CHAPTER – I

URBAN CO-OPERATIVE BANKS IN INDIA

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CHAPTER - I

URBAN CO-OPERATIVE BANKS IN INDIA

INTRODUCTION

The role of the banking institutions in Indian economy has undergone a major change, since the nationalization of 14 banks in July 19, 1969. Among the various infrastructural facilities for economic development and eradication of poverty and unemployment, providing adequate banking facilities is very important. Availability of credit facilities is an essential condition for the socio-economic development of the poor, whether living in urban or rural areas. The introduction of priority sector lending in 1972 proved very helpful in the rapid economic and social progress of the country. (1)

The study of urban co-operative banks in India shows that they played a very important role in fostering and institutionalization of savings and channelizing funds for the socio-economic development of the country. Urban co-operative banks in India have done a commendable work in providing banking facilities to millions of people, served a larger social purpose in accordance with national priorities. (2)

The major objectives of the priority sector lending by banks was to bring about a structural transformation of credit to hither to neglected sectors of the economy and to help the weaker sections of the community. The sectors belongs to priority sector include agriculture, cottage and small scale industries, road and water transport operators, retail traders, small
business enterprises, professionals and self-employed persons, education loans, housing loan and consumption loans.

If these sectors of the economy are nursed properly with adequate and timely institutional credit facilities and other support facilities, then it can generate employment opportunities for the masses and can help the government in achieving decentralized economic development.

The majority of the shareholders of urban co-operative banks belong to middle and lower middle class. These classes of people have the ability and talent to start the business venture. However, among other thing non-availability of adequate and timely credit restrict them to start their venture. Urban co-operative banks are in a position to play an important role to help hither to neglected people in establishment of their business ventures through priority sector lending.

Since 1990, there is a debate on efficacy of the priority sector lending. Experts are divided in two groups. One group of experts believes that the priority sector lending has adversely affected the competitive ability and profitability of the banks and it has also aggravated the problem of overdue, which is the cause of increase in the amount of non-performing assets (NPA) of the banks.

This group of experts is in favour of scraping of the priority sector lending, or at least it shall be reduced to 10% of the total bank credit.

On the other hand, the other group of experts believes that banks shall continue to play a greater social role even at a cost of loss. They are in favour of continuation of priority sector lending. However, they also believe
that the norms and sub-targets of priority sector lending be revised from time to time according to the requirement of the economy.

The present study is an attempt to reveal the importance of priority sector lending on urban co-operative banks and also on the beneficiaries.

It will help in deriving some solid conclusions and to make some fruitful suggestion regarding priority sector lending and its implementation by urban co-operative banks.

The present chapter makes an attempt to review the co-operative movement in the world and in India, progress and performance of urban co-operative banks in India and in Maharashtra.

Historical Perspective of Co-operative Movement

During the second part of eighteenth century, the Industrial Revolution begins in Europe, especially in Great Britain. Between 1750 and 1850, a large number of inventions took place in Great Britain, leading to a shift in the pattern of production from old to a new one. Different kinds of machines gradually started replacing human labour. The great enlargement of the powers of production which followed upon the new inventions in the textile industries and on the application of steam power to manufacture and transport had added largely to the wealth and prosperity of England, at the same time it inflicted upon working class monstrous hardships.

The labour force, which was considered to be a significant factor in the production process, began losing its importance. It is an undisputed fact
that the machines enhanced production at a very rapid rate. A major portion of wealth produced flows into the hands of the owners of machines and of capital. On the other hand, the condition of working class became more precarious. Increasing use of machine displaced the labours from work resulting widespread unemployment. Large Scale production due to increasing use of machines had intensified the competition amongst the manufacturers forcing them to reduce the cost of production by cutting the wages of workers, increase in the working hours of the workers, & deterioration in the working condition of the workers and employing the child labour at a very meager wages.

This has paved the way for the division of society into two classes, namely, the capitalist class and the working class. The capitalist, i.e., the owners of machines & of capital become more & more rich. On the other hand, the wage income of the working class reduced considerably. They were unable to fulfill their basic needs of life. They were forced to purchase the necessities of life on credit from specific shops. The unscrupulous traders were not only charging exorbitant price but also supplying adulterated goods on credit to the workers.

The outcome of all this was humiliation and frustration of the workers and discontent among them. They soon realized that they were weak & totally incapable of protesting individually against the action of the capitalists. They, therefore, looked about for an alternative to save themselves from the grip of inhuman employers. It was during this time that social reformist like Robert Owen & William king gave thought to the formulation of a new philosophy.
Robert Owen, a great manufacture & a philanthropist had become for a time the prophet & leader of a great part of British working class, and his followers had come to be called, almost indiscriminately, “Co – operators” or “Socialists”, and his “plan” for a “new moral world” to be known as “Co – operation” or “Socialism”. Robert Owen first inspired “co-operation” to become a national movement. (3)

Robert Owen, in his report to the country of Lanark in 1821, had proclaimed labour instead of money as the true standard on which fair exchange should be based. In 1830, William King was in communication with Owen about the idea of establishing on this principal a labour exchange where the workers could make mutual exchanges of their products without the use of money in terms of a standard based on “labour time.”(4)

This early work of Robert Owen & William King prepared the ground for the co-operative movement to take shape in future.

**Rochdale Model**

In the quest of searching a solution to the problem of exploitation of workers by the capitalist and realizing that the workers could not gain from their employers through the trade unions, social reformist like Robert Owen, William King etc. laboured hard to build a new economic ideology known as the co-operative system during the earlier part of nineteenth century. However, the earlier experiments of establishing co-operative societies did not materialize.
In Rochdale, the woolen & cotton milling town in the Lancashire hills in England, conditions were the worst. In 1843, a group of 28 persons most of them were the weavers & were inspired by the work of Owen met in the chartist hall & decided to establish a co-operative store. Accordingly, in 1844, the weavers set up the “Rochdale equitable pioneer’s society” with an initial capital of 28 pounds and registered it under the friendly society Act.(5)

Evan after over 160 years of its existence, Rochdale pioneer’s society is successfully operating in England with its network of more than 100 branches & membership of over 40,000.

The success of Rochdale pioneer’s society lies in the insight & vision of its founder members that studied the causes of failure of earlier societies and accordingly set forth the following eight principles on which their society should be managed. There principles were,

1. Democratic control;
2. Open membership;
3. Fixed interest on capital;
4. Dividend on purchases;
5. Cash trading;
6. Supply of pure and unadulterated products;
7. Provision for education;
8. Religious and political neutrality. (6)

In the course of time, the international co-operative Alliance reformulated these principles in 1936, 1969 and latest in 1995, presently there are seven such principles of co-operation, which are recognized all over the world. They are:

1. Open & voluntary membership ;
2. Democratic management ;
3. Limited interest on capital ;
It can be said that the co-operative movement of today, although it contains other element, is predominately a movement of consumers for the purchase of the necessaries of life began with the establishment of Rochdale pioneer’s society in 1844 in Great Britain.

**CO-OPERATIVE CREDIT MOVEMENT**

The co-operative credit movement in the world started in Germany. The work done by Raiffeisen and Schulze, for the rescue of the poor people from the adversities led to the emergence of co-operative credit society in the Germany.

Mr. F. W. Raiffeisen (1818-1888) as mayor of Heddesdrolf started the Heddesdrolf Beneficent society, which functioned with the aid of money deposited with it by the rich people on interest. The funds were utilized to grant loans to deserving farmers for productive proposes. However, Mr. Raiffeisen was not satisfied, for he was not in favour of making poor people dependent on rich people’s fund. It is this dissatisfaction on the part of Raiffeisen which was responsible for the formation of the first co-operative society based on the principle of “each for all & all for each”. This society became very popular soon. New credit societies came up on the same lines. The grand union of rural co-operative societies was set up in 1877, which is generally known as the Raiffeisen union. This was a federation of Raiffeisen societies.
Schulze is another person who contributed to the evolution of co-operative societies in Germany. Mr. Schulze (1809-1883) was a judge by profession in his native town of delitzsch. He established a friendly society in 1849 for the relief of sickness. Later in the same year, he started the first friendly society of shoemakers with a view to securing for its members the advantages of bulk purchase of raw materials.

He started first loan society in 1850 for the purpose of providing credit. Schulze founded another society in 1852 in delitzsch. He also published a book in 1865 to popularize the idea of co-operation. He also persuade the Prussian authorities to enact a law on co-operation, accordingly the Prussian authorities enacted the first law on co-operation in 1867. (8)

**CO-OPERATIVE MOVEMENT IN INDIA**

Co-operative movement in India is seen as a means to attain socialistic pattern of society. In order to accelerate the rate of economic growth & to fulfill the objective of decentralized development & social justice within the framework of national policy co-operative sector has played significant role in India.

During 1850 to 1885 co-operative credit societies in Germany & Italy had achieved remarkable success. It was the source of inspiration for the Indians, accordingly, in erstwhile Bombay province, some middle class families from Baroda formed “Annyonya Sahakari Mandali” under the leadership of Shri Bhausaheb Kavathekar on 5th February 1889. This was the first urban credit society formed in India for the benefit of its members before any co-operative enactment.
In Madras, at that time there were ‘NIDHI’ societies catering the financial requirement of its members. To save the agriculturist from the exploitation by moneylenders & to relieve them from indebtedness justice Ranada & sir wedanburn presented a scheme for setting up of small rural banks on co-operative principles to the government, which was not accepted by the then government. However, the government of Madras grasps the idea of using co-operation as a means for solving the problem of rural people. The government of India, then appointed sir Fredrick Nicholson to study theory & practice of co-operative agriculture credit in Europe & suggest ways & means by which a similar movement might be started in the madras province. During 1895 to 1897, Sir Fredrick Nicholson undertook an intensive study of that problem from its all dimensions & furnished his report in 1899 & recommended “Find Raiffeisen”, i.e., organizing agriculture credit societies on the lines of societies in Germany. (9)

In 1901, Lord Curzon appointed a committee under the chairmanship of Mr. Edward Law to study the report of sir Nicholson. Mr. Nicholson was also a member of that committee. On the recommendation of this committee the government of India passed the co-operative credit societies Act, on 25th March 1904. This is treated as official beginning of co-operative movement in India.

The co-operative societies Act, 1904 was the first Act in the history of co-operative movement in India. After the enactment of this Act, agriculture credit societies were organized on a large scale. Registrars of co-operative societies were appointed in the provinces to spread co-operative movement & to start a few model societies to train the rural population in proper methods of management.
The first urban credit society was registered in 1904 at Kanjiwaram in Madras state. Subsequently, Belegiri co-operative credit society in Dharwar District in Bombay province & Bangalore city co-operative credit society in Mysore state were registered in 1905. The experience of the functioning of these societies also revealed the defects of this Act. There was no provision for organization of non-credit societies, nor for federal bodies of the banks.

The government of India re-examined this issue & to remove these defects, enacted an entirely fresh legislation i.e. “co-operative societies Act, 1912. This Act provided for registration of federal societies, central banks & non-credit societies.

After 10 years of enactment of first co-operative societies Act, 1904, the government of India appointed Maclagan committee in 1914 to take the review of co-operative movement in India & to make recommendation for development of co-operative movement in the country. The main recommendation of Maclagan committee was to organize central co-operative Banks at district level & provincial co-operative Bank for each province.

Till 1919, “co-operation” was the subject under the preview of central government. In 1919 under the reform Act, it was transferred as the subject of state government. Bombay government took the lead & enacted “Bombay co-operative societies Act, 1925. In 1931, Madras government passed the co-operative societies Act. In 1935, Bihar & Orissa & in 1940 Bengal government passed the co-operative societies Act.

In 1945, central government appointed a co-operative planning committee under the chairmanship of Shri R, G. Saraiya. This committee
presented a broad scheme for the development of co-operative movement throughout the country.

After independence India government accepted the philosophy of economic planning for all round development of the country. In 1951, reserve Bank of India appointed “All India rural credit survey committee” under the chairmanship of Shri A. D. Gorwala. In his report Mr. Gorwala quoted that “The co-operation has failed in India, but it must be succeeded.” It is only after independence that co-operative movement got a momentum & grown rapidly.

**URBAN CO-OPERATIVE BANKS IN INDIA**

Annyonya Sahakari Mandali which was established in 1889 in Baroda under the leadership of Shri Kavathekar is regarded as the first urban co-operative credit society. Till 1939, there was hardly any distinction between an urban bank & urban credit society, as the term ‘Bank’ was loosely used. There were some urban credit societies doing banking business without using the world ‘Bank’ or ‘Banker’ in their nomenclature. At the same time there were some societies not engaged in any banking activities were using the word Bank or bankers in their nomenclature. This anomaly was required to be corrected. The Mehta Bhansali committee, 1939, made an attempt to define urban co-operative bank. It stated, “Urban credit societies having share capital of Rs. 20,000/- & above & accepting deposits of money on current account or otherwise withdrawable by cheque, draft or order, should be termed as “urban co-operative Bank”.
According to the planning commission, 1946, “Urban co-operative Banks receiving deposits on current account should have (a) paid up share capital of Rs. 20,000/- or above, (b) should maintain fluid resources as per the scale prescribed by the Registrar & (c) carry to its Reserve fund at least 1/3rd of its net profits till it equaled with the paid up share capital & 1/4th thereafter.”

According to V. P. Verde committee, appointed by the government of India in 1963, “co-operative credit societies registered under the state co-operative societies Act in urban and semi urban areas, having minimum share capital of Rs. 50,000/- & providing banking facilities could be termed as “urban co-operative Banks.”

After independence, urban co-operative Banks in the country had grown in leaps & bounds in all its area of activities i.e. number of banks, deposit mobilization, granting of credit etc. To protect the interest of depositors it was decided to bring urban co-operative banks under the control of reserve bank of India. Accordingly, Banking Regulation Act, 1949 was amended in 1966 & one separate chapter relating to urban co-operative banks had been incorporated in it. According to the Banking Regulation Act, 1949, a primary co-operative bank means a co-operative society other than primary agriculture credit society, the prime object of which is to (i) transact banking business, (ii) the paid up share capital & reserves of which are not less than Rs. One lakh & (iii) the byelaw did not permit admission of any other society as its member.

Thus there is a dual Control over the urban co-operative Banks, viz. the Reserve Bank of India for banking business i.e. maintenance of cash reserves, & liquid assets, regulation of loans & advances, publication of
audited balance sheet and profit & loss accounts, statutory inspection by the Reserve Bank of India, and the Register of co-operative societies for incorporation, amendment to the byelaws, management and winding up of the affairs of co-operative Banks, elections etc.

PROFILE & PROGRESS OF URBAN CO-OPERATIVE BANKS

Co-operative banking has passed through many phases since the enactment of the agriculture credit co-operative societies Act in 1904. Co-operative banks, developed largely as an offshoot of official policy, expanded rapidly in the post independence era and played an important role in implementation of various government schemes. Their business is now re-engineered to strengthen their role in contributing to financial inclusion and deepening banking penetration in an increasingly competitive financial landscape. (10)

The co-operative banking structure in India is complex. It comprise urban co-operative banks and rural co-operative credit institution consist of a single tier, viz. primary co-operative banks, commonly referred to as urban co-operative banks (UCBs). However, they are classified according to their scheduled status, operational outreach and purpose / clientele. (11)

STRUCTURE OF CO-OPERATIVE CREDIT INSTITUTION IN INDIA

The co-operative movement officially started in India with the enactment of first co-operative societies Act in 1904. The co-operative
movement has completed more than 100 years in India. During this period the co-operative sector has expanded in leaps and bounds. The co-operative credit institutions have also expanded in a big way. Therefore, it is imperative to study the structure of co-operative credit institution in India.

Co-operative credit institutions can be divided in two parts, namely urban co-operative banks and rural co-operative credit institution.

The urban co-operative bank generally operates in cities and mainly caters the needs of non-agricultural sectors. The rural co-operative credit institution generally operates in villages and mainly caters the needs of agricultural sector.

At the end of March 2006, there were 1853 urban co-operative banks operative in India. Of these 55 UCBs were scheduled banks and remaining 1798 UCBs were non-scheduled banks. Of the 55 scheduled UCBs, 24 UCBs were multi state UCBs and 31 UCBs were operating in single state. Of the 1798 non-scheduled UCBs, 10 UCBs were multi state UCBs and 1788 UCBs were operating in single state.

At the end of March 2005, there were 109924 rural co-operative credit institutions operating in India. Of this 109177 credit institutions were engaged in providing short term credit and 747 credit institutions were engaged in providing long term credit. Of the 109177 short term credit institutions 31 were the state co-operative banks, 367 were the district central co-operative banks and 108779 were the primary agricultural credit societies. Of the 747 long term credit institutions, 20 were the state co-operative agriculture and rural development banks and 727 were the primary co-operative agriculture and rural development banks.
Chart -1.1
Structure of Co-Operative Credit institution

Co-Operative Credit institution

Urban Co-operative Banks (1,853)

Scheduled UCBs (55)
  - Multi State (24)
  - Operating in single State (31)

Non- Scheduled UCBs (1,798)
  - Multi State (10)
  - Operating in single State (1788)

Rural Co-operative Credit Institution (1,09,924)

Non- Scheduled UCBs (1,798)
  - Multi State (10)
  - Operating in single State (1788)

State Co-operative Banks (31)

District Central Co-operative Banks (367)

Primary Agri. Credit Societies (1,08,779)

Short Term (1,09,177)

Long Term (747)

SCARDB (20)

PCARDB (727)

SCARDB : State Co-operative Agriculture & Development Banks.
PCARDB : Primary Co-operative Agriculture & Rural Development Banks.
Note : Figures in bracket indicate the number of institutions at end March 2006 for UCBs and at end March 2005 for rural co-operative credit institution.
Source : Trends and progress in Banking 2006-07 by RBI.
Comparison of overall position of Commercial banks with Co-operative banks considering certain parameters like number of banks, branches, total amount of deposits & loans & advances reveals the relative financial strength of UCBs in banking sector in India. Table no. 1.1 helps to get an insight of financial strength of various components of banking sector in India.

It is revealed from table no. 1.1 that the banking sector is totally dominated by public sector banks. 27 Nationalized and 196 Regional rural banks have a network of 62329 branches i.e. 70% of the total branches in India; whereas 30 private sector banks with their 5616 branches have a share of 6.3%. 38 foreign banks with their 208 branches have a share of 0.2% only. 2774 co-operative banks with their 20769 branches have a share of 23.5%.

The co-operative banks include urban co-operative banks, District central co-operative banks and state co-operative banks. 2084 urban co-operative bank with their 7259 branches have a share of 8.3% of the total branches in India, whereas 369 D.C.C. banks with their 12664 branches and 30 state co-operative banks with their 846 branches have a share of 14.2% and 1.0% respectively of the total branches in India.
Table No. 1.1
Banking sector with financial position
(as on 31/03/2003)

<table>
<thead>
<tr>
<th>Sr. no.</th>
<th>Type of banks</th>
<th>No. of banks</th>
<th>No. of branches</th>
<th>% of total</th>
<th>Deposits (Rs. In crores)</th>
<th>%</th>
<th>Advances (Rs. In crores.)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Public Sector Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nationalized Banks</td>
<td>27</td>
<td>47596</td>
<td>53.5</td>
<td>1079394</td>
<td>66.7</td>
<td>549951</td>
<td>60.0</td>
</tr>
<tr>
<td></td>
<td>Regional Rural Banks</td>
<td>196</td>
<td>14733</td>
<td>16.5</td>
<td>48867</td>
<td>3.0</td>
<td>20715</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>223</strong></td>
<td><strong>62329</strong></td>
<td><strong>70.0</strong></td>
<td><strong>1128261</strong></td>
<td><strong>67.7</strong></td>
<td><strong>570666</strong></td>
<td><strong>62.2</strong></td>
</tr>
<tr>
<td>02</td>
<td>Private sector Banks</td>
<td>30</td>
<td>5616</td>
<td>6.3</td>
<td>20691</td>
<td>12.7</td>
<td>137711</td>
<td>15.0</td>
</tr>
<tr>
<td>03</td>
<td>Foreign Banks</td>
<td>38</td>
<td>208</td>
<td>0.2</td>
<td>69313</td>
<td>4.3</td>
<td>52171</td>
<td>5.7</td>
</tr>
<tr>
<td></td>
<td><strong>Total commercial Banks (A)</strong></td>
<td>291</td>
<td>68153</td>
<td>76.5</td>
<td>1403791</td>
<td>85.7</td>
<td>760548</td>
<td>82.9</td>
</tr>
<tr>
<td>04</td>
<td>Co-operative Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Urban co-operative Banks</td>
<td>2084</td>
<td>7259</td>
<td>8.3</td>
<td>101972</td>
<td>6.3</td>
<td>62620</td>
<td>6.7</td>
</tr>
<tr>
<td></td>
<td>D. C. C. Banks</td>
<td>369</td>
<td>12664</td>
<td>14.2</td>
<td>7282</td>
<td>4.5</td>
<td>59338</td>
<td>6.4</td>
</tr>
<tr>
<td></td>
<td>State co-operative Banks</td>
<td>30</td>
<td>846</td>
<td>1.0</td>
<td>37439</td>
<td>3.5</td>
<td>34864</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td><strong>Total co-operative Banks (B)</strong></td>
<td>2483</td>
<td>20769</td>
<td>23.5</td>
<td>212394</td>
<td>14.3</td>
<td>156822</td>
<td>17.1</td>
</tr>
<tr>
<td></td>
<td><strong>Total Indian Banks (A+B)</strong></td>
<td>2774</td>
<td>88922</td>
<td>100.0</td>
<td>1616185</td>
<td>100.0</td>
<td>917370</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source :- Evolution of Urban co-operative banks in Maharashtra by D. S. Lokhande & B. M. Deshpande.
Graph No. 1.3

Banking sector with financial position

Graph No. 1.4

Banking sector with financial position

19
It is also seen from table no. 1.1 that the proportionate share of public sector banks in respect of deposits and advances was 67.7% and 62.2% of the total deposits and advances in India, at end of March, 2003. Whereas on the same date the proportionate share of private banks in respect of deposits and advances was 12.7% and 15.0% respectively and the proportionate share of foreign banks in respect of deposits and advances was 4.3% and 5.7% respectively. The proportionate share of co-operative banks in respect of deposits and advances was 14.3% and 17.1% respectively.

Similarly, on the same date the proportionate share of urban co-operative banks in respect of deposits and advances was 6.3% and 6.7% respectively, whereas the proportionate share of D.C.C. banks in respect of deposits and advances was 4.5% and 6.4% respectively and the proportionate share of state co-operative banks in respect of deposits and advances was 3.5% and 4.0% respectively.

MARKET SHARE DEPOSITS OF ALL BANK GROUPS TO TOTAL DEPOSITS.

The strength of a bank can be effectively measured on the basis of deposits mobilized by such banks. The study of market share of deposits of all bank groups to total deposits over a period of time reveals the relative strength of commercial banks, regional rural banks, urban co-operative banks and rural co-operative banks. It also reveals the trend of change in the relative strength of the bank groups over a period of time.
As on March 31, 2006 there were 1853 UCBs, 84 scheduled commercial Banks, 133 Regional Rural Banks (RRBs) and 398 Rural co-operative Banks (including 31 state co-operative banks and 367 District co-operative Banks) in India.

An analysis of market share of various bank groups indicates that the share of UCBs in total bank deposits was relatively low. Nevertheless, their market share grew steadily from 3.3% in 1990-91 to a high of 6.6% in 1999-2000, but thereafter gradually declined to 4.8% (Provisional) in 2005-06, as shown in the Table no. 1.2.

Table no. 1.2
Market Share deposits of all bank groups to total deposits.
(Market Share in percentage)

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>Urban Co-operative Banks</th>
<th>Rural Co-operative Banks</th>
<th>Regional Rural Banks</th>
<th>Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>4.5</td>
<td>7.2</td>
<td>2.5</td>
<td>85.8</td>
</tr>
<tr>
<td>1997</td>
<td>4.9</td>
<td>7.6</td>
<td>2.6</td>
<td>84.9</td>
</tr>
<tr>
<td>1998</td>
<td>5.3</td>
<td>7.7</td>
<td>2.8</td>
<td>84.2</td>
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<tr>
<td>1999</td>
<td>5.6</td>
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<td>2.8</td>
<td>83.8</td>
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<td>2000</td>
<td>6.6</td>
<td>7.7</td>
<td>2.8</td>
<td>83.6</td>
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<tr>
<td>2001</td>
<td>6.3</td>
<td>7.2</td>
<td>2.9</td>
<td>83.6</td>
</tr>
<tr>
<td>2002</td>
<td>6.4</td>
<td>7.2</td>
<td>3.0</td>
<td>83.4</td>
</tr>
<tr>
<td>2003</td>
<td>6.3</td>
<td>7.0</td>
<td>3.0</td>
<td>83.7</td>
</tr>
<tr>
<td>2004</td>
<td>5.8</td>
<td>6.6</td>
<td>3.1</td>
<td>84.5</td>
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<tr>
<td>2005</td>
<td>5.3</td>
<td>6.3</td>
<td>3.1</td>
<td>85.3</td>
</tr>
<tr>
<td>2006</td>
<td>4.8</td>
<td>5.5</td>
<td>3.0</td>
<td>86.7</td>
</tr>
</tbody>
</table>

(Provisional data (Share of RCBs arrived on the basis of projections as their total deposits as on 31st March, 2006 is not available.)

URBAN CO-OPERATIVE BANKS – REGIONAL DISTRIBUTION

The study of regional distribution of urban co-operative banks in India is helpful in knowing the relative spread of UCBs in respect of number of banks, number of branches and extension counters in various states of India.

The table no. 1.3 shows the state wise spread of urban co-operative Banks in India in respect to number of banks, number of branch offices & extension counters.

Table no. 1.3
State wise Distribution of urban co-operative Banks.
(As at March 2006)

<table>
<thead>
<tr>
<th>Sr. no</th>
<th>State</th>
<th>No. Of Banks</th>
<th>Share in Total %</th>
<th>No. Of units Banks</th>
<th>No. Of Branches</th>
<th>No. Of extension counters</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Andhra Pradesh</td>
<td>124</td>
<td>6.7</td>
<td>95</td>
<td>310</td>
<td>5</td>
</tr>
<tr>
<td>02</td>
<td>Assam/Manipur/Meghalaya/Mizoram/Nagaland/Sikkim/Tripura/Arunachal Pradesh</td>
<td>18</td>
<td>1.0</td>
<td>15</td>
<td>11</td>
<td>6</td>
</tr>
<tr>
<td>03</td>
<td>Bihar/Jharkhand</td>
<td>5</td>
<td>0.3</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>04</td>
<td>Gujarat</td>
<td>296</td>
<td>16.0</td>
<td>151</td>
<td>637</td>
<td>3</td>
</tr>
<tr>
<td>05</td>
<td>Jammu &amp; Kashmir</td>
<td>4</td>
<td>0.2</td>
<td>1</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>06</td>
<td>Karnataka</td>
<td>297</td>
<td>16.0</td>
<td>153</td>
<td>885</td>
<td>18</td>
</tr>
<tr>
<td>07</td>
<td>Kerala</td>
<td>60</td>
<td>3.2</td>
<td>17</td>
<td>325</td>
<td>6</td>
</tr>
<tr>
<td>08</td>
<td>Madhya Pradesh/Chhattisgarh</td>
<td>75</td>
<td>4.0</td>
<td>58</td>
<td>45</td>
<td>4</td>
</tr>
<tr>
<td>09</td>
<td>Maharashtra &amp; Goa</td>
<td>630</td>
<td>34.0</td>
<td>240</td>
<td>4243</td>
<td>23</td>
</tr>
<tr>
<td>10</td>
<td>New Delhi</td>
<td>15</td>
<td>0.8</td>
<td>Nil</td>
<td>60</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>Orissa</td>
<td>14</td>
<td>0.8</td>
<td>05</td>
<td>50</td>
<td>4</td>
</tr>
<tr>
<td>12</td>
<td>Punjab/ Haryana/ Himachal Pradesh.</td>
<td>16</td>
<td>0.9</td>
<td>10</td>
<td>39</td>
<td>3</td>
</tr>
<tr>
<td>13</td>
<td>Rajasthan</td>
<td>39</td>
<td>2.1</td>
<td>19</td>
<td>142</td>
<td>7</td>
</tr>
<tr>
<td>14</td>
<td>Tamil Nadu / Pondicherry</td>
<td>132</td>
<td>7.1</td>
<td>62</td>
<td>180</td>
<td>0</td>
</tr>
<tr>
<td>15</td>
<td>Uttar Pradesh / Uttarakhand</td>
<td>77</td>
<td>4.2</td>
<td>53</td>
<td>219</td>
<td>28</td>
</tr>
<tr>
<td>16</td>
<td>West Bengal</td>
<td>51</td>
<td>2.8</td>
<td>31</td>
<td>54</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total (1 to 16)</strong></td>
<td><strong>1853</strong></td>
<td><strong>100.0</strong></td>
<td><strong>914</strong></td>
<td><strong>7217</strong></td>
<td><strong>101</strong></td>
<td></td>
</tr>
</tbody>
</table>

Note: - 1 No. Of branches including head office
2 Share of Goa is negligible.
Source: - Trend & progress of Banking 2006 – 07 by RBI
It is revealed from the table no. 1.3, that the share of Maharashtra in total urban co-operative banks in India is highest (34%) followed by Karnataka (16%) & Gujarat (16%). Almost 2/3rd urban co-operative banks are located in these three states as at 31st March 2006.

The share of Maharashtra, Karnataka & Gujarat in total number of branches is approximately 59%, 12% & 9% respectively. These three states accounts for 80% of the total branches of urban co-operative banks in India as at 31st March 2006.

The share of Maharashtra & Goa, Karnataka & Gujarat in total number of extension counter was 44%.

The spatial distribution of UCB was highly skewed as they are concentrated mainly in Maharashtra & Goa, Karnataka & Gujarat followed by Tamil Nadu & Pondicherry & Andhra Pradesh.

This means that the progress of UCBs in India was lopsided so far as number of banks & branches one concerned. The development of UCB in above mentioned states/Union territories was rapid & in other states/Union territories was very dismal.

It is also revealed that just less than 50% of UCBs were unit banks & just above 50% of UCBs have branch network.

**Non - performing assets of urban co-operative banks.**

To understand the effectiveness of lending policy & recovery of loans of urban co-operative banks, study of gross non-performing assets (Gross
NPA) & net non-performing assets (Net NPA) of these banks over a period of time is essential.

The table no. 1.4 reveals the gross NPA & Net NPA of urban co-operative banks during the period from end March 2001 to end March 2006.

Table No. 1.4

Non - performing assets of urban co-operative banks.

(Rs. in lakh)

<table>
<thead>
<tr>
<th>Sr. no.</th>
<th>End March</th>
<th>No. of Reporting banks</th>
<th>Gross NPAs (Rs.)</th>
<th>Gross NPAs a % of total advance</th>
<th>Net NPAs (Rs.)</th>
<th>Net NPAs as a % of total advance</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>2001</td>
<td>1942</td>
<td>9245</td>
<td>16.1</td>
<td>n. a.</td>
<td>n. a.</td>
</tr>
<tr>
<td>02</td>
<td>2002</td>
<td>1937</td>
<td>13706</td>
<td>21.9</td>
<td>n. a.</td>
<td>n. a.</td>
</tr>
<tr>
<td>03</td>
<td>2003</td>
<td>1941</td>
<td>12509</td>
<td>19.0</td>
<td>6428</td>
<td>13.0</td>
</tr>
<tr>
<td>04</td>
<td>2004</td>
<td>1926</td>
<td>15406</td>
<td>22.7</td>
<td>8242</td>
<td>12.1</td>
</tr>
<tr>
<td>05</td>
<td>2005</td>
<td>1872</td>
<td>15486</td>
<td>23.4</td>
<td>8257</td>
<td>12.5</td>
</tr>
<tr>
<td>06</td>
<td>2006(p)</td>
<td>1853</td>
<td>13871</td>
<td>19.7</td>
<td>6718</td>
<td>9.6</td>
</tr>
</tbody>
</table>

P : provisional  
n.a. : Not available  
Source :- Recent trends & progress in banking 2006-07 by RBI.

It is seen from the table no. 1.4 that the percentage of Goss NPA & Net NPA to total advance was quite high than the tolerable limits. This means that there are some flaws in the lending policy or in recovery of loans by the UCBs or in both. The high level of Goss NPA & Net NPA has burdened the UCBs. This has resulted in deterioration in the profit earning capacity of the UCBs. To improve the financial health of UCBs NPA level should be reduced below the tolerable limits.
Graph No. 1.5

Graph No. 1.6
Progress of UCBs in erstwhile Bombay state since 1921-22 to 1951-52.

The present Maharashtra State come into existence following re-organization of erstwhile Bombay state excluding Gujarat and Karnataka areas while new territories of Marathwada and Vidharbha were included in Maharashtra. Hence, it is necessary to study the progress of urban co-operative banks in Maharashtra in two parts viz. progress of UCBs in erstwhile Bombay state since 1921-22 to 1951-52 and progress of UCBs in Maharashtra state from 1961 to 2000.

The table no. 1.5 indicates the comparative position of urban co-operative banks in respect of number of UCBs, number of members, share capital, deposits and borrowings, loans outstanding and loans overdue in erstwhile Bombay state since 1921-22 to 1951-52.

Table No. 1.5
Progress of UCBs in erstwhile Bombay state since 1921-22 to 1951-52.

<table>
<thead>
<tr>
<th>Sr. no</th>
<th>Particulars</th>
<th>1921 – 22</th>
<th>1931 – 32</th>
<th>1941 – 42</th>
<th>1951 – 52</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>No. of UCBs</td>
<td>21</td>
<td>91</td>
<td>64</td>
<td>184</td>
</tr>
<tr>
<td>02</td>
<td>No. of members (in 000)</td>
<td>49</td>
<td>139</td>
<td>67</td>
<td>220</td>
</tr>
<tr>
<td>03</td>
<td>Share capital (Rs. 000)</td>
<td>1517</td>
<td>6072</td>
<td>3320</td>
<td>15,882</td>
</tr>
<tr>
<td>04</td>
<td>Deposits &amp; borrowing (Rs. 000)</td>
<td>6981</td>
<td>27743</td>
<td>24806</td>
<td>72830</td>
</tr>
<tr>
<td>05</td>
<td>Loans outstanding (Rs. 000)</td>
<td>6761</td>
<td>25250</td>
<td>11132</td>
<td>71763</td>
</tr>
<tr>
<td>06</td>
<td>Loans overdue (Rs. 000)</td>
<td>392</td>
<td>3100</td>
<td>2812</td>
<td>7768</td>
</tr>
</tbody>
</table>

Source: Evolution of UCBs in Maharashtra by D. S. Lokhande & B. M. Deshpande.
It is seen from the table no. 1.5 that in 1921, the number of UCBs was 21 where as it increased to 91 in 1931 – 32, then reduced to 64 in 1941 – 42, again increased to 184 in 1951 – 52 over a period of 30 years from 1921 – 22 to 1951 – 52 the number of UCBs operating in erstwhile Bombay state had increased more than 8 times.

During the same period membership has also increased from 49,000 to 2,20,000 showing an increase of 4.5 times.

Share capital has increased from Rs. 1517000 to Rs. 15882000 during the same period.

In 1921 – 22, deposits & borrowing of UCBs in the state was Rs. 69,81,000. It was Rs. 72830000 in 1951 – 52. This shows that deposits & advances have increased by 10.5 times during this period.

In 1921 –22, loans outstanding was Rs. 6761000 in 1951 – 52. It was increased to Rs. 71763000. This also shows that the amount of loans outstanding increased by 10.5 times during the period between 1921- 22 to 1951-52.

**Progress of urban co-operative banks in Maharashtra state from 1961 to 2000.**

After studying the progress of UCBs in erstwhile Bombay state since 1921-22 to 1951-52, it is necessary to study progress of UCBs in Maharashtra state from 1961 to 2000.
The table no. 1.6 indicates the Progress of urban co-operative banks in respect of number of UCBs, number of members, share capital, deposits, and loans outstanding and overdue in Maharashtra from 1961 to 2000.

Table no.1.6

Progress of urban co-operative banks in Maharashtra state from 1961 to 2000.

<table>
<thead>
<tr>
<th>Sr. no.</th>
<th>Particulars</th>
<th>61-62</th>
<th>71-72</th>
<th>81-82</th>
<th>91-92</th>
<th>99-00</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>No. of Urban co-op. Banks</td>
<td>149</td>
<td>265</td>
<td>345</td>
<td>381</td>
<td>630</td>
</tr>
<tr>
<td>02</td>
<td>No. of members (000)</td>
<td>433</td>
<td>883</td>
<td>1618</td>
<td>4464</td>
<td>7782</td>
</tr>
<tr>
<td>03</td>
<td>Share capital (Rs. in Lakh)</td>
<td>284</td>
<td>987</td>
<td>4201</td>
<td>18692</td>
<td>57032</td>
</tr>
<tr>
<td>04</td>
<td>Deposits (Rs. in Lakh)</td>
<td>1243</td>
<td>6832</td>
<td>65779</td>
<td>466298</td>
<td></td>
</tr>
<tr>
<td>05</td>
<td>Loans outstanding (in Lakh)</td>
<td>1671</td>
<td>5007</td>
<td>48003</td>
<td>322718</td>
<td>1691398</td>
</tr>
<tr>
<td>06</td>
<td>Over due (Rs. in Lakh)</td>
<td>N. A.</td>
<td>364</td>
<td>3752</td>
<td>45735</td>
<td>103108</td>
</tr>
</tbody>
</table>

Source :- Evolution of urban co-operative banks in Maharashtra by D.S. Lokhande & B.M. Deshpande.
N.A. : Not available.

It is seen from the table no. 1.6 that since 1961 when Maharashtra state came into existence, the progress made by the UCBs was remarkable.

In 1961-62, the number of UCBs in Maharashtra was 149, where as it increased to 630 in 1999-2000. During the period of 40 years the number of UCBs has increased by more than 4 times.

It is also seen that the number of members has also increased by nearly 18 times during the period from 1960-61 to 1999-2000.
Share capital was increased from Rs. 284 lakh in 1960-61, to Rs. 57032 lakh in 1999-2000. There was 200 times increase in share capital during this period of 40 years.

In 1961-62, total deposit held by UCBs in Maharashtra was amounting Rs. 1243 lakh. In 1999-2000 it has increased to Rs. 3500193 lakh. Deposits of UCBs have grown remarkable by nearly 2896 times during 1960-61 to 1999-2000.

In 1961-62, total loans held by UCB in Maharashtra were Rs. 1671 lakh. In 1999-2000, it was Rs. 1691398 lakh loans. Loans granted by UCBs in Maharashtra have grown remarkably by nearly 1012 times.

In 1971-72, overdue of UCBs in Maharashtra were Rs. 364 lakh. In 1999-2000, it was increased to Rs. 103108 lakh. Overdue have also increased by 283 times during the same period.

On the basis of above it is very clear that UCBs have made all-round development in Maharashtra since 1961 to 2000. The main reason for this can be attributed to application of banking regulation Act, 1949 to urban co-operative banks in 1966 & introducing deposits insurance cover scheme for the deposits held by UCBs. Most importantly the change in the policy relating to registration of urban co-operative banks by the RBI resulted in increase in number of urban co-operative banks especially in Maharashtra. Consequently the membership, share capital, deposits, loans have increased sharply after 1961. After 1991, all these parameters have shown very attractive and sharp increase.
Position of urban co-operative banks according to Geographical division of Maharashtra

It is imperative to study the progress of UCBs in respect of number of banks, number of members, owned fund, deposits and loans advances in Maharashtra according to geographical divisions.

Table No. 1.7
Position of urban co-operative banks according to Geographical division of Maharashtra
(as on end March 2000)

<table>
<thead>
<tr>
<th>Sr. no.</th>
<th>Region</th>
<th>No. of banks</th>
<th>No. of. Members</th>
<th>Own funds (Rs.)</th>
<th>Deposits (Rs.)</th>
<th>Loans outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Mumbai</td>
<td>84</td>
<td>1560</td>
<td>1,58,669 (46)</td>
<td>13,08,909 (40)</td>
<td>8,00,729 (38)</td>
</tr>
<tr>
<td>02</td>
<td>Kokan</td>
<td>36</td>
<td>450</td>
<td>32,380 (9)</td>
<td>2,73,691 (8)</td>
<td>1,63,714 (8)</td>
</tr>
<tr>
<td>03</td>
<td>Western Maharashtra</td>
<td>339</td>
<td>2289</td>
<td>1,25,014 (36)</td>
<td>13,18,270 (40)</td>
<td>9,04,218 (42)</td>
</tr>
<tr>
<td>04</td>
<td>Marathwada</td>
<td>103</td>
<td>294</td>
<td>12,592 (4)</td>
<td>1,18,097 (4)</td>
<td>81,422 (4)</td>
</tr>
<tr>
<td>05</td>
<td>Vidarbha</td>
<td>68</td>
<td>546</td>
<td>16,724 (5)</td>
<td>2,57,920 (8)</td>
<td>1,79,919 (8)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>630</td>
<td>5139</td>
<td>3,45,379 (100)</td>
<td>32,76,887 (100)</td>
<td>21,30,002 (100)</td>
</tr>
</tbody>
</table>

Note :- figure shown in brackets are percentage to total of respective column head.
Source :- Evolution of co-operative banks in Maharashtra by D. S. Lokhande & B. M. Deshpande.

It is seen from table no 1.7 that in respect to owned fund Mumbai region with Rs. 1,58,669 lakh (46 %), western Maharashtra with Rs. 1,25,014 lakh (36 %) were for ahead of other region of Maharashtra, where as Marathwada with Rs. 12,592 lakh (4 %), Vidarbha with Rs. 16,724 lakh (5 %) & Kokan with Rs. 32,380 (9 %) were lagging for behind Mumbai & western Maharashtra region.
Deposits of the UCBs in western Maharashtra (Rs. 3,18,270 lakh i.e. 40 %) and Mumbai (Rs. 3,08,909 lakh i.e. 40 %) were around 80 % of deposits of UCBs operating in Maharashtra as on 31.3.2000. whereas deposits of the UCBs in Marathwada (Rs. 1,18,097 lakh i.e. 4 %) Vidarbha (Rs. 257,920 lakh i.e. 8 %) & Kokan (Rs. 2,37,691 lakh i.e. 8 %) were 20 % of deposits of UCBs operating in Maharashtra as on 31.3.2000. Hence, there is no match between the western Maharashtra & Mumbai with rest of the Maharashtra so far as deposits held by UCBs is concerned.

On the same date the outstanding loans in western Maharashtra Rs. 904218 lakh (42%) and Mumbai 800729 lakh (38 %) were far ahead of the rest of Maharashtra.

Hence the progress achieved in western Maharashtra & Mumbai regions had been excellent. It was very dismal in Marathwada, Vidarbha & Kokan regions.

To sum up, it can be said the co-operative movement is emerge to uplift the down trodden section of the society. However, the progress and performance of urban co-operative banks in India is not even. At the same time large numbers of urban co-operative banks are weak and facing number of problems like problem of overdue, problem of NPA etc.
Reference:

2. S. Krishnama Raju, op.cit. P-29
4. op. cit. page -30
5. V. Sharada, the theory of co-operation page -29, Himalaya publishing house, Mumbai.
8. V. Sharada, The theory of co-operation page 15-17, Himalaya publishing house.