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CHAPTER – VI

PROBLEMS AND PROSPECTS OF URBAN CO-OPERATIVE BANKS

6.1. Introduction

The sixth chapter is devoted to the overall Problems and Prospects of Urban Co-operative Banks.

6.2. Problems of urban co-operative banks

6.2.1. General problems of urban co-operative banks

Some leaders of the co-operative movement do not bother about the principles of public morality and use all means fair or foul, to get elected as leaders in some of the co-operative institutions. Many of these leaders use their positions in these institutions as a stepping-stone to secure positions in political field. This has vitiated the atmosphere in the co-operative movement. Instead of managing these co-operative organizations as business organizations, political motivation is influencing the decision-making processes. Naturally the functioning and development of the co-operative movement is adversely affected as a result of this.

One of the major drawbacks in the movement has been its extremely uneven regional development. Though some historical and social factors are responsible for this, adequate corrective steps have not been taken to rectify this position by the concerned State Governments.

Through co-operative movement is supposed to be voluntary and free from Government and political interference, political and Government interference has become the main feature of the movement now a day and as a result, the development of healthy co-operative movement is it self endangered. It is a common experience that the elections of co-operative organizations are postponed under one excuse or the other to suit the convenience of the ruling party.

Suppression of the committees of management for political reasons and replacing them by Government nominated bodies has become quite common
throughout the country. State Government also appoints Government officer’s chief executives without giving deep thought to this problem. Co-operatives are mainly business and economic organizations and officers with economic and business background alone can manage these organizations.

In addition to business abilities, executives who are supposed to manage co-operatives must understand the basic principles of co-operative organizations and problems of human relationship. But state Government makes appointments without these considerations. Government has no adequate personal to run and manage public sector or state owned enterprises. Most of the officers whom Government appoints for public sector units are offices that have no economic background or experience to run these organizations as business executives. The general problems of law and order or administration are different in nature than those of development. Most of the government under taking in the country today is incurring heavy losses because government official are unable to provide leadership on economic and industrial matters. Co-operative movement is mainly an economic movement, as has been already mentioned. It has to be run on sound economic and industrial principles. Productively profitability has to be the important objective in running such organizations. Despite Government’s awareness that they have no adequate personal to run economic organizations, they are tempted to appoint officers of their choice in order to have political control of these organizations.

It is common experience that Ministers or even chief ministers try to influence that the election of the office bearers of their choice in important co-operative organizations. That act against the principles of co-operative movement. Smaller political functionaries try to emulate them at lower levels and hence political interference has become inseparable part of the co-operative movement and causing incalculable and irreparable harm to the movement. Indian society is already fragmented and a non-cohesive society because of the rigid cast system. For healthy development of the co-operative movement, better cohesive and democratic atmosphere has to be developed in the society. In fact politicians and social workers can play a great role in this regard, but instead they are using the co-operative organizations as instruments in their power struggle and actually accentuating the
divisions in the social life. Unless this is corrected, the future development of the co-operative movement will be seriously affected.

Co-operative institutions are built and run on sound democratic and business like principles can be important cornerstones of the democratic structure of the society. They can give a lot of strength and vitality to the nation. In order to achieve these goals national & state leadership must have clear principled policy approach and full trust in the democratic functioning of these organizations.

Co-operative movement if developed on proper lines can have far reaching impact on our social & economic life and energy of the masses will find constructive channels for bringing about economic improvement of millions. Co-operative movement can be an important instrument for fighting against poverty and bringing about amelioration in the life of millions. Co-operative organizations also can play vital role in promoting agricultural production and productivity and also protecting the interest of consumes. Despite difficult political situation in the country, prime minister has been good enough find some time for the cause of co-operative movement. It shows that be attaches great importance to this historic movement particularly in the background of Indian conditions. But ultimately the future of the co-operative movement in India will depend upon the co-operation of the state Government and leadership of the co-operative movement.

6.2.2. Built-in Imbalance in the credit Institutions

The co-operative movement started in India at the initiative of the State, which itself is an important limiting factor in its healthy growth. Further, there is importance given to co-operative credit societies and banks but not at other places such as marketing, consumers, housing and land development. The result is that there is a built-in imbalance in the credit institution and other co-operative sectors.

In India, agriculture has not received much attention especially farm co-operatives at different levels. There is an over-emphasis on three tier-systems without adequate attention being given to the local development since the leader ship in co-operative has come from the state, there is no in dependent co-operative leader ship of the people.
6.2.3. lack of Co-operative spirit

The system of co-operation has suffered because of lack of co-operative spirit. The principles of co-operation and the concept of co-operative commonwealth are matters of academic importance. As such the co-operative system in India has suffered not only in organization but also in terms of managements.

The co-operative laws of the central or state governments govern Indian co-operative system. For instance, the co-operative societies act of the central government in 1904 and the Maharashtra state co-operative societies Act, 1960. Both these acts lay down important provisions relating to registration, supervision, inspection, audit and accounts, arbitration and liquidation and co-operative council. The administration of these laws at the national or the state levels determines the tone and tenor or management of co-operatives management in the field of co-operation suffers much more than that or other business activities. This is because of the structure of management of co-operative enterprise in India. The system has failed to a large extent except in certain sectors and in certain states. It is a problem to be examined as to way management co-operatives have not been able to come up to the expectations of people as well as the government. Indian economy, there is a demarcation of activities between the private sector, public sector and joint sector.

6.2.4. Co-operation an Important Alternative

In fact Co-operation is important alternative to the public/private sector. A number of countries have progressed with a positive role given to co-operation. If the present system is to improve the entire concept of co-operation has to change in relation to agro-based industries and rural development.

6.2.5. Built-in Weaknesses of Co-operatives

There are certain built-in weaknesses of the co-operatives. The co-operative principles and practices do not impart a high level of excellence in the filed or the areas of economic activities compared with that of public/private sector. A comparative study of co-operatives and other forms of economic organization reveals certain limitations of co-operatives. In view of this, the management or co-operatives
is going to present a number of problems. For instance, co-operative training and education of the members of the co-operatives have not received due attention that they deserve. The role of regional/national co-operatives vis-à-vis that of primary co-operatives is not very clear. Members of the co-operative institutions are not educated in the specialized disciplines of management of co-operatives. The importance of static position of co-operatives in relation to agriculture production including impute, irrigation, finance and extension cannot be underestimated. Marketing agricultural products and rural development in relation to the policies of the government is yet another area not fully explored.

### 6.2.6. Develop the Functional Skills of Management

The co-operative societies at different levels have not been able to deal with problems of management of change, particularly in relation with integrated rural development, small-scale co-operative industries and management of rural development. Each state, district, taluka or village presents a typical combination of management problems. The present system needs a change, reformation and even revamping. The five year plans have made excellent review and survey of this problem. But still there is a lot of basic ground to be covered both at ‘micro’ and ‘macro’ levels. We should develop the functional skills of management of co-operative leadership and of the personnel organization. The production and service functions should also be enlarge. Over and above, the process of decision making, planning, co-ordination and control in co-operative should be the main areas for attention if the co-operatives are to be a success.

### 6.2.7. Lack of proper Education

Basic deficiency in the existing pattern of co-operation is the lack of proper education in co-operation at all levels. A few institutions cover the subject of co-operation at 10+2 and 12+3 levels and root problems. A revolutionary approach to co-operation is the need of the hour. In India, it is all the more important and urgent. Any delay in revamping the system of co-operatives is fraught with dangers.
6.2.8. De-politicization of Co-operation

The philosophy and spirit of co-operation is not rightly developed in India. The linkages between co-operation and rural development are to be strengthened. There is the need for depoliticization of co-operation to the extent possible and reasonable. We cannot manage co-operatives with the person state of affairs. A proper system of cooperative management education has to be planned and structured on the lines it has been done for other activities in the new education policy and programmer. A positive approach in this regard has to come from the education and social institutions helping to develop the alternative plans for spectral development.

6.2.9. Do’s and Don’ts for Directors

The Reserve Bank vide the circular No. Plan. (PCB) 55/09-08-09-00/93-94 dated 11-02-1994 has given guidelines regarding do’s and don’ts by the directors.

Do’s:

i) Attend board meetings regularly and effectively and work in a spirit of co-operation.

ii) Study the board papers thoroughly and use the good offices of the chief executive officer for electing any information at the board meeting.

iii) Ask the chairman to furnish you with the board papers and follow-up reports on a definite time schedule.

iv) Involve yourself as director on the board thoroughly in the matter of formulation of general policy and also ensure that performance of the bank is monitored adequately at board level.

v) Be familiar with the board objectives of the bank and for making valuable contribution would be welcome.

vi) Work as a team does not sponsor or be prejudiced against individual proposals. Management on its part is supposed to furnish full facts and complete papers in advance.

vii) Try to give as much of your wisdom, guidance and knowledge as possible to the management.
viii) Try to analyze the trends of the economy, assist in the discharge of management’s responsibility to public and formulation of measures to improve customer service and be generally of constructive assistance to the bank management

ix) All constructive ideas for better management of the bank and for making valuable contribution would be welcome.

x) Bestow attention of the following aspects of the bank’s working.
   a. Compliance with monetary and credit policies of RBI/Government.
   b. Observance of cash reserve and statutory liquidity ratios.
   c. Efficient management of funds and improving profitability.
   d. Sectoral deployment of funds and priority sector/weaker section lending.
   e. Advances to directors and their relatives strictly to be in conformity with RBI guidelines.
   f. Ensure that recoveries are made promptly and overdues reduced to the minimum.
   g. Compliance with guidelines on income recognition, asset classification, provisioning towards non-performing assets.
   h. Review of action taken on RBI inspection report, statutory audit report.
   i. Development of a good management information system.
   j. Reviews on several items as prescribed by RBI/Government.
   k. Vigilance, frauds and misappropriation.
   l. Strengthening of internal control system and house-keeping viz., proper maintenance of books of accounts and periodical reconciliation.
   m. Computerization of operations and
   n. Achievement of viability norms prescribed by RBI.

Dont’s

i) Do not send any instruction or give direction of any individual officer/employee of the bank in any manner.

ii) Do not involve yourself in any matter related to personnel administration—whether it is appointment, transfer, posting or a promotion or a redressed or individual grievances of any employee.
iii) Do not interfere in the day-to-day functioning of the bank.

iv) Do not approach or influence for sanction of any kind of facility, for the branch manager or any other official.

v) Do not involve yourself in the routine or everyday business and in the management functions.

vi) Do not participate in the board discussion, if a proposal in which you are directly or indirectly interested comes up for discussion. Disclose your interest well in advance to the chief executive officer and the board.

vii) Directors should not send for individual officers/employees of the bank or give directions to such officers/employees on any matter.

viii) You should discourage the individual officer/employee or union approaching you in any matter.

ix) You may indicate you directorship of the bank on your visiting card or letter head, but the logos or distinctive design of the same should not be displayed on the visiting card/latter head.

x) Do not reveal any information relating to any constituent of the bank to anyone as you are under oath of secrecy and fidelity.

xi) Directors should not directly call for papers/files/notes recorded by various departments for scrutiny etc., in respect of agenda items to be discussed in the meetings. All information/clarification that you may require for taking a decision should be made available by the executive.

xii) Do not sponsor any loan proposal building and sites for bank’s premises, enlistment or empanelment or contractors, architects, doctors, lowers, etc.

xiii) Do not sponsor any candidate for recruitment or promotion or interfere in the process of selection/appointment or in transfer of staff. Do not do anything which will interfere with and/or be subversive of maintains or discipline, good conduct and integrity of the staff.

xiv) Directors should ensure that the bank’s funds are utilized in a proper and judicious manner for the benefit of general members. Which availing or credit facility from banks, the directors and their relatives they should strictly adhere to the lending norms prescribed for general members as also the instructions of the reserve bank. They should follow the procedure for proper documentation and provide security, as applicable.
6.3 Prospects of Urban Co-Operative Banks

The banking system plays an important role in the process of economic development. Banks mobilize savings of the society and make them available for the purpose of investment, which is vital for economic growth. They also help in making optimum use of limited resources through the process of institutionalization of savings and investment. In the modern times, world banks not only play an intermediary role in the mobilization of resources and deployment of the same but also have a crucial role in the identification of productive avenues for investment and potential entrepreneurs. They also play an important role in the external trade. Apart from arranging for finance for foreign trade they help in the establishment of useful contacts with potential markets and parties abroad. Thus the banks’ role now transcends the traditional areas; they get involved in varied aspects of the growth process. In India, the strategy is to promote economic growth with a measure of distributive justice. The banking system has emerged as an important instrument in this behalf. Urban Co-operative Banks constitute key constituent of the multi-agency banking system adopted in the country.

The researcher has attempted in this section in brief to describe the evolution of the urban banking movement in the country, its present status and future prospects. A few suggestions to strengthen the urban banking movement in Maharashtra have also been made for consideration of the state co-operative bank.

In India, most of the urban banks started as credit societies and got converted into banks subsequently. Although the urban banking movement started towards the close of the last century, it did not gather much momentum till 1915 when the potentiality of such institutions as means of promoting banking habit, among the low and middle income class people of the urban areas came under sharp focus. The failure of the joint stock banks in the country in wake of the economic depression also gave impetus to the urban co-operative credit societies. At this time there came about a growing realization that such societies were eminently suitable institutional agencies for collecting local savings and providing succors to those with small means by freeing them from the clutches of the moneylenders. Many urban co-operative credit societies accordingly came to be organized in Bombay and Madras province in the
inter-war period (1919-38). The economic boom created by the Second World War provided further stimulus to the movement and such institutions grew not only in number but also in size. The period also saw a diversification of their activities. A significant development, which took place at this time, was that co-operative societies, which had hitherto been providing finance mostly for consumption purposes, took up financing of small artisans, small businessmen, small traders etc.

The urban banking movement has made rapid strides since independence. The number of urban banks has risen from 815 as at the end of 1948-49 to 1357 as of now. During the same period deposits of urban banks have risen from Rs. 17 crores to around 4200 crores. Outstanding advances have also risen from Rs. 12 crores to about Rs. 3300 crores. In terms of aggregates, the operations of urban banks are quite small as compared to those of the commercial banks. For instance, the number of commercial banks branch network increased from 8321 at the time of nationalization of 14 major commercial banks(July 1969) to 53085 by end march 1986. As at the end of 1986, 45.3 percent of the offices of other commercial banks were in rural areas. About 92.3 percent of the offices of the regional rural banks were in rural areas. It is important to note that of the total deposits of scheduled commercial banks (as on last Friday of June 1983) placed at Rs. 54447 crores, 14.1 percent (Rs. 7671.98 crores) were from rural branches; similarly of the total number of accounts (1775.46 lakhs) 26.7 percent (473.21 lakhs) were from such branches. The share of rural offices in total deposits and advances was 3.1 percent and 1.5 percent respectively in June 1969. These increased substantially to 13.6 percent and 13.0 percent, respectively by the end of June 1985. The performances of rural branches in the mobilization of deposits and the deployment of the same have been commendable. There was no appreciable increase in the share of semi-urban offices in total deposits, which remained around 22 percent in total credit; however, their share rose from 11.3 percent to 16.7 percent during the period since end July 1969. The combined share of urban and metropolitan offices both in deposit mobilization and credit deployment – the area of direct interest for the urban banks declined from 74.9 percent and 87.2 percent to 64.7 percent and 70.3 percent respectively. Rural deposits increased from Rs. 145 crores (1969) to Rs. 10510 crores (June 1985); those of semi-urban, urban/metropolitan offices rose from Rs. 1024 crores and Rs. 3496 crores to Rs. 16829 crores and Rs. 50043 crores respectively. Credit deployed rose from Rs. 3609 crores (June 1969) to Rs. 53122
crores (June 1985). Advances by semi-urban offices rose from Rs. 402 crores to Rs. 8885 crores; those of metropolitan from Rs. 2426 crores to Rs. 24837 crores. Urban offices increased their advances from Rs. 722 crores to Rs. 12509 crores. Urban banks cater to the needs of low and middle income groups. It is pertinent to observe than 60 percent of the loans of urban banks have been advanced to borrower who avail themselves of finance for less than Rs. 10000. Significantly, more than 60 percent of the urban banks deposits are accounted for by individual deposits not exceeding Rs. 10000. A study conducted by reserve bank in 1981 revealed that on an average 60.4 percent of the loans of urban banks had gone to the borrowers in ‘priority’ category. The share of commercial banks in the priority sector category had exceeded the target of 40 percent of net bank credit fixed for end March 1986; the total outstanding was Rs. 21584 crores (end March 1986) under this category of which Rs. 7808 crores (14.4 percent o the total) on account of lending to agriculture. The share of agriculture and allied activities and small-scale industries in total bank credit rose from 2.2 percent and 6.9 present to 16.5 present and 11.0 present during June 1968-83 respectively, those of large and medium industries and wholesale trade dropped from 60.6 percent and 17.7 percent to 36.5percent and 15.4 percent respectively. The urban banks play a supportive role in urban and metropolitan areas and this role is important and expanding.

➢ Important Role Of Urban Co-Operative Banks

The above data indicates that in spite of their limited scale of operations, urban banks have an important complementary role to play in the economy. They are dealing primarily with people of small means i.e. small entrepreneurs, small businessmen, small transport operators, retail traders, etc. by virtue of their special characteristics, in particular their co-operative character, democratic management, compact area of operations, mutual knowledge and cohesion, they are very much suited to cater to the banking and credit requirements of such people. It is mainly in recognition of the Reserve bank continues to license urban banks and extends to them certain concession like permission to pay higher rate of interest on deposits, maintenance of lower cash reserve and liquid assets (than those in the case of commercial banks) and, above all, a special line of credit to finance cottage and small-scale industries, which is not available to commercial banks.
The urban co-operative banks are expected to function on commercial basis like other banks. In urban and metropolitan areas these banks have to compete for deposits and business with other banks operating in their areas. It is therefore, imperative that the urban banks in terms of operational efficiency and customer service be on par with commercial banks. Most of the urban banks are conscious of this fact and have initiated suitable measures to update their operational skills improve standards of house keeping and to have qualified and trained managerial and other staff. There is a need to have a continuous review in this behalf so that timely effective measures can be taken wherever deficiencies appear. This is necessary for banks if they have to remain competitive and healthy. As banking has become a highly complex and competitive activity and the expectations of customers are ever rising, it is absolutely necessary for the urban banks to keep themselves abreast of the latest technological changes in the sphere of banking. A phased programme of computerization and mechanization of selected operations is being implemented by commercial banks. The urban banks should also chalk out a feasible programme in this behalf. Some of the banks have already embarked upon such a programme, other may think of moving in step. The economic growth has created vast opportunities for the people. Urban banks together with other banks gave a significant role to assist the people in a verity commendable role it has demonstrate what can be done with its active participation in economic development process. The very success has created an expectation in the minds of people about what banks can and should do. Banks will have to continue to strive to match performance with expectations.

A somewhat unhappy feature of the urban banking movement is its uneven geographical spread in the country. Maharashtra has the pride of being the cradle of the urban banking movement in the country. The first co-operative credit society was organized at Baroda by a few enterprising Maharashtra families way back in February 1889. Since then Maharashtra has been in the vanguard of the co-operative movement including urban banks.

After independence the constitution of India was prepared and India accepted socialism as the guiding principle of economic activity in the country, more or less socialism was the official philosophy of the government. But the same was not
accepted in to the constitution of India reads it as the socialistic pattern of society. This laid to the acceptance of mixed economy in which govt. Pledge a major roll in overall economic planning in all sector of the economy. This structure of the economy though didn’t divorce itself totally from the philosophy of ‘laissez-faire’ to great extent; it followed the socio economic philosophy of Karl Marx has presented three stages of development of society viz. struggle slave, feudal & bourgeoisie.

Marxist socialism also aimed eradication of poverty though abolishing of private property and also of money. Though these things were practically impossible under Indian circumstances Indian thinkers made brainstorming effects to find out a golden mid-point on the one hand the government stepped ahead towards various enactments & legislations such as land ceiling act, MRTP, FERA, etc. Government programs also emphasized on eradication of bonded labour in agriculture & other sectors. The point was more emphasized in the 20 point economic program. The priority sector of the economy included agriculture & allied activities, small scale industries, small business and exports, the various economic policy resolution related with agricultural & industry were also drafted keeping in view the socialistic pattern of society. Major sectors of the economy of the economy were nationalized & brought under direct Govt. control e.g. coalfields, oil fields, LIC and Banks etc.

This is in brief the story of economic philosophy of India during four decades after independence till the acceptance of the new economic policy following the Uruguay Round of GATT during the last decade of the last century. The recent chances in the economic scenario, to great extend the result of political collapse of USSR.

However the impact of socialism on Indian thinking can still be observed though a number of ideas & institution. The philosophy can be said to be outcome of socialist, communist philosophy. Acharya Vinoba Bhave based his movement of ‘Bhoodan’ a type of co-operative farming or what he called ‘Sarvoday’ however; Sarvoday was nothing but Indian counter part of communisms.

Commercial banking sector was nationalized in 1969 & commercial banks were required to direct the flow of credit to the priority sectors. Yet as the philosophy of commercial banks and thinking patterns of their staff and their working system
were not found suitable to cater the needs of downtrodden masses living in the quagmire of poverty. As a result, with a view to foster the economic development co-operative banks were established in very district with the state co-operative banks working as the apex body controlling all the district co-operative banks. Inspire of the lead bank scheme and the role played by commercial banks in agro-rural credit. The co-operative banks remained more closely associated with economic development. Similarly urban co-operative banks also emerged as a part of the co-operative sector.

This chapter is a review of Overall prospects of the Urban Co-operative Banks. They have been studied in this chapter and overall problems with detailed analysis are drawn from this study.