

Urbanization and Industrial Developments in Karnataka With Special Reference to Co-Operative Banks

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Abstract

Urban population had increased almost eleven times with an annual growth of 9.91 per cent. As a result, the share of Karnataka's urban population was on the much higher side as compared to the national pattern during 1901-2001. The co-operative banks are functioning in India right from the beginning of the twentieth century, immediately after the enactment of the first Co-operative Societies Act in 1904. The objectives behind the establishment of these credit co-operatives as speltout in earlier chapter, was to promote the habit of thrift among the members dwelling in the urban centers and to provide credit and thus offer relief from the clutches of usurious money lenders.

With their growth in size, volume and variety of business, a need was felt to bring these within the purview of the banking laws. Consequently, certain provisions of the Banking Regulation Act 1949 were extended to co-operative banks with effect from 1st March 1966. Thus, co-operative banking in Karnataka as elsewhere in the entire country was subjected to some statutory control of the Reserve Bank of India, thus bringing them under the dual control of the State Department of Co-operation and Reserve Bank. In this connection, a greater need is imminent to look into the role of the Reserve bank in the promotion and the growth of the co-operative banking and the problems which are being faced by the co-operative banks on account of the restrictive provisions of this Central Bank with particular reference to the state of Karnataka. Therefore, this chapter is devoted to study the aspects outlined above. The urban banks have now undertaken various banking activities apart from accepting deposits of various types, sophisticated lending for the promotion of industrial growth with particular reference to small scale and cottage industries, and for various types of trade and profession, discounting and collecting of bills, etc., with the basic aim of ameliorating the conditions of the people of small means.

The co-operative banks which are to be established in any region must get prior licence from the Reserve Bank of India by fulfilling the minimum conditions imposed by it as per section 22 of Banking Regulation Act. In the meantime, the banks which are already established and doing the banking business as per the provisions of the Act cannot go beyond the restrictive provisions of the Reserve Bank. Thus, the established banks are to function according to the specifications issued by the Reserve Bank from time to time.

Key words: Urbanization, Industrial Developments in Karnataka, Co-Operative Banks, RBI, Banking Act.

Introduction

Urbanization and economic growth are strongly associated, and hence, urban areas, in general, and cities, in particular, have been identified as the 'Engines of Economic Growth', and 'Agents of Change' (Mohan and Dasgupta, 2005). Karnataka, one of the frontline states of India, ranks 6th by per capita net state domestic product, per cent share of urban population, life expectancy, infant mortality and maternal mortality rates, 7th by literacy and 9th by population size (Heitzman, 2001

and Govt. of India, 2001). Karnataka accounts for almost 6.3 per cent of national urban population and 5.4 per cent of the total number of towns in the country. By share of urban population, Karnataka (33.98 per cent) stood much above the national average (27.78 per cent) in 2001.

With its conducive location characteristics for industrial and commercial development, the two engines of economic growth and urbanization, Karnataka's urbanization has been consistently progressive with gradual increase in urban population from 12.59 per cent to 33.98 per cent during 1901 and 2001. In addition, during 1901-2001, the State's, favorable climate and primitive policies of the State Government attracted the people within the country and outside alike leading to higher growth of urban population and the urban areas (cities). Hence Karnataka with its urban population at 34 per cent of total population is at present ranked 5th. The main reason for such high urban population growth peak during 1941-51 in Karnataka was the state's initiative towards industrialization. This process has obviously led to rapid increase in city and town sizes in the state. Similarly, to begin with, the distribution of towns in Karnataka by size class reveals a well balanced typical pyramidal shape with strong base, with highest concentration of class VI (less than 5,000 population) and least share of class I towns 8 (more than 100,000 population) at the top. Subsequent urban development policies which encouraged higher size towns have led to redistribution in concentration of towns by eroding the pyramidal base. A similar growth pattern is evident at the national level as well. While the concentration of urban population by size class is concerned, the issue has been more serious as the population distribution has assumed a perfect inverted pyramid with highest and least concentration of population in class I and VI towns respectively in Karnataka as well at the national level during 1901-2001. This implies that both state and national urban development policies have consistently reinforced each other to most urbanized among the Indian states.

The Reserve Bank of India has a direct statutory and administrative control over the co-operative banks in the area of their constitution, licensing policy, extension of working, maintenance of cash and liquid assets, investment, loaning policy, interest rate policy, etc. Recognising the important role of the co-operative banks in the economic upliftment of small and weaker sections and their distinctive features like local feel, familiarity. 128 co-operative character, democratic management, open and voluntary membership and personalised services, the Reserve Bank has extended special concessions such as statutory cash reserves and liquidity, higher deposit rates, refinance facilities for small scale and tiny units which are not available to commercial banks. After the urban banks obtained licence from the Reserve bank, they must go according to the provisions of the said Act and as well the directives to be issued from time to time on all aspects of day to day operation of these banks. These co-operative banks have to submit to the Reserve Bank certain returns periodically. As per the projected urban population, the same higher growth trend of urban population would continue in Karnataka till 2016 by reaching an urban population share as high as 39.3 per cent while, at the national level, it will be just 33.7 per cent (Govt. of India, 1991b).

Objective:

This paper seeks to study urbanization patterns industrial developments in Karnataka, our scope is explore Co-Operative Banks framework.

Urbanization and Banking: Regulation

Sections 29 and 31 of the Act indicate that these banks will be required to prepare their balance sheet and profit and loss account as at the end of 30th June each year in the forms prescribed for the purpose which shall contain all financial and operational aspects of the bank. The balance sheet and the profit and loss account along with the auditor's report will have to be published in the manner detailed under the rules and three copies thereof will have to be furnished to the Reserve Bank of India within six months from the close of the period to which they refer to.

This helps the Reserve Bank to assess the functions and performance of co-operative banks from time to time. Further, all the co-operative banks registered as urban banks as per the Banking Regulation Act must fulfil the Reserve Bank norms, which are subjected to change from time to time, 129 applicable to these institutions particularly in regard to owned funds, namely paid up share capital and reserve funds. The Reserve Bank, on examination of returns of co-operative banks, prohibit the grant of loan if it is found to be detrimental to the interests of the depositors of that particular bank.

According to section 35 of the Banking Regulation Act as amended in the year 1983, the Reserve Bank can carryout a scrutiny of the affairs of co-operative bank at any time it is considered necessary to do so in addition to conducting regular inspection. The co-operative banks as per Banking Regulation Rules 1966, under section 27 should maintain a register of overdues on a quarterly basis. The overdues being related to outstanding by way of percentages in the form prescribed for the purpose. Management of Resources:- In order to ensure more judicious and proper management of the resources of co-operative banks, various disciplines and safeguards are imposed by the Reserve Bank.

The Urban co-operative banks are required to seek authorisation from the Reserve Bank in providing finance to their members beyond specified amounts. In respect of term lending by the co-operative banks for block capital requirements of co-operatives of proposing units like sugar factories, spinning mills and so on, the banks are advised to keep such lending within certain limits linked to the total demand and time liabilities and disposable term resources. With the block capital costs of new units going up substantially following considerable rise in prices of all materials.

The Reserve Bank, however, directed all the banks to seek permission from it before providing financial accommodation by way of term loans, interim finance or commitments in the form of opening letters of credit or agreement to give finance for block capital requirements for setting up new units. This has been done in the interests of the banks for keeping good track in providing orderly and timely advances with the limiting boundaries as also to eliminate the misuse of the resources of the banks by the Board of Managements. It will help the banking institutions to concentrate among needy members of the banks instead of concentrating only on one section of the borrowers. In exercising the power conferred by the Banking Regulations Act, the Reserve Bank has taken steps to put restrictions in the interest of the public since the co-operative urban banks as any other co-operative enterprise have the social objectives in their functioning. With a view to discouraging the trend in hoarding certain types of commodities which are generally subject to frequent fluctuations in price levels, the Reserve Bank resort to issue directives to co-operative banks from time to time.

Banking to the urban Populace

It places certain restrictions on advances against such commodities in the form of higher lendings, margin required to be maintained etc., and commodities are called sensitive or commodities subject to selective credit control measure. For the present, these commodities like food grains including pulses, vegetable oil, vanaspathy, oil seeds, cotton and capas sugar,

gur and khandsary and so on. Reserve Bank of India as a central bank has been instructing the co-operative banks to accord top priority to provide loan to priority sector in the interest of small and petty grading sector and other weaker sections. The borrowers who do not manufacture goods but effect sales would be classified as trading sector. Priority sector or preferred categories of borrowers would include small scale industries, agriculture, industrial estates, road and water transport operators, retail traders, small business, professional and self employed persons, education and export activities.

Advances given for purposes other than these activities are non-priority sector advances. As there is a stipulation for the co-operative banks to maintain loan portfolio properly as is directed by the Reserve Bank from time to time in the interest of the promotion of the economic betterment of the member community who are small and economically weaker sections. These banks cannot function in providing finance to their advantage. The role being played by these banks in providing finance to priority sector will be thoroughly dealtwith in the next chapter. Reserve Bank has permitted the co-operative banks to provide financial accommodation in times of their need against personal security. However, it stipulated that, advances are to be granted to salaried employees against personal security, provided that the Co-operative Societies Act of the state concerned contains an obligatory provisions for deduction of periodical loan instalment by the employer out of the employees salary/wages to meet the bank's claim and provided further that the bank has taken advantage of this provision in respect of each of such advances. Further, for the deposits held by the depositors in the co-operative banks, the Reserve Bank in its recent directions allows to pay additional interest not exceeding one per cent per annum on Savings Bank account and not exceeding 0.5 per cent per annum on term deposits, the facility which is not available to commercial banks.

Depositors and banking the unbanked

This has been done in the interest of the depositors of the co-operative bank who usually are the small and weaker sections and their deposits are of small amount. The Reserve Bank of India in the interest of members who want to construct a house by taking loan from co-operative banks instruct these banks from time to time to provide finance according to its guidelines. The categories of housing schemes eligible for finance as per Reserve Bank directions are more economically weaker sections like urban housing schemes for the low income group, rural housing schemes as well as hostels for scheduled caste and scheduled tribes; slum clearance schemes, construction of family planning clinics and rural health centers coming under the public health programme in the area of operations of the co-operative banks. The loan granted directly to individual beneficiaries and the housing scheme is depending upon local conditions and the nature of housing schemes. In the public interest as well as in the interest of all the banking institutions, the Reserve Bank publishes data relating to 'urban banks in each year in an annual report viz., statistical statements relating to co-operative movement in India.

However, now the task has been entrusted to National Bank for Agriculture and Rural Development. Further, in order to solve the problem of co-operative banks, an exclusive department for this sector has been established called Urban Banks Department. Proper coordination among all the agencies connected with the working of urban banks has been maintained by the Reserve Bank so as to avoid any conflict in their day to day functioning. The co-operative banks as cited earlier are under the dual control of the Registrar of co-operative societies of the State Co-operative Department on the one hand and the Reserve Bank of Indian the other. While the powers in regard to incorporation, liquidation, amalgamation and other general regulation of the co-operative banks vest with the Registrar of co-operative Societies, the responsibility for regulating their banking functions devolve on the Reserve Bank. The functions of both the Reserve Bank and the Registrar

of Co-operative Societies in relation to co-operative banks are thus interlinked. There is, therefore, a great need to maintain appropriate co-ordination between the action taken or contemplated to be taken in respect of any co-operative bank by the Registrar of Co-operative Societies or the Reserve Bank.

Karnataka the urban bank pioneer

A close coordination between the Reserve Bank and the Department of Cooperation in all states is established and important policy decisions concerning the working of urban banks being taken only after mutual consultations. There is also an effective coordination at the level of Reserve Bank between the department of Banking Operations and Urban Banks Department before granting permission to commercial banks and urban banks for opening offices with a view to avoiding unhealthy trends in opening of offices by these banks. The Reserve Bank provides loans and advances to co-operative banks on selective basis through and on the guarantee of the state governments. Each loan and advance made by the Reserve Bank with the interest thereon will be repaid in full by the state government within the stipulated period as directed by the financing banks.

It is also true that, if the state government does not disburse the amount obtained as loans or advances under the agreement or any part thereof within three months from the date of making the loans, the undisbursed amount should be refunded to the Reserve Bank immediately. The Working Group on Industrial Financing through co-operative banks appointed by the Reserve Bank envisaged that the operation of the primary co-operative banks would be considerably expanded, especially with regard to the functioning of small scale industries and small scale industrialists. In order to make the primary co-operative banks to discharge their responsibilities, it was considered necessary by the Reserve Bank to strengthen their share capital base by contribution from the State Government. Accordingly, it was decided to sanction loans to state government for contribution to share capital of primary co-operative banks from 1969-70. From time to time, the Reserve Bank used to monitor the progress achieved by co-operative banks in financing and recovery especially with regard to small scale industries. The seminar of the Chief Executive officers of the co-operative banks held at Poona in 1974 came with a conclusion that the co-operative banks had not made much headway in financing small scale industries. Based on the observations, Reserve Bank collected certain data from selected co-operative banks in Gujarat, Maharashtra, Karnataka and Tamil Nadu.

It is observed from the data collected that, the performance of urban banks in the field of industrial finance continues to be far from satisfactory. For the improvement of the urban banks in industrial financing, the working group recommended for more dynamic role to be played by the urban banks. In order to take effective measure in this connection, the Reserve Bank sent a copy of the model byelaws of co-operative banks incorporating various amendments that have to be made for giving effect to the recommendations of the Working Group to be adopted by the urban banks considering the local requirements. In view of the importance of these industries in providing gainful employment specially in the semi-urban areas and also of the need to provide some incentive to the co-operative banks for ensuring a greater flow of credit, the Reserve Bank provided financial accommodation at concessional interest which is one per cent below the bank rate with effect from July 1977.

Due to continuous monitoring and evaluation of the co-operative banks in respect of financing small scale industrial enterprises, these banks have now been accorded top priority in their lending to this sector. As a result, in recent years, co-operative banks have been assigned to play a dynamic role in the matter of finance to cottage and small scale industries and

economically weaker sections of the society besides loans for consumption, business, housing etc. Banking industry is at present required by law to maintain and preserve its books of account for a few years immediately preceding the current year not only for proper inspection but also to record the path of progress. Urban co-operative banks which are essentially financial institutions purveying credit and banking business also have to maintain and preserve various books of accounts.

It is the intention of the Reserve Bank that the findings contained in the inspection report which are statutory should be considered by all the members of the Board of Directors representing various interests of the members of the bank and that these findings are discussed at a meeting in which all the members of the Board have an opportunity to express their views. Although the Reserve Bank does not have any objections to the inspection report to be considered in the first instance by the executive or managing committee of an co-operative bank, it is desirable in the larger interest of institution that, the inspection report which is a statutory document together with the observations of the executive or managing committee is to be considered by the bank's successive meeting of the Board of Directors. The Reserve Bank inspect the working of co-operative banks in order to eliminate the cases of fraud, misappropriations, defalcation and embezzlement and also make necessary actions to be taken by those banks. This helps the banks to plug the loopholes in the working of the urban banks and can rectify them in the interest of the member community and the banks themselves. In order to provide security arrangements in urban banks. Reserve Bank provides guidelines. It is, because, the bulk of the resources of co-operative banks consist of deposits of the public and therefore, the question of proper security of the public funds mobilised by the banks becomes all the more important so that the depositors among others continue to repose their confidence in these banks.

The road ahead for the banking system

Reserve Bank guidelines are primarily in regard to proper bank locations and layout, cash remittances at the remitting branch and at the receiving branch, security of cash on the counters. The Reserve bank also undertakes the rehabilitation of weak primary co-operative banks by inspecting the records of each bank individually. In this connection, it also provides necessary guidelines in respect of investigation of overdues, estimate of erosion in the value of assets, action for recovery of overdue, rationalisation of loan policies and procedures, mobilisation of resources, management of resources, managerial competence, assistance from state government in the form of term loan for maintenance of non-overdue, for borrowings from the Reserve Bank and periodical review of the progress to be taken in the implementation of the progress by the review committee.

The programme of rehabilitation of weak co-operative banks is being undertaken with a view to improving their financial position and operational efficiency. The Central Bank also makes recommendations from time to time to declare the dividend by the co-operative banks, transfer to statutory reserves, provisions for bad and doubtful debts, depreciation on investments, payment of bonus/ex-gratia, augmentation of owned funds etc.,. Thus, Reserve Bank of India has been playing a crucial role in the development and progress of co-operative banking in the country. However, there are some problems of co-operative banks which stand before the Reserve Bank of India. It is now necessary to turn our attention to see the problems being faced by these banks with that of Reserve Bank due to its restrictive provisions with statutory power in most of the dealings and operations of co-operative banks. The study in this aspect follow recommendatory views in order to make the co-operative banks to grow and strengthen themselves as viable financial institutions for the betterment of the

member community at large. Although, the analysis pertains to the problems of co-operative banks with the Reserve Bank, it is descriptive in nature.

The primary source material collected through the census survey conducted by the author with the management of co-operative banks is used wherever necessary for more accuracy and authenticity. The relative role to be played by the Reserve Bank towards the co-operative banking in the course of Eighth Five Year Plan has also been discussed for placing this sector in further growing path for ensuring further progress in the welfare of the urban community. It is, because, in this fast growing urbanisation, the need for banking with social and welfare objectives in view are more important than the banking with commercial or business nature. The branch licencing policy of the Reserve Bank of India is designed for commercial banks. Though this policy is applicable to commercial banks for opening branches, the district central co-operative banks which fall with in the purview of rural credit structure are given the facility to open branches without obtaining licence from the Reserve Bank of India.

Conclusion

The contention of the Reserve Bank in this connection that the freedom of opening branches by central co-operative banks on their own is allowed keeping in view the responsibility of developing on their own for disbursement of agricultural loan and their obligations for serving affiliated primary agricultural co-operative societies. As co-operative banks function in urban and semi-urban areas on commercial lines, the Reserve Bank of India with the approval of Government of India followed a co-ordinated policy for allowing both types of banks, viz., commercial and co-operative to open new branches.

Moreover, co-operative banks are not permitted to open branches outside their area of operation, whereas commercial banks are allowed to open branches in any potential area of the country. The first All India conference of Urban Co-operative Banks and Credit Societies held at New Delhi in April 1969 recommended that at least the scheduled and bigger co-operative banks with a deposit base of Rs.10 crores and above be allowed to open branches outside their area of operation in the context of their felt needs as also to encourage organisation of new units in the unbanked areas. Although the issue was discussed in the Ninth Standing Advisory Committee meeting in April 1990 with much emphasis. Reserve Bank of India did not accept the recommendations for opening branches by co-operative banks without its prior approval.

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