 and 16 in the interview schedule it is found that, there exists a smooth and satisfactory relationship among staff,

management and shareholders. Such an atmosphere will, no doubt, help further development and lead to prosperity of these banks. Though the Directors of all banks participate in deposit mobilisation, the Chief Executives of 9 banks stated that the active political background of the Directors stand as a limiting factor in this regard.

Sources of Funds :

3.6.1 Paid-up share capital, reserves and surpluses, deposits and borrowings are the major sources of funds of District Co-operative Banks. Details of these as on 30.6.1984 are given in Table-16 on page 135.

3.6.2 The paid-up capital and reserves and surpluses form the own funds of the banks. These funds, when compared to deposits and borrowings, are less expensive and are perfectly at the disposal of the bank. The share of own funds in total funds on 30.6.1984 varied from 6.19% to 18.74%. The average percentage of own funds to total funds on the above date is seen to be 11.1% and the median value 10.76%. On 30.6.1981, when only 11 District Co-operative Banks were in existence, the total own funds stood at Rs. 2,377.61 lakhs while the same on 30.6.1984 for the same number of banks was ^{Rs.} 3,121.17. lakhs.

T A B L E - 16

Details regarding the funds of District Co-operative
Banks

Rs. in lakhs

Items	Total as on 30.6.1984, Rs.	Average value Rs.	Median value Rs.	Minimum value Rs.	Maximum value Rs.
Paid-up share capital	1,853.56	154.46	156.37	91.24	210.51
Reserves & sur- pluses	1,471.81	122.65	114.72	22.96	282.11
Deposits	19,173.73	1,597.8	1,643.34	215.51	2,492.21
Borrow- ings	8,067.25	672.27	291.2	97.39	1,311.5

Source : Annual Reports

This shows an increase of Rs. 743.56 lakhs i.e. 31.27%.

3.6.3 Deposits form the loan's share of the total funds of the banks. The ratio of deposits to total funds on 30.6.1984 varied from 23.63% to 88.47% (computed from Annual Reports).

The mean value is 61.49% and median value 62.17%. The total deposits on 30.6.1984 was Rs.19,173.73 lakhs as against Rs.12,899.53 lakhs on 30.6.1981. There were only 11 banks on 30.6.1981. Thus, for the 11 banks, the total deposits increased by 46.97% as on 30.6.1984 when compared to 30.6.1981.

3.6.4 Broadly, the deposits accepted by District Co-operative Banks can be divided into Current Accounts, Savings Bank Deposits and Term Deposits. They accept deposits from members and non-members, individuals and firms. Deposits from members i.e. primary societies are a statutory requirement for the primary societies. More than 50% of the total deposits of three banks come from non-members (computed from Annual Reports). But for others, deposits from societies overweigh the deposits from non-members. When compared to Fixed Deposits and Savings Bank Deposits, Current Deposits are cheaper. But for all banks, Current Deposits form less than 20% of the total deposits. Taking simple arithmetic mean and median as measures of central tendencies, the ratios of Fixed Deposits, Savings Deposits and Current Deposits to total deposits together with the share of non-members i.e. individuals in total deposits given in Table-17 on page 137.

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T A B L E - 17

Table showing Central Tendencies and Range of
various components of deposits

Particulars	Simple arithme- tic mean %	Median %	Largest value %	Smallest value %
Share of fixed deposits in total deposits	44.25	43.59	61.14	30.74
Share of savings deposits in total deposits	29.76	27.26	46.69	19.37
Share of current deposits in total deposits	10.80	11.34	17.89	2.33
Share of indi- viduals i.e. non-members in total deposits	41.96	40.72	53.40	25.10

Source : Absolute figures from Annual Reports

3.6.5 Borrowings form the next important source of funds for District Co-operative Banks. Though costlier when compared to own funds and deposits, all the 12 banks had borrowings outstanding on 30.6.1984. The ratio

of borrowings to total funds varied from 3.01% to 63.85%. The average value based on simple arithmetic mean is worked out to be 28.95% and median value 25.29%. The borrowings were from the Reserve Bank of India, Kerala State Co-operative Bank and Government of Kerala to meet the long-term, medium-term and short-term credit requirements.

3.6.6 Based on working capital, the banks are classified as under. (The term working capital is used in the same sense as is used in chapter II)

T A B L E - 18

Table showing classification of banks based on working capital

Classes (Rs. in lakhs)	Number of Banks
Less than 1000	1
1000 - 1500	Nil
1500 - 2000	Nil
2000 - 2500	4
2500 - 3000	5
3000 - 3500	2
Total	12

Source : Data collected in response to question no. 6 in the interview schedule.

Employment of Funds, Profit and Profitability :

3.7.1 The term employment of funds, refers to the way in which a Central Bank applies its funds in the form of statutory cash reserves, investments, loans and advances, fixed assets etc. Like any other co-operative organisation, Central Banks are non-profit-oriented institutions. But, at the same time, a reasonable excess of income over expenditure is necessary for its very existence. This calls for a careful and rational deployment of funds. This is especially so for District Co-operative Banks whose main task is the co-ordination and control of the activities of Primary Co-operative Societies in the state.

3.7.2 Funds held in the form of statutory cash and bank reserves and fixed assets do not bring any revenue to the bank, but, they are necessary. Using arithmetic mean, 22% of the total funds, of the 12 banks as on 30.6.1984 were held in the form of cash and bank balances. Median value for the same number of banks as on the above date was 19.83%. Investments in fixed assets on 30.6.1984 for the 12 banks were 0.67% of the total funds and the median value stood at 0.59% (computed from Annual Reports).

3.7.3 Investment in loans and advances constitute the major revenue earner for any bank. As on 30.6.1984, using arithmetic mean, for the 12 banks, 77.45% of the total funds were utilised for lending. The median value of it was 76.35%. The total loans and advances outstanding on 30.6.1984 for the 12 banks amounted to Rs. 23,129.5 lakhs resulting in an average of/1927.46. lakhs^{Rs.}

3.7.4 An analysis of the structure of loans and advances outstanding on 30.6.1984 in the 12 District Co-operative Banks reveals that the very old concept of security-oriented lending still prevails in 4 banks. In 3 banks, all the loans and advances outstanding were fully secured either by government and other approved securities or by other tangible securities or by both. In another bank, secured loans amounted to 99.54% of the total loans outstanding. Details of 3 banks were not available. In another 3 banks, no secured loans were outstanding as on the above date. In the remaining 2 banks secured loans constituted only less than 10% of the total loans outstanding.

3.7.5 It is seen that all District Co-operative Banks had provided loans and advances to non-members. The ratio of loans outstanding from non-members to total loans outstanding as on 30.6.1984 varied from 0.49% to 46.90%.

The median value stood at 6.24% ignoring the position in 3 banks from which the required data were not available. The data collected reveal that District Co-operative Banks provide a variety of loans to non-members i.e. individuals and include gold loans, overdrafts, industrial credits, vehicle loans etc.

This is not a desirable tendency, as far as Central Banks are concerned, for four reasons :

- 1) In the pyramidal structure of the co-operative credit system, the District Co-operative Banks are expected to co-ordinate and control the working of primary societies in the district concerned⁶⁹.
- 2) Right of loans, according to the principles of co-operation, is for members only⁷⁰.
- 3) Conducting of banking business by the District Co-operative Banks will result in unhealthy competition between co-operatives⁷¹.

69 "Urban Co-operative Banks - New Lending Policy & Problems" paper presented by Sri. E.P. Sreekumar in the regional seminar of Urban Co-operative Banks conducted by the Kerala Urban Co-operative Banks Federation at Tripunithura - July 1986 page - 15.

70 Ibid

71 Ibid

- 4) When, these banks concentrate their attention on the conduct of banking business, it may have an adverse effect on the principal objectives of these banks.

3.7.6 Therefore, it is found that, the District Co-operative Banks should stop providing loans to non-members and also stop branch banking. Instead, the funds employed in this line should be utilised for co-ordinating and directing the activities of primary co-operative societies.

3.7.7 When the own funds of primary banks are not enough to cater to the needs of the priority sector, they get financial accommodation from District Co-operative Banks. On such financial assistance, the District Banks charge 15% to 17% interest. But at the same time, when Primary Banks' lendings are in accordance with the instructions of the Reserve Bank of India, they have to lend even at 14%. This prevents the Primary Banks from providing gold loans to the priority sector. Therefore, the District Co-operative Banks should be given necessary directions by the Co-operative Department and the Reserve Bank of India on lending rates to Primary Banks.

3.7.8 Another feature of the lending by the District Co-operative Banks is that a lion's share of the loans and advances is short-term loans. In 9 banks, short-term loans constitute more than 90% of the total lendings. The shares of short-term, medium-term and long-term loans in the total loans outstanding as on 30.6.1984 are given below :

T A B L E - 19

Table showing the shares of Short-Term, Medium-Term and Long-Term Loans in the total loans outstanding as on 30.6.1984

Classes	Short-Term Loans	Medium-Term Loans	Long-Term Loans
Less than 10%	Nil	Nil	9
10% to 20%	Nil	4	3
20% to 30%	Nil	4	Nil
30% to 40%	Nil	4	Nil
40% to 50%	Nil	Nil	Nil
50% to 60%	3	Nil	Nil
60% to 70%	3	Nil	Nil
70% to 80%	5	Nil	Nil
80% to 90%	1	Nil	Nil
Total	12	12	12

Source : Compiled from absolute figures in Annual Reports of the banks.

3.7.9 Profits and profitability cannot explain the efficiency or otherwise of a co-operative institution as they are not business organisations. Yet, commercial efficiency within the ambit of the philosophy of co-operation is necessary for these institutions to make their roles significant in the economic development of the land and in furthering the principles and practice of co-operation.

3.7.10 Taking the absolute figures of profit, as disclosed by the profit and loss account, based on 1980-'81, in 1983-'84, 5 banks showed an increase in profit. On the other hand another 5 banks showed a decrease, one bank was not in existence in 1980-'81 and the amount of profit of one bank for the year 1980-'81 was not available. Taking the ratio of net profit to total funds i.e. $\frac{\text{Net profit}}{\text{Total funds}} \times 100$, it is seen that for four banks, the ratio shows an increase and for 6 banks, a decrease in the year 1983-'84 when compared to 1980-'81. The amount of profit of one bank for the year 1980-'81 was not available. However for both the periods, for all the banks, the ratio was below 0.80%. The lowest ratio in 1980-'81 was 0.02% while it was 0.005% in 1983-'84. This means that profitability was very poor in these banks (computed from Annual Reports).

3.7.11 An analysis of the income and expenses for the years 1980-'81 to 1983-'84 reveals that, income from interest received on loans and advances constitute the lion's share of the total income of all banks. It varies from 68.7% to 95.91% with a median value of 84.83%. But when compared to 1980-'81 increase in this item in the year 1983-'84 varies from 12.63% to 87.37% with a median value of 57.38%.

3.7.12 In the total expenses of banks, the share of interest paid on deposits, though not as significant as that of interest received to total income, varies from 47.76% to 69.11% with a median value of 59.51%. It is important to note that, the increase in interest received is not in proportion to the increase in interest paid. In 8 banks, the rate of growth in interest paid overweigh the rate of growth in interest received. For 2 banks, on the other hand, the rate of growth^{of}/interest received overweigh the rate of growth in interest paid. Details are given in Table-20 on page 146.

3.7.13 Another reason for low profit in these banks is the increase in administration and establishment expenses. Of the total expenses, administration and establishment expenses account for more than 20% in 9 banks.

T A B L E - 20

Table showing increase in interest received and
interest paid in 1983-'84 compared to 1980-'81

Serial Number of banks	Percentage increase in interest received on loans and advances in 1983-84-base year 1980-81	Percentage increase in interest paid on deposits in 1983-'84 base year 1980-'81
1	75.05	53.77
2	12.63	7.08
3	73.75	68.87
4	72.51	73.62
5	61.26	77.42
6	not applicable	not applicable
7	24.98	53.83
8	53.49	64.31
9	82.30	99.81
10	Data not available	Data not available
11	48.63	60.40
12	87.37	97.28

Source : Compiled from absolute figures in the
Annual Reports of the banks.

In 2 banks they come only to less than 10% and in another bank to 17.47%. When compared to 1980-'81, the increase in this item of expenditure in 1983-'84 shows an undesirable trend. In 2 banks the increase ~~exceeds~~ is 100%. The range was from 50.46% to 139.64%. The details regarding administration and establishment expenses shown in Table-21 on page 148 clearly point to the main factor contributing to low profitability.

3.7.14 Expenses other than for administration and establishment and interest paid on deposits showed an increase in 1983-'84 when compared to 1980-'81. The rate of increase varies from 25.04% to 250.72%. The median value is found to be 74.6%. The data for two banks were not available. But for 8 banks, this increase has not affected the profits, because for them, other income, that is income other than interest received on loans and advances, has also increased during the period and the increase was more than the increase in the other expenses. The increase in other incomes of one bank was less than that of the increase in other expenses. Another bank was not in existence in 1980-'81.

3.7.15 In the light of above, it can be inferred that, the operational and financial management of District Co-operative Banks has to improve a lot.

T A B L E - 21

Table showing the share of administration expenses
to total expenses and rate of increase in 1983-'84-
base year 1980-'81

Serial Number of banks	Increase in administration and establishment expenses in 1983-'84 - base year 1980-'81	Administration expenses as percentage of total expenses 1983-'84
1	67.68%	24.45
2	55.46%	29.40
3	139.64%	17.47
4	81.04%	23.11
5	no increase	2.31
6	not in existence in 1980-'81	8.61
7	50.46%	20.58
8	97.31%	33.85
9	87.24%	20.80
10	data not available	22.61
11	66.54%	25.38
12	119.68%	20.68

Source : Compiled from absolute figures in the
Annual

If the present trend in the working of these banks is allowed to continue, they will not be in a position to fulfil their responsibilities to the co-operative credit structure. To overcome the imbalance between the interest paid and interest received, the lending pattern as well as the deposit schemes of these banks should be changed considerably. During the period of study in all banks, more than 50% of loans were short-term loans, and long-term loans in all banks except three, formed less than 10%. At the same time, on an average 44% of the deposits are fixed deposits. To provide short-term agricultural loans, as far as possible, fixed deposits should not be used. The National Board of Agriculture and Rural Development (NABARD) has instructed the District Co-operative Banks to use **at least 50%** of loanable resources to provide short-term agricultural credit⁷². This is another blow on the commercial efficiency of these banks.

3.7.16 The District Co-operative Banks are leaders of the primary societies in the district concerned. This means, that they should not compete with the Primary

72. Ibid page 16

Banks and Societies. District Co-operative Banks are not meant for branch banking and for this reason they need not obtain a licence from the Reserve Bank of India for opening branches⁷³. But the data collected in response to question no. 4, regarding the number of branches of each bank and their activities, reveal that, these banks are conducting full banking business. On an average, 42% of the deposits and 12% of the loans are with non-members. As on 30.6.1984, the average number of branches per bank stood at 23.

3.7.17 The rate of growth in the establishment and administration expenses requires effective attention. Manpower planning in this context can do much. Manpower planning in this context refers to putting the right number and right kind of people in the right place. Personnel management, remains yet unknown to the co-operative management as a whole. The number and variety of primary societies in each district and numerous and varied activities of these banks call for efficient and adequate staff and management.

3.7.18 In the democratic form of management, there is no guarantee that the Board of Directors is well-equipped with competent managerial personnel. This is

especially so when the elections are conducted on a political party basis. The data collected in response to question no. 12 in the interview schedule reveals that all the Directors are elected on political party basis. As on 30.6.1984, the total number of Directors stood at 143 including 3 special invitees in one bank. The educational background of 49 Directors were not available in response to question no. 11 in the interview schedule. Of the remaining, 62% of the Directors possess just S.S.L.C. or lower educational qualification. The challenges of modern day definitely calls for professionalisation of management, without injuring its democratic nature. Similarly there should be provision to provide compulsory training to Directors elected for the first time.

3.7.19 The concept of merit rating and efficiency evaluation of staff is not practiced by any of these banks. Promotion of staff is solely based on seniority. This is quite unscientific. There should be development facilities for staff on the basis of efficiency cum seniority, but seniority should not be the sole criterion. Quantitative or qualitative insufficiency of staff will lead to poor quality of work and conspicuous economic waste.

3.7.20 In the operational aspects, it is seen that, the District Co-operative Banks need do only nominal banking business and not elaborate branch banking. It should allow all needy primary societies to make use of its assistance by following the principle of open membership. To obtain commercial efficiency, these banks can discharge a number of secondary services like safe deposit locker facilities, collection and payment of funds etc. Besides, the Annual Reports of all banks reveal that their role as intermediate financing agency has yet to develop much, for example disbursements of medium term loans under Agricultural Refinance Development Corporation scheme (A.R.D.C.), Integrated Rural Development Programme (I.R.D.P.) etc. have to be increased.

Dividend :

3.8.1 No uniformity is found among District Co-operative Banks regarding the declaration and payment of dividend (data collected in response to question no. 22 in the interview schedule). The average rate of dividend declared, for the four years ending 30.6.1984, for

3 banks was 6.25% and 5.25% respectively; 4 banks gave only a nominal rate of dividend i.e. 2% or below;

3 banks have not declared any dividend for the last

4 years; for another bank, the average rate was 3.5%. The details in this respect were not available from one bank.

General Body Meetings :

3.9.1 A vigilant General Body is a basic necessity for efficient management. This is especially so in the case of District Co-operative Banks, as their members are societies. Data collected in response to question numbers 23 and 24 in the interview schedule give an unpleasant picture in this regard. Taking the average for the four years ending 30.6.1984, percentage strength i.e., $\frac{\text{number of members attended}}{\text{total number of members}} \times 100$ is given in Table-22.

T A B L E - 22

Percentage strength in general body meetings

Class	Number of banks
20% - 30%	1
30% - 40%	3
40% - 50%	4
50% - 60%	Nil
60% - 70%	2
70% - 80%	2
Total	12

Source : Data collected in response to question no. 23 in the interview schedule.

3.9.2 From the above, it can be seen that, the average strength is 49.17%. This shows the lack of interest of the Board of Directors of the primary societies in the working of the District Co-operative Bank, because elected representatives from Directors of the affiliated primary societies constitute the General Body of District Co-operative Banks. The members who attend the meeting are provided with refreshments, and very often gifts like pens, calendars, diaries, umbrellas, etc. Therefore it is felt that attendance and active performance in General Body meeting should be made compulsory for the members of the District Co-operative Banks. Absence at such meetings should be a disqualification for Directorship in a primary society. Besides, to educate members about the rights, duties and responsibilities of members, the District Co-operative Banks have to take a lot of measures like, giving them training, conducting seminars, publishing literature etc.

3.9.3 In the light of views expressed by respondents in response to question numbers 26 and 27 in the interview schedule, it is learnt that all District Co-operative Banks conduct conferences and training programmes at periodical intervals. But all of them admitted that

they have to do much more in this regard. Every bank has a library of its own. The number of books in each library, according to data collected in response to question no. 27 varies from 25 to 2100. The average number of books per bank using simple arithmetic mean is worked out to be 593 and median value was 500 as on 30.6.1984. All respondents were unanimous that the libraries are not used by the staff. This is not a good indication. The banks should take measures to improve the library, its working and its use.

Conclusions and Recommendations :

3.10.1 All primary societies working within the area of operations of District Co-operative Banks, are eligible to become members in the bank, unless otherwise disqualified. This does not mean that all primary societies should get affiliated to it. But, when a primary society applies for affiliation, and if membership is denied, it is the violation of a basic principle of co-operation-viz. 'Open Membership'. It is seen that no District Co-operative Bank in Kerala observes this principle. It is the district level leader of all co-operative societies and not of agricultural societies alone. To safeguard the interests and representation

in the Board of Management of agricultural societies, the bank can make suitable amendments in the Bye-Laws. However eligible applicants should not be denied membership. The Registrar of Co-operative Societies and the State Government should pay serious attention in this regard to see that one of the principal tenets of co-operation is not neglected by the district level leaders of primary societies.

3.10.2 The nature and process of appointing the members of the staff are more or less similar in all banks. But, however, regarding the publication of list of selected candidates, uniformity does not exist. In order to ensure public confidence, immediate publication of the rank list including waiting list should be insisted upon. This list should be valid at least for one year. Besides, a copy of the rank list including waiting list should be sent to the Registrar of Co-operative Societies.

3.10.3 Merit rating and efficiency evaluation of staff is yet unknown to all District Co-operative Banks. Seniority should not be the sole criterion for grading the staff. At present, in all banks, promotions are based on seniority only. To protect and improve the

morale of the staff, efficiency should be rewarded sufficiently. For this, a system of merit rating and efficiency evaluation should be implemented in all banks. The State Co-operative Bank, the Co-operative Department and the State Government can issue necessary guidelines in this regard.

3.10.4 The very old concept of security-oriented lending still prevails in 5 banks. Besides, all District Co-operative Banks provide loans and advances to non-members. This is not a sound tendency and hence should be given up. Their primary duty is to act as friend, philosopher and guide to the primary societies and to co-ordinate and control their activities. Instead, they are engaged in elaborate branch banking. When branches of Primary Banks, District Banks and primary societies function in the same locality with differences in rates of interest on both deposits and advances, it will lead to unhealthy competition among co-operatives. Therefore, the District Co-operative Banks should concentrate on other activities and not on elaborate banking business.

3.10.5 To enable the Primary Banks to follow priority-oriented lending, the District Co-operative Banks

should reset the rates of interest on lendings to Primary Banks based on the purpose of such lendings.

3.10.6 The net profit ratios of all District Co-operative Banks are very low. Still worse is that for 50% of the banks, the ratio tends to decrease. This is partly due to the imbalance between the interest paid and interest received and partly due to the sky rocketing increase in administration and establishment expenses. Effective planning in lending and mobilisation of deposits can solve the former. Introduction of professionalism in management, manpower planning, merit rating and efficiency evaluation of staff etc. are suggested to remedy the latter.

3.10.7 In the operational aspects of District Co-operative Banks, it is seen that, it need do only nominal banking business. To obtain commercial efficiency, it can offer more secondary services like safe deposit locker facilities, collection and payment of funds etc. Above, all, they have to play a more significant role as an intermediate financing agency.

3.10.8 Member's participation in the working of the bank and General Body Meetings has to improve much. Therefore, the attendance and active performance in the

General Body meetings of the District Co-operative Banks should be made compulsory. Besides, the District Co-operative Banks should take measures to educate its members in this regard.

3.10.9 To educate and improve its members, staff and public on co-operation, it has to do much by conducting training, refresher courses, seminars, workshops etc. The proper maintenance of a good library is also desirable.

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C H A P T E R - IVSTATE CO-OPERATIVE BANKIntroduction :

4.1.1 The State Co-operative Bank is the Apex Bank in the co-operative credit structure of a state. It is the final link between the individual members of the small scattered Primary Societies on the one hand and the general money market, the Reserve Bank of India and the Central Banking Authority of the country on the other⁷⁴. It has to co-ordinate and guide the working of the Central Banks and to arrange financial accommodation for them. Besides it has the responsibility of ensuring that the defects and weaknesses pointed out by the Reserve Bank of India in its inspection reports on Central Co-operative Banks and Urban Banks are remedied and that suggestions for development are carried out. As it is placed at the top of co-operative credit structure in a state, it has to be in close and constant

74 R.D. Bedi - Theory, History and Practices of Co-operation International Publishing House, Meerut 24, edn. '62 Page - 147

touch with the other co-operative societies in the state.

4.1.2 The difference between a District Co-operative, Bank and a State Co-operative Bank is one of degree and not of kind⁷⁵. Both are organised to facilitate the operation of affiliated units. They provide a common platform for the discussions of co-operative problems and act as a mouthpiece of the movement in the state. In the federal structure of the co-operative movement, a State Co-operative Bank has advisory and supervisory functions but no administrative functions.

Origin and Growth :

4.2.1 The Co-operative Societies Act, 1904, did not favour the formation of unions and federations of the co-operative societies. But the Co-operative Societies Act, 1912, has facilitated the formation of higher federal bodies and institutions. "The need for establishment of an Apex Co-operative Bank in each state was highly felt by the Maclagan Committee for the first time"⁷⁶.

75 Ibid Page - 211

76 "State Co-operative Banks in India" by Dinabandhu Mahal published in the Co-operator Vol. XXII No: 21 May, 1, 1985 Page - 611

4.2.2 In this line, the Bombay Co-operative Bank was the first bank in India which was registered on 11th October 1911 and to which some Central Banks and urban credit societies were affiliated. Next in the line were The Bombay Provincial Bank (1920), The Provincial Bank of Central Provinces (1912), Orissa Provincial Bank (1914), The Bengal Provincial Bank (1920) etc⁷⁷.

4.2.3 At the end of June 1920 there were 7 provincial banks (some in the name of Central Bank) in the country with a total membership of 3830 out of which 1830 were societies as members⁷⁸. As on 30th June 1929, the number of banks was 10 and total membership stood at 20568 out of which the membership of individuals was only 200⁷⁹. As the agriculturists could not repay their loans, the economic depression affected the provincial banks adversely. But the Second World War and the resultant inflation gave an impetus to the development of these banks. Though the partition of India after independence gave a serious blow to the provincial banks, the number

77 Ibid

78 Ibid

79 Ibid

increased to 14 as on 30.6.1950⁸⁰. "An analysis of the working of these banks states that the financial position of most of the banks was weak and that some of the banks that existed in Madhya Pradesh and Hyderabad were not following the principles of co-operation. The position of 'overdues' was very high in the case of almost all provincial banks"⁸¹. The banks at present working as 'State Co-operative Banks' are the former Provincial Co-operative Banks.

4.2.4 The informal conference on rural finance held in 1951 by the Reserve Bank had recommended the establishment of Apex Banks in the states where there was no Apex Bank. At the beginning of the First Five Year Plan, there were 15 State Co-operative Banks in India with 127 branches including head offices and the total membership stood at 20932⁸². During the period from 1955-56 to 1960-61 many steps were undertaken to establish one Apex Bank in every state by amalgamating a number of State Co-operative Banks or provincial co-operative banks operating in a state. The following table reveals the

80 Ibid

81 Ibid

82 Ibid

gradual but steady growth of Apex Banks in India,
both in number and in size.

T A B L E - 23

Table showing growth of State Co-operative Banks

Year	Number of State Co-operative Banks	Number of Branches	Total membership
1950	15	127	20932
1960	21	119	not available
1966	22	135	not available
1975	26	264	not available
1982	27	428	25604

Source : Ibid

As on 30th June 1985, there were 28 State Co-operative Banks in the country with a total number of 474 offices⁸³.

83 "The Co-operator" Vol. XXIII No. 7 1st October 1985
Page - 137

The Kerala State Co-operative Bank Ltd :

4.3.1 The Apex Co-operative Bank in Kerala is the Kerala State Co-operative Bank Ltd. Its Registered Office is at M.G. Road, Trivandrum, with three Regional Offices functioning at Ernakulam, Calicut and Trivandrum. As on 30.6.1984 it had eleven branches.

4.3.2 The Bank was registered on 23rd November 1915 as "The Trivandrum Central Co-operative Bank" which was the first society organised under Travancore Co-operative Societies Act, with a capital of one lakh rupees consisting of 1000 shares of 100 rupees each, of which 500 shares were reserved for primary societies. Thereafter the Bank underwent many changes. In 1943 the Bank came to be known as "Travancore Central Co-operative Bank" and in 1954 it was converted into the "Travancore-Cochin State Co-operative Bank". In 1956, in tune with the reorganisation of states, the Bank also was reorganised and the 'Travancore-Cochin State Co-operative Bank' was converted into the 'Kerala State Co-operative Bank' with effect from 1st November, 1956. The Bank has since been functioning as the Apex Bank for the State of Kerala.

4.3.3 The Kerala State Co-operative Bank is the chief financing agency and the balancing centre of resources of the entire co-operative credit structure in the state. All the 13 District Co-operative Banks in the State are affiliated to this Bank. It is a scheduled bank since July 1966 and was issued the banking licence under section 22 of the Banking Regulation Act 1949, in April 1972. Being a co-operative organisation, the main object of the Bank is the promotion of economic interests of its members as well as public interest in accordance with co-operative principles. To fall in line with the above objective, the Bank is doing banking business as well as lending to affiliated institutions within the framework of rules and regulations stipulated by the Reserve Bank of India⁸⁴.

Objects :

4.4.1 The important objects of the bank as stated in its Bye-Laws are as follows :

1. to serve as the Apex Co-operative Bank for the State of Kerala.

84 "A brief note on the working of The Kerala State Co-operative Bank Ltd. published by the same Bank Page - 2 edn. 1983

2. to promote the economic interests of the members of the bank ~~and~~ interests of the public in accordance with co-operative principles.
3. to finance District Co-operative Banks, state level co-operative institutions, companies registered under the Companies Act, Statutory Corporations, Partnership Firms, Joint Hindu Family Concerns, Sole Proprietorship Concerns and individuals.
4. to raise funds from members and non-members.
5. to open branches at suitable places with the permission of the Registrar.
6. to accept deposits and carry on general business of banking.
7. to receive moneys from State Government for purchasing shares in co-operative institutions.
8. to receive for safe custody securities, ornaments and valuables.
9. to arrange for the supervision and inspection of District Co-operative Banks and Co-operative institutions affiliated to them.

10. to serve as a balancing centre for co-operative institutions in the state.
11. to undertake such other forms of business as outlined in section 6 of the Banking Regulation Act, 1949.
12. to do such other work as will be conducive or incidental to the above objects and to generally promote the cause of co-operatives.

Membership and share capital :

4.5.1 The membership of the Bank is open only to the District Co-operative Banks and State Government. But in India some State Co-operative Banks like those in Bombay, Madras, Bihar etc. admit individuals and other organisations and societies as members. But, however this trend is fast declining. Besides, nominal membership or associate membership also is provided in some cases. This is revealed by the following Table-24 given on page 169.

4.5.2 The number of member societies in the Kerala State Co-operative Bank Ltd. as on 30.6.1984 was 13. Besides, the State Government also has participation in the share capital.

T A B L E - 24

Table showing Membership in State Co-operative Bank

Year	Kerala State Co-operative Bank Ltd.			Consolidated figures for India		
	Member Societies	Individuals and others	Nominal	Member Societies	Individuals and others	Nominal
1974	11	1	NIL	13036	7212	10791
1979	11	1	NIL	12317	24010	
1984	13	1	NIL	not available		

Source : Statistical statement relating to co-operative movement in India (Part I) published by Agricultural Credit Department of Reserve Bank of India 1974-'75 and 1978-'79.

4.5.3 The authorised share capital of the Bank as on 30.6.1984 was Rs. 600 lakhs, made up of 600000 shares of Rs. 100 each. The paid up capital on the above date was Rs. 87,32,100/- out of which Rs. 38,00,000/- represents Government's share⁸⁵. Compared to 30.6.1980, the

85 Annual Reports of the banks

paid up capital shows an increase of 62.18%.

Management :

4.6.1 Being a co-operative society, management of the Bank is democratic in nature. Therefore, the General Body is the supreme authority. The day-to-day administration is vested in the Board of Directors. For the executive management of the bank, there is an Executive Committee.

4.6.2 The General Body of the Bank consists of representatives of District Co-operative Banks, Ex-officio Directors and Directors nominated by the Government.

4.6.3 The Board of Directors of the Bank consists of representatives of District Co-operative Banks at the rate of one from each bank, four nominees of the State Government (three officials and one non-official), the Registrar of Co-operative Societies (ex-officio) and the Managing Director of the Bank. The President, Vice-President, Registrar of Co-operative Societies, the Managing Directors and four Directors elected from among the members of the Board of primary societies affiliated to it, constitute the Executive Committee.

4.6.4 The Chief Executive of the Bank is the Managing Director. Next to him is the Secretary and below him there are six Deputy Secretaries. For efficiency and convenience, the work in the bank's Head Office is assigned to six departments and each department is headed by a Deputy Secretary. The departments are :

1. Operations Department
2. Inspection Department
3. Planning and Development Department
4. Administration Department
5. Internal Audit Department and
6. Building Construction Department

Deposits and other resources :

4.7.1 Share capital, deposits, borrowings from Reserve Bank of India, National Bank for Agriculture and Rural Development (NABARD), State Bank of Travancore, Industrial Development Bank etc. and reserves and surpluses constitute the resources of the bank. The total working capital of the bank as on 30.6.1984 stood at Rs. 12,187.55 lakhs which was Rs. 5,219 lakhs in 30.6.1979.

This shows an increase of 133.52%. A comparative study of the rate of growth of the working capital is shown below :

T A B L E - 25

Table showing working capital in State Co-operative Banks

	1981-'82	1982-'83	1983-'84
Number of State Co-operative Banks in India	27	28	28
	<u>Amount in Rs. crores</u>		
Total working capital	3,356.00	3,895.00	4,494.00
Average working capital	124.3	139.11	160.5
Rate of growth	..	11.91	15.38
Working capital of Kerala State Co-operative Bank	106.54	119.65	121.88
Rate of growth	..	12.31	1.86

Source : "Report on Trend and Progress of Banking in India 1984-'85" published by Reserve Bank of India, Bombay, page 147 and Annual Reports of Kerala State Co-operative Bank.

Here the term working capital refers to the total of paid up capital, reserves and surpluses, deposits and borrowings minus amount invested in fixed assets.

4.7.2 Deposits form the lion's share of the working capital of the Bank. The Bank accepts all types of deposits including Non-Resident Rupee Fixed Deposits. It has been recognised by the Government of Kerala for receiving deposits of Municipal Corporations and other local bodies. It has provisions for the remittances of funds and collections of bills. For the mobilisation of deposits, it has opened eleven branches, of which eight are in Trivandrum city and one each at Ernakulam, Calicut and Trichur.

4.7.3 The deposits of the Bank are divided into Fixed Deposits, Savings Bank Deposits, Current Deposits and Money at Call and Short Notice. Individuals, District Co-operative Banks and primary societies form the depositors of the Bank. The total deposits of the Bank on 30.6.1984 was Rs. 74.68 crores as against Rs. 39.87 crores on 30.6.1980. This shows an increase in deposits by 87.31%. The absolute figures of deposits are given in Table-26 on page 174.

T A B L E - 26

Size and Structure of Deposits

Rs. in Crores

Year	Fixed Deposits		Savings Bank Deposits		Current Deposits		Notice Money at Call and Short		Total				
	Cent- ral & Socie- ties	Indi- vidu- als	Cent- ral & Soci- eties	Indi- vidu- als	Cent- ral & Socie- ties	Indi- vidu- als	Cent- ral & Socie- ties	Indi- vidu- als	Cent- ral & Socie- ties	Indi- vidu- als			
1980	26.47	2.92	29.39	0.58	0.98	1.56	3.98	0.16	4.14	4.78	35.81	4.06	39.87
1981	33.30	2.45	35.75	0.34	1.00	1.34	3.95	0.16	4.11	7.15	44.74	3.61	48.35
1982	33.78	2.89	36.67	1.31	1.13	2.44	4.92	0.34	5.26	5.62	45.63	4.36	49.99
1983	39.53	3.39	42.92	0.57	1.74	2.31	4.17	0.30	4.47	7.75	52.02	5.43	57.45
1984	52.33	4.04	56.37	0.42	2.03	2.45	7.07	0.22	7.29	8.57	68.39	6.29	74.68

Source : Annual Reports of the Bank

4.7.4 An analysis of the nature of deposits reveals that in all the five years, the share of Fixed Deposits was more than 73% of the total deposits. The lowest contribution was from Savings Deposits which was 3.91% in 1980 and 3.28% in 1984.

4.7.5 From the depositor's point of view, the contribution of non-members in total deposits was less than 10% for the above period. For Central Banks and other societies, deposits in State Co-operative Bank is a statutory requirement. The relationship between different types of deposits and between member depositors and non-member depositors is as follows :

T A B L E - 27

Relative figures of deposits in percentages

Year	Fixed Deposit	Savings Deposit	Current Account	Money at Call & Short Notice	Individuals	Central Banks & Societies
1980	73.71	3.91	10.38	11.99	10.18	89.82
1981	73.94	2.77	8.50	14.79	7.47	92.53
1982	73.35	4.88	10.52	11.24	8.72	91.28
1983	74.71	4.02	7.78	13.49	9.45	90.55
1984	75.48	3.28	9.76	11.48	8.42	91.58

Source : Annual Reports of the Bank.

4.7.6 It is a matter of controversy whether an Apex Bank should open branches for collection of deposits. In the light of the opinions expressed by the respondents of Primary Banks and Central Banks, it is felt, that, the State Co-operative Bank should not open branches at places where a branch of a Central Bank or Primary Bank exists. But it can open branches at other places. Besides, it can open more regional offices for more effective administration and supervision of affiliated units. When branches of Apex Bank, Central Bank and Primary Bank exist in the same area, that may cause lack of co-operation among the co-operatives due to competition.

4.7.7 Reserves and surpluses form another source of own funds for the Bank. The total resources of the Bank as on 30.6.1980 were Rs. 352.72 lakhs while the same on 30.6.1984 stood at Rs. 959.33 lakhs. This shows an increase of 171.98% in four years.

4.7.8 For meeting the credit requirements of its members, the bank borrows from Reserve Bank of India, National Bank for Agriculture and Rural Development, State Bank of Travancore, Industrial Development Bank of India etc. The total borrowings on 30.6.1980 were

Rs. 1,698.87 lakhs and on 30.6.1984, Rs. 3,448.61 lakhs. This shows an increase of 102.99% in four years.

4.7.9 The maximum borrowing limit of the bank is restricted to 15 times the own funds of the bank. The term own funds here includes paid up share capital, statutory reserve fund and other reserves of a permanent nature, such as the Agricultural Credit Stabilisation Fund, Dividend Equalisation Fund, Building Fund etc.

4.7.10 The absolute figures regarding paid up capital, reserves, deposits, borrowings and working capital for four years ending 30.6.1984 together with their rate of growth are given in Table-28 on page 178.

Principal State Partnership Fund :

4.8.1 Principal State Partnership Fund refers to the amount received by the bank from the State Government under the State Partnership Scheme. The amounts received by the bank under this scheme are to be transferred to a fund called "Principal State Partnership Fund". The use of this fund is restricted :

- a) to the purchase of shares directly in District Co-operative Banks and other co-operative societies with limited liability.

T A B L E - 28

Table showing details of various sources of funds

Particulars	Amounts are given in lakhs Rs.					Rate of gro- wth in five years %
	30.6.1980	30.6.1981	30.6.1982	30.6.1983	30.6.1984	
1. Share capital (paid up)	300.49	359.29	423.60	464.52	487.32	62.18
2. Reserves	352.72	390.81	516.87	596.61	959.33	171.98
3. Deposits	3986.41	4836.48	5000.85	5743.34	7466.66	87.30
4. Borrowings	1698.87	2367.28	4733.97	5194.04	3448.61	102.99
5. Working capital	6303.00	7939.84	10653.78	11964.69	12187.55	93.36
6. Owned funds (1 + 2)	653.21	750.10	940.47	1061.13	1446.65	121.47

Source : Annual Reports of the Bank and "Statistical statements relating to the Co-operative Movement in India (part I)" published by Reserve Bank of India (Agricultural Credit Department).

- b) to provide money to a District Co-operative Bank to enable it to establish a "Subsidiary State Partnership Fund" for purchasing shares in other co-operative societies with limited liability.

4.8.2 However, shares can be purchased by the Bank in a co-operative society out of this fund, only after obtaining previous approval in writing from the State Government. Again the amounts received by the Bank, on shares purchased, by way of dividend or redemption of shares have to be credited to the Fund and are to be paid to the Government. The balance of the Fund shall not form part of the assets of the Bank.

4.8.3 The position of the Fund as on 30th June for five years was given in Table-29 on page 180.

The entire Fund was utilised in all the years under study for investments in the shares of Central Banks, Primary Agricultural Credit Societies and Primary Banks.

Employment of Funds :

4.9.1 Share capital reserves and surpluses, deposits and borrowings are the major sources of funds for a bank. The way in which the funds of the Bank are utilised by

T A B L E - 29

Table showing the position of the Principal State Partnership

Type of Societies	Amounts in Rs. lakhs				
	30.6.1980	30.6.1981	30.6.1982	30.6.1983	30.6.1984
1. Central Co-operative Banks	415.35	420.35	475.35	542.80	590.65
2. Primary Agricultural Credit Societies	470.17	508.68	544.03	562.78	569.24
3. Other Societies	20.95	23.45	22.75	22.75	23.45
Total	906.47	952.48	1042.13	1128.33	1183.34

Source : Annual Reports of the Bank.

it, is referred to as employment of funds. The total funds of the bank as on 30.6.1984 stood at Rs. 123.62 crores as against Rs. 63.38 crores on 30.6.1980. This shows an increase of 95.05% over a period of 5 years.

4.9.2 A portion of the funds of a bank is always blocked in fixed assets in the form of land and buildings, furniture and fixtures, vehicles etc. As on 30.6.1984, 1.42% of the total funds i.e. Rs. 1.75 crores, was invested in premises, furniture and fixtures and vehicles. Thus, the working capital, i.e., the difference between own funds, deposits and borrowings and investment in fixed assets, on the above date was Rs. 121.87 crores.

4.9.3 The total amount outstanding by way of loans, cash credit and over-drafts as on the date was Rs. 84.84 crores which was 69.62% of the working capital or 68.63% of the total funds. However the rates for the five years period ending 30.6.1984 were different. They were :

T A B L E - 30

Table showing ratio of Loans outstanding to working capital and total funds

	As a percentage on working capital	As a percentage on Total funds
1983	72.72	72.51
1982	79.42	79.26
1981	75.71	75.57
1980	71.60	71.21

4.9.4 "The credit operations of the Bank are undertaken throughout the state through a net-work of 13 District Co-operative Banks with their 272 branches and about 1535 Primary Agricultural Credit Societies based at the village level as also a net-work of non-agricultural credit societies and Urban Co-operative Banks"⁸⁶. The financing by the Bank covered short-term, medium-term and long-term credit for agriculture and allied activities, credit needs of Urban Credit Societies, Employees' Societies and Village Credit Societies, working capital requirements of traditional industries like handloom, coir and other small and cottage industries, District Wholesale Consumer Stores, Marketing Societies etc.

4.9.5 "The resources mobilised by the Bank have to be so deployed that they not only maximise its profits but also help the economic development of the area"⁸⁷. Keeping this in view, the Bank has also undertaken several developmental projects like :

86 A Brief note on the working of 'The Kerala State Co-operative Bank Ltd., Trivandrum, published by the Bank edn. 85 Page 4.

87 "Developmental Role of State and Central Co-operative Banks" published by the Reserve Bank of India (Agricultural Credit Department) Bombay, 1973 Page 8.

1. Financing of fisheries development programmes with refinance from National Bank for Agriculture and Rural Development (NABARD).
2. Financing of rubber processing units with assistance from National Board of Agriculture and Rural Development and from National Co-operative Development Corporation under the Central Sector Scheme.
3. Financing of industrial activities with assistance from Industrial Development Bank of India.
4. Financing, as agent of the Kerala State Housing Board, under the scheme for providing loans to the weaker section of the community for construction of houses with assistance from the Housing and Urban Development Corporation and the State Government.

4.9.6 The details of sources of borrowings, purpose of borrowings, and balance outstanding as on 30th June of each year for the last five years were as follows excluding the general cash credit from State Bank of India and State Bank of Travancore.

TABLE - 31

Table showing details of borrowings

Sl. No.	Source	Purpose	Amount outstanding as on 30th June (Rs. in lakhs)				
			1979-'80	1980-'81	1981-'82	1982-'83	1983-'84
1	NABARD	Short-term agricultural requirements	710.00	1,372.00	3,468.00	2,425.00	815.82
2	"	Medium-term Agricultural requirements	332.50	392.78	352.68	258.94	1,191.00
3	"	Weavers Societies (Short-term)	259.28	581.86	537.17	847.60	748.50
4	"	Other Societies (Short-term)	not available	not available	168.64	332.76	186.26
5	"	Long-term finance to fisheries development and other programmes	not available	not available	90.45	220.70	290.29
6	State Government	Drought relief to farmers	NIL	NIL	NIL	1,000.00	NIL
7	N.C.D.C.	Finance to Rubber processing units	14.54	13.45	11.50	9.54	7.59
8	I.D.B.I.	Industrial finance	108.11	112.42	98.25	99.20	209.03

Source : Annual Reports of the Bank for five years ending 30.6.1984.

4.9.7 An analysis of the lendings of the bank makes it clear that provision of agricultural credit is the main business of the Co-operative Banking System in the State. Of the total loans and advances outstanding, Rs. 8,483.85 lakhs on 30.6.1984, Rs. 4,146.63 lakhs was for the agricultural sector, coming to 48.88%. On 30.6.1983 it was 51.76% and on 30.6.1982 51.22%.

4.9.8 The main classification of the advances, besides for agricultural purposes, are weavers' finance, coir finance, industrial finance (other than weavers and coir), short-term and medium-term non-agricultural loans, consumer finance, marketing finance, long-term loans and others. The long-term loans include loans provided under Kerala Agricultural Development Programme, NABARD Schemes, N.C.D.C. Schemes, I.D.B.I. Schemes etc. The share of each in the total loans and advances for 5 years ending 30.6.1984 is given in Table-32 on page 186.

4.9.9 The financial accommodation provided by the bank, as shown above, includes the finance extended to apex institutions in the state like Kerala Co-operative Central Land Mortgage Bank, Kerala State Handloom Weaver's Co-operative Society, Kerala State Co-operative Marketing Federation, Kerala Co-operative Consumer's Federation,

T A B L E - 32

Table showing ratio of different types of loans Rs. in lakhs
outstanding to total lending

Loan classification	As a percentage to total lending				
	30.6.1980	30.6.1981	30.6.1982	30.6.1983	30.6.1984
1. Agricultural loans	48.89	39.94	51.22	51.76	48.88
2. Weavers' finance	9.51	7.41	9.04	11.95	12.70
3. Coir finance	5.66	8.41	6.23	7.34	6.25
4. Industrial finance	0.27	0.20	0.11	0.14	0.33
5. Non-Agricultural short-term loans	8.42	16.28	14.08	12.39	8.48
6. Consumer finance	4.96	3.47	2.52	2.46	2.78
7. Marketing finance	5.70	7.88	3.95	1.04	3.50
8. Long-term loans	5.43	4.32	3.09	5.46	9.72
9. Others	11.19	12.09	9.76	7.46	7.36
	100.00	100.00	100.00	100.00	100.00

Source : Absolute figures from Annual Reports of
the Bank.

Kerala State Co-operative Rubber Marketing Federation, Kerala Apex Co-operative Housing Society etc. The bank also provides financial assistance for meeting the working capital requirements to the Central Arecanut Marketing and Processing Co-operative Ltd., Mangalore (Karnataka State) for procuring arecanuts from Karnataka and Kerala under consortium arrangements with four Commercial Banks and the Karnataka State Co-operative Bank.

Profit and Profitability :

4.10.1 The concept of banking has undergone a series of revolutionary changes. At the same time the traditional principles of safety, liquidity and profitability have not been ignored. This necessitates realistic planning in the mobilisation and deployment of funds, and maintaining an optimum relation between incomes and expenses. Profit is not the sole aim of the bank. Yet, it is necessary to take up more and more social and economic responsibilities. The terms 'profit' and 'profitability' in this chapter have the same meaning as given in 2.13.3.

4.10.2 Other things being equal, a steady growth in the net profit shows a desirable trend in performance. When compared to 1980, the net profit increased by 198.42% in 1981 and 19.16% in 1982 when compared to 1981. But since then the rate of change is negative. On the basis of 1982, the profit was 3.7% less in 1983 and 37.1% less in 1984 when compared to 1983. This is not a desirable indication.

4.10.3 In the total expenditure of the bank, interest paid on deposits and borrowings constitute more than 75%. It was 81.58% in 1979-'80 and 79.21% in 1983-'84. But the rate of growth in payment of interest shows a decrease. The interest paid on deposits and borrowings in 1980-'81 was 36.7% more in relation to 1979-'80 while it was only 9.55% in 1983-'84 when compared to 1982-'83.

4.10.4 Next to interest paid, administration expenses or office overheads constitute a major item of expenditure. It was 6.96% in 1983-'84, 5.17% in 1982-'83, 4.39% in 1981-'82, 5.23% in 1980-'81 and 6.24% in 1979-'80. At the same time the rate of growth in office overheads is steadily increasing. Using the chain base relative, it was 17.71% in 1980-'81, 26.88% in 1982-'83 and 46.09% in 1983-'84.

4.10.5 More than 85% of total income of the bank comes from interest and discount received. But, this ratio is showing a gradual decline as it was 95.94% in 1979-80, 93.56% in 1980-'81, 90.67% in 1981-'82, 89.47% in 1982-'83 and 88.24% in 1983-'84. At the same time, the rate of growth in this source of income is declining. For example, interest received in 1980-'81 when compared to 1979-'80 was 41.34% more. But it is 26.85% in 1981-'82 compared to 1980-'81, 5.82% in 1982-'83 compared to 1981-'82 and only 4.79% in 1983-'84 compared to 1982-'83.

4.10.6 Thus it is found that, the employment of funds is not in tune with the sources of funds. Investment in buildings, furniture, fixtures etc, does not earn any direct return. Of course, it adds to the efficiency of a bank, but only to a limited extent. It is difficult, as observed by the Reserve Bank of India, to lay down a definite optimum proportion for such investment to the total investment. "However, the position over the past five years or so should be compared to see whether the proportion is reasonable"⁸⁹. Till 30.6.1983

89 Developmental Role of State and Central Co-operative Banks by Reserve Bank of India (Agricultural Credit Department) 1973 page 14.

the ratio of investments in fixed assets to total funds was less than 0.5% but it reached 1.42% as at 30.6.1984. It is noted that the net profit as per Profit and Loss Account decreased by 37.1% in 1983-'84 compared to 1982-'83 while decrease in the operating profit was 33.72%. Besides, working capital increased by 12.31% as on 30.6.1983 compared to 30.6.1982. But when compared to 30.6.1983, the increase in working capital as on 30.6.1984 was only 1.86%. Obviously, this indicates the disproportionate increase in the investment in fixed assets.

4.10.7 To satisfy the principles of safety and liquidity, a portion of the funds available to the bank, are kept in the form of cash, bank balances and investments. As on 30.6.1984, 30.71% of working capital or 30.27% of total funds was kept as investments and cash and bank balances. "Income bearing investments are Government and trustee securities and short-term or Fixed Deposits which have to be necessarily maintained to satisfy the legal requirement of liquidity"⁹⁰. Of the above 25.18% was in the form of Current and Savings Deposits with other banks and District Treasury, 47.22%

90 Ibid

in the form of Government and Trustee Securities, 22.21% in the form of cash in hand and with Reserve Bank of India, State Bank of India and Notified Banks and balance money at Call and Short Notice and shares in co-operative institutions.

4.10.8 A major source of income for any bank is investment in loans. From the profitability point of view, loans for trading activities or for non-agricultural purposes generally earn more interest than the loans for short-term or medium-term agricultural purposes⁹¹. But, financing agriculture is the basic responsibility of the State and Central Co-operative Banks⁹² and, as such, short-term and medium-term loans cannot be neglected. Of the total loans outstanding on 30.6.1984, only 8.48% was due from non-agricultural, short-term and medium-term loans. Total long-term loans accounted for only 9.72%.

4.10.9 Cost consciousness is more important than income consciousness because it can regulate the costs to a greater extent than income. Interest paid on deposits and loans is a major item of cost. Fixed Deposits are costly when compared to Current Accounts and Savings Bank Accounts. But 73.71% of the total deposits as

91 Ibid

92 Ibid

on 30.6.1984 is by way of Fixed Deposits. By providing various banking facilities and services which depositors require, the bank can increase Current and Savings Deposits. It is felt that conscious effort should be made by the management in this regard.

4.10.10 Salaries and allowances to staff and other administration expenses form the next important item of expenditure. To avail and maintain competent staff, the scales of pay and other emoluments of the staff have to be sufficiently attractive. At the same time, merit rating and periodical evaluation of the staff by the management will improve the morale of the staff. But this is not found in practice in any Co-operative Bank including the State Co-operative Bank.

Development and other Activities :

4.11.1 The bank takes interest in the development of Central Banks and other co-operative institutions in the state. It conducts periodical conferences of District Co-operative Banks, holds seminars etc., for the development and growth of co-operative institutions in the state. During the last four years ending 30.6.1984

the bank convened two conferences each of Presidents and Chief Executives of Central Co-operative Banks to discuss policy matters and problems relating to the working of the Central Co-operative Banks. At such conferences matters such as efforts made by the Banks in mobilising deposits, recommendations concerning the co-operative movement made by various committees, changes in policies and procedures suggested by Reserve Bank of India/National Board of Agriculture and Rural Development/Government were discussed. In 1981, the bank also conducted a seminar of primary agricultural credit societies on "Co-operative Credit".

4.11.2 In 1983, the bank constituted a Technical Cell comprising of experts in agriculture, industrial finance and fisheries. This was meant to diversify the lendings for agriculture and allied activities, industrial financing, fishery development etc. and also to render help to the Central Co-operative Banks in the formulation and implementation of suitable schemes for development in these sectors.

4.11.3 The bank has also constituted a separate 'Urban Bank Cell' in charge of a Special Officer for

taking effective steps for the development of Primary (Urban) Co-operative Banks. Besides, the Bank had appointed a Standing Committee on Urban Co-operative Banks in October 1982 to deal with matters connected with different aspects of working of such banks. The Committee consists of representatives of District Co-operative Banks, Primary (Urban) Co-operative Banks and the Registrar of Co-operative Societies. Of the 10 members in the Committee, five are from the Kerala State Co-operative Bank, including the Special Officer, Urban Bank Cell, one each from the Board of Directors of Trichur District Co-operative Bank, Malappuram District Co-operative Bank, Cranganore Town Co-operative Bank and Palghat Co-operative Urban Bank. All from the Kerala State Co-operative Bank except the Special Officer are members of the Board of Management.

4.11.4 In 1983-'84 the bank organised 'Special Banking Channel Training Programmes' at Co-operative Training College, Trivandrum for the benefit of the staff of the State and Central Co-operative Banks. The cost of the programme was met by the State Co-operative Bank to the extent of Rs. 25,000/- and Rs. 500/- each by the Central Co-operative Banks.

4.11.5 Besides, the bank had also organised separate training programmes on industrial financing for officers of Urban Co-operative Banks and District Co-operative Banks. Two training sessions each of a week's duration were held in the first week of August 1983 and the last week of September 1983 for the Chief Executives of Urban Banks at Co-operative College, Poojappura. It also conducted in October 1983 a 5 day orientation course on industrial financing for the General Managers and Deputy General Managers.

4.11.6 The Bank has been laying emphasis on deposit mobilisation not only at its level, but also at the levels of Central Banks and Urban Co-operative Banks and Primary Agricultural Credit Societies. The bank had initiated intensive deposit mobilisation campaigns from 1976. During the year 1983-84, as against the target of Rs. 4,000 lakhs, the total deposits mobilised by co-operatives came to Rs. 9,366.62 lakhs, forming 234.16% of the target.

The figures are given below :

T A B L E - 33

Table showing progress in deposit mobilisation
Rs. in lakhs

Type of Institution	Target fixed	Achievement
State Co-operative Bank	140.00	160.45
District Co-operative Banks	2,575.00	6,526.16
Urban Co-operative Banks	540.00	986.90
Primary Agricultural Credit Societies	745.00	1,693.11
Total	4,000.00	9,366.62

Source : Annual Report 1984.

4.11.7 The bank publishes several valuable data like Annual Reports meant for share holders, notes on working of the Bank meant for students of co-operation etc. But some Annual Reports are not free from mistakes. The mistakes include clerical errors, errors of principle etc. For example the Annual Reports for the year

1980-'81 and 1982-'83 contain errors of principle in the Profit and Loss Account. Provisions and reserves created during the years were treated as expenses and debited in Profit and Loss Account under the head "other expenses". Hence the operating results are readily not available from the Profit and Loss Account. Care should be taken to see that such errors are avoided. Similarly, items like bad debts, reserve for doubtful debts etc. should not be disclosed in the Profit and Loss Account and Balance Sheet as it can adversely affect the public confidence in the bank. To satisfy the commercial principles, it can follow the form of Profit and Loss Account and Balance Sheet adopted by commercial banks as per the directions of the Reserve Bank of India.

Conclusions and Recommendations :

4.12.1 For the smooth and efficient working of the bank, there are six departments in the bank, each headed by a Deputy Secretary. The State Co-operative Bank is the Apex Bank for the co-operative credit structure of the state. At the primary level, there are different types of societies, like agricultural credit societies, non-agricultural credit societies, employees' co-operatives etc. The objects and functions of these

societies vary widely. Some societies are characterised by dual control and facing severe competition from commercial banks. But the number of such societies per district is not large and therefore the District Co-operative Banks cannot open a separate department for them. Again, many such banks are not availing financial assistance from the district level Apex Banks and as such the accountability of such societies to District Banks is of theoretical importance only. It is a fact that 9 out of 55 such banks are classified as weak banks and require rehabilitation as on 30.6.1985⁹³. Two more banks are placed under observation of the Reserve Bank of India. This calls for an effective supervisory machinery at the state level.

4.12.2 Therefore, it is suggested, that a separate department should be opened in the Kerala State Co-operative Bank and the Urban Banks coming under dual control should be given a common cadre. Matters relating to personnel, including appointment, should be within the powers of the department. The department must consist of competent staff having sufficient know-how in co-operation and banking. There should be an advisory committee to guide the working of the department

93 Reserve Bank of India circular dated 14.3.'86
No. K. 25(a)-'86.

consisting of two nominees of the Reserve Bank of India, one nominee of the State Co-operative Bank, Registrar or Deputy Registrar of Co-operative Societies and 3 elected members from the Chief Executives of the Primary Banks. The department has to undertake periodic inspection of books of accounts of the Primary Banks and should suggest remedial measures for the problems and grievances of the banks.

4.12.3 Being an Apex Bank, the State Co-operative Bank need not open more and more branches for deposit mobilisation. As on 30.6.1984, deposits from non-members was only less than 10% of the total deposits. To attract more non-member depositors, it has to offer more banking facilities, which in turn may bring competition among co-operatives. But it can open more Regional Offices so that control and supervision will become more effective.

4.12.4 In the light of view expressed by the respondents from Primary Banks and District Banks, it is felt that, the principle of open membership is not satisfied by many banks. This is partly due to the ignorance of the public and partly due to the ineffective supervisory machinery. The Apex Bank should see that such unhealthy practices are not allowed to continue and measures should

be taken to educate the public by publishing literature, conducting seminars etc.

4.12.5 The present trend in the profits of the bank gives an undesirable indication. The bank should see that there is a reasonable equilibrium between the structure of deposits and structure of loans. The deposit advances ratio i.e. $\frac{\text{Total deposits outstanding}}{\text{Total loans and advances outstanding}} \times 100$ as on 30.6.1984 has worked out to 113.62%. But there was no steady correlation between the average interest paid and average interest received. This can be understood from the following table :

T A B L E - 34

Year	Total interest received \pm loans outstanding x 100	Total Interest paid \pm Deposits outstanding x 100
1984	11.14	11.03
1983	10.37	13.09
1982	10.08	13.60
1981	11.18	11.09
1980	10.54	9.84

Source : Absolute figures from Annual Reports.

4.12.6 Therefore it is necessary that the bank should increase the non-agricultural loans through additional exploration of resources. Similarly, the ratio between Fixed Deposits and other types of deposits should be made more favourable by increasing Savings and Current Deposits.

4.12.7 To reduce the burden of administration and establishment expenses, it should adopt merit rating and efficiency evaluation of the staff. Good performance should be suitably rewarded. Besides, the management has to examine, from time to time, the adequacy or otherwise of the staff engaged from the quantitative and qualitative aspects.

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C H A P T E R - V
CONCLUSIONS AND RECOMMENDATIONS

5.1.1 The co-operative banks form an important segment of the banking system since they are intended to mobilise the savings of large numbers of people in the urban, middle and lower income groups. These banks are expected to do to the small trader, the small merchant and the middle and lower income group members what the commercial banks do to the big traders and the big industrialists. They are also expected to finance small scale industries and also to provide banking services to its customers. The large joint stock commercial banks are not very much interested in developing the business of small loans on account of the high incidence of cost of services and overhead. It is this gap that the co-operative banks have to fill. This is because the co-operative banks are not as profit oriented as commercial banks.

5.1.2 The study has proved that all Primary Co-operative Banks are not prepared to adopt the principle of purpose oriented lending. Gold loans and mortgage loans constitute more than 50% of the lendings of these banks. Further, no bank has any scheme to make sure that

the loans sanctioned by it are used for the purposes for which they were sanctioned.

5.1.3 All Primary Co-operative Banks other than the 3 Employee's Co-operative Banks use the term 'Urban' or 'Town' in their names. But all of them are not situated in urban areas. Yet worse is the fact that many urban centres do not have an Urban-Co-operative Bank and are not covered by any of the nearby banks. Further, wide variations are seen in the area of operations and in secondary services offered.

5.1.4 In 5 District Co-operative Banks, the concept of security oriented lending prevails. The net profit ratios of all these banks are not only very low, but for 50% of the banks, the ratio is showing a decreasing trend. The Annual Reports of these banks make it clear that they are not catering to the needs of non-agricultural societies. Besides, the opening of a number of branches to conduct banking business and lending to non members will definitely result in competition among co-operative societies, which is against the basic principles of co-operation.

5.1.5 Therefore it is seen that on account of the uneven distribution of co-operative banks, absence of

uniformity in services and charges, lack of managerial skill and lack of co-operation among co-operatives and also lack of purpose orientation in lending. co-operative banks have not been able to make much impact on the banking system in the state.

5.1.6 To overcome this, a series of measures by the Government, State Co-operative Bank and District Co-operative Banks are necessary. It should include:

- (a) Steps to avoid the uneven distribution of banks either by opening new banks or by extending the area of operations of existing banks.
- (b) The State Co-operative Bank and the District Co-operative Banks should reset the rates of interest on lendings to their affiliated banks based on the purpose of such lendings to enable the affiliated banks to satisfy the principle of purpose orientation in lending.
- (c) Measures should be taken by the Government and Reserve Bank of India to maintain uniformity in services and charges.

5.2.1 District Co-operative Banks are responsible for the control and co-ordination of activities of the Primary Banks in the districts concerned. But it is seen that,

as on 30.6.1985, the District Co-operative Banks have done nothing for those Primary Banks who are not borrowing from the District Banks. On the other hand, all respondents from the District Co-operative Banks were unanimous that they were basically agricultural societies and a lion's share of the funds and skills are directed in this direction. No District Bank, as on the above date, had a separate cell for the Urban Banks. Besides, none of them had specialists in banking. Even the conferences, seminars etc. were conducted for different types of societies together.

5.2.2 The absence of a separate department in the State Co-operative Bank meant for the Primary Banks coming under the Banking Regulation Act, prevents it from doing anything for the Primary Banks. 9 out of 55 Primary Banks were classified as 'weak banks' and required rehabilitation as on 30.6.1985. Two more banks were placed under observation of the Reserve Bank of India. The present trends in the profits of District Co-operative Banks and the State Co-operative Bank are found unsatisfactory. In many cases there was no steady correlation between average interest paid and average interest received. A low level of operational efficiency was found in all these banks. Qualitative and quantitative inadequacy of staff and management was found to be the major reasons for this.

5.2.3 The Reserve Bank of India regularly inspects the Books of Accounts of these banks and gives directions. But many of the directions remain unsatisfied by a number of banks especially at the primary level. Thus it can be seen that there is an urgent need for more effective attention by the Government and the Reserve Bank of India to utilise the vast potential of this industry. The following recommendations are made in this regard:

- (a) A separate Department should be formed under the State Co-operative Bank, for guiding and controlling the Primary Co-operative Banks coming under the regulations of the Banking Regulation Act.
- (b) In order to achieve operational efficiency through cost reduction, schemes for merit rating and job evaluation for staff are to be implemented.
- (c) The Reserve Bank of India should take serious measures to make sure that the directions given by it are strictly followed by the co-operative banks.
- (d) The Employees Co-operative Banks should be excluded from the control of the Banking Regulation Act, as they are not providing membership or credit facilities to the general public. The membership in these banks is restricted to a particular class of employees only. Their lendings do not satisfy the norms for lending fixed by the Reserve Bank

because they are formed with limited interests, namely, the welfare of a particular class of employees.

5.3.1 Competent management and efficient staff are vital for the successful working of every co-operative bank especially when it has to compete with the commercial banks and private financiers. Of course, it is true, that co-operative banks have the advantage of being able to pay higher rates of interest on deposits and lower rates of interest on advances as compared to commercial banks. The Management of the co-operative banks vest in the General body of the members as far as general policy making is concerned, and in the Board of Directors for day to day administration through the Chief Executive and other staff. But, the study reveals a sorry state of affairs in the composition and working of these bodies.

5.3.2 The General Body A vigilant and committed general body of members is a must for giving the proper direction to the functioning of each bank and to review and control the performance. But it is found that the participation of members in general body meeting is generally very poor and very often personal influence has to be exercised by the Chief Executives to constitute the quorum at such meetings. Monetary and non monetary

incentives for attending general body meetings have produced better attendance. Properly educating the members on the importance of the General body could solve this problem and improve relations with customers. The Board of Directors has the primary function of directing the working of the bank. They have to see that funds are mobilised and properly utilised and that concerned laws are followed and also that the day to day work is carried on smoothly and efficiently.

5.3.3 The election of members from the general body very often takes place on the basis of politics which is found to have a negative effect on deposit mobilisation. The State Co-operative Bank, all District Co-operative Banks and 53% of Primary Banks have government nominees on the board. The majority of the Directors (70%) had education upto S.S.L.C. In a board of directors, better qualified members could have done a better job. The directors do not have any qualifications in banking - nor are workshops or training courses available for training and educating them. All these have affected the working of these banks adversely. Very often Board Meetings could not be held in time for want of quorum. Because of this, lending decisions are delayed causing discontent in members. ~~xxx~~ This state of affairs could be remedied by laying down stipulations regarding minimum educational qualifications, minimum period of continuous and active

co-operation in the functioning of the bank and also by conducting training programmes, seminars and also study tours to efficient banks. These could be organised by the Apex Bank under the directions of the State Co-operative Union or the National Federation of Urban Banks.

5.3.4 The Chief Executive who is the key factor for the efficient working of the bank is very often handicapped by the absence of delegation of power to him by the Board of Directors. For the speedy disposal of applications for loans, the Chief Executive may be given the authority to sanction advances up to a limit. There was no uniformity in the staffing pattern. In the banks studied, the number of staff ranged between 8 and 102 and the ratio of officers, clerical staff and non clerical staff showed wide variations. Vacancies are filled only after approval by the Co-operative Department and it is found that delay is caused in appointing staff to fill vacancies. The method of selection of staff is found to be different and unsound in some banks. Besides, it is found that many banks are under staffed mainly due to the fact that the number of staff for each bank has been fixed on a classification based on working capital. In addition, vacancies, resulting from the upgrading of banks from one class to another, were pending for approval by Co-operative Department.

5.3.5 The perquisites and frings benefits in Primary Banks are based on the classification based on working capital. The classification of Primary Banks on the basis of working capital alone and the listing all banks with more than Rs. 50 lakhs working capital under Class I exhibits the lack of imagination on the part of the Co-operative Department. None of the respondents was satisfied with the working of the Department in the state, because of the delay and red-tapism in getting things done through the Department.

5.3.6 In connection with the removal of the manifold problems connected with the operational, managerial and financial efficiency, the following recommendations are made :

- (a) The members of Boards of Directors should have prescribed minimum educational qualifications ie., at least the ability to read and write.
- (b) To ensure that only those having continued association with the bank alone are present in the board, stipulations regarding minimum period of membership and continuous active co-operation in the functioning of the bank are to be fixed.

- (c) The nominees sent to the Board by the Government should be experts in the field.
- (d) To improve the working of the banks, there should be continuous programmes like work shops, seminars, training and refresher courses etc. for the staff and members of the Board at periodical intervals, on a compulsory basis.
- (e) The Primary Co-operative Banks coming under the Banking Regulation Act should be given a common cadre in the state level and a separate department be formed under the State Co-operative Bank.
- (f) The staff requirements of Primary Banks should be met by this department and it should implement schemes of incentives, merit rating and job evaluation of the staff.
- (g) The classifications of Primary Banks should not be based on working capital alone as is done now. A more realistic classification should be followed considering the number and volume of deposits and advances accounts, Audit classification, viability, dividend declared and working capital.
- (h) The monetary and non monetary benefits to employees should be based on the above classification and uniformity should be maintained by banks falling in the same class.

5.4.1 All Co-operative Societies are characterised by open membership. All individuals residing or employed in the jurisdiction of a Primary Co-operative Bank are eligible for membership unless otherwise disqualified. Similarly, all Primary Co-operative Societies functioning in a district are eligible for membership in the District Co-operative Bank of that district. But the study has revealed that the underlining principle of open or universal membership is yet unknown to many co-operative banks in the state. It is doubtless that, this is a clear violation of the principles of co-operation. The public has to be properly educated about the role, importance and functions of co-operative banks. Similarly, the Co-operative Department of the Government should be more vigilant in this respect. When a complaint in this respect is received, the Joint Registrar or Registrar of Co-operative Societies should conduct immediate enquiries. The guilty should be reasonably punished and the complaint should be positively settled.

5.5.1 A salient feature of Primary Co-operative Banks is that unlike other societies or banks, they are controlled by the Banking Regulation Act and the Co-operative Societies Act. Their transactions are expected to comply with the principles of co-operation and also achieve commercial efficiency. This calls for effective and

prompt supervision by the Department. But the Department, at present, does not have expert personnel suited to the needs of the different types of societies. However, for the development of Primary Banks coming under the Banking Regulation Act, it is suggested that a separate division in the Department be set up.

5.5.2. The conclusions arrived at and the recommendations made are the result of detailed study of the three components of the Co-operative Banking system in Kerala and their inter-acting relationships in the background of the dual control exercised on the system by the state government and the Reserve Bank of India. The study has proved all the hypotheses. The recommendations are, in my thinking, realistic and if they are implemented, the Co-operative Banking System in Kerala will be able to realise its enlarged role and achieve commercial efficiency within the ambit of the philosophy of Co-operation and thereby make its role significant in the economic development of the state and also in furthering the practice of Co-operation, fully entrenched in the basic principle of Co-operation "ONE FOR ALL AND ALL FOR ONE", which is the 'Sine qua non' of national solidarity.

SCOPE FOR FURTHER RESEARCH

5.6.1 Owing to limitations on time and other resources, this study had to be restricted to the general conditions

prevailing in the Co-operative Banking system in the state, The study has not gone into the details of working of each bank in such great detail as to arrive at individual diagnosis of its performance. Nor has this study attempted any prognosis at the unit level. No comparison has been drawn with the working of the Co-operative Banking system in other states nor with the working of the commercial banking system. These are some of the lines on which further research could be conducted so that a fuller understanding of the detailed working of Co-operative banks could be arrived at, the defects detected and remedies recommended so that Co-operative banking can be put on a high pedestal from where it could play a more significant role in the economic development of the country as a whole.

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APPENDIX - ILIST OF PRIMARY CO-OPERATIVE BANKS

1. Ananthasayanam Co-operative Bank Ltd.,
Trivandrum - 695 001
2. Karamana Co-operative Bank Ltd.,
Trivandrum - 695 002
3. Neyyattinkara Co-operative Bank Ltd.,
Neyyattinkara, Trivandrum
4. Trivandrum Co-operative Urban Bank Ltd.,
Trivandrum - 695 001
5. Nedumangad Co-operative Urban Bank Ltd.,
Nedumangad, Trivandrum
6. Quilon Co-operative Urban Bank Ltd.,
Quilon - 1
7. Quilon Taluk Coastal Development Co-operative Bank Ltd.,
Quilon - 691 013
8. Adoor Co-operative Urban Bank Ltd.,
Adoor - 691 523
9. Karunagappally Taluk Urban Co-operative Bank Ltd.,
Pin - 690 518
10. Kundara Co-operative Urban Bank Ltd.,
Kundara, Quilon
11. Kottarakkara Co-operative Urban Bank Ltd.,
Pin - 691 506
12. Alleppey Urban Co-operative Bank Ltd.,
Alleppey
13. Thiruvalla East Co-operative Bank Ltd.,
Pin - 689 542

14. Changanacherry Co-operative Bank Ltd.,
Changanacherry, Kottayam
15. Kaduthuruthy Urban Co-operative Bank Ltd.,
Kaduthuruthu
16. Kottayam Co-operative Bank Ltd.,
Kottayam - 686 001
17. Meenachil Co-operative Bank Ltd.,
Pin - 686 575
18. Vaikom Co-operative Bank Ltd., Vaikom,
Pin - 686 141
19. Always Urban Co-operative Bank Ltd.,
Always
20. Mattancherry Sarvajanic Co-operative Bank Ltd.,
Cochin - 682 002
21. Mattancherry Mahajanik Co-operative Bank Ltd.,
Cochin - 682 002
22. Muvattupuzha Urban Co-operative Bank Ltd.,
Muvattupuzha - 686 661
23. People's Urban Co-operative Bank Ltd.,
Tripunithura - 682 301
24. Thodupuzha Co-operative Bank Ltd.,
Thodupuzha P.O.
25. Kattappana Urban Co-operative Bank Ltd.,
Kattappana P.O.
26. Cranganore Town Co-operative Bank Ltd.,
Kodungallur, Pin - 680 664
27. Guruvayur Co-operative Urban Bank Ltd.,
Guruvayur

28. Cherpalcherry Co-operative Urban Bank Ltd.,
Cherpalcherry, Palghat - 679 503
29. Trichur Urban Co-operative Bank Ltd.,
Trichur - 1
30. Koduvayur Co-operative Urban Bank Ltd.,
Koduvayur, Palghat
31. Nemmara Co-operative Urban Bank Ltd.,
Nemmara, Pin - 678 508
32. Ottappalam Co-operative Urban Bank Ltd.,
Ottappalam - 1, Palghat
33. Palghat Co-operative Urban Bank Ltd.,
Palghat - 678 001
34. Shornur Co-operative Urban Bank Ltd.,
Shornur, Pin - 679 121
35. Kottakkal Co-operative Urban Bank Ltd.,
Kottakkal, Pin - 676 503
36. Manjeri Co-operative Urban Bank Ltd.,
Manjeri, Pin - 676 121
37. Nilambur Co-operative Urban Bank Ltd.,
Nilambur, Pin - 679 329
38. Perinthalmanna Co-operative Urban Bank Ltd.,
Perinthalmanna, Pin - 679 322
39. Tirur Urban Co-operative Bank Ltd.,
Tirur, Pin - 676 101
40. Badagara Co-operative Urban Bank Ltd.,
Badagara, Pin - 673 101
41. Balussery Co-operative Urban Bank Ltd.,
Balussery, Pin - 673 612

42. Calicut Co-operative Urban Bank Ltd.,
Kozhikode - 2
43. Meppayur Co-operative Urban Bank Ltd.,
Meppayur, Pin - 673 524
44. Payyoli Co-operative Urban Bank Ltd.,
Meladi, Pin - 673 522
45. Cannanore Co-operative Urban Bank Ltd.,
Cannanore - 1
46. Tellicherry Co-operative Urban Bank Ltd.,
Tellicherry
47. Kasargod Co-operative Town Bank Ltd.,
Kasargod, Pin - 670 121
48. Payyanur Co-operative Town Bank Ltd.,
Payyanur, Pin - 670 307
49. L.I.C. of India Staff Co-operative Bank Ltd.,
Trivandrum - 695 004
50. Adhyapaka Co-operative Bank Ltd., Puthuppally,
Pin - 686 011
51. The Kottayam Govt. Employees Co-operative Bank Ltd.,
Kottayam - 1

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APPENDIX - IILIST OF DISTRICT CO-OPERATIVE BANKS

1. Alleppey District Co-operative Bank Ltd., Alleppey
2. Trivandrum District Co-operative Bank Ltd.,
Trivandrum
3. Quilon District Co-operative Bank Ltd., Quilon
4. Kottayam District Co-operative Bank Ltd.,
Kottayam
5. Idukki District Co-operative Bank Ltd.,
Idukki
6. Ernakulam District Co-operative Bank Ltd.,
Ernakulam
7. Trichur District Co-operative Bank Ltd.,
Trichur
8. Palghat Co-operative Central Bank Ltd.,
Palghat
9. Malappuram District Co-operative Bank Ltd.,
Malappuram
10. Malabar Co-operative Central Bank Ltd.,
Calicut
11. Cannanore District Co-operative Bank Ltd.,
Cannanore
12. Wynad District Co-operative Bank Ltd.,
Wynad

13. Nature of relationship between shareholders and board of directors X
X:
X
- a) 'No confidence' motion passed during the last four years X
X:
X
- b) Stormy sessions during shareholders meetings X
X:
X
- c) Any other kind of conflict X:
X
- d) Are all loan applications accepted in general course? If not, reasons thereto X
X:
X
X
- e) Time required for payment of loans once they are passed for payment X
X:
X
X
1. in principle :
2. in practice :
3. Reasons for deviations, if any X:
X
- f) Do directors participate in deposit mobilisation X
X:
X
14. Details of Banking Staff : Grade Number Scale
15. Details of perks and fringe benefits available to the staff X
X:
X
16. Other benefits :
- a) Monetary :
- b) Non-monetary :
- c) Retirement benefits :

17. Velocity of staff-
turnover during the
last four years X
 X:
 X
18. Development facilities
available to the staff X:
 X
- a) Basis of promotion :
- b) Nature of efficiency
 evaluation, if any X:
 X
- c) If yes, effects of
 such evaluation du-
 ring last four years X:
 X
19. Nature and process of
appointment X:
 X
- a) Details of authority
 conducting the test X:
 X
- b) Name of authority
 which conducted the
 most recent test X:
 X
- c) Members of the
 interview board X:
 X
- d) Any preference for
 local hands/highly
 qualified hands X:
 X
- e) Whether rank-lists
 are published
 immediately X:
 X
- f) Are lists allowed to
 lapse and then fresh
 appointments made X:
 X
20. Number of shareholders as on: 'A' Class 'B' Class 'C' Class
- 30.6.1984 :
- 30.6.1983 :
- 30.6.1982 :
- 30.6.1981 :

21.	Dividends declared and paid during the last four years	X X: X	<u>1983-'84</u>	<u>1982-'83</u>	<u>1981-'82</u>	<u>1980-'81</u>
22.	Strength at annual general meetings for four years	X X: X	<u>1983-'84</u>	<u>1982-'83</u>	<u>1981-'82</u>	<u>1980-'81</u>
23.	Incentive offered to shareholders to attend meetings	X X: X				
	a) Monetary	:				
	b) Non-monetary	:				
24.	Borrowings from other financial agencies and government (specify the source and nature of borrowings)	X X: X X	<u>1983-'84</u>	<u>1982-'83</u>	<u>1981-'82</u>	<u>1980-'81</u>
25.	Other sources of borrowed funds	X: X	<u>1983-'84</u>	<u>1982-'83</u>	<u>1981-'82</u>	<u>1980-'81</u>
26.	Amounts of bad-debts written off for four years	X X: X	<u>1983-'84</u>	<u>1982-'83</u>	<u>1981-'82</u>	<u>1980-'81</u>
27.	Surplus or deficiency of funds during the four years	X X: X	<u>1983-'84</u>	<u>1982-'83</u>	<u>1981-'82</u>	<u>1980-'81</u>
28.	Deposits with other banks	X: X				
	a) Statutory requirement	X: X				
	b) Actual Deposits	:				
	c) Reasons for deviations if any	X: X				

29. Secondary services available to account holders X
X:
X
30. New schemes introduced during the last four years X
X:
X
31. Amenities to customers like chairs, fans drinking water etc. X
X:
X
32. Special features of the Bank X:
X

Shareholders Non-shareholder Depositors Borrowers

33. Office bearer's/ Board member's personal opinion regarding the problems which the bank has to face and remedial measures for further expansion and development X
X
X
X
X
X:
X
X
X
X

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11. Their education background X :
X

<u>Below S.S.L.C.</u>	<u>S.S.L.C.</u>	<u>Graduate</u>	<u>P.G.</u>	<u>Others</u>
---------------------------	-----------------	-----------------	-------------	---------------

12. Their political background X :
X

<u>Political leaders</u>	<u>Active workers</u>	<u>Independent</u>	<u>Against politics</u>
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13. a) Period of conveying Board Meeting X :
X
X

b) No. of meetings held in X :
X

<u>1983-'84</u>	<u>1982-'83</u>	<u>1981-'82</u>	<u>1980-'81</u>
-----------------	-----------------	-----------------	-----------------

14. Were there instances of postponement of Board Meetings due to lack of quorum. If yes, details X :
X
X
X
X

15. Nature of relationship between staff and management X :
X
X

a) Any conflicts during the last four years X :
X
X

- b) Nature of conflicts :
 - c) Outcome of conflicts :
 - d) Was there any retren-
chment of employees
during the last
four years and if
yes, reasons thereto
16. Nature of relationship
between shareholders and
board of directors
- a) No confidence motion
passed during the
last four years
 - b) Stormy sessions du-
ring shareholders
meetings
 - c) Any other kind of
conflict
 - d) Are all loan appli-
cations accepted in
general course ? If
not, reasons thereto
 - e) Time required for
payment of loans
once they are passed
for payment
- 1) in principle :
 - 2) in practice :
 - 3) Reasons for de-
viations, if any
- f) Do directors, parti-
cipate in deposit
mobilisation

17. Details of perks & fringe benefits available to the staff X :
X :
X :
18. Other benefits :
- a) Monetary :
- b) Non-monetary :
- c) Retirement benefits :
19. Velocity of staff turnover during the last 4 years X :
X :
20. Development facilities & merit evaluation, if any X :
X :
21. Nature and process of appointment X :
X :
- a) Details of authority conducting the test X :
X :
- b) Name of authority who conducted the most recent test X :
X :
- c) Members of the interview board X :
X :
- d) Any preference for local hands/highly qualified hands/deposit canvassing etc. X :
X :
X :
X :
- e) Whether rank-lists are published immediately X :
X :
X :
- f) Are lists allowed to lapse and then make fresh appointments X :
X :
X :

22. Details of dividend :X
declared and paid in X
the previous 4 years X :
in the descending X
order X
23. Strength in Annual X : 1983-'84 1982-'83 1982-'81 1980-'81
General Meeting X
24. Incentives offered X
to shareholders to X :
attend meetings X
25. Details of loans X :
available X
- a) Members :
- b) Non-Members :
26. Details of periodi- X
cal training and con-X :
ferences held, if X
any X
27. Library of Co-opera- X :
tive Literature X
28. Other remarks if any, X
by the Chief Execu- X
tive/Board of X
Directors, not co- X
vered by the above X
questions, pertain- X
ing to the working X
of the bank X

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and Reports for four years ending 30.6.1984.

APPENDIX - VINTERVIEW SCHEDULE ON KERALA STATE CO-OPERATIVE BANK LTD.

1. Name, Number and Address } :
of the Bank } :
2. Date of licence } :
(Banking) } :
3. Audit Classification : :
4. Number of Branches : :
5. Members of the Staff : Grade Number Grand Total
6. Working Capital } :
(30.6.1984) } :
7. Total Number of } :
members } :
- | | <u>30.6.'84</u> | <u>30.6.'83</u> | <u>30.6.'82</u> | <u>30.6.'81</u> |
|-----------|-----------------|-----------------|-----------------|-----------------|
| Class 'A' | | | | |
| Class 'B' | | | | |
8. Number of Directors : :
9. Their education } :
background } :
- | <u>Below S.S.L.C.</u> | <u>S.S.L.C.</u> | <u>Graduate</u> | <u>P.G.</u> | <u>Others</u> |
|-----------------------|-----------------|-----------------|-------------|---------------|
| | | | | |

10. Their political background X :
X

Political
leaders

Active
workers

Independent

Against
politics

11. a) Period of convening Board Meeting X :
X

b) No. of meetings held in X :
X

1983-'84

1982-'83

1981-'82

1980-'81

12. Were there instances of postponement of Board Meetings due to lack of quorum. X :
X
If yes, details X

13. Nature of relationship between staff and management X :
X

a) Any conflicts during the last four years X :
X

b) Nature of conflicts :

c) Outcome of conflicts :

d) Was there any retrenchment of employees during the last four years and if yes, reasons thereto X :
X
X
X
X

14. Nature of relationships between shareholders and board of directors X
X:
X
- a) No confidence motion passed during the last four years X
X:
X
- b) Stormy sessions during shareholders meetings X
X:
X
- c) Any other kind of conflict X:
X
- d) Are all loan applications accepted in general course ? X
X:
If not, reasons X
thereto X
- e) Time required for payment of loans once they are passed for payment X
X:
X
- 1) in principle :
- 2) in practice :
- 3) Reasons for deviations, if any X
X:
X
- f) Do directors, participate in deposit mobilisation X
X:
X
15. Details of perks & fringe benefits available to the staff X
X:
X

16. Other benefits :
- a) Monetary :
- b) Non-monetary :
- c) Retirement benefits :
17. Velocity of staff turnover during the last 4 years Y
Y:
Y
18. Development facilities & merit evaluation, if any Y:
Y
19. Nature and process of appointment Y:
Y
- a) Details of authority conducting the test Y:
Y
- b) Name of authority who conducted the most recent test Y:
Y
- c) Members of the interview board Y:
Y
- d) Any preference for local hands/highly qualified hands/ deposit canvassing etc. Y:
Y:
Y
Y
- e) Whether rank-lists are published immediately Y:
Y:
Y
- f) Are lists allowed to lapse and then make fresh appointments Y:
Y:
Y

20. Details of dividend declared and paid in the previous 4 years in the descending order X
X:
X
X
21. Strength in Annual General Meeting X : 1983-'84 1982-'83 1982-'81 1980-'81
X
22. Incentives offered to shareholders to attend meetings X
X:
X
23. Details of loans available X:
X
- a) Members :
- b) Non-Members . :
24. Details of periodical training and conferences held, if any X
X:
X
25. Library of Co-operative Literature X:
X
26. Other remarks if any, by the Chief Executive-Board of Directors, not covered by the above questions, pertaining to the working of the bank X
X:
X
X
X

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