CHAPTER - II
ROLE OF URBAN CO-OPERATIVE BANKS
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The present chapter is divided into three sections Section - I deals with meaning, definition and characteristics of urban co-operative banks. Section - II presents the distinction between commercial banks and urban co-operative banks and Section - III discusses the significance and role of urban co-operative banks.

SECTION – I

A co-operative bank is one which performs the borrowing, lending, Agency and general utility services, on a co-operative basis. Co-operation is a natural phenomenon. It is found in all living beings. The word “co-operation” is derived from the Latin word “Cooperare” meaning working together.

In general, a Co-operative Bank is a co-operative organization which is registered under the Co-operative Societies Act. 10 to 25 or more persons voluntarily pool their resources like money, men, material; skills etc and manage the banking affairs for the socio-economic benefit of themselves as members on equal footing as human beings. They follow co-operative principles and practise them. They do business, provide money and services. They follow the Bye-laws, Act and Rules. Service is the main motive but at the same time they earn profit and compete with other sectors also. They run the co-operative on democratic lines. They with scientific management do away with middlemen, vested interests and get all benefits for themselves. The final aim is to improve socio-economic conditions and raise the standard of living of members and do some benefits to the public at large.

According to Divine, “A mutual society formed composed and governed by working people themselves for encouraging regular savings and granting small loans on easy terms of interest and repayment”.¹

Thus, Urban Co-operative Banks (UCBs) are associations of persons united voluntarily to meet their all types of common needs like economical,
social, ethical and cultural and aspirations through a jointly owned and democratically controlled enterprise.

Bahansali Committee (1939) in the then Bombay province defined urban co-operatives very systematically in the following way.

"All urban credit societies having paid-up share capital of Rs. 20,000 and over and accepting deposits of money on current account or otherwise subject to withdraw by cheque, draft or order come within the category of urban co-operative banks".

However, this committee has not pointed out the ethical values of honesty, openness, social responsibility, caring for others which the founders of co-operative society believe. These enterprises are based on the values of self-responsibility, democracy and equality.

Banking Companies Act and Banking Regulation Act of 1949 defined that Primary Co-operative Banks means a co-operative society other than the primary agricultural society. Hence, the Co-operative Bank means –

a) **State Co-operative Bank**:

   It is a principal co-operative society in a state. The primary object of which is to finance other co-operative societies in a state.

b) **Central Co-operative Bank**:

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

c) **Primary Co-operative Bank**:

   It is a co-operative society other than primary agricultural credit society.²

   It is clear from the above that the primary co-operative banks are popularly known as UCBs. The three words in the title have a definite meaning and scope.

**Urban**: It specifies the area of banking operations of these institutions only to urban and semi-urban places. Urban areas have more economic opportunities than rural areas. These include high financial capacity mobility, knowledge, new ideas and high mass consumption of the people. The banks, homes, educational centres, medical centres with aids given by banks grow and the
growth rate represents a significant opportunity of the banks in these urban areas to catch up and makes the areas more livable for all. These can promote thrift and habit of saving, and attract deposits, thus giving rise to capital formation. In this way, economic improvement of the urban middle class and urban salaried people in particular and urban poor in general are the purposes of these institutions.

Co-operative: These are expected to attend less towards profits, and more towards service. Normally they work on no-profit no-loss basis. In case they make some profits they plough it back into expansion of the bank as well as on the improvement in the quality of services. Apart from making availability of cheap credit they also educate people about the sense of togetherness amongst all and also generate loyalty.

Banking: “Means the accepting for the purpose of lending or investment of deposits of money from the members, repayable on demand or otherwise withdrawable by cheque, draft and order or otherwise. Banking thus indicates the field of activity of UCBs. The UCBs perform banking business in accordance with the Banking Regulation Act of 1949 and Banking Laws Bill of 1965 and came under the regulation of Reserve Bank of India Act of 1934. “The Department of Banking operations and Development was created in 1950 in RBI. So this is meant to extend banking facilities to urban and semi-urban areas and help in solving the problems of finance. The primary function of the Department is the supervision of the whole Indian Banking system”.

The above analysis clearly reveals the meaning of the three words of UCBs. The UCBs are to function not only as financial institutions but also as instruments of social change, fostering an all sided development of urban, semi-urban rural, industrial and agricultural catering to the weaker as well as the money market sectors.

An Urban Co-operative Bank is one which performs more or less the same functions of the commercial banks. Both the banks borrow and lend money on certain terms and conditions. However, UCB is an association of ten or more persons residing in a particular locality, knowing one another intimately and showing interest in the welfare of one another.
Rural co-operative banks are found in the villages and are the associations of farmers. They are formed for the purpose of providing cheap credit to the farmers on the basis of unlimited liability which means every member of the society is liable to an unlimited extent for the liabilities of the society.

The UCBs are established in towns and are the associations of small traders, artisans and salaried employees. They are formed for the purpose of meeting the credit needs of all economic activities of urban residents. They are organized on the basis of limited liability, which means the member of the society is liable to the liabilities of the society only to the extent of the face value of the shares of the society held by him.⁴

According to Henry Wolf

"A co-operative bank is an agency which is in a position to deal with the small man on his own terms accepting the security he has and without drawing on the protection of the rich. That agency must not be a channel for pouring charity or subsidizing the small man out of the public funds; instead the material help must be backed by moral improvement and strengthening the fibre".⁵

Another simple definition given by Borou. N. as "A co-operative credit (Bank) association is A voluntary association of individuals with unrestricted membership and collectively owned resources formed by small producers or wage-earners, conducted on a democratic basis under joint management and for mutual service by accumulating the savings of the members and granting them credit on easy terms of interest and repayment, surpluses being placed to resources or distributed between depositors borrowers and share holders. The association also uses the joint responsibility to its members as a security for loans obtained for its members from outside source".

From the above definitions, it is quite clear that a bank must have a co-operative character and must deal in credit which satisfies all the requirements of an ideal credit discussed above. Then only can be called an UCB. In other words, UCBs are organized in urban areas and provide financial assistance to all urban economic activities.
The chief characteristics of UCBs:

The important features of UCBs are enumerated in the following paragraphs.

It is known that co-operation is a way of life and business. Service and profits are its important elements. Co-operation is by, of and for the members. Its motto is “Each for all, all for each”. The three ingredients of UCBs are thrift, self responsibility and mutual-help. UCBs are the associations of members voluntarily joined and work together for plenty, happiness and prosperity. UCBs thus have some common features. World known experts on co-operation have pointed out the following important features of UCBs.

1. UCBs are the associations of persons and not an impersonal grouping of capital. UCBs need capital, but the emphasis is on MAN and not on capital. It is men that counts here and not money.

2. UCBs are not only associations but also undertakings. It means that they are not charitable or philanthropic associations. These are run by members for their own well-being.

3. UCBs are democratic organizations and no one is forced to join it. The main purpose is service and not profit.

4. It is universal fact that within these banks and within the members, the relation between each member is governed by the role of equality, Irrespective of possible differences of caste, creed, political opinion, social status or subscription of capital, all the members possess equal rights, opportunities and duties.

5. A known salient feature of UCB is the method of distributing the surplus not according to the capital invested but according to the proportion of business operations a member has effected with the bank.

6. The entire business of UCBs brought under the “dual control regime” exercised by state Govt., central Govt. and RBI. This is really a unique feature of UCB.

7. Another interesting feature of UCB is the area of operation. UCBs are the associations of members or borrowers and non-borrowers residing in a particular locality. The funds of the UCBs are derived from the share capital
and deposits of members and loans from Central Co-operative Banks which could be efficiently charreties for various purposes as per the demand to the local clientele and this can be given for various purposes as the demand may be to the local clientele and have a local feel and local touch of a particular locality. Their financial operations are confined only to urban and semi-urban areas.

8. UCBs enjoy privileges like higher rate of interest on deposits, lower lending rates, exemption of payment of tax on interest and profits, better Capital Reserve Ratio and Statutory Liquidity Ratios.

9. UCBs aim is to bring at bringing revolutionary changes in social and economic structures by peaceful, sound and happy means.

The above features clearly reveal that the UCBs have many beneficial effects on the socio-economic conditions of urban people. Such an impact led to the birth of UCBs in India.

India is basically an agrarian economy. The farmers are scattered all over the country and need short term loans for agricultural purposes. The need was not fully fulfilled by the central banks. The farmer’s limited liability to save does not allow him to finance his pursuits and raise better production on farm. Small organizational credit agencies like nidhis, chit funds could not solve this problem. There were Joint stock banks which used to fulfill the needs of only big traders and merchants. They denied credit help to small men or traders for the simple reason that the high operational costs of the credit. Added to this, Joint Stock Banks were not ready to advance on personal security. In this situation, the man with limited means remained without credit and was driven to the money lenders or any other similar financial agencies to obtain help but at usurious rate of interest. Credit through institutional channels was the only way to break stagnation in agriculture as well as in business. Hence, the need arose for the establishment of an agency on the co-operative basis and an attempt has been made to develop an institutional credit. This form of credit was considered as the best for providing credit especially to the small and marginal farmers and other needy persons. The Report of the study group on
credit co-operatives in the Non-Agricultural sector drew attention of all and stated that the very failure of Swadeshi Joint Stock Banks created opportunities for co-operative credit societies to develop as a medium for mobilizing the savings and extending financial support to the needy. During war time there was a steep fall in the income of the self employed people in the urban areas which made them to fall at the mercy of money lenders.

Urbanization started in India during 20th century. The unique feature of urbanization is the development of large number of very large cities across the regions which have experienced large migrations from rural to urban areas. Natural growth rate of population of course is one of the reasons. Urban areas have more economic opportunities and attraction of employments which enable to people to improve their income immediately after finding a job. Thus, towns began to grow more rapidly. During this period it was realized that only solving the problems of farmers is not an end itself. At the same time the problems of the urban people need not be neglected. In this regard many thematic reports of various committees revealed the aspects and aspirations of the urban men. Hence, the idea of formulation of the urban credit societies, which might serve useful purpose in bringing up the upper and middle classes to understand the importance of savings and thrift. The Government of India in 1914 appointed a committee under Sir Edward Maclagan to survey the progress of co-operation in India. The committee submitted its Report in 1915 and the main recommendation was that –

“Urban credit societies might serve useful purpose in training the upper and middle classes to understand ordinary banking principles”.

The principal recommendation of the Maclagan Committee was to establish an institution of provincial co-operative banks to serve as apex bank in the hierarchy of co-operative pyramid. The present organization in India is since then based upon the findings of this report. Then it was realized that Urban Credit societies were eminently suitable institutional agencies for collecting local savings and to provide relief to those who were in the clutches of money-lenders by providing them with financial accommodation with cheaper rate of interest. In 1919 the Montague Chelmsford Act made co-operation a provincial
subject. Since then all the state governments have passed their own separate Co-operative Societies Acts.

On the unique role and character of co-operative credit societies in the provision of credit, attention was drawn in 1927 by the World Economic Conference held by the League of Nations in Geneva as –

"The best form of institution appears to be the co-operative credit society operating by means of resources which the very fact of association enables it to procure and to increase with or without the assistance of public authorities".  

The object of these societies is to offer banking facilities to persons of limited means requiring credit for productive purposes. The urban credit societies which came into being in Bombay confined their activities mostly to the members of particular communities and their lending operations were primarily with a view to meeting the consumption needs of their members.

In 1931, the Central Banking Enquiry Committee recommended that,

"Limited liability co-operative societies, generally known as urban Banks, should be established, wherever necessary facilities and conditions exist for the benefit of these classes of the population. The duty of these urban banks should be to try to do for the small trader, the small merchant and the middle class population the commercial banks are doing for the big trader and the big merchant."  

Accordingly, the need for urban banking arose to provide credit to the urban middle class and UCBs were established for collecting and investing the savings of their members. Such societies aimed only to benefit the small traders, artisans and small men of small means. Financial management in an efficient manner is crucial for the viability and profitability of the banks. The banks must be aware of the financial position and standing of persons of moderate means. In this connection we have to appreciate the observations made by W.K.H. Campbell and should apprehend the reasons for the necessity of Urban Banking as –

1. Prof. Campbell refers the financial worthiness of the salaried class, that wherever emergencies arise and that demands unexpected borrowings not
from any others but from money lenders on most unfavorable terms makes them heavily and hopelessly indebted. Hence there must be UC Banking for salaried class.  

2. Besides protecting the middle classes and men of modest means from the clutches of lenders money or indigenous bankers, the emergence of urban banking is expected to inculcate the habit of thrift and saving amongst them and provides frugal section of the society an opportunity of investing their saving, and thus helps the hard pressed people tide over the period of stress and strain.

The great depression of the thirties did not have any great impact on the development of Urban Co-operative Credit movement in the country mainly because of the fall in urban incomes. Later the economic boom created by the World War II (1939-45) provided a stimulus to the growth of urban banks in India. Another contributory factor was the managerial efficiency and its availability to offer large resources which made the UCBs to develop in the country. They grew not only in number but also in size, diversifying their activities considerably. They were called upon to take up new avenues such as financing of artisans, small businessmen and small traders for productive purposes in the context of hesitancy of commercial banks at that time to meet the credit needs of these classes due to high cost of servicing of loans.

Thus the emergence of Co-operative Credit Society Act provides the very base for the credit societies at rural and urban areas. Later they were termed as banks but up to 1939, the term ‘Bank’ was loosely used by many societies and there was hardly any distinction between an UCB and an Urban Credit Society. After the War many committees and study groups highlighted the indispensability of UCBs to tap the urban savings for mobilization. It is to be noted here that the surplus resources of the community through UCBs with ultimate goal of canalization of such funds for productive investment cannot develop by leaps and bounds. Hence there was the utmost necessity of UCBs in the Indian economy.
As against this background, an attempt has been made to discuss very briefly the structure of co-operative banking in India.

The structure of Urban Co-operative credit is pyramidal or federal in character. At the bottom, at the village level, there is primary credit society under the broad base of Agricultural Credit Society. There is at the base at the urban level UCB under the broad base of Non-Agricultural Credit societies. Upon these two at the lowest levels the whole edifice of co-operative credit is based. These societies are federated at the district level with District Central Co-operative Banks. The Apex or State Co-operative Bank in its turn is closely linked with the NABARD which provides considerable financial assistance to all co-operative credit structure as a whole. However, the UCBs and employers co-operative credit societies, at the bottom are no doubt the primary Non-agricultural credit societies and, they are connected to District Central Co-operative Banks and these to state Apex Co-operative Banks. There are, in addition, a few industrial banks operating in the state or district level. The following chart No. I brings out the structure of the co-operative banks.

It is a merit of this setup that though the different institutions at different levels are connected with each other by the bond of affiliation, they are different from the point of financial and legal terms. Their specific purpose justifies their existence as an independent unit. But together all constitute an effective machinery of supplying and supplementing financial resources either internally or borrowing from outside. Accordingly, these assist in supplying credit in the quantity required, supervise its use, affecting its recovery on the due dates. The institutions are different at different levels and are independent legal entities and imply that the whole strength of the chain depends upon the strength of each of the links.\textsuperscript{10}

Dr. D. R. Gadgil, who presided over the study group of the National Credit Council, has stated that –

\textquote{\textquoteright}The co-operative banking system is an integrated one and because of its three-tier system, has been enabled to extend credit to agriculturists artisans and small men in general And this structure allows a rationalized flow of
financial resources from the metropolitan centres to villages and urban and thus combines this with fairly low costs of operations".\textsuperscript{11}

\textbf{CHART NO. I}

\textbf{CO-OPERATIVE CREDIT STRUCTURE IN INDIA}

\begin{itemize}
\item Agricultural Credit
  \begin{itemize}
  \item Short-Term and Medium term Credit
  \item State Co-operative Credit Banks
  \item Central Co-operative Banks
  \item Primary Agricultural Credit Societies
  \end{itemize}
\item Non-Agricultural Credit
  \begin{itemize}
  \item Long Term Credit
  \item State Co-operative Banks
  \item Central Co-operative Banks
  \item Primary Non-Agricultural Credit Societies
  \end{itemize}
\end{itemize}


It is to be noted here that the urban co-operative banks have some different objectives than that of rural credit societies.

Urban co-operative Banks are the organizations unlike any other form of organizations; they are one of the most widely distributed geographically in our country. “In fact there is no other instrument as potentially powerful and full of social purpose as UCBs. These easily resolve the conflict of interest between the lenders and the borrowers, as all of them are the same persons”.\textsuperscript{12}
The UCBs are based on certain principles, values and ethos. They serve both social and economical activities on the clear understanding that those who generate resources have the right to own and control the institutions. The distinctive objectives of UCBs are to be pointed as under.

1) UCBs generally encourage thrift, self-help and co-operation among members of urban residents.

2) These mobilize the deposits and utilize for loans to members for productive and consumptive purposes. They act as agents for the joint purchase of domestic and other requirements of members.

3) They aim to undertake collection of bills drawn, accepted or endorsed by members and constituents to rediscout cheques and bills of approved members subject to rules and bye-laws in this behalf.

4) They arrange for the safe custody of valuables and documents of the members and constituents.

5) They carryout instructions for periodical collection, remittances of members and depositors. These act as an agent for the collection of values.

6) They offer all other banking facilities normally provided by the commercial banks.

7) Finally, they prepare and finance schemes for amelioration of the economic conditions of the weaker sections of the community. They also aim to provide mutual benefits to the members at low cost and to uplift economically weaker sections of the society without any outside aid.

It is therefore important for a prudent banker to adopt and adapt the objectives discussed above in order to maximize the income of the bank and benefits of the members within the frame work of decided policies and norms.

SECTION – II

After having studied the important features of UCBs, an attempt is made to discuss the distinction between commercial banks and urban co-operative banks in the succeeding paragraphs. The UCBs have matched the commercial banks with respect to banking business. There is complementarity within the co-operative banking, but competition between the co-operative and
commercial banking system with respect to the mutual services, principles, objectives, structure, management, rate of interest, lending mode, procedures of sanctioning and disbursing loans, system of auditing and of course the deposit mobilization is there. The co-operative banks observe banking principles as much as scheduled commercial banks. Though, banking is a business and every prudent banker has to observe banking principles, one must not overlook the frame-work in which the urban co-operative banking sector is fitted from the beginning. The UCBs are treated on par with commercial banks; since the application of Bank Regulation Act of 1949 and more applicable from 1966 1st March where several provisions were added. Supervision and control of RBI over UCBs has increased. On 8th August 1988, RBI issued a notification to include UCBs in the Second Schedule of RBI which are having the time and demand liabilities above Rs. 50 crores. In September 1993 the limit of deposits for scheduling was raised to Rs. 100 crores.

This is the main reason for treating UCBs as commercial banks. However both the banks borrow and lend money on certain terms and conditions. It is interesting to see the difference between UCBs and commercial banks.

The following chart No. II throws light on the differences between both banks.

| CHART NO. II |
| DISTINCTION BETWEEN CO-OPERATIVE BANKS AND COMMERCIAL BANKS |

<table>
<thead>
<tr>
<th>Co-operative Banks</th>
<th>Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Based on co-operative principles.</td>
<td>1. Based on banking principles</td>
</tr>
<tr>
<td>2. Service is the motto</td>
<td>2. Profit is the motto</td>
</tr>
<tr>
<td>3. Based on the principal of Mutual Service</td>
<td>3. No mutual help</td>
</tr>
<tr>
<td>4. Assistance to persons and members is given much importance</td>
<td>4. Capital is given much importance</td>
</tr>
<tr>
<td>5. Registered under Banking Regulation Act.</td>
<td>5. Registered under Banking Companies Act.</td>
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<tr>
<td></td>
<td></td>
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<tr>
<td>---</td>
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</tr>
<tr>
<td>6.</td>
<td>High rate of interest on deposits and low rate of interest on lending.</td>
</tr>
<tr>
<td>7.</td>
<td>Form a three tier federal structure.</td>
</tr>
<tr>
<td>8.</td>
<td>State participation in share capital</td>
</tr>
<tr>
<td>9.</td>
<td>Management is carried out by honorary people</td>
</tr>
<tr>
<td>10.</td>
<td>RBI grants loans to these at concession rates.</td>
</tr>
<tr>
<td>11.</td>
<td>Advance mainly for agricultural and it allied operations to the member’s economically weaker sections landless laborers and Smaller percentage to traders</td>
</tr>
<tr>
<td>12.</td>
<td>Lending is linked with productive purpose, repaying capacity and honesty of the members.</td>
</tr>
<tr>
<td>13.</td>
<td>Managing committee sanction the loans</td>
</tr>
<tr>
<td>14.</td>
<td>Managing committee and paid staff are responsible for collection of over dues</td>
</tr>
<tr>
<td>15.</td>
<td>First persuasion method is followed. Then Demand notice, registered notice, arbitration and last execution</td>
</tr>
<tr>
<td>16.</td>
<td>System of Audit and Inspection is done by Dept and institution Now RBI has undertaken the inspection.</td>
</tr>
<tr>
<td>17.</td>
<td>Area of operation is restricted</td>
</tr>
<tr>
<td></td>
<td>6. Follow the principles of liquidity/profitability and safety</td>
</tr>
<tr>
<td></td>
<td>7. No such structure but have link with RBI</td>
</tr>
<tr>
<td></td>
<td>8. No state participation</td>
</tr>
<tr>
<td></td>
<td>9. Highly paid and well trained staff undertaking the management</td>
</tr>
<tr>
<td></td>
<td>10. No such concession is allowed</td>
</tr>
<tr>
<td></td>
<td>11. Finance only to trade and commerce, but smaller percentage to agriculture</td>
</tr>
<tr>
<td></td>
<td>12. Purpose is not watched. Only Tangible security</td>
</tr>
<tr>
<td></td>
<td>13. Manager himself sanctions the loans up to certain level</td>
</tr>
<tr>
<td></td>
<td>14. Collections are expected automatically</td>
</tr>
<tr>
<td></td>
<td>15. They have to go to the court of law</td>
</tr>
<tr>
<td></td>
<td>16. Audit is done by the private auditors by the banks itself; RBI also undertakes the inspection through its auditors</td>
</tr>
<tr>
<td></td>
<td>17. There is no such restriction</td>
</tr>
</tbody>
</table>
The above chart gives a clear outline regarding the difference between UCBs and commercial banks.

Both of them have different starting points. Co-operative credit has a history of more than 100 years or 10 decades, whereas commercial banks are still groping in search of a compact and well-knit policy. Their modus operandi is different; UCBs have survived even while paying very little attention to their banking functions of attracting deposits. But no commercial banks can survive even for a day if this is not paid attention to. The foregoing analysis briefly deals with the areas of friction between UCBs and commercial banks.

There are many areas of friction between commercial banks and co-operative banks; one of them is caused by the entry of commercial banks to agricultural credit and competition in deposit mobilization, which hampered the very co-operative banking structure. Proper safeguards must be devised to prevent this drift. In other words, appropriate measures have to be adopted to safeguard the interest of UCBs.

Basically, commercial banks operate on the principle of maximum investments [Profits] with minimum risks which naturally leads them to operate among more affluent and creditworthy people. In addition to this, the centralized control and scientific management would provide commercial banks an operational superiority. On the other hand, maximum benefits [Services] to the maximum number of people are the watchword of co-operative institution. Democratic control and the difficulties in introducing scientific management weaken the competitive power of UCBs. Therefore, the operational optimum of a UCB would always be achieved at a little lower level of economic activity than that of commercial banks.

The Keynesian twin factors namely, Income and Expenditure leading to Savings and Investments may not be fully applicable to a developing economy like India. Saving consciousness and saving habit have to be taken into account, while computing the saving potential of the economy, more so in an underdeveloped country. This approach would be practical only in an economy where people are conscious of the benefits of savings and productive
investments. While agreeing with this fact, the size of the income is one of the important economic factors determining the volume of savings. Thus saving habit is no less important a social-psychological variable. Thus the saving habit of our people of rural/urban/semi-urban/sub-urban is quite discouraging and it would take a long time to develop this habit. People in the lower income groups do not save at all. On the contrary they run into debt. But commercial bank would select the clientele from higher saving group of people. Their operation is restricted to urban and metropolitan areas as well as industrial and commercial centres. They depend on their own resources and deposits and very little on borrowings from RBI. Providing facilities and incentives to attract deposits is a technique developed very well by commercial banks on the other bank, UCBs would take decades to catch up with them because the deposit mobilization goes with two important variables, namely – one the saving habits and the other operational efficiency. The people who would really come under the scope of borrowings have the highest financial investments in the bank deposits. A deposit mobilization is one of the major functions of our commercial banks and they have naturally an edge over co-operative banks.

The commercial banks would be too happy to compete with co-operative banks in the field of deposit mobilization in rural/urban sector which was hitherto monopolized by co-operative banks. UCBs enjoyed a near monopoly position in supplying institutional credit for a long time; whereas the commercial banks had to work in an atmosphere of competition. Moreover, commercial banks have to character a new course in this novel field of operation, for UCBs it is all seen.

But the comparison between the two is not just an exercise in futility; it is in many respects a meaningful exercise. UCBs are and have been the eldest brothers, the SBI comes next, commercial banks still later. It is quite natural for younger institutions to seek guidelines from the eldest brother. Each has to compare and compromise one’s achievements with others. Each must understand where others have erred.

A clear comprehension of the defects of the co-operatives and other institutions might pave the way for the evolution of a suitable policy. A
constant searching and researching of heart is necessary to keep pace with the dynamics of financing. In this important sense, the comparison serves the useful purpose.

There must be coordination and co-operation between the two. This can be better explained as below. Suppose the total credit requirement of households in the country is well over Rs. 1,000 crores of which 25% is being met by co-operatives, the remaining 75% is met either by money lenders, traders, relatives and friends or partly by commercial banks. The co-operative credit is disbursed in such a way that only partial requirements of the maximum number of households are tried to be met. Therefore the people who borrow from co-operative banks are always obliged to borrow again from other sources to meet the remaining requirements.

Therefore, the commercial banks in the first instance would be inclined to follow the prevalent investment pattern in planning their advances. At the same time the creating of advancing has always been safe and profitable for both the credit institutions, of course within the legal frame work. Thus these must be built in safe measures for both commercial banks and urban co-operative banks.

The above analysis gives a clear picture regarding the dominance of commercial banks over UCBs in day to day banking activities. Suitable measures are necessary to rectify the above mentioned problem. However, it is interesting to note that the UCBs have certain privileges over commercial banks.

As noted earlier, there must be coordination and co-operation between the two, i.e., between co-operative banks and commercial banks. But then the differences make them two different financial units or agencies. Above all, there are certain privileges, advantages or immunities given to the UCBs over the commercial banks. This implies that UCBs in general, possess certain privileges. They are as follows.
1) **Rate of Interest (RI):** Deposits form the main sources of finance of the banks. In a similar way the deposits of the UCBs also occupy an important place. Hence, they are attracted by paying more rates of interest, which range
from \( \frac{1}{2} \% \) to 1\% more than the deposits of any other banks. The UCBs charge less on loans and advances. Contrary to this, commercial banks lend only at a high rate of interest.

2) **Cash Reserve Ratio (CRR):** It is an accepted fact that in every country commercial banks keeps a certain proportion of their cash reserves with the central bank, because of legal requirements or banking traditions. This is mainly a means of promoting the liquidity and the solvency of the commercial banking system. The theory underlying the CRR is that by changing the CRR, the Central Bank can cause changes in the free or excess cash reserves of the commercial banks. Thus whenever the economy is confronted with certain abnormalities the CRR can be increased or decreased during inflation or deflation respectively. This CRR is fixed at 3\% minimum of TDL [Time and Demand Liabilities] for UCBs. But in case of commercial banks it is varying from time to time, but it is definitely more than that of UCBs.

3) **Statutory Liquidity Ratio (SLR):** The commercial banks in addition to the minimum cash reserves with central bank a certain portion of their deposits in liquid assets, such as cash excess cash reserves with the central bank, balances with other banks in current accounts and govt. and other approved societies, must be maintained, by law. These are called secondary or supplementary reserves and the proportion of these reserves to the total deposits is known as SLR. It is fixed at 25\% of TDL of UCBs. But for commercial banks, it is fluctuating and definitely it is more than that of UCBs. SLR restricts and regulates the lendable funds in the hands of the banks and thus regulates credit flow to various economic activities.

4) **Tax:** The greatest liberty that the UCBs are enjoying is they are exempted from the payment of taxes on the interest income accrued and on the profits as well. No such exemptions are given commercial banks.

5) **Priority Sector Advances:** The central bank of India has issued guidelines to banks for canalizing the credit flow to key segments of the economy, called priority sectors, with regard to this circulars also exhibit that UCBs should achieve a target of 60\% of their total advances for priority sector lending, atleast 25\% or 15\% of the total advances should have been advanced to weaker
sections, i.e., SC/ST/Women at regular Rate of Interest. As against this in case of commercial banks only 40% of the advances are to be for priority sectors at a concession rate of interest.

This analysis brings us to the conclusion that, the UCBs have certainly some privileges over commercial banks.

This clearly shows that the UCBs have certainly some edge over commercial banks. This would indicate that the UCBs in the country have come of age and have exhibited its capacity to undertake and discharge the stupendous function of dispensing credit to various sectors. The nation has recognized UCBs as the ideal hope in one for this purpose, and steps will be taken that the UCBs are so recognized and strengthened that they are fully equipped to discharge the growing responsibility put on them, in an efficient manner.

SECTION - III

In this section an attempt is made to analyze the significance and role of UCBs in Indian economy in general and in urban development in particular.

The non-agricultural co-operative credit societies and the UCBs are the economic organizations and differ from other type of concerns namely agricultural co-operative societies, in so as they keep their doors open and allow every person to obtain the benefits of bank. There is amalgamation and harmonization of interests of all people which leads to enjoy the fruits mutually. The co-operative principles which enshrine the objective of growth with social justice had come to play an important role by organizing the people voluntarily to meet the demand of essential supplies and credit requirements. In this way credit co-operative institutions were organized to mobilize the financial resources from rural, urban and semi urban strata of the society to provide credit needs of the people at grass root level of the society.

The frame work of the joint stock bank or non-co-operative banks and the UCBs is more or less the same. Both borrow money to lend it to others and earn profits and cover their expenses. In order to perform these functions, there must be huge funds necessary for these banks at their disposal, and banks act as reservoir of capital. The savings of the people are deposited and are mobilized
and the loans are given for investments to those who are able to make profits out of these loans. Thus the banks are the creators of money. They work with others money but with their brains. One common characteristic of these banks is that “they mobilize small and scattered savings of the people, they promote the habit of thrift and saving among the poorer sections of the community and for this reason they accept deposits of even very small amounts and place restrictions on the number and the amount of withdrawals. They keep only a small portion of their deposits in hand for meeting the withdrawals of the depositors and invest major part of their deposits on securities. This is popularly called the liquidity and profitability of the bank”. Hence, the capital formation undertaken by these banks by attracting savings, deposits and credit is given to those who are found able to show better and profitable use of loans for the benefit of all.

Over the last one hundred years, (1904-2004) co-operatives have made substantial contribution to the country. However, in the history of Indian co-operative movement and particularly in the field of co-operative banking, Urban Banks occupy a pivotal position and have really played a vital and a strategic role. They are not only striving in meeting the consumption requirements of small men, but also in increasing the industrial production and also trying very hard in strengthening the base of infrastructural facilities in urban and semi-urban areas by providing the key factor as well as input, i.e., CREDIT. Withstanding their achievements and their phenomenal growth UCBs are connected with several financial functions which made them serve as a countervailing power to other private financial sector enterprises and there by safeguard the weaker sections against some unfair practices.

The introduction of co-operative societies Act in 1904 marked the beginning of a movement in India. The co-operative banking has become an integral part of the present banking system in India. “Urban co-operative banks are popular banks of India, playing a significant role in the non-agriculture credit structure, co-operative banking structure and in the Indian banking system as a whole”.

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An important and vital issue in the development process relates to the provision and delivery of credit to the poor, artisans and weaker sections. They could come out of their poverty and misery through meaningful productive activities for which the credit help is inevitable. It is impossible for the poor to produce any tangible security to offer to the commercial banks and the banks always refuse to give them credit. Since they could not get credit because they are poor and remained poor. Therefore there should be greater availability and flow of credit sought to be achieved through the UCBs.

UCBs have come a long way in the history of Indian economic scenario. UCBs were originally organized with particular aim of promoting the habit of thrift and savings among the lower income groups and grant finance to fulfill the needs of consumption only. But with the passage of time UCBs have assumed somewhat different significance. In the changed context, UCBs are now an integral part of the banking system and the calculations in this regard made them an ingredient for attainment of socio-economic objectives as embodied in our ambitious Five Year Plans. The latest plan recognizing the vitality and validity of co-operative credit banks has observed “that these have successfully designed and implemented and have contributed towards improving access to public”.

These banks are highly self-reliant, strong and noteworthy, in the matter of helping the poor and the weaker sections. By caring these masses with credit, UCBs are bound to work for achievements of national objectives and priorities. The main aim of planned economic development is growth with social justice which restores economic equality of income and wealth. Towards this end, the network of banks in India including UCBs is required to lend increasingly for productive investments which will generate income and additional employment. In view of these goals UCBs have to ensure that their financial operations and exercises are oriented.

UCBs are local institutions. They are invariably interested in the development of local area and local people hence; they are playing an important part in mobilizing local peoples for purposeful productive activities to the targets as per the state or central plans.
UCBs thus are the principal and basic financial institutions and have a special significance in the financial system of the country. According to the Narsimhan Committee Report - "these promote banking habits among low and middle income groups, collect local savings, provide loans to persons of limited means, small businessmen, small traders, retailers and small artisans". UCBs are primarily the institutions of the small persons, by the small persons and for the small persons as they are based on the democratic principles. These are always considered as small man's bank and the small are always beautiful.

UCBs have limited resource base at their disposal as compared to the nationalized commercial banks. The area of operation is also very limited. However, with their people/members who associate voluntarily on the basis of common economic interest encoded in the bye-laws, knowledge of local needs, mutual understanding of members are in a place to play a pivotal role in eliminating the credit gaps in the country.

Urban banks alone in the co-operative sector on co-operation principle are built up on their own strength. They are really appreciable due to selflessness of the cooperators engaged in the banking business. "The jurisdiction of the existence of UCBs lies in their functions of mobilizing small and meager savings from the small people to meet their immediate consumption and production requirements".

The Banking Commission of 1972 has also rightly pointed out the usefulness of UCBs in financing of house construction and repairs for members of the bank, which is also the exercise of the bank. One of the salient features of UCBs is that they are self reliant. They depend on their own funds and deposits. The reliance on outside borrowing is very low or negligible.

The women UCBs, entirely managed by women, are playing a very dynamic and significant role in the urban credit delivery system. The establishment of Mahila UCBs (Self Help Group) is a recent and bold step. The Madhava Das Committee on UCBs in 1977 recommended that formation of Mahila Banks should be encouraged. In 1992 Marathe Committee also suggested the continuation of the working of women UCBs. The women UCBs are meeting the financial needs of the women exclusively and are
helping to increase the income and living standards of their families. The deposit mobilization credit deployment, profitability and operational efficiency are eventually considered and take in care by women UCBs.

After discussing the significance of UCBs an attempt is also made to discuss the role of UCBs as pointed out by various committees on banking sector developments reforms.

Urban Co-operative Banks' with their intimate knowledge of the local economic and financial problems are able to plan for healthy development of urban areas. They are doing tremendous service to urban and semi-urban population. The activities of UCBs are growing in volume and dimension to suit the changing circumstances and the needs of the customers. UCBs were setup with the avowed objective of promoting sustainable banking practices amongst a relatively specific target clientele, viz. the middle income strata of the urban population. They were brought under the regulatory arbit of RBI by extending certain provisions of BR Act of 1949, effective from March 1st 1996. At the end of March 2000, 2050 UCBs were functioning in India with a deposit of Rs. 56,267 crores.21

Since the Nationalization of major commercial banks in 1969 July 16th direct competition was introduced. As a result of this competition the UCBs are able to improve their original structure, quality of service to customers and managerial efficiency. Though the process is incomplete these banks are striving to improve their operational performance and efficiency.22

The importance of UCBs was first recognized categorically by the Maclagan Committee on Co-operation in 1915. It pointed out that “Urban Credit Societies might serve a useful purpose in training the upper and middle urban classes to understand ordinary banking principles”.23 A decade and a half later, the Indian Central Banking Enquiry Committee in 1931 rightly pointed that. – “The duty of these urban banks should be to try to do for the small trader the small merchant and the middle class population what the commercial banks are doing for the big trader and big merchant”. 24 It clearly reveals that these UCBs are playing vital role in promoting trading activities among poor. Similarly another committee, known
as the Co-operative Planning Committee [1946] recommended some measures for healthy development of UCBs in the following way. “Joint Stock banks are not interested in developing business of small loans, because the cost of advancing and recovering them is high. Further as Joint Stock banks are not likely to have under ordinary circumstances full and intimate knowledge of the standing and resources of persons of moderate means, they will not advance on personal security. On the other hand, there are, in urban areas numerous persons of small means like traders, merchants, artisans, factory workers street hawkers, motor and lorry drivers, who resort to money lenders and similar agencies for small loans and obtain them at high rates of interests. UCBs qualify by establishing personal and intimate relationship with people of this class as the most suitable agencies for serving their credit needs”.  

It is interesting to note here that the recommendations of the above committee are still applicable to co-operative banking in modern India. All recommendations are very important from the view point of urban business and trading activities.

The Rural Banking Enquiry Committee [1950] also commented on the vital part that the UCBs could play in extending financial facilities. The committee observed that UCBs, which were established in many towns in Bombay and Madras, would be able to provide facilities both to urban people and individuals in the nearby rural areas. They can even go up to the places of taluka towns, for their low cost of establishments.

The main purpose of UCBs is to achieve socio-economic development of the economy. Increasing income and employment, increasing productive capacity of the people, stimulating the tempo of production, etc. all should be provided with adequate and timely credit; without credit, there is no development. In this connection, the United Nations publications have stressed the fact that need for credit must be available in adequate amount and at appropriate cost. Realizing this importance, to study the structure and the extent of the need of the credit in India, RBI appointed All India Rural Credit Survey Committee under the chairmanship of Shri. A. D. Gorwala in August 1951. The said committee stated – “The share of the institutional credit is
consisting of governments, UCBs, commercial banks and the share of non-institutional credit comprises of professional agricultural money lenders, relatives, friends and others”.

It speaks the credit requirements of the people and number of agencies providing the credit. Further, planners in India attached more importance to UCBs credit for the development of small scale industries.

The sub-committee set up by Small Scale Industry Board in 1956 to consider the question of channeling loans to small scale industries through UCBs observed that – “The supply of credit by all existing institutional agencies is not adequate to demand and the proposal for utilization of UCBs for channeling loans to small-scale industries has to be considered”.26

The Board rightly pointed out the role of UCBs credit in the development of small scale industries in urban areas. It is to be noted here that RBI has also made huge efforts for development of UCBs in India. For example, an important development in urban co-operative banking was the survey undertaken by the RBI in 1958-59 with the object of studying the pattern of financial resources of urban banks, part played by them and the factors underlying the success or failure in their performance. The report on the survey of UCBs published by RBI in 1961 observed that – “........ while much attention had been paid to the promotion of agricultural co-operatives, industrial co-operatives and various other types of co-operative societies, similar importance had however not been accorded to urban banks.27

From this observation, it is clear that the survey identified the various reasons for the poor performance of the UCBs. Hence, it was necessary to make some concrete suggestions and an assessment to be made to establish the urban banks in new centres and in different parts of existing cities and towns. In this regard, the survey suggested following measures:

1) Active efforts should be made by the management of urban banks to expand their membership.

2) Urban banks should diversify their financial functions and activities by adopting a progressive attitude towards their members.
3) UCBs should undertake a wide way of loaning policies that should be suited to the needs of the different categories of members.

4) UCBs should always keep in mind the removal of non-credit activities of the trading type, improvement of the accounting and operational managements and reduction and avoidance of over-dues, which will take the working of UCBs on sound and efficient footing.

5) Though UCBs are termed as commercial institutions their role must be service oriented. They must buildup continuous good relations with members and must undertake publicity so that all members will come to know the working conditions of the banks.

6) The survey emphasized the fact that the co-operation of the state governments is very much essential for audit, inspection and supervision of UCBs.

The report on the survey of UCBs thus observed the general picture of Urban Co-operative Banking, which emerges out of the study conducted in 1958-59. This is one of a fairly widespread, financially sound, expanding and useful frame work of banking institutions which have their own place of importance in the banking structure of a large part of a country.

According to the study group on credit co-operatives in the non-agricultural sector, appointed by the Government of India, under the chairmanship of Shri. U. P. Varde in 1963, UCBs have an excellent role to play in several fields including the following –

1) First and foremost, they can organize and bring together middle and working classes in urban and semi-urban areas.

2) By providing credit on reasonable conditions to the middle classes and people of small means, they can rescue them from the exploitation of money lenders who charge exorbitant interest.

3) By financing individual industrialists and artisans in urban and in semi-urban areas, they can make a record contribution to industrial development.
4) The mobilization of savings by UCBs and consequent drawing of urban financial resources into Apex and Central Co-operative Banks, which are in need of funds to cater the needs of the rural, industrial and other functional co-operatives can contribute substantially to general economic development.

5) The most fascinating aspect of UCBs is that they can provide intelligent, experienced and active leadership to the co-operative movement. This helps the central and apex co-operatives which are federal in nature, to draw their directors from member institutions.28

The study group on credit co-operative in the Non Agricultural sector (1963) also recommended that the lending policy of urban banks should be more imaginative and in keeping with the general programmes of economic development. In other words, it should be production-oriented and related to the other to the repaying capacity of the borrower rather than the security. The study group added that in view of the usefulness of urban banks to people of small means, these should be organized in all towns. In every town with a population of over 1 lakh, the possibility of organizing additional urban banks may be considered.

The Government of Tamil Nadu has appointed a committee on Co-operation, under the chairmanship of Shri. K. Santhanam in February 1968. It has observed that – “The Non-Agricultural Credit Societies have been significantly successful in attracting deposits and promoting thrift. This sector of the movement has grown voluntarily without special encouragement from the state. The urban banks in the state have recorded steady progress over the years. As observed by the co-operative planning committee [1946] urban banks have proved to be the best suited agencies for meeting the credit needs of the people of small means in urban areas in whom joint stock banks are not generally interested”.

In, 1964, Government of India constituted a committee under the chairmanship Shri. R. N. Mirdha. The task entrusted to this committee was to review the co-operative laws that were existing and to find out the flaws with which the whole working of co-operatives was in the hands of vested interests.
and finally to suggest legislative as well as administrative measures. The committee with great responsibility undertook the task and gave its report in August 1964. This Report contained the genuineness of co-operative credit institutions and the restrictions to the membership. The committee recommended that in order to improve the working of such institutions, auditing must be undertaken solely by the agencies, under the Government control and not connected in any way to the Registrars. In its report we find the setting up of National Co-operative Bank, as an apex of the whole co-operative federal structure. The committee assigned the duty of running the training institutions wholly to the National Co-operative Unions of India and State Co-operative Unions. Thus highlighting the importance of co-operative credit institutions the committee opined that the central and state Governments to come to assist the UCBs.

Thus the committee observed the credit institutions are the most suitable once to protect the small men being exploitation by powerful rich people. Before extending some provisions of BR Act of 1949, the Mirda Committee extensively suggested measures for not only improvement but also for rectification.

The Banking Commission appointed by the Government of India in February 1969, under the chairmanship of Shri. R. G. Saraiya has pointed out that: “UCBs do useful work in mobilizing deposits and financing the sector of small borrowers. Another useful activity is financing of house construction and repairs for members of the banks. Also this type of banking provides a useful avenue for those who have the necessary ability to setup a bank.”

Similarly, the Government of Maharashtra has appointed a committee, on the problems of UCBs in Maharashtra, under the chairmanship of late Shri. V. M. Joglekar. It has commented on the performance of UCBs in the following way – “The performance of UCBs in Maharashtra, taken as a whole, is fairly satisfactory. The sustained growth over the years may be traced to the devoted and selfless management by non-officials. Not only the number of UCBs has increased, but membership, which is a measure of people's involvement, has also increased. Deposits have gone up considerably, the deposits from non-
members are more than those of the members, which is a positive proof of the fact that the UCBs have secured the confidence of the depositing public of urban and semi-urban areas".  

The committee on UCBs popularly known as "Madhava Das Committee" was appointed by RBI in September 1977. It submitted its report on September 1978. The Committee has pointed out that – "Despite various hurdles and limitations, the UCBs have mobilized substantial local resources and striven to serve small borrowers. Accordingly there is scope and need for the development of UCBs in some states. These banks are eminently suitable for filling up the existing credit inadequacies in urban and semi-urban areas at comparatively lower cost of operations".  

This committee dealt in detail with the origin of urban credit movement in our country. Some of the recommendations of this committee in the form of summary include the viability of UCBs, loan policies and procedures of UCBs, role of government, RBI, National and State federations and other recommendations have been presented at the National Convention held in Mumbai.

Similarly in 1991, the committee on Banking Sector Reforms has rightly recognized that the UCBs are an important link in the credit delivery system. The committee headed by Shri. Narasimhan as the chairman has recommended – "UCBs should be brought under the ambit of the Board of Financial supervision. Noted the problem of duality of control in the supervision of UCBs, since UCBs are primarily credit institutions meant to be on commercial lines through dispensing with this duality of control. It should be primarily the task of board of supervision to setup regulatory standards for UCBs and ensure compliance with these standards through the instrumentality of supervision".

The Marathe Committee constituted in September 1991, submitted its report on 20th May 1992. This committee has given its recommendations with reference to – Licensing policy pertaining to the organization of UCBs shall be reviewed periodically say once in five years, the efficacy of present regulatory mechanism which includes the Auditors of the Govt. Depts. who
must be imparted the specific knowledge and skills by suitably training them to get high proficiency in the specified audit work of UCBs and UCBs are permitted by state Govt. to get their audit done by Approved Chartered Accountants in a timely manner, discouraging mushroom growth of weak UCBs rehabilitation of weak banks, supportive legislative amendments to Banking Regulation Act 1949 RBI to have exclusive powers for amalgamation/merger/liquidation/supercession of the Board of the Management directly with respective UCBs, suggests RBI to undertake a comprehensive study to validate the existing criteria for defining sickness and to device quantitative model to predict sickness and also to scale the financial help to review the UCBs. The Committee gave the unison powers to RBI and state governments to improve the viability of the weak UCBs. Prudential lending practices have been very much insisted by this committee. There should be a separate chapter for UCBs and to free the Co-operative Movement from the shackles of bureaucratic control and pernicious influence of political patronage. In total the committee’s approach is to ensure an efficient and viable urban banking structure". 33

The report of this committee has come out with far reaching recommendations and it has primarily aimed at removal of “fetters” on UCBs freedom. The RBI has accepted most of these recommendations and implemented them. The RBI felt to review the performance of UCBs after the introduction of a fairly deregulated regime in 1993 and suggest necessary measures to strengthen UCBs, it has appointed a High Power Committee headed by K. Madhava Rao, the Governor of RBI in May 1999. The observations by this committee are as follows: “To recognize strengths and weaknesses required an external agency to safeguard the interests of the depositors, only efficient and financially sound banks must be licensed, sickness is not allowed beyond a particular limit, RBI has the responsibility to ensure UCB sectors functioning in a healthy manner, Dual control must be replaced by unitary control where as the co-operative character of UCBs may be controlled by the Registrar of co-operative societies, its banking functions must necessarily be under the sole control of RBI. The clientele classified
under Priority Sectors and the committee recommends that the target of PSL as presently prescribed for UCBs need not be revised. 

These observations were made to focus particularly on the entry point prescriptions, proliferation of weak banks and the implementation of prudential norms. The Government of India/RBI constituted these three committees during the period between 1977 and 1999; they assessed the role of these banks, their potentialities for growth, their innate qualities for rendering good customer service, the role to be played by central/state governments, RBI, State Co-operative Bank in ensuring the viability of UCBs and also the necessity of these banks in financing SSI. Priority sector needs and other sections of urban populace, who depend mostly on these credit outlets.

UCBs became the targets of attack since early 2001, in as much as many irregularities which surfaced, in the states at Maharashtra, Gujarat, Andhra Pradesh, Uttar Pradesh etc. shook the confidence of the people. In order to find the real reasons for such problems and also to suggest measures the Government of India constituted a committee under the chairmanship of Shri. Anant G. Geethe, the then minister of State for Finance. The committee was given the task to submit recommendations, keeping in view the interests of depositors and the integrity of the financial system. The committee classified UCBs into different grades on the basis of certain norms and classification of UCBs as weak and sick was given up from 31st March 2002. The new system of grading was introduced based on their level of CRAR, level of net Non-performing Assets (NPAs), record of losses and compliance with certain regulatory requirements. The committee also suggested the Action Plan for revival of Banks in Grade III and IV. The progress achieved in revival of UCBs may be reviewed by state level review committee.

The UCBs sector has witnessed phenomenal growth in terms of size, and volume of operations and the quantum of public deposits held by it. Hence expert committees had examined the role assigned to UCBs and the regulatory issues related to them. All committees provided a well documented study of Urban Banking sector in India and set standards of viability for sustained growth of urban banks.
100 years have passed since the inception of the co-operative credit institutions like UCBs, in our country and since then they have rendered exemplary service to rural and urban upliftment. The Narasimhan committee on banking sector reforms, 1998 upholds the inevitability of the UCBs in the Indian financial sector, thus: "2 or 3 banks with an international orientation and 8 or 10 large national banks should take care of the needs of the large and medium corporate sector and the large number of small enterprises, there will still be need for a large number of local banks, which should be appropriately be confined to smaller geographical regions, states or cluster of districts. These third tier banks should appropriately serve the needs of the local trade, small industry with strong correspondent relationship with large national and international Indian banks". 

In a nutshell, the above discussion clearly indicates the most vital role of UCBs in promoting overall growth of urban areas. These banks identify poor and weaker sections and provide credit to all urban economic activities. The recent study by Dr. Ravi Kadam who has submitted his thesis for a Ph.D to the Karnataka University, titled – “Performance of Urban Co-operative Banks a Case study of North Karnataka” proved that “urban co-operative banks promoted all economic activities in northern part of Karnataka".

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