Chapter -1

**INTRODUCTION**

- Establishment
- Role and Functions
- Growth and Expansion
- Distinguishing Features
- Scenario at National Level
- Research Methodology
- Present Position in Uttar Pradesh
CHAPTER -1
INTRODUCTION

Cooperative endeavour is not an alien phenomenon to India. Kautilya, in his Arthashastra described, "Guilds of workmen as well as those who carry on any cooperative work shall divide their earnings either equally, or as agreed upon among themselves." The Cooperative credit Movement in modern India, Curiously, is a state initiated movement. The then State regime, though it had an unbenign political dispensation towards native subjects, had taken a lead to create an institutional credit structure essentially to cater to the needs of farmers and lower income groups. It is further interesting to note that cooperative initiative so taken was perhaps the first ever attempt at micro credit dispensation in India.

The origin of Urban Credit Movement in India can be traced to the close of the nineteenth century. Some middle class Maharashtrian families settled in the erstwhile Baroda State ventured to organize a

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* Briefly outlining the theory of Cooperation, the Report of Macagin Committee on Cooperation, the seminal document on cooperative credit movement in India, graphically describes.

"......... that an isolated and powerless individual can, by association with others and by moral development and mutual support obtain in his own degree the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action self reliance is fostered, and it is from the interaction of these influences that it is hoped to attain the effective realisation of the higher and more prosperous standard of life which has been characterised as better business, better farming and better living."
mutual credit society in Baroda on 5th February, 1889. Later on with the passing of Cooperative Credit Societies Act of 1904, the credit societies came to acquire a legal status. This encouraged the formation of Cooperative Credit Societies but initially the formation was on a very modest scale. The first registered urban co-operative credit society was organized in Conjeevaram town of the then Madras Presidency.

Recognising the need for strengthening such institutions a Committee under the chairmanship of Mr. Maclagan was appointed in 1915 to review their performance and suggest measures for strengthening them. It was observed that a good number of persons were indebted to money lenders who charged the exorbitant rates of interest. The borrowers once in debt, remained always in debt and on the other hand the money-lenders thrived. A situation of this type was neither conducive to the development of the society nor in the individual interest. The Maclagan Committee realized that Cooperative Credit Societies were the appropriate answer to the problem for those who were in the clutches of money-lenders. The basic idea was that by forming a cooperative Credit Society the members (of the society) shall pool their resources and these resources could be lent to the needy members at reasonably low rate of interest.

The object of Cooperative Credit Society was two-fold:
- To pay interest as an incentive to those who kept their surplus funds with the society, and
- To provide funds to the needy at low rate of interest.

Following the economic boom created by the Second World War (1939-1945), the Urban Credit Societies took up new avenues of financing small businessmen, small traders and artisans for
productive purposes. The commercial banks were hesitant to provide finance to persons in these categories and therefore, they looked to the Cooperative Credit Societies for their needs. The Societies thus expanded their activities, functioned more or less like banks and came to be known as Urban Banks.

A significant development in the Urban Co-operative banking movement was the survey undertaken by Reserve Bank of India in 1958-59. The survey report observed that while much attention was paid to the promotion of agricultural and industrial cooperative societies, similar importance had, however, not been accorded to Primary (Urban) Co-operative Banks (PCBs). The report had also observed that an assessment be made of the scope for establishment of primary (urban) co-operative banks in new centres and emphasized the need for active support of the State Governments in the development of primary (urban) co-operative banks.

**ESTABLISHMENT**

The Banking regulation act, 1949 (As applicable to co-operative societies) which had come into force from 1st March 1966, have vested the Reserve Bank with various statutory powers of control and supervision over the co-operative banks. The power in regard to incorporation, management etc. of these banks, however continue to vest in the registrars of co-operative societies of the states concerned. Further the provision of B.R. Act 1949 (As applicable to co-operative societies) shall be in addition to, and not, save as expressly provided in the act, in derogation of any other law for the time being in force. This means that the co-operative banks are required not only to comply with the provisions of the B.R. act, But also other laws applicable to them. In respect of matters specifically provided for in
the B.R. Act. The provisions of the said act will prevail over the provisions of co-operative societies acts.

Urban Co-operative Banks are non aided primary Co-operative societies engaged in banking business, they are licensed and controlled by the Reserve Bank of India through Banking regulation act - 1949 and various directives issued by it from time - to - time. The commercial Banking functions performed by the urban Banks are not different from those of nationalized and other private sector commercial Banks, the service expected of the former by their client are not different from those available to play an important role in meeting the credit need of the people of meager mears, small scale and tiny units, small traders, poor and weaker section of the society.

The co-operative movement is based on the Friendly Societies Act of England, got recognition in India with the enactment of the Co-operative societies Act of 1904, the possibilities of the movement embracing all types of activities had not been visualised. The basic objective at that time was giving a boost to self-help and mutual trust. People hailing from a particular community, class or region came together and registered co-operative societies. Urban Co-operative Banks belong to one such breed.

* According to Sec.5 (CCV) "A Primary Co-operative Bank means a co-operative society other than the primary agricultural credit society:
- The primary object or principal business of which is the transaction of Banking Business.
- The paid-up share capital and reserves of which are not less than one lakh rupees.
- The bye-laws of which do not permit admission of any other co-operative society as a member-

According to sec. 9 "A primary credit society, which becomes a primary co-operative Bank, after the commencement of the Amendment act (1983). The period of 7 years for holding the non-Banking assets acquired by it, shall commence from the day it becomes a primary co-operative Bank. Further, the Reserve Bank can extend the aforesaid period of 7 years by such further period as it may consider necessary to do so, in case where it is satisfied that such extension would be in the interest of the depositors of the co-operative Bank."
Over the years and more particularly during the "60s open membership started replacing community membership. March 1, 1966, saw an extension of the provisions of the Banking Regulation Act to Urban Co-operative Banks. Ever since, these banks have grown rapidly, spreading their branches not only within a State, but also outside the home States.

Urban Co-operative Banking movement in uttar pradesh is quite old and the first urban bank was opened on 7-1-1975 (Radhasoami Urban Co-operative Bank Ltd., Dayal Bagh, Agra), 25-8-1975 (United Mercantile Co-operative Bank Ltd., Kanpur). However, the movement has not picked up the kind of speed as in states of Maharashtra, Gujrat, Karnataka etc. due to perhaps to lack of enterprenureship on one hand and conducive public attitude towards co-operative ventures. In recent past failure of a few banks had led to lowering of credibility of the urban banks on one hand and lurking fear in the minds of management of the functioning banks. This in turn lead to panic reaction and the banks ventured on such action which according to them may boost their credibility like pressurizing Reserve Bank for licence (in case of unlicensed banks), opening of more branches and extension counters, obtaining direct membership of clearing house.

**ROLE AND FUNCTIONS**

The co-operative banking system has served a useful role of spreading banking habits throughout the country. However, a majority of co-operative banks is yet to achieve financial viability on a sustainable basis despite their long years of existence and hence attention is being paid to the reforms in both rural and urban co-operative credit system. In respect of the rural co-operatives, the central Government constituted a Task Force in April 1999 under the
chairmanship of Shri Jagdish Capoor, Deputy Governor of the Reserve Bank, to study the functioning of these institutions and to suggest a package for their revival/restructuring. The Committee submitted its recommendations to the Central Government in July 2000. With a view to strengthening the primary (urban) co-operative banking sector, the Reserve Bank had constituted a High Power Committee in May 1999 under the chairmanship of Shri K. Madhava Rao, former Chief Secretary, Government of Andhra Pradesh, which submitted its Report in November 1999. The recommendations of the Committee are being examined by the Reserve Bank/Central Government. Based on the recommendation of the committee, the Reserve Bank has revised the entry point norms (EPNs) of urban cooperative Banks.

A number of policy initiatives have been undertaken in recent years to improve the financial strength of co-operative banks - both rural and urban. NABARD continued to bestow its focused attention in improving the rural credit delivery system. The ongoing Kisan Credit Card Scheme and the scheme of credit-linking the Self-Help Groups (SHGs) were pursued vigorously in 1999-2000. Several other initiatives were undertaken to augment the flow of credit to rural farm and non-farm sectors. Concerned with the financial weaknesses in the co-operative banks, NABARD also took several measures to sharpen its supervisory tools and laid stress on strengthening the audit process in these banks.

The Central Government, through the Union Budget 2000-01, has also announced a number of measures which would help in meeting the credit requirements of the rural sector. Important among them are- creation of Micro Finance Development Fund in the NABARD with an initial contribution of Rs. 100 crore from the Reserve Bank, NABARD, banks and other financial institutions,
creation of Rural Infrastructure Development Fund-VI with a corpus of Rs. 4500 crore and reduction in the rate of interest on loans out of this fund, setting up of target coverage of one lakh SHGs by NABARD and SIDBI during 2000-01, creation of a fund in the NABARD for promoting genuine co-operative institutions, and setting up of a target of issuing additional 75 lakh Kisan Credit Cards by the banking system during 2000-01.¹

The urban areas are served by the Primary (Urban) Co-operative Banks (PCBs/UCBs) which includes salary earners' banks, whereas the rural areas are largely served by two sets of institutions dispensing short-term and long-term credit, respectively. The former group has a three-tier structure with the State Co-operative Banks (StCBs) at the apex level, the District Central Co-operative Banks (CCBs) at the intermediate level and the Primary Agricultural Credit Societies (PACS) at the grass root level. Under the long-term credit structure, State Co-operative Agriculture and Rural Development Banks (SCARDBs) are at the apex level and Primary Co-operative Agriculture and Rural Development Banks (PCARDBS) are at the base level.

The Co-operative banks having extensive networks, with reach in remote areas, play a significant role in the Indian economy, especially in creating banking habits among the lower and middle income groups and in rural credit delivery. This sector with uneven geographical spread and detailed stratification has substantial heterogeneity in both financial position and performance within and across different strata. While many co-operative banks are healthy and conduct their business efficiently within the confines of the

¹. Urban Bank Department, RBI, 2001.
regulatory norms, some others are confronted with many constraints. Major concerns facing the co-operative sector, inter alia, include high levels of loan delinquency, erosion of capital base, paucity of funds for fresh deployment, high level of dependence on other agencies for funds, lack of professionalism in conduct and management, inadequate internal controls, governance structure and non-adherence to norms and regulations. Measures for improving the overall health and conduct of the cooperative banking system here become imperative.

Basically, development of urban cooperative Banks is a state Subject and as such the U.P. and other state Governments have to take necessary initiative to encourage and develop urban banks. They have to make adequate provisions in their annual budgets and plans for providing necessary inputs for the development of healthy urban cooperative Banking in their states.

The main functions of these banks is to accept deposits from the members and non members. Deposit from members are given preference to deposits from non-members. The second main function is to lend to member to useful purposes. Loans are also given to non-members on the security of their deposits. The third important function of these banks is to undertake purchase and supply of essential consumers' goods on an agency basis. But this is not generally done.

Some other functions of these banks :-

* To borrow funds from members and others to be utilised for loan to members for useful purposes;
* To act as an agent for the joint purchase of domestic and other requirements of the members
* To undertake collection of bills drawan, accepted or endorsed, by members and constituents and discount cheques and bills of approved members.

* To encourage thrift, self help and co-operation among the members.

* To arrange for the safe custody of valuables and documents of the members and constituents.

* To carry out instructions for periodical collection, remittances etc. of the members and the depositors, to act as agents for the collections, of the value of incoming Railway Receipts and parcels on behalf of the members and constituents and remittance of the same.

To conclude, the principal functions of urban banks are to promote thrift, to advance loans on personal security or on mortgage of house property, on pledge of gold and silver, produce, merchandise, government securities, fixed deposits receipts, life insurance policies and land development bank debentures.

All persons connected with the urban banks are co-operators, be they members or directors. The strength of UCBs will be judged by their functions and performance. The urban co-operative banks becomes large in many areas by its effective planning and functions.

The urban credit societies which came into being in Bombay confined their activities mostly to the members of particular communities.

Their lending operations were also primarily with a view to meeting the consumption needs of their members. Later, during the period 1939-1945, there was a rapid growth not only in the number
of credit societies but also in their activities. When co-operation became a state subject, each province/State framed its own legislation. After the Rural Credit Survey Committee Report, which was published by the Reserve Bank of India in 1961, several promotional measures were adopted boath by the central and state govt. Urban co-operative Banking sector was left to stand on its own in 1956, the central law committee formed by the Government of India prepared a model bill for simplifying, Rationalising and modernising co-operative legislation. It was circulated among all the states to be adopted with such modifications as were suited to local conditions.

A number of committees such as co-operatives planning committee (1946), the study Group on credit co-operatives in the non- Agricultural sector (1963) and the working group on industrial finance through co-operative Banks (1967), that had gone into the working of urban co-operative Banks and allied matters, have recognised artisans, Small traders, factory workers, urban middle-class people etc.

GROWTH AND EXPANSION

The Banking companies act 1949, Which came into force from march 16, 1949 had specifically excluded the urban Banks from the purview of the act, as co-operative Banks were registered under the co-operative societies act of the respective states and as such could not be classified as "companies". However, when the operations of the co-operative Banks increased substantially, it was considered anomalous to leave out the co-operative Banks from the purview of the statutory control of the Reserve Bank. Following the extension of certain provisions of the Reserve bank of India act 1934 and the banking Regulation act 1949 to co-operative banks from 1st March 1966, an urban bank come to be called a primary co-operative bank
and defined as a co-operative society, other than a primary agricultural credit society "(i) the Primary object of which is the transaction of banking business (ii) the paid-up share capital and reserves of which are not less than one lakh and (iii) the by laws of which do not permit admission of any other co-operative society as a member. The category of primary co-operative banks also include salary Earners societies having paid-up share capital and reserve of Rs. One Lakh or more and the by - laws of which provide for acceptance of deposits from non members. In addition to primary co-operative Banks, there is a separate category of "Primary credit societies" which are allowed to function as banks, but are kept outside the reserve Bank's control unit their paid-up share capital and reserves come to a level of Rs. One Lakh or more. The difference between a primary co-operative Bank and a primary credit society is thus only in respect of their share capital and reserves, the former having paid-up share capital and reserves of Rs. One Lakh and over and the latter less than Rs. One Lakh.

As on 1st march 1966, i.e. the date of extension of the banking regulation act 1949 to co-operative Banks, there were 1,091 primary co-op. Banks in the country. This number is not strictly comparable, as it represented only those urban banks whose paid-up share capital and reserves were Rs. One Lakh and above, which consequently came under the statutory control of the Reserve Bank Of the 1,091 banks on 1st March 1966, 403 were urban banks and 688 were salary Earners' Societies classified as "primary cooperative Banks". Following the advice given by the Reserve Bank in 1966 to Salary earner's societies, classified as primary co-operative banks, to go out of the purview of the Banking regulation act 1949 by acceptance of deposits from members only, the number of primary co-operative Banks in the category of salary Earners' societies declined from 688 to 139 during
the period 1st March 1966 to 30th June 1977. During the same period, the number of urban banks increased from 403 to 1,023. Of the increase of 620 urban banks, 96 were newly formed banks. As many as 567 urban banks had previously been classified as primary credit societies and they attained the status of primary co-operative banks as and when their paid-up capital and had reached a level of Rs. one lakh or more. The working of the co-operative Banks is regulated by the Reserve Bank and the co-operative Department. In 1971, the Deposit Insurance cover was extended to the deposits of the urban co-operative Banks.

In September 1977, the Reserve bank of India appointed a committee on urban Co-operative Banks with Mr. K. Madhav Das, the then Executive Director of R.B.I. as chairman. The Committee in its report submitted in 1978, made a detail study of the working of urban banks, their strength and weakness and made several recommendations to develop them further, in a planned manner.

In January 1983 a standing Advisory committee for urban Co-operatives banks was constituted by the Reserve Bank of India under the chairmanship of its deputy Governor in charge of the urban banks division to advise the Reserve Bank on various aspects pertaining to the urban Banks such as organisational matters, mobilisation of resources and their deployment in various sectors including the priority sector, financing under the 20- point Economic programme, co-ordination with other institutions such as IDBI, DICGC etc, modalities on the rehabilitation of weak banks, introduction of professional management, training and education of personnel of the urban Banks etc. The Advisory committee members include representatives of the Government of India (Ministries of Finance and Agriculture) NABARD, State Governments, urban Banks
federations/Associations and a representative from Commercial Bank. The first meeting of the standing advisory committee for urban co-operative banks was held in Bombay on May 23, 1983. The Committee holds its meetings periodically to review the working of urban co-operative Banks. In February 1984, Reserve bank of India has setup a full fledged urban banks Department, to oversee the working of these institutions.

In 1985, Govt. of India issued a notification granting permission to urban co-operative Banks to maintain Non-Resident ordinary Rupee Account and Non-Resident (External) Rupee Account. In April 1998 the notification regarding Scheduling of urban Co-operative Banks with deposits of Rs.50 crores and above was issued. In September 1993, the limit & deposit for scheduling was raised for Rs.100 crores.

In September 1991, one more committee was constituted with Shri S.S. Marathe, the then Director, Central Board, Reserve Bank of India, as chairman to review the Policy relating to the licensing of new primary urban co-operative Banks & other related aspects. In 1993, RBI introduced the internationally accepted prudential norms based on the Basle convention for all the banks in India. All the norms regarding income recognition and asset classification, were also made applicable to urban co-operative Banks. Norms regarding capital adequacy, which had already been introduced for commercial banks were not prescribed for urban Banks. All the urban banks however, were also required to fully provide for the non-performing assets every year as per rules.
In 1996, Reserve Bank of India made certain policy changes concerning UCBS. These measures were aimed at granting more operational freedom to UCBS. e.g.

- UCBs were permitted to extend their area of operation to rural areas subject to the condition that they would finance only non-Agricultural credit activities
- Well managed, financially sound and operationally efficient UCBs having deposits to over Rs. 50 crores, satisfying certain norms such as compliance with prudential norms in regard to provisioning for non-performing Assets, with NPAs less than 15 percent of total loans and advances, and 'A' Audit classification for three consecutive years were permitted to extend the are of operation even beyond the state of registration
- With a view to giving greater degree of freedom to financially strong and well managed UCBs for opening branches, the branch expansion policy was further liberalised. In terms of the new policy, UCBs which satisfied certain prescribed norms were permitted to open branches at centres of their choice
- With a view to giving greater degree of freedom to UCBs, the prescription of maximum limit on advances based on the banks demand and time liabilities was withdrawn. In lieu thereof, prudential exposure limit in respect of single borrower/group of borrowers was prescribed to capital funds.
- Consequent to the notification issued under the Banking regulation act 1949 by government of India, The scheduled urban cooperative banks were permitted to undertake hire purchasing and leasing activities subject to an overall exposure limit of five percent of their total advances to each of these activities. The non-scheduled urban co-operative banks could also approach RBI for undertaking these activities
UCBs having deposits of Rs. 50 crores and above with "A" audit classification and satisfactory management were permitted to act as money changers.

- Well managed and operationally efficient scheduled UCBs were permitted to undertake activities such as merchant banking business, bankers to new public issues and issue of stock invest.

- UCBs were giving freedom to determine interest rates to be charged to the ultimate borrower on advances sanctioned to tiny cottage industrial units under section 17(2) (b1) read with section 17 (4) (C) of RBI Act, 1934.

- UCBs were permitted to invest their surplus fund in PSU Bonds and equity of approved all India financial institutions upto 10% of their total deposits.

- Scheduled/Non Scheduled urban Co-operative banks were permitted to make investments in certificates of deposits issued by other financial institutions.

- Scheduled urban Co-operative banks were allowed to make investments in commercial paper.

- In order to provide alternative avenues of investments for PCBs, they have been permitted to subscribe to units of UTI upto 5% of their incremental deposits of Previous year subject to overall ceiling of 10% of their deposits prescribed for investment in the bonds of PSUs and equity of all India financial institutions. (In order to facilitate urban co-operative Banks to invest their surplus funds, Registrar of Co-operative societies of all the states were advised to give general permission in this regard).

In 1996, most important of all, the RBI relented on a long standing demand of the sector namely that of setting up a separate state level apex bank of urban co-operative Banks. License was issued
to Apex Bank of Urban-Co-operative Banks of Maharashtra and Goa, registered under the multi state Co-operative societies act.

In 1997 RBI gave up the tight control over the Interest rates structure boath in respect of deposits and Advances. In a series of steps, it has practically deregulated the entire interest rates structure over a period of time.

In May 1999, the RBI appointed a High Power Committee under the chairmanship of Shri K. Madhava Rao, the review the performance of UCBs and suggest necessary measures to strengthen it. The committee submitted its report in urban-co-operative Bank. Some of the recommendations, which have been accepted and are being implemented by the Reserve Bank of India, are as under :-

*Area of operation* - Licensed UCBs-new as well as existing, extends the area of their operation to the whole of the district, of its registration and also the adjoining district, within the state of its registration, without the permission of the R.B.I. They are required to obtain "no objection" letter from the registrar of Co-operative societies. For extending the area beyond the adjoining districts of registration, RBI's Prior permission is required.

*Extension counters* :- Scheduled UCBs Can open extension counters without the prior approval by the Reserve Bank of India. In case of other licensed Urban cooperative Banks, they have to seek RBIs prior permission. The extension counters can be opened with in the premises of Educational institutions, big offices, factory, hospital.

*Branch Licensing* :- Licensed UCBs, which are not classified as weak banks, may apply for allotment of centres under annual action plan
subject to the condition that such Bank should fulfill entry point norms in respect of owned funds.

If banks want to open new branches or to extend their area of operation etc., they are not allowed the liberty without complying with the various stipulation prescribed by the R.B.I., these include adherence to the capital Adequacy norms, the net NPA being not more than 10% achieving the prescribed targets for priority sector lending, showing profits for the previous two consecutive years, maintenance of adequate CRR/SLR, timely Submission of return etc.

DISTINGUISHING FEATURES

Several steps have been taken to recast the co-operative credit system and place it on a viable and sustainable path. These can be classified into three broad categories. First, while recognising the differences between commercial and co-operative banks, it has been emphasised that some of the prudential norms introduced for commercial banks should be extended to co-operative banks as well, albeit in a phased manner. In particular, efforts have been made to improve the capital base of co-operative banks. Second, policies have been framed to contain the systemic risk emanating from the co-operative banking sector. Lastly, duality/multiplicity of control of co-operative banks has been recognised as an irritant to their effective regulation and supervision and measures have been initiated to address this issue.

In the Central Government Budget for 2002-2003, a decision was taken to recapitalise co-operative banks with financial support from the Central and State Governments. The recapitalisation formula suggested is 60:40 between the Central and State Government along with increases in share capital of members. In order to start the
process, a token provision of Rs.100 crore has been made and depending on the pace of reform, provision of additional funds would be considered.

Fig. (1.a): Organisational Structure of the Co-operative Credit Institutions

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Co-operative Credit Institutions
  
  Rural Co-operative Credit Institution       Urban Co-operative Banks
    
    Short-Term Structure                      Long-Term Structure
      
      State Co-operative Banks                District Central Co-operative Banks

      
      Primary Agricultural Credit Societies

                  State Co-operative Agriculture and Rural Development Banks

                  Primary Co-operative Agriculture and Rural Development Banks
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A beginning in the direction of prudential regulation has been made with the introduction of a time bound programme for capital to risk-weighted asset ratio (CRAR) for Urban cooperative Banks (UCBs). Similarly, efforts are on to conduct statutory audit of the UCBs through chartered accountants rather than Government officials. Further, entry point norms (EPNs) have been recast for the UCBs.
Measures have also been taken to ensure that the minimum capital requirement as specified by the Banking Regulation (B.R.) Act, 1949 [As applicable to co-operative societies (AACS)] is met by rural co-operative banks.

Systemic implications of health and conduct of co-operative banks remain an issue for concern. Steps are being initiated to restrict the potential spillover effects of disturbances emanating from certain credit co-operatives to other in the same segment as also to other segments of the financial sector. Accordingly, various exposure limits and related norms have been formulated. UCBs have been instructed to unwind their cross-exposures in the form of term deposits with other UCBs. UCBs are allowed to maintain a part of their reserves for the purpose of statutory liquidity ratio (SLR) in the form of deposits with State Co-operative Banks (StCBs) and District Central Co-operative Banks (CCBs). In a bid to reduce such cross exposures and to maintain liquidity of these institutions, UCBs have been advised to increase the proportion of SLR holding in the form of government and other approved securities. Exposure of co-operative banks to capital market and inter-bank money markets has also been restricted. The norms for granting permission to a UCB to extend its area of operation beyond the State of incorporation have been tightened. Supervisory efforts have been strengthened and an effective off-site surveillance mechanism is being put in place for both UCBs and rural co-operative banks.
Table (1.1): Scoring Pattern of financial Ratios of Co-operative Banks.

<table>
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<th>Scheduled UCBs</th>
<th>St CBs</th>
<th>CCBs</th>
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<td>Operating Profit</td>
<td>1.60 1.50</td>
<td>1.68</td>
<td>1.71 1.60</td>
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<td>10.07</td>
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<td>0.71 1.99</td>
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<td>Provisions and</td>
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<td>1.31 1.72</td>
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<td>Spread (Net Interest</td>
<td>2.80 2.20</td>
<td>1.92</td>
<td>2.05 3.04</td>
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<td>Income)</td>
<td></td>
<td></td>
<td>2.96</td>
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* As ratio to total assets.

(Source: UCBs Department, R.B.I.)

**SCENARIO AT NATIONAL LEVEL**

The proliferation of Co-operative Banks all over India over the century has been quite impressive. They have been able to mobilise nearly Rs.75,000 crores in terms of deposits and over Rs. 30,000/- crores in terms of advances. Out of the 2,068 urban cooperative Banks in existence today, 57 have attained the "Scheduled Bank"
status - i.e. each of them has demand and time liabilities exceeding Rs. 100 crores.

So long as urban cooperative banks were confined to and serving a particular area or community, there was no need for stringent regulations. In fact, when their deposits were brought on par with those of Commercial Banks with the extension of the Banking Regulation Act in 1966 and Deposit Insurance in 1971, people's confidence in them took a big leap forward. This is crystal clear from a simple fact the non-member deposits in Urban Banks far exceed the member deposits.

Beginning April 1992, the urban banks are subjected to income recognition, Assets classification, provisioning and other related matters in a phased out manner. Since January 1966, they are also subject to prudential exposure norms. They are now required to make full provisioning for all overdues and 0.25% on standard assets. With effect from March 31st 2002 they are expected to adhere to the capita adequacy norms in a phased out manner.¹

There was a significant rise in the number of licensed UCBs during the year 1999-2000. Out of the total 2050 PCBs, the number of licensed UCBs stood at 1849 as at the end of March 2000 as against 1692 as at the end of March 1999. During the year, 114 new banks and 43 existing unlicensed banks were issued license under Section 22 of the B.R. Act, 1949 (as applicable to cooperative societies) (AACS).

The total income of the scheduled UCBs increased by 24.7 percent to Rs. 4163 crore during 1999-2000 as compared with that of

¹ RBI Bulletin Year 2000-01
23.7 percent recorded in 1998-1999. A significant portion of total income came from interest income (93.5 percent). The total expenditure of scheduled PCBs increased by 23.5 percent during 1999-2000 to Rs. 3810 crore as compared with that of 21.9 percent during 1998-99. Of the total expenditure, interest expenditure accounted for 72.1 percent, higher than 71.0 percent recorded in the previous year.¹

Interest expenses and operating expenses increased by Rs. 559.2 crore (25.6 percent) and Rs. 130.5 crore (20.9 percent), respectively. The provisionings requirements of the scheduled UCBs increased from Rs. 270.3 crore in 1998-99 to Rs.305.6 crore in 1999-2000. The higher order of growth in income as against that of expenditure enabled the scheduled UCBs to post a higher net profits of Rs. 353.3 crore during 1999-2000 as compared with that of Rs.255 crore in the previous year. The operating profits at Rs.658.9 crore recorded an increase of 25.4 percent in 1999-2000.²

As a percentage to total assets, interest income of scheduled UCBs increased marginally by 5 basis points to 10.61 percent in 1999-2000 while interest expenses rose by 10 basis points to 7.49 percent. The decline in operating expenses by five basis points (partly due to a decline in wage bill by two basis points), inter alia, enabled scheduled UCBs to record a marginally higher operating profits at 1.79 percent during 1999-2000 as against 1.77 percent during 1998-99. An eight basis point decline in provisions, however, enabled the scheduled PCBs to Post a 10 basis point rise in net profits from 0.86 percent during 1998-99 to 0.96% during 1999-2000.

¹ Urban Bank Department, RBI publications 2000-01
² Urban Bank Department, RBI publications 2000-01
Urban Co-operative Banks in the scheme of integrated urban development is crucial both from the view point of approach to development and provision of necessary developmental resources and inputs.

**RESEARCH METHODOLOGY**

For the purpose of study, both primary and secondary data are used. Primary data are collected through field visits, by analysis of relevant financial statements, reports and personal interviews.

Secondary data are obtained from the office of registrar of cooperatives Societies Lucknow, Urban Banks deptt.of R.B.I., NAFCUB (National Federation of Urban Cooperative Banks and credit societies Ltd.) New Delhi, Uttar Pradesh Urban Cooperative Banks federation Ltd., Lucknow and from different annual reports of respective UCB's.

The collected data are properly processed by preparing suitable tables for the purpose of evaluating performances, the following parameters are used.

(a) Growth with sub parameters such as branch expansion, deposit mobilization, growth in advances, particularly priority sector lending.

(b) Productivity with sub parameters, such as wage productivity recovery of advances, cash management, i.e. ratio of cash in hand to deposits and credit- deposit ratio.

(c) Work organisation with sub parameters such as system of work, internal administration, general maintenance of bank offices and problem solving.

(d) Profitability with sub parameters, such as return on investment and ratio of spread to working funds.
During the course of our studies, I visited several UCBs, other concerned institutions and libraries. A questionnaire was also prepared and issued as per appendix-A. This questionnaire was sent to some select UCBs numbering over 50, but only 4 organisation could send the replies. However, subsequent visits to many of these organisations and discussions held were helpful in our study.

The conclusions are drawn on the basis of inter bank, inter district and inter period analysis of UCB’s. Overall measures has also compared with UCB’s of some other states and attempt has made to suggest measures to improve their working.

PRESENT POSITION IN UTTAR PRADESH

The Growth of UCB’s in U.P. has been slow as compared to the south and western part of the country. The total number of UCB’s in the country as on 31st March 2002 is around 2000, of these 80% Banks are located in maharashtra, Gujarat, Karnataka and Tamilnadu, in the state of U.P. with 70 districts and biggest population in the country. There are only 77 UCBs and these 77 UCB’s are situated in every district of U.P.. There were only 4 UCB’s upto 1980 and the rest have come up only in 80’s and 90’s. The share of U.P. in area of urban Banking is less than 2%.

The data reveal that the overall performance of the UCB’s at all Indian level has been satisfactory but at the level of U.P., it is far from satisfactory. UCB’s in U.P. have not kept with the average growth rate of UCB’s at Indian level. Only one UCB from U.P. Finds a place in the list of 57- Scheduled U.C.Bs in India. The total deposit of UCB’s as on 31 March 2002 stood at Rs. 84,415 crores, of which U.P. accounted for less than 1500 crores more of less similar ratio’s are prevalent in
loans and advances sector. The functioning of UCB's in U.P. is highly scattered in terms of performance.

**Urban Co-operative Banks in Uttar Pradesh**

- Banaras Mercantile Co-op. Bank Ltd.
  
  32/22-33, Ramsingh Rana nagar, Kashi Vidyapith Road, Varanasi. (U.P.)

- City Co-op. Bank Ltd.
  
  21, Premnagar Ashok Marg, Lucknow (U.P.) 226001

- Development Co-op. Bank Ltd.
  
  113/167, Swaroop Nagar Kanpur (U.P.)- 208002

- Doonvalley urban Co-op. Bank Ltd.
  
  95, Arhat Bazar, Saharanpur chowk, Dehradun (U.P.)- 248001

- Etah Urban Co-op. Bank Ltd.
  
  815, Near Kotwali, G.T. Road, Etah (U.P.) - 207001

- Federal Co-op. Bank Ltd.
  
  Tahsil compound, Ghatampur, kanpur Dehat, U.P.- 209206

- Firozabad Urban Co-op. Bank Ltd.
  
  332, Hanuman Garh, Firozabad, Agra, U.P.283203

- Ganga Mercantile Urban Co-op. Bank Ltd.,
  
  Malviya market, M.M. Malviya Inter, College, compound, Muzaffarnagar, U.P.

- Ghaziabad Urban Co-op. Bank Ltd.
  
  109, Navyug Market, First floor, Ghaziabad, U.P. 201001

- Gomathi Nagariya Sahakari Bank Ltd.
  
  152, Ruhatta, Jaunpur Ditt. U.P.- 222002

- Indian Co-op. Development Bank Ltd.
  
  162, Civil Lines, Meerut U.P.

- Indian Mercantile Co-op. Bank Ltd.
  
  26A, cantt. Road, Purana Guilla, Lucknow U.P.- 226001

- Khalilabad Nagar Sahakari Bank Ltd.
  
  Jhanpad, Sant Kabir Nagar, Khalilabad (Basti), U.P.272175

- Lucknow university Administrative staff primary co-op Bank Ltd. Lucknow university offices, uttar pradesh 226001

- Lucknow urban Co-op. Bank ltd.
  
  190, Tulisidas marg, Lucknow Uttar Pradesh- 226001

- Mahoba Urban Co-op Bank Ltd.
  
  Mahoba Distt. Mahoba U.P.- 210427

- Mansarover Urban Co-op. Bank Ltd.
A-989, Indra Nagar, Lucknow U.P.- 226016
- Mechanical Deprt. Primary Co-op. Bank. Ltd.
- Mercantile Urban Co-op. Bank Ltd.
Kaisarganj Road, Kesarganj Police Chowki, Meerut U.P.- 250002
- Mirzapur urban Co-op. bank Ltd.
Budhenath marg., Mirzapur,U.P.- 231001
- Nagar Sahakari Bank Ltd.
Golghar Gorakhpur, U.P.- 273001
- Nagar Sahakari bank Ltd.
Rajganj, Etawah, U.P.- 206001
- Nagar Vikas Sahakari bank Ltd.
400 Civil Lines, Hordoi, U.P.- 241001
- Nagarjia Sahakari Bank Ltd.
Mahamandal Katra, Lahurabir, Varanasi, U.P.- 221001
- Nagrik Sahkari Bank Ltd.
C-13/112, Rajajipuram, Lucknow- U.P.- 226017
- National Mercantile Co-op. Bank Ltd.
127- 4-A, B.N. Road, Kaiser baug, Lucknow.Uttar Pradesh -226001
- National urban Co-op. Bank Ltd.
18, Padma Market, Chitrasala Road, Baharaich Distt. U.P.
- National Urban Co-op.Bank Ltd.
Civil Lines, pratapgarh, uttar Pradesh - 230001
- New uraban Co-op.Bank Ltd.
Civil Lines, Rampur,U.P.- 244901
- Noida Commercial Co-op.Bank Ltd.
A-26 Sector-17, Noida U.P.- 201301
- Omkar Nagreeya Sahkari Bank Ltd.
118/169, Kaushaipuri Branch, Kanpur, U.P.- 670012
- Onkar Nagreeya Sahakari Bank Ltd.
14/5-A, Shakti Sadan, Civil Lines, Kanpur U.P.- 208001
- Ordnance Equipment factory Prambhik Sahakari Bank Ltd. Kanpur U.P.-
208001
19-A, Vidhan Sabha Marg, Lucknow, Uttar Pradesh - 226001
- Pioneer urban Co-op. Bank Ltd.
439/51 Tehseen Ganj, Hardio Road, Lucknow U.P.- 226001
- Ranilaxmibai Urban Co-op. Bank Ltd.
Chandra Shekhar Azad Marg, Jhansi U.P.- 284001.
- Reserve Bank of India Empl. Co-op. Cr. Bank
Reserve Bank Building, M.G. Road, Kanpur, U.P. - 208001
North East Railway Office, Gorakhpur. U.P.273001
- Roorkee Co-op Bank Ltd.
- Shivalik Mercantile Co-op Bank Ltd.
13/1207 Ansari Road, Sharanpur. U.P.- 247001
-U.P. Civil. Secretariat Pri. Co-op Bank Ltd.
U.P. Civil Secretariat, Lucknow U.P. - 226001
- U.P.Postal Primary Co-op. Bank Ltd.
3, Balmiki Marg, Lucknow, U.P.- 226001
- United Comm. Co-op Bank Ltd.
Chandan Market, 106/4 P.Road, Kanpur. U.P.- 208012
- Urban Co-op Bank Ltd.
Opp.Sardar Tahsil, Lakhimpur Kheri U.P. 262701
- Urban Co-op Bank Ltd.
Sitaram Complex, Bomanji Road, Saharanpur, U.P.- 247001
- Urban Co-op Bank Ltd.
61-63/B, Gandhi Nagar, Basti U.P.- 272001
- Urban Co-op Bank Ltd.
Jarra marketing Society, 637, Muthiganj, Allahabad, U.P.- 211001
- Urban Co-op. Bank Ltd.
Main Bazar, Distt. Tehsil, U.P.- 249001
- Urban Co-op Bank Ltd.
Prem Sadan. Railway Road, Near Co-op. Bank, Badanu, U.P.- 243601
- Urban Co-op Bank Ltd.
10, Gandhi Road, Dehradun. U.P.- 248001
- Urban Co-op Bank Ltd.
Moghalpura, Mounath Bhanjan, U.P.
- Uttarhand Co-op Bank Ltd.
637, Laxman Zhula Road, Rishikesh. U.P.- 249201
Central & Regional Office of Urban Banks Department
- Central Office of Urban Banks is situated in Mumbai (Garment House, Dr. Annie Besant Road, Worli, Mumbai - 400018)
- Regional Office is situated in Uttar Pradesh
  Sahakari Kisan Bhavan, 2, Mahatma Gandhi Marg, Lucknow - 226001

Federation of Urban Co-operative Banks in Uttar Pradesh
  Uttar Pradesh Urban Co-operative Banks federation Ltd. 6-B, Park Road, Jaiswal Complex (1Ind Floor), Lucknow - 226001
  Mr. R.P. Shrivastava is Secretary/ CEO of federation.

Co-operative Management Institutes in uttar Pradesh
  There are some institutes of Co-op Management For the upliftment of the position of urban banks of U.P.
  - Institute of Co-op. Management
    Rajpur, 6, Mussorie Road, Dehradun U.P.- 248009
  - Institute of Co-op. Management
    Block B, Sector 18, Rajajipuram, Lucknow U.P.- 226017

Registrar of Co-op. Societies
- Registrar of Co-op. Societies
  Govt. of Uttar Pradesh
  Vidhan SabhaMarg, Lucknow - 226001

According to RBI, Lucknow, New Delhi the financial Position of Urban Co-operative Banks of U.P. is as given below (As on 31-03-2003)

<table>
<thead>
<tr>
<th>No of Banks</th>
<th>Share Capital (In crores)</th>
<th>Reserve (In crores)</th>
<th>Deposits (In Lakhs)</th>
<th>Loans &amp; Advances (In Lakhs)</th>
<th>Gross NPA</th>
<th>Net NPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>77</td>
<td>83.79</td>
<td>49.56</td>
<td>129005.31</td>
<td>81557.11</td>
<td>13285.50</td>
<td>81352.4</td>
</tr>
</tbody>
</table>
Reserve Bank of India has vide order dated 30 March 2002 cancelled the licence granted in terms of section 22(1) of B.R. Act, 1949 (ACCS) read with section 56 of the banking Regulation Act, 1949 to "Urban Co-operative Bank Ltd, Tehri" to carry on banking business in India. As such the Bank is precluded from transacting the business of "Banking" as defined in Banking Regulation act, 1949 (as applicable to Co-operative Societies) and it will not be in order for it, among other things, to accept deposits from the public and allow withdrawals by cheque, draft, order or otherwise.

(Reference: Public Notice of Urban banks Department, R.B.I., Sahkari Kisan Bhawan, 2, M.G. Marg, Lucknow- 226001)

There is only one scheduled urban cooperative bank in Uttar Pradesh and also in Northern India. Name of this bank is "Indian Mercantile co-operative Bank Ltd" and situated in Lucknow. This one is a Number one urban co-operative Bank in U.P. and is fully computerised, air conditioned. It's total Turnover is Rs. 500 crores (According to 3-11-2001) and have a deposit base of over Rs. 150 crores.