Chapter – II

Profile of Omalur Urban Co-operative Bank
HISTORY OF URBAN CO-OPERATIVE BANK

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered around communities, localities work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably. The origins of the urban cooperative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany such societies were set up in India. Cooperative societies are based on the principles of cooperation, - mutual help, democratic decision making and open membership. Cooperatives represented a new and alternative approach to organisaton as against proprietary firms, partnership firms and joint stock companies which represent the dominant form of commercial organisation.
URBAN CO-OPERATIVE BANKS

Among the non-agricultural credit societies Urban Co-operative Banks occupy an important place. They cater to the credit needs of people residing in urban areas. They advance loans mostly to the small traders, artisans and salary earners on personal security as well as against gold, silver and produce. They accept deposits of various types and thereby afford facilities for investment to persons of small means. Like the commercial banks and central banks, many of them provide banking facilities of various kinds to their members and customers.

The study Group on Credit Co-operative in the Non-Agricultural sector has recommended that the definition of an Urban Co-operative Bank should include the following features.

a. A credit co-operative registered under the State Co-operative Societies Act in urban or semi-urban areas;

b. a minimum paid-up capital of Rs.50,000 and

c. provision of banking facilities e.g., accepting for the purpose of lending or investment of deposits from members and non-members repayable on demand or otherwise, and withdrawal by cheque, draft, order, etc.,

Social welfare and National developments are said to be the important principles upon which Urban Co-operative Banks were
established. At present, there are 1800 Urban Co-operative Banks in India.

CO-OPERATIVE BANKS IN TAMILNADU

The co-operative Urban Banks in Tamilnadu were established and started functioning as early as 1905 and perhaps they are the oldest institutions among the co-operative in our state. Though the CUBs are in existence for over decades, their growth and development are not upto the expected level due to various reasons. They are 126 CUBs in Tamilnadu State, of which the RBI licenses 109.

It reveals the financial soundness of the CUBs in Tamilnadu. However compared to the CUBs in Maharashtra the role-played by the CUBs in Tamilnadu in very insignificant, for there are few CUBs in our state, which are functioning well in all respects. According to the recent survey, the Salem CUB and the BHEL Employees Co-operative Credit Thrift Society, at Tiruchirapalli are occupying the 62 and 63 rank respectively at all India level among the CUBs. We should feel proud of these two in institutions who are standing apart from others in their performance. The CUBs all along by the traditional outlook were making advances for (a) Jewel Loans (b) Mortgage Loans (c) Surety Loans and (d) Loans Against Deposits.
THE OUTLOOK OF CUBs IN TAMILNADU

The very outlook of CUBs should be changed both in their interest as well as in the interest to the state. The validity of CUBs depends mainly on the development of resources mobilised and the priority of allocation of resources depends on the priority for emulated by the State and Central Governments. The CUBs for purposes other than agriculture mostly meet the requirements of the Credit in rural and semi-urban banks. It is said that India lives in villages. Hence, rural development depends on creation of self-employment opportunities and established as a large number of small-scale industries. In this sphere, the CUBs have a dominant role to play by diversifying their advances portfolio from the conventional type of lending to that of lending to the small scale Industries and small Road Transport operators.

Out of the 126 CUBs availed refinance from Reserve Bank of India for providing working capital assistance to small scale industries, which amounted to Rs.27.85 lakhs. Similarly only 23 CUBs have availed a sum of Rs.53.32 lakhs from a small scale Industries Development Bank of India for providing small Road Transport operators loan. It is regretted to note that only 2CVUBs have availed refinance for putting up Hotel Industry and only one CUB has so far availed refinance for putting up of a nurshing home.
Out of 126 CUBs as many as 101 CUBs are included in the "State Drafts Scheme Monitored by the Tamilnadu State Co-operative Bank (TNSCB).

URBAN CO-OPERATIVE BANK IN OMALUR

The Omalur Urban Co-operative Banks is one of the sound Banks in Salem district.

PROFILE OF THE OMALUR URBAN CO-OPERATIVE BANK LTD.,

Omalur which was called Omalur during then snag period, is situated at pleasant latitude surrounded by the famous Periyar University, Engineering College and Airport in Salem City. The place in general has a cool and lively atmosphere and maintains a conductive climate.

The people of Omalur lead a Soleman and Calm life. There are business man and labourers among the masses. To maintain co-operation among all sorts of people a need was felt to induce good habits, thrifty behaviour, self sufficiency and mutual help. The result of this feeding gave birth to a decision to organize co-operatives movements. It is an old saying that if some good people join together good things only will happen. “The Omalur town Co-operative Society” under the
presidentship of Thiru R.R. Sekaran (Ex, MLA) then under ruling of the Co-operative Act of 1912 with limited liability. The Assistant Registrar of Co-operative Societies registered the society under this Act on 23rd February 1998 and actually, it started functioning from 27th January 1999. The OUCB approved by RBI dated on 12th December 1998.

The operation shall be confined to Omalur Corporation limit. Loans may however be granted on the security of sold, jewels and gold bullion to “A” class member residing in Omalur Taluk and its neighbouring Taluk of Salem and Mettur. For any revision in this regard prior approval in writing of the Reserve Bank of India and also the Deputy Registrar of Co-operative Societies in necessary.

OBJECTIVES

The objects of the OUCB shall be:

1. To borrow funds from members or others to be utilized for loans to members for loans to members for useful purposes.

2. To act as the agent for the joint purchase of the domestic and other requirements of its members and to undertake collection of cheques and bills and issue of drafts for transfer of funds on behalf to members and non-members for a commission.
3. Generally to encourage thrift self-help and co-operation among the members.

4. To own or hire Godown to provide facilities to members to store their produce for sale at advantageous price.

5. To undertake the financing of private small-scale industries and small-scale industries.

6. To discount cheques, drafts and bills of approved members subject to the subsidiary regulations.

7. To carry on such other banking business as may be conductive to the healthy growth of the co-operative movement.

8. To provide safe deposit vault to the customers of the bank.

Co-operative movement owes its origin to England, where a great philosopher, Robert Owen (1771-1858), gave the idea of ‘self help through mutual help’ to mitigate the sufferings of the exploited class of people in the wake of the industrial Revolution. Though Owen’s own life was paradoxically supposed to be a life of rich promises and poor performances, many experiences undergone him had the impact on making people prudent and helped them in brooding over fresh ideas. In India However, the co-operative movement was introduced as a part of state policy and it assumed concrete structure with the passing of the Co-operative Credit indebtedness and provide credit to rural weaker
sections of society. Since then, the movements has passed through manifold phases of development in rural social life, particularly in the field of credit, farm input supplies, processing and marketing of farm produces and distribution of consumables.

For the growth of the movement in India, prior to independence was not much encouraging as it was pulling on the colonial set-up. But soon after the independence, the co-operative movement is instrumental in various spheres of economic and social activities. While formulating plans for economic development, co-operative ideology was considered as an ideal combination of planned and market economics, a compromise between capitalism and socialism, and a balancing factor between private interests and public good. Ideologically, the concepts of co-operative movements was received as having a special significance in Indian economic planning with its developmental with it capacity to decentralise economic planning and democratise economic life. The corresponding Nehru’s political philosophy of ‘democratic socialism’ also reinforced the relevance of co-operatives in India’s economic development planning. Therefore, the cooperative movement assumed a pivotal role as a third sector in India economic planning.
Despite the significant role co-operative sector in economic planning, the record of performance of their sector remained far from satisfaction. Gradually, it lost its prominence, which it enjoyed during Nehruvian era and its role in economic development had systematically been undermined over the time. The sector today is lagging far behind in private as well as the public sectors.

An appraisal of the performance of the co-operative sector reveals that it has registered a considerable quantitative expansion during the planning period and qualitatively perhaps it could not. The number of registered societies has reached Rs.3.5.4 lac with a total membership of Rs.1675 lac involving working capital of Rs.70921 crores by the end of June, 1993 as against. Rs.1.80 lac cooperative societies with Rs.137 lac of membership and Rs.276 crores as working capital as on 30th June 1951.

Now the question arises as to whether the co-operative are on the brink of extinction or are they capable of reorienting their strategies and renew their development thrust in the changed economic environment?. The answer to this question requires a through examination and understanding of the working of this sector and to identify the areas of its strength and weaknesses. It further necessitates to have a deep insight
into the philosophy behind the movement and its growth and development over the time.

**SPECIAL FEATURES**

Following are the special features of cooperative form of organisation:

1. Co-operative are association of persons and not of capital. Human values are important and capital is relegated to the rear.

2. The membership of co-operatives is open to all eligible persons. Any person may join a cooperative society, if he could make use of it. No one can be denied admission from joining a co-operative society on the basis of caste, creed, colour or political, religious considerations. But however a person with conflicting interest may be refused admission. For example a money lender may be refused admission in a cooperative credit society and a master weaver may be refused admission in a weavers’ cooperative society.

3. Cooperative society is a voluntary organisation. Member’s participation in the cooperative society is voluntary. No one can be compelled to join a cooperative society. Cooperation and compulsion is contradictory.
4. All are equal in a cooperative society. Members have equal rights to the services of the society. There can be no distinction of the basis of number of shares held by a member, his status or wealth.

5. Capital is less important factor and limited interest on capital is the basic tenet of cooperation.

6. Democratic management is the basic foundation of cooperation. Each member will have only one vote irrespective of the number of shares held by him. One member, one vote is the cardinal principle of cooperation.

7. General body of a cooperative is supreme. It is the ultimate authority in deciding all matters of the society. In the general body and committee meetings, the decision of the majority will prevail.

8. The surplus earned by a society will be distributed among the members in proportion to their participation in the business. This is a very important and unique feature. The patronage dividend will be distributed to the members according to the business done by the member with the society.

9. Cooperatives have no profit motive. In fact it has service motive. This statement does not mean that a cooperative society should be a losing enterprise. It should certainly make
profits for sustenance and growth. But a cooperative society will not make third rate methods to get profit.

10. Thrift and Frugality are the important basic features of cooperatives. Cooperation is a moral movement. Members would be encouraged to make simple and plain living. Extravagance and opulence are not in true with cooperatives. In many societies there will be thrift fund where members will be contributing for their benefit and future use.

11. Cooperation is a social as well as moral movement. That is why in recent years, ‘concern to community has been taken as one of the principles of cooperation.

12. Cooperatives are opposed to exploitation and monopoly.

PROBLEMS OF URBAN CO-OPERATIVE BANKS

Authority-responsibility relationships overlap causing mutual mistrust, lack of delegation and delay in decision-making.

Operations Manual are often found missing in the branches and thus are not available for consultation specially to new staff who greatly depend on it to perform their assigned jobs. This leads to job dissatisfaction and frustration. Stock of stationery and other resources materials required for routine branch operations are usually not upto the mark causing delay in providing customer service.
Training requirements of personnel are not properly identified and post training evaluations are literally missing.

Delays in appraisal, sanction and disbursement of loans, processing draft, cheques for issue and payment are common occurrences.

Urban Co-operative Banks have to think of increasing their competitive strength and sustaining their growth in a liberalized open economy by constantly attaining higher levels of productivity and customer satisfaction.

NEED FOR CO-OPERATIVES

Co-operation has been accepted as an important medium for regeneration of the country’s socio-economic life. In the words of Margaret Digby, “only through co-operative institutions can the common man influence manner. Infact co-operation in India has been recognised as a part of the pattern of Indian socialism, especially interpreted in term of rural society”. Co-operation, thus, has a very significant role to play in any programme of social and economic development of san underdeveloped country like India.

The Co-operative form of organisation can make a significant impact on the society as well as on the economy through its federal character which implies total involvement of each and every member.
Individual recognition and joint actions are the two pillars upon which rest the federal organisation of the co-operatives.

Co-operation is a means of importing valuable schooling is democracy and developing the faculties of the common man in the conduct of trade and industry who had little opportunity otherwise”. Democracy mend self-decision of self-government, which implies that all the members are treated equal and each member gets an equal opportunity to participated freely in the conduct of the organisation. Just as an alert and enlightened citizenship is the essence of co-operative democracy, and through co-operative organisation the people can be imparted valuable education about the fundamentals of political democracy, Co-operation thus is economic democracy in action.

Co-operation has enormous scope in a country like India where weak economic units predominate. Small units in agricultural business, vast numbers of small industrial enterprises, artisans, labourers and consumer units cannot derive many of the economics of large scale operations. But this shortcoming could be overcome if these small units join together to work in the form of Co-operation.
A Co-operative association is generally an organisation of the people who are financially weak. Individually their resources are so meager that they cannot improve their resources in the prevailing conditions. But if they pool their meager resources and work together for mutual benefit, their weakness can be converted into a dynamic strength. Thus, co-operation propagated self-help through mutual help and all get the benefit of collective efforts. With the bulk of the population of the country living in rural areas with small and scattered holding, and small enterprises, artisans and craftsmen with remendous latent talents and potentialities, can be no better way of activising and regenerating the entire rural economy but through combined actions and collective efforts which is possible only through the co-operatives.

Co-operation facilities mass voluntary participation in an organised way, to enlist the support of millions of small farmers, artisans craftsmen and cottage and small scale enterprises without co-operative organisation sounds impossible in a country like India.

Co-operation serves a double purpose, firstly, of providing a means to ameliorate the condition of the people living in rural areas by giving them an opportunity to expose their latent talents through collective efforts, and secondly, it eliminates concentration of wealth and power in
the hands of few. Thus, co-operative form of organisation promotes social and economic equality and also assists in reducing regional disparities.

A regional disparity in development is a serious problem in development as well as under development, as well as under developed countries. Removal of such regional disparities is the cardinal objective of economic planning in India and co-operative form of organisation is an effective tool for achieving this goal.

Uneven growth of industries between states, different regions of states has created the problem of regional disparities in distribution of Income of employment. While the developed centers continue to prosper by generation income and employment, rural backward regions remain stagnant.

Industrialisation and urbanisation move very closely and it is difficult to say which leads the other. Industrialisation leads to urbanisation, urban growth, and attract industries by offering economic and social infrastructure and thereby influencing the industrial locating decision. 'Thus urbanisation though slow has widened the disparities in regional industrial development in India. Thus uneven growth has created an imbalance in income distribution and what is more significant
is the fact that it is not the growth of domestic product which has contributed to this imbalance but it is the distribution of domestic product which has made the situation worse.

It is in this context that the co-operative form of organisation can be of immense operational value. Rural development thought co-operative facilities regional development of the areas neglected so far by the urban capitalists an industrialists and at the same time co-operatives also reduce disparities in come and employment because the resultant gains are not pocketed by a few but shared by a large number of people.

It is only when the benefits acquired are shared by all, we can expect the total involvement of the people and mass participation in the process of developmental activities. This is precisely what the co-operatives have achieved.

Co-operation in its varying forms appears to be the most suitable strategy for economic development of democratic lines. Certain fields of activities such as agricultural credit, marketing, processing, consumers’ co-operation, co-operatives of artisans and labour and construction co-operatives make themselves specially appropriate for co-operative
endeavour not that the areas in which neither the system of private
enterprise nor that of state ownership can much the advantages of co-
operative organisation”.

The co-operative form of organisation thus is an effective medium
for bringing about the socio-economic transformation of the hitherto
neglected sectors where the mass flocks. Co-operatives facilities material
development through united action which in turn fastens self-reliance.
The co-operative movement in acclaimed as the means of transforming
the rural society in all plan documents. To quote the Draft of Fifth Year
Plan. “There is no other instrument as potentially powered and full of
social purposes as the co-operative movement.

DEVELOPMENT THROUGH CO-OPERATIVES
The co-operative form of organisation has been instrumental in
bringing about significant changes in the economic structure of
Maharashtra and of rural Maharashtra in particular. It has been
responsible for ushering in a socialist pattern of society.

It is widely recognised that the co-operative sugar factories in
Maharashtra have made significant contributions to the regional
economic development of the areas around them. They have, as a matter
of fact, emerged as rural growth centers and have acted as powerful stimulates to the economic development of the people. The sugar co-operatives in Maharashtra have undertaken several growth oriented activities and welfare schemes which benefit not only their members but also to the society at large.

Sugar industry being an agro – industry is closely linked with agriculture and any appreciable progress in agricultural production essentially depends on the quantum and availability of irrigation facilities. Making a provision for adequate irrigation facilities to enable the farmers to increase their sugarcane production has, therefore, been given to priority by almost all the co-operative sugar factories in Maharashtra. They have, as a matter of fact, put in commendable efforts for increasing the irrigation potential in their areas through lifts, canals, and depending of wells, etc. The co-operative sugar factories in southern. Maharashtra for instance, where there is no significant canal irrigation has undertaken several lift irrigation schemes for the benefit of the farmers.

The sugar co-operative in Maharashtra have also contributed significantly to the creation of basic infrastructure facilities in their command areas. For, example, most of the factories have developed and
maintained a network of roads in their areas for the speedy transportation of sugarcane.

Co-operation is a world-wide phenomenon. Co-operative movement in India is one of the largest voluntary movements in the world dedicated to the well being of the people at large. "The Co-operative movement frees its members not only from users and profiteers, but also from themselves and their bad habits". It was introduced in India at the beginning of the present century for the benefit of people having small means and common economic needs. It was visualised as an essential world-wide phenomenon instrument for activating the aspirations of the people in order to establish socio-economic equality. Dr. Fey, from the socio-economic point defines a co-operatives society as "an association for the purpose of joint trading originating among the weak and conducted always in an unselfish spirit. On such terms that all who are prepared to assume the duties of membership may share in its rewards in proportion to the degree in which they make use of their association". The first and the subsequent five year plans laid due emphasis on the expansion and diversification of the co-operative movement. It has now become an integral part of the economic policies and programmes of the national Government.
Co-operative enterprise is not confined to one particular activity but it has covered a wide spectrum of economic activities. The credit sector agricultural sectors are classified into short, medium and long-term. Financing is effected to agriculturists and non-agriculturist urban traders, industrialists, professionals, artisans and self-employed and salaried class of people. On one side producers are taken care of by providing essential services like supply of fertilizers, improved seeds, storage marketing etc. On the other side consumers are helped through various service by co-operative institutions.
Agricultural Credit

The co-operative agricultural credit structure in India consists of two components, one engaged in short and medium term credit and the other, long-term credit. The former in each state has a three-tier structure. The primary Agricultural Credit Societies of the villages form
the base. They federate into Central Co-operative Banks, usually at the
district level which in turn federate into State Co-operative Bank which
caters to the needs of the entire state. The long term credit is based on a
two tier structure. At the apex level in each state there is a Central Land
Development Bank, while at the bottom there are innumerable number of
primary Land Development Banks. Both State Co-operative Banks and
Central Land Development Banks are closely inter-linked with the
Reserve Bank of India.

NON-AGRICULTURE CREDIT

The Co-operative movement was started to ameliorate the
conditions of the rural masses. It was soon realised that co-operation
offered a solution to the problems encountered by the townsmen in
respect of credit which was deadly needed for their business and life. The
Maclagan committee and pointed out that "the interest on loans paid by
the industrial classes in towns is not lower than that charged to
agriculturists, with the rising prices, insufficient and in sanitary housing
accommodation, wages often held in areas and a desire for higher
standard of living Consequent on the spread of education, industrial
difficulties are bound to increases and we are of the opinion that any form
of organisation such as co-operative societies, that has tendency to
alleviate these difficulties in worthy of support. For these reasons we
would advocate the extension of co-operation among the non-agricultural classes provided that it is always carefully supervised and controlled”.

Non-agricultural Credit Societies fall under two broad categories and they are:

i) Urban banks and

ii) Urban Credit Societies.

Urban Banks are those credit societies which undertake all kinds of banking business like commercial banks. Urban Credit Societies are those which confine themselves merely to the acceptance of fixed and saving deposits or thrift deposits from members and non-members and the advance fixed loans to members basic Concepts defined.

Co-operative Banking

Co-operative banks are defined as “a mutual society formed, composed and governed by working people themselves for encouraging regular saving and granting small loans on easy terms of interest and payment. In the words of world, co-operative Banking is an Agency” which is in a position to deal with the small man on his own terms accepting the security he has and without drawing on the protection of the rich. That agency must not be a channel for pouring charity or subsiding the small man out of the public funds; instead the material help must be backed by moral improvement and stragthening the firbe” Mr. N. Barou
has laid down five main principles on which the work of a co-operative bank is based. They are:

1. Co-operative character of activities and trait of Mutual aid credits granted.
2. Catering for collective organisation and their members.
3. Restriction on the number of individual votes.
4. Aiming at high rates on deposits and low rates on lending.
5. Limitation of Dividends out of profit and bonus to deposits and borrowers or grants to cultural or co-operative endeavours. From the above definitions it is clear that a bank must have co-operative character and must deal in credit which satisfies all the requirements of an ideal credit as discussed above. Then only it can be called a co-operative bank. Sec.2 clause ccc (b ii) of the RBI Act 1934 defines “Co-operative bank and primary Co-operative Bank”.

STATE CO-OPERATIVE BANK

Sec.2(F) RBI Act 1934 says that State Co-operative Bank means “the principal co-operative society in a state, the primary object of which is the financing the other co-operative societies in the state”.

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CENTRAL CO-OPERATIVE BANK

Sec.2 clause (b I) of the RBI 1934 defines a central Co-operative Bank as follows.

The principal co-operative society in a district, the primary object of which is the financing other co-operative societies in the district.

PRIMARY CO-OPERATIVE BANKS

Sec.2 (ciii) of RBI Act 1934 defines a primary co-operative bank as co-operative society than Primary Agricultural Credit Society.

i. The primary object or principal business of which is the transaction of banking business.

ii. The paid-up share capital and Reserves of which are not less than on lakh of rupees and

iii. The by-laws of which do not permit admission of any other co-operative societies as a member.

PRIMARY CREDIT SOCIETY

Sec. 2 clause (civ) of RBI Act defines a primary credit society as “a co-operative society other than a primary agricultural credit society.

i. The primary object or principal business of which is the transaction of banking business.
ii. The paid up share capital and Reserves of which are less than on lakh of Rupees and

iii. The by-law of which do not permit admission of any other co-operative society as a members.

The difference between a primary co-operative bank and a primary Credit Society is thus only in respect of their composition of share capital and reserves, the former having paid-up share capital and reserves of Rs.1 lakh. And over while the letter less than Rs.1 lakh.

DEMAND LIABILITIES

Sec. Clause (f) B.R. Act 1949 defines Demand Liabilities as “Liabilities which must be met by a bank on demand”.

Demand liabilities include current deposits, Demand liabilities portion to savings bank deposits, margin held against letter of Credit/guarantees, balance in over due fixed deposits, cash certificates, cumulative. Recurring deposits, outstanding Mail and Telegraphic transfers, Demand Drafts, Unclaimed deposits, Credit balance in cash credit accounts and deposits held as security for advances which are payable on demand.
TIME LIABILITIES

Sec.5 clause (f) of B.R Act 1949 defines “Time Liabilities” as “Liabilities which must be met or discharged by a bank after the expiry of certain period or happening of certain contingency. Time liabilities include Fixed Deposits, Cash certificates Cumulative/Recurring Deposits, Time Liabilities portion of saving bank deposits, security deposits, margins held against Cash Credit if not payable on demand and fixed deposit held as security for advances.

CASH RESERVE

According to sec. 18 of B.R. Act 1949 “Every Co-operative not being a state Co-operative Bank, shall maintain in India by way of cash reserve with itself or in current account open with the Reserve Bank or State Bank of India or the State Co-operative Bank if the State notified by the Central Government in this behalf or in the case of a Primary Co-operative Bank with Central Co-operative Bank of the district concerned, sum equivalent to atleast 3% of the total time and demand liabilities in India”. Liabilities in India shall not include.12.

i. The paid – up capital and Reserves or any credit balance in profits and loss a/c.
ii. Any advance taken by a primary co-operative bank from the state Co-operative Bank or Central Co-operative Bank of the District concerned.

iii. In the case of any Co-operative bank which has granted an advance against any balance maintained with it, such balance to the extent of the amount outstanding in respect of such advance.

**LOANABLE FUNDS**

Urban banks will not be able utilizes in entire resources mobilished for lending. They have to maintain 3% of cash reserve and 25% liquid Assets reserve on total Demand and Time Liabilities. In case of paid-up share capital, a portion is utilised to buy shares in other co-operatives. In case of Statutory Reserves have to be invested with the Central Co-operative Bank. As far as the borrowings from higher financing Agencies are concerned the entire funds from borrowings could be used for lending. A study conducted by the RBI showed the composition of loanable funds as follows.
LOANABLE FUNDS

1. Paid up Share Capital       xxx
2. Statutory Reserves & Others xxx
3. Over due Interest Reserve   xxx
4. Total                      xxx

A. 75% of the above (4) total

5. Deposits of all types

B. 70% of the item No.5

C. Borrowings from RBI/SBI/State

   Co-operative Banks/Central

   Co-operative Banks       xxx

   LOANABLE FUNDS           = A + B + C

SECURED, UNSECURED LOANS AND ADVANCES

Sec.5 Clause (n) R.B. Act 1949 defines a secured loan or advances as a loan or advance made on the security of assets the market value of which is not any time less than the amount of such loan or advance.

Un-secured loan and advance refers to a loan or advances not so secured. Loans and advances given against personal securities will be regarded as Unsecured loans, Similarly advances which are partly secured will also be treated as unsecured loans.
ORGANISATIONAL PECULIARITIES

As Mr. Meyar, Organizer of the Berlinn Labour Bank said decade ago "the collection of money is difficult but still more difficult is its correct application" compared to the commercial banks, Urban banks are possessed certain notable features. Firstly an urban bank are democratic organisation in the sense, they are managed on co-operative principle by which Democratic Principles are Prime importance. The type of loan, maximum limit etc., are decided by the members themselves and approved by the Registrar of Co-operative.

Secondly, an Urban bank is local in character, because of small area of operation, compact membership, the co-operative bank is essentially a localised institution except for Jewel loans and Recurring deposit loans, other loans are given only to members residing within the town.

Thirdly, a Co-operative Bank is a user's organisation. The members who manage and control the entire functioning of the bank are the supreme deciding authorities.
ROLE OF URBAN CO-OPERATIVE BANKS

Credit Co-operative is urban areas cover a wide field. They include Urban Co-operative Banks where in deposits are made usually withdrawable by cheque and which carry on normal banking functions, and Employees Co-operative Credit Societies including factory workers credit societies which receive deposits from members and non-members and meet the requirements of salary earners in a particular organisation. The other types are, non-agricultural Credit Societies catering to particular community or religious group. The Maclagan committee first pointed out the importance of Urban Co-operative Bank. It stated that “Urban Credit Societies might serve a useful purpose in training the upper and middle classes to understand ordinary banking principles. Basically Urban Co-operative Banks and Credit are institutions of weak persons with limited means. In 1931 the Indian Central Banking Enquiring Committee observed the role of urban banks follows.

Duty of these Urban banks should be to try to do for the small trader, the small merchant and the middle class population what the commercial banks are doing for the big trader and big merchant”.

Subsequently the Co-operative Planning Committee in 1946 also pointed out that “there are, in urban areas, numerous persons of small
means who reserve to money lenders and similar agencies for small loans. Urban banks which qualify by establishing personal and intimate relationship with people of this class, are most suitable agencies for serving their needs. Urban Banks played a very significant role in promoting the habit of thrift and saving and in the development of a major portion of their loans and advances to help persons of small means. These banks were characterized by certain welcoming features, such emphasis on meeting the local requirements. Familiarity with the location of specific gaps in the credit structure, compactness in the area of operation and courteous and personalised service to their clients. The report of the survey of Urban Co-operative Bank published by the RBI in 1961 observe that the general Picture of Co-operative Urban Banking which emerges out of this study (survey conducted in 1958-59) is one of a fairly wide-spread, financially sound, expanding and useful frame work of banking institutions which have their own place of importance in the banking structure of large part of the country’ 18. Without Co-operation the status of weaker section of the community could not be uplifted and this job of uplifting the status in the primary need of the country. As Prime Minister Late Shrimathi Indira Gandhi has said.” All over the world urbanisation has led to the erosion of peoples’ ability to live a well adjusted corporate life. People might reside together, the faster a city grows the less mutual regards and sympathy there seem to be among its
people. Co-operation has the capacity to share groups into communities with shared interests”.

G.M. Land clearly highlights the role of Urban Banks as “there are in Urban areas numerous persons of small means such as traders, and merchants, articians, officer employees, factory workers and street hawkers. All of them required banking facilities. Commercial banks are not interested in providing them partly because the development of business of small loans involves high cost of advancing money and recording it and partly because they have to means to acquire full and intimate knowledge of the standing and recourses of persons of moderate means. Such banks are also not inclined to serve the areas which are not development sufficiently to provide an adequate volume of business. The gap is therefore filled by Urban Banks”.

The need for urban co-operative banking arises from the fact that joint banks are not interested in providing credit to the urban middle class. This is because it is not advantageous for Joint stock banks in developing the business of granting innumerable small loans on account of the high cost of advancing and recovering them. In these circumstances the man with limited means in Urban areas would be driven to money lenders to obtain loans at extraordinary rate of interest. In
this connection the following conservations of W.K.H. Campbell are significant; "A very little investigation of the conditions of the salary earning class is frequently enough to reveal that, when sudden emergencies arise, which make in unexpected demand on their fixed Salaries, they have to borrow, that they do so an most unfavourable terms and that, as a class, they are heavily and in most cases, hopelessly indebted; Thus a large number of urban people of small means with limited resources are left without any institutional agency to provide them cheaper and facile credit. The major or urban population is belonging to various professions like employees, small traders, artisans, hawkers etc., when these sections were accommodated for credit by charge extraordinary rates of interest, practice and exploit the urban people. Hence, the problem was to evolve and provide a change, which will replace the private credit even in towns and provide credit to the urban people on easy terms of interest and repayment. Solution of the above problem was found in the establishment or urban Co-operative above problem was found in the establishment of Urban Co-operative Banks”.

"Urban Co-operative Credit Societies and banks occupy a prominent place among the agencies supplying the credit need of people residing in urban areas. They advance loans mostly to the small traders,
artisans and salary earners on personal security as well as against gold, silver and produce."

i. To bring together middle and working class in urban and semi-urban areas and include in the habit of thrift and self-help.

ii. To acquaint them with the elements of ordinary banking principles, in the context if rising prices and cost of living.

iii. By providing credit on reasonable terms to the middle classes, thereby reserve them form exploitation of money lenders and to other unscrupulous agencies.

iv. By financing individuals, small industrialists and artisans working in urban areas, they can make significant contribution to industrial development.

Co-operative credit is now widely accepted as the only means of ending poverty of nations and raising the living standard of their people. The urban banks provided the frugal section of the community and opportunity of investing their savings and thus help the hard-pressed people to tide over the period of stress and strain.
BENEFITS OF CO-OPERATION

A co-operative association is an association of isolated individuals, who by association with others and through mutual support obtain material advantages which are usually available to wealthy or powerful persona and thereby develop themselves to the fullest extent. By working together these poor individual succeed in getting the advantages which are available to those who work on large scale. The union of forces in co-operative society thus secures the material advancement for its members and united action fosters self-reliance. David A morse, former director-general of the I.O.O had observed.

“Co-operatives have helped rationalise distribution patterns, increase purchasing power, promote consumer protections, narrow the housing gap. They have contributed to the modernisation of small scale production in agriculture, fishers handicrafts and industry. They have made improved quality and greater volume of production and ahve led to more efficient marketing of increased output. They have stimulated productive capital formation among large number of individuals. In a wider sense, co-operative growth has thus become an effective stimulant to economic growth”. According to Henry W. Wolff, Co-operation represents one of poor people’s best and most useful and most
trustworthy allies in the battle for progress and economic and social emancipation.

**Economic Benefits**

From the economic standpoint, co-operatives are engaged in securing for their members services of various kinds at low costs. These may include service of various socio-economic activities in the consolidation of holdings, the establishment of irrigation schemes, the contouring of land, the procurement of technical knowledge, the administration of credit, the buying of fertilizers, pesticides, seeds, electricity and machine services, of consumers' goods and services, the processing and marketing of produce, the provision of insurance, health and medical care of education.

Co-operation has also played an important role in checking monopolistic tendencies. In the U.S.A., the House Committee on Small Business reported. "There is substantial evidence to show that the co-operative movement operates as a very successful means of combating monopolistic, and as such, is a very healthy addition to the American economy."

The following is the list of economic advantages of co-operative organisation.

1. The substitution of the profit incentive in business by that of service to humanity or production for consumption. In other
words, priority is given to the satisfaction of human needs instead of greed of profits satisfaction of human needs instead of greed of profits.

2. A more equitable distribution of wealth.

3. The breaking up of monopolies and trusts which operate at the expense of the consumer.

4. The increase of the workman’s purchasing power and real wages by giving him more and better goods for his money.

5. The reduction in cost of distributive of services.
   i. elimination of unnecessary middlemen
   ii. removal of useless duplication of services
   iii. eradication of such practices as misleading advertisement and high pressure salesmanship.
   iv. the elimination of fraudulent like adulteration, short weight, etc.,


7. The more accurate correlation of demand and supply as a result of the greater certainty and regularly of the consumer market.

Stabilisation of employment which will result from the regularity of demand and the absence of speculation.