Chapter Two
Chapter Two

Evolution and Growth of Urban Co-operative Banks in India and Karnataka

Sir Henry Stark had advocated in 1883 the introduction of co-op credit system in India, on the European model and after four year's, Sir Raymond West renewed the plea. The Government of Madras was first to grasp the possibilities of the co-operative movement in India and appointed, in 1892, F. H. Nicholson as the special officer to study the theory and practice of the co-operative movement in Europe, with special reference to the organisation of co-op credit in Germany, and to suggest means for its introduction in India. In his two reports issued in 1885 and 1897, he gave exhaustive information about the development in Europe, and recommended the model of Raiffeisen Societies. His emphasis was, however, on the man whom they had discovered and not on the system and therefore ‘Find Raiffeisen’ was the crux of his advice.

The Madras Government decided to setup two village banks as an experiment; but the Bombay Government was not enthusiastic about his recommendations. At the same time the states like UP, Punjab and Bengal started co-op societies in the absence of special legislation, either under the Societies Registration Act or The Company Act. The first experiment in Urban co-operative credit was made in the then Baroda state on February 5, 1889,
Prof. Vithal Laxaman alias Bhausaheb Kavathekar arranged a dinner at his residence in Baroda and the party ended with the decision to setup 'Anyonya Sahakari Mandali' with the object of promoting thrift and providing relief among Maharashtrian residents in Baroda city. The 21 Maharashtrians attending the dinner became founder members on the spot by agreeing to subscribe at least Rs two each month. It was the mutual aid society of subscriber members. Its funds were deposited in the postal bank, and it had no assistance from the Baroda state. Inspired by the experiments in the Baroda state such voluntary associations, for the twin purposes, were setup in the Bombay Presidency by public spirited men without Government assistance.

Following the success of the urban credit institution's organised by Herman Schultz in Germany and Luigi Luzzatti in Italy during the period of 1855 to 85, some middle class Maharashtrian families, settled in earst while Baroda state, started a mutual aid society. Presently it is named as the Anyonya Sahakari Mandali Co-operative Bank Ltd, Baroda.

The First Co-Operative Legislation In India.

The Co-operative Credit Societies Act 1904 provided the stimulus to the formation of the Urban Co-op credit societies. The act classified the societies as rural and urban. A society in which 80 percent of the total membership was agricultural was to be classified as rural and the one, in which 80 percent of the total membership consisted of non-agricultural, was to be treated as urban.
Rural societies were to have unlimited liability but urban societies were free to opt for either limited or unlimited liability.

**Progress of Urban Co-operative Banks in India:**

During the Pre-Independence period. The Co-Operative Credit Societies Act 1904 was to some extent restrictive in its scope, as this act permitted any primary credit society and kept noncredit and federal societies out of its purview. Subsequently, in 1912 another co-operative societies act was passed and it removed many shortcomings in the earlier act and served as a model for subsequent acts passed by various state Governments. The Co-Operative Societies Act of 1912 is the basis of all co-operative legislation in India. It is an amalgamation of well known co-operative principles both credit and noncredit societies.

**Maclagan Committee 1915:**

The development of urban banks received attention in 1915. When the Maclagan Committee referred to the potentialities for the organisation of such societies especially in urban location to meet the requirements of middle class people. The Maclagan Committee, 1915. on co-operatives rightly thought that the urban credit societies should serve the useful purpose of acquainting the middle and upper classes of urban population with ordinary banking practices and transactions. As a result of this change in outlook, many urban credit societies were organised primarily in erstwhile Bombay and Madras Provinces between 1919 & 1938. Thus the Maclagan Report (1915) constituted another
important landmark in the history of urban co-operative credit movement. On the recommendation of the committee the Govt. classified co-operative credit societies into agricultural credit societies and non-agricultural credit societies.

**Banking Crisis 1913 – 1917:**

The banking crisis which existed during 1913-1917 saw the failure of many commercial banks. During this period 90 commercial banks failed with a total paid-up capital of over Rs 2 crores. This failures paved the way for the organisation of new urban credit societies and boom in their activities. Such failure of local joint stock banks in the country at that time gave further impetus to the growth of urban co-operative societies. It was then 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."

**Montagu Chelmsford Constitutional Reforms of 1919.**

In the history of co-operative credit movement an important event took place in the form of political reforms, which was known as Montagu Chelmsford Constitutional Reforms 1919 under which cooperation become a transferred subject. The transfer of the subject of cooperation from the central to the state Government led to the passing of various legislation on cooperation by the state government (then called the provinces) Bombay took the lead and passed its own Acts in 1925. It was followed by Madras (1932), Bihar, Orissa, (1935), Coorg (1936) & Bengal (1940).
The Great Depression of 1930, The world wide economic depression of 1930's severely affected the agricultural credit societies more than the urban credit cooperatives. The progress of Urban societies has been steadily with no ups and downs during depression. The economic boom created by Second World War (1939-45) provided a stimulus to the growth of urban banks in India. They grew not only in number but also in size by diversifying their activities considerably. Urban Co-operative credit societies which had hither to largely confined their loaning operations to provision of consumption needs of the members was called upon to take up new avenues such as financing of artisans, small businessmen & small traders for productive purpose.

**Post Independence Period:**

The study of progress of Urban Co-operative Banks in post independence period is divided in two periods. First from 1947 to 1966, i.e before application of the Banking Regulation Act 1949 to the Urban Co-operative Banks. Second, 1966 onwards, i.e after the application of the Banking Regulation Act 1949 to the Urban Co-operative Banks. India attained independence in 1947 and adopted the planned way of economic development. At the time of independence, India had 1060 Urban Co-operative Banks. It decreased to 815 in the year 1948-49. Partition of India was partly responsible for this.

During the post independence period, India embarked on a programme of planned development. The co-operation and co-operative institution has
been accepted as an Indispensable instrument for economic planning and as an important medium of regeneration of the country's socio-economic life. During post independence period, there was spectacular growth and prospects in overall financial dimensions of the Urban Co-operative Banks in quantitative terms.

**Progress and Performance of Urban Co-operative Banks:**

An attempt is made in the present section to analyse the overall progress and performance of Urban Co-operative Banks in the country. Table 1 presents a comparative position of Urban Co-operative Banks in 1991 and 2004. The Urban Co-operative Banks have recorded an impressive progress in the last decade. As a result at the end of March 2004, there were 2084 Urban Co-operative Banks has increased by nearly 50 percent during 1991 and 2004 the number of branches/ offices has more than doubled during the same period. A significant number of Urban Co-operative Banks (about 7 percent) still continue to be unlicensed, though the situation seems to be improving of late with the streamling of the licensing policy. About 12.5 percent of Urban Co-operative Banks are categorised as weak and non-viable banks in 2004 as compared to 16.5 percent in 1991.
Table No 2.1 Progress of Urban Co-operative Banks in India

<table>
<thead>
<tr>
<th>SI No</th>
<th>Particulars</th>
<th>1991</th>
<th>2004</th>
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<tr>
<td>1</td>
<td>Number of banks</td>
<td>1,397</td>
<td>2,084</td>
</tr>
<tr>
<td>2</td>
<td>Number of Branches/offices</td>
<td>3,391</td>
<td>7,368</td>
</tr>
<tr>
<td>3</td>
<td>Number of licensed</td>
<td>NA</td>
<td>1,937</td>
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<td>4</td>
<td>Weak/non viable banks</td>
<td>230</td>
<td>261</td>
</tr>
<tr>
<td>5</td>
<td>Women banks</td>
<td>40</td>
<td>117</td>
</tr>
<tr>
<td>6</td>
<td>Scheduled Banks</td>
<td>NA</td>
<td>51</td>
</tr>
<tr>
<td>7</td>
<td>Deposits (Rs Crores)</td>
<td>10,157</td>
<td>93,958</td>
</tr>
<tr>
<td>8</td>
<td>Loan outstanding (Rs crores)</td>
<td>8,003</td>
<td>51,680</td>
</tr>
<tr>
<td>9</td>
<td>Credit Deposits Ratio(%)</td>
<td>78.8</td>
<td>84.6</td>
</tr>
</tbody>
</table>

Source: The Reserve Bank of India Bulletin for respective years.

Note: The figures for women’s Banks are for 1992 and 1999 respectively. The deposit and loan figures are only for reporting banks.

The most impressive aspect of the progress of Urban Co-operative Banks is the tremendous growth that has taken place both with regard to their deposits and advances. The deposits of Urban Co-operative Banks stood at Rs 93,968 crores on March 2004 having grown nearly eight times since 1991. The advances, on the other hand, stood at Rs 51,680 cr as at the end of march 2004 having grown by over six fold since 1991. Interestingly, the Urban Co-operative Banks have recorded a higher rate of growth both in deposits & advances during 1991 and 2004 as compared to commercial banks. Deposits being overshadowed by the recent crises, the Urban Co-operative Banks seem to have really performed better than commercial banks during the decade of reforms (Subrahmanyam 1998). As a result of their faster growth in deposits and advances, the Urban Co-operative Banks are able to increase their share in the total assets of the financial sector. The share of deposits and advances
of Urban Co-operative Banks in 1991 which accounted for 5.1 percent and 6.6 percent respectively in the total deposits and advances of commercial banks as a result has increased to 8.3 percent and 10.1 percent in 2004. At the same time, it must be taken note of that the urban co-operative movement, despite its impressive progress, shows a high disparity in its spread. Only five states, namely, Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu accounted for nearly 80 percent of the banks and 75 percent of the deposits of Urban Co-operative Banks. Only recently Urban Co-operative Banks seem to be spreading to other states. Moreover, of the 2084 Urban Co-operative Banks in 2004, only 51 are scheduled banks which, however, account for nearly 42 percent of the business of Urban Co-operative Banks.

Some of the other notable features of the performance of Urban Co-operative Banks are their thrust on priority sector lending and achieving simultaneously better financial performance. As at the end of March 2000, about 86 percent of the Urban Co-operative Banks had lent 60 percent or more of their loans to priority sector areas (Reserve Bank of India 2001) like cottage and small industries, housing, small business enterprises, retail trade, small transport operations and professional and self employed people. Despite having a much higher proportion of loans under priority sector category, the Urban Co-operative Banks had a relatively lower percentage of their loan as non performing assets (NPA) as compared to commercial banks. As at the end of march 2000, the share of gross NPA in total advances for Urban Co-
operative Banks stood at 12.1 percent as compared to 14 percent for public sector banks (ibid). Further, the Urban Co-operative Banks also had a much higher profitability as compared to scheduled commercial banks. During 1999 – 2000, the ratio of net profit to total assets for scheduled Urban Co-operative Banks was 0.84 percent as compared to 0.66 percent for scheduled commercial banks.

The available evidence on the micro level performance of Urban Co-operative Banks also broadly confirm the above assessment made with regard to the overall performance of Urban Co-operative Banks in the country (Chellappa 1998; Gowrikar 1998; Varkey 1998).

The Banking Regulation Act of 1949 was extended to co-operative banks for the first time from 1st March 1966. The era of dual control of an Urban Co-operative Banks came in to force from 1st March 1966. During this period urban banks developed their banking business by opening their new branches and their deposits and advances also increased rapidly. Along with the introduction of new economic policy, the Reserve Bank of India brought many of the changes. Such as deregulation of interest rate, application of prudential norms, reduction of non performing assets, etc, on the basis of recommendations of committee formed by the Reserve Bank of India.

i) Number of Banks:

The overall trend in number of Urban Co-operative Banks was increasing during the study period, it was 1206 in 1960-67, but increased to
1753 in 1960-67 and 1936 by the end of 1998. The growth of number of Urban Co-operative Banks was almost stabilized from 1983-84. The increase was just ranging from zero percent to one percent. During 2002-03 there were 2070 UCB's in India.

ii) Number of Members:

In 1967-68 the number of members was 28,15,000 which increased to 2.6 crores 1999-2000. There is a wide fluctuation in the growth and prospects of number of membership during the study period; It varies from minimum 15 percent to maximum 24 percent during 1967-68 to 1989-90. The continuous growth of membership indicates that the people have shown interest in becoming members of Urban Co-operative Banks

iii) Deposits:

During 1966-67 the deposits were Rs 160 crores. They increased to Rs 28839.40 crores during 187 1996-97 and to Rs 93958 crores by the end of 2002-03. The increase in deposits was due to efficient working of Urban Co-operative Banks in India. The substantial growth of deposits could be attributed to the efficiency of banks. Personal and close contact between management and customer, and also the 2 percent to 2 ½ % higher rate of interest on deposit paid by banks.

iv) Loans and Advances:

The Loans and Advances at the end of 1967-68 was Rs. 95.85 crores which increased to Rs. 61055 crores at the end of the 2002-03. The Urban Co-
operative Banks cater to the needs of middle class and weaker sections of the society, 65 percent of their advances are given for priority sector and 25 percent of these to the weaker sections as per Reserve Bank of India stipulations. When compared to loans and advances, the percentage of overdues are within the limits. The non performing assets levels of Urban Co-operative Banks are far lower than those of commercial banks.

v) Owned funds:

The owned funds of Urban Co-operative Banks during 1966-67 were Rs. 60 crore and increased to Rs. 5043.45 crores during the 1996-97. Growth of owned funds of Urban Co-operative Banks is due to increase in number of banks and their members. The owned fund increased to Rs. 13769 crores in 2002-03.

vi) Working Capital:

In 1966 – 67 the Working Capital was Rs. 322.00 crores and increased to Rs. 3915.85 crores during 1996-1997 and further increased to Rs. 116023 crores during 2002 to 2003. Today the co-operative movement in the country has grown quite enormous with the number of co-operative societies being about 350 thousand, their membership 15 crores and total working capital of about Rs. 5,00,000 millions. The growth of co-operative movement in the country presents a mixed bag of successes and failures. On sectoral and regional basis, co-operatives have succeeded in some sectors and some regions in the country.
Important Landmarks of Urban Co-operative Credit Sector in India:

i) Urban Co-operative credit sector consists of 2060 Urban Co-operative Banks and over 38000 credit societies spread all over the country during 2001-02.

ii) The membership of Urban Co-operative Banks exceeds 3 crores

iii) This sector is over 100 years old.

iv) It is the only fully self reliant sector among co-operative with no equity participation.

v) Total deposits of the UCBs were Rs 60,000 crores during 1999-00 which accounted for over 45% of the working of funds of the entire co-operative sector.

vi) The Urban Co-operative Banks cater to the needs of middle class and weaker sections of the society, 65% of their advances are given for priority sector and 30% of these to the weaker sections as per Reserve Bank of India instructions.

vii) Inspite of such large percent of small loans, the non performing asset levels of urban banks are far lower than those of commercial banks.

viii) The Urban Co-operative Banks are essentially local area banks; out of 2060 banks (scheduled as well as non scheduled banks) having deposits of Rs 60,000 crores more than 55% of Urban Co-operative Banks are unitary banks.
There are 55 Urban Co-operative Banks which have been given scheduled status by RBI, and account for nearly 50% the aggregate deposits. There are relatively larger banks with deposits of more than Rs 100 crores each, providing all banking services to the customer just as commercial banks.

There are 120 Mahila Urban Co-operative Banks in the country. They are organised exclusively by women and the members who are financed by them are also women. They promise to be very useful medium of economic empowerment of women.

Problem Areas and Measures For Improvement

By and large, Urban Co-operative Banks have given a relatively better account of themselves. They have a local base and are democratically managed. A majority of them are self supporting and do not depend on any outside agency of financial support. They are subject to a dual control over their working

a) by the Reserve Bank of India and

b) by the Registrar of co-operative societies, banking business being covered in the central list and co-operation in the State list, respectively. An Urban Co-operative bank is the primary level unit of the state co-operative banking structure, having been affiliated to the District Central Co-operative Bank and indirectly to the Apex State Co-operative Bank. Many of the Urban Co-operative Banks operate in the
assigned area of operation and do not enjoy clearing house membership. Their guarantee and cheques are also not accepted by the government authorities and many public sector and private business organisations. Due to the restricted area of operation, they cannot offer certain banking facilities efficiently to their customers. In matters of remittance facilities, demand drafts etc. there is lot of delay and the costs involved for the customers are also higher than those of other banks. The concessions enjoyed by the Urban Co-operative Banks are offset by these limitations.

The growth and development of these banks have given rise to certain problems which would demand, in times to come, concerted attention of the Urban Co-operative banking sector as a whole and of these banks individually. Thus, for instance, it is clearly seen that the spread of Urban Co-operative Banks is not uniform in all states. Most banks (60 percent) are concentrated in Maharashtra, Gujarat, Karnataka and Tamil Nadu. Even in Maharashtra, these are mainly located in the Western regions.

It is noticed that there has been indiscriminate registration of new banks in recent years. It was reported that at the end of June, 1984 the number of banks suffering from certain weaknesses in operation was 310 and 78 of them were in Maharashtra. Many shortcomings and irregularities, gross mismanagement, deteriorating quality of loan portfolios, high
overdues and erosion of assets were observed in their working. Some did not comply with the statutory requirements, of minimum share capital and were non-viable. It would be necessary to initiate a time bound rehabilitation or reorganization programme for such banks to lift them up from their weakness. The small and uneconomic size of some of these banks take away their resilience and have made them prone to failure. The norms of viability recommended by the expert committee in 1978 for the Urban Co-operative Banks have now become obsolete in the face of cost escalations. A Urban Banks should be able to meet not only the administrative and operational costs, but also declare a reasonable rate of dividend and strengthen its reserves. As a result of overconcentration of urban banks in certain areas, many types of overlaps have emerged to the disadvantages of the intuitions while there has been no coordination in their operations, leading to serious problems such as duplication of loans and undesirable adjustments.

With growing competition from the commercial and nationalised banks, the relatively smaller urban banks will have to manage their affairs more efficiently and economically while they preserve the co-operative character of their business. This is indeed a difficult task for them to achieve. They have to mobilise deposits in their areas of operation in competition with big commercial and nationalised banks operating side by side. The opinion in official circles as also in general however, still favours
promotion of Urban Co-operative Banks in new urban and semi urban centres to fill the gaps in banking on these counts at comparatively low cost of operation.

Since the area of operations of Urban Co-operative Banks is restricted under the statutory provisions, they are required to operate on a relatively limited basis and at the same time in a severe competitive environment. This calls for a close and continuous attention to various cost centres of their management. There is need for cost reduction in their business management. There are administrative costs and operational costs, covering cost of deposits, cost of advances, cost of collections, cost of establishments etc. A systematic approach to cost reduction would enable these banks to improve return on funds deployed in business. A deliberate cost consciousness will have to be developed among the personnel for the purpose. It will lead to positive advantage for the banks concerned.

The growth of co-operatives in terms of quantity has been phenomenal. But qualitatively it lacks financial strength, autonomy and good democratic and professional management and continues to be heavily supported and controlled by the Government and para statal bodies in many ways. It is characterised by sickness, poor member loyalty and participation. The attitude of common man towards the movement ranges from lukewarm interest apathy, to hostility. After about 90 years of
movement, we are not in a position to say that co-operatives have come of age in our country. The founding father of co-operative movement like the Late Shri Vaikunthhabai Mehta had conceived it to be a “movement of the people for the people and run by the people”. This still remains a distant dream for a majority of co-operatives. The co-operatives are supposed to be a movement of the people. Over the years they have been reduced to being an instrument of the Government for various development schemes. Over the years the Governments contribution to co-operatives by way of share capital, loans, subsidy, incentives and other policy preference has been increasing along the corresponding increase in Government control over the co-operatives. The co-operatives have also developed a tendency to lean more and more heavily on government support instead of being self reliant. Of course the picture is not so gloomy in all sectors particularly in the urban credit sector and the hosing sector where the co-operatives are still self reliant and financially quite sound, not significantly dependent on Government or other institutional support and by and large democratically managed.

There is, therefore, need to restore the co-operative to their independent status. The co-operatives have to become a movement controlled by the people for their benefit, run on democratic lines and managed in business like professional manner. Of late, there has been an effort, again more on the part of the Government, to unshackle and
revitalise the co-operatives so that they form a common dynamic, vibrant and sound economic entities promoting group effort for common economic cause on a footing of “equality free from any form of exploitation: Towards this end, the Government has attempted to:

1) Evolve a National co-operative policy.

2) Modify the legal frame work to make it conducive for co-operative growth and development;

3) Redefine the role of federal co-operatives so that they act as spokesman, friend and philosopher and guide of their constituent primaries and

4) Encourage individual initiative for mobilising local resources to harness the dormant economic potential in the country.

As the first step towards this, the proposed model co-operative act needs to be accepted by the central government for replacing the multi state co-operative societies Act and by the respective state government in place of their existing acts. The proposed Model Co-operative Act is certainly a great leap forward in unleasing the co-operative from government and bureaucratic control. In any parts of the country he kind of co-operative movement which exists today, will not be fit to be called co-operatives at all. The model Act has removed the veto power, the rule making power, power of ordering or postponing elections, power of supersending
the boards of the management of societies and the power of appointing government nominees / administrators.

**Urban Co-operative Banks in Karnataka**

The origin of co-operative credit movement in Karnataka can be traced to the passing of first Co-operative Societies Act of 1904, based on the Friendly Societies Act of England of 1794. The Betgeri Urban Co-operative Credit Society was organised on 18th October 1905 in Dharwad district was the first urban bank formed in Bombay Karnataka area. The Bangalore city co-operative credit society was registered on 18th December 1905.

Growth of Urban Co-operative Banks in Karnataka has been quite significant. This is the first state in India where a separate state level Federation for Co-operative Urban Banks was organised with head quarters at Davangere in 1965 and shifted to Bangalore in 1981. The membership of a federation is open to all primary co-operative banks in the state.

After the reorganisation of states in 1956, the Government of Mysore and set up a committee consisting of officials and non officials to prepare a draft bill for the uniform legislation in Mysore state. The Mysore Co-operative Societies Act, 1959 was drafted and it received the assent of the president of India on 11th August 1959 and it came into force on 1st June 1960.

In Karnataka state there were 302 Urban Co-operative Banks with the state occupying 3rd place in the country as regards Urban Co-operative Banking movement was concerned when the Banking Regulation Act 1949
was made applicable to Urban Co-operative Banks. Karnataka is continuing in the same rank.

The Urban Co-operative banking sector among other sectors of co-operative movement has made committee endable progress in the state and the country. Urban Co-operative Banking has been to greater extent self reliant in the state. The primary aim and objective of this sector is mutual aid and improvement of the economic condition of those who obtained assistance from the Urban Co-operative Banks. Urban banks developed a number of primary units over a span of nine decades catering to the credit needs of the non agricultural sector consisting of urban and semi urban, lower and middle classes, salary earner's, professionals, and those who are engaged in trade and small and cottage industries. The following table provides the details of the growth of Urban Co-operative Banks in Karnataka.

Table 2.2 Growth of Urban Co-operative Banks in Karnataka:

<table>
<thead>
<tr>
<th>Year's</th>
<th>Total No of Banks</th>
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<tbody>
<tr>
<td>1900-1910</td>
<td>13</td>
</tr>
<tr>
<td>1910-1920</td>
<td>43</td>
</tr>
<tr>
<td>1920-1930</td>
<td>65</td>
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<td>1930-1940</td>
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<td>1940-1950</td>
<td>86</td>
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<tr>
<td>1950-1960</td>
<td>107</td>
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<td>1960-1970</td>
<td>169</td>
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<td>1970-1980</td>
<td>207</td>
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<td>1980-1990</td>
<td>213</td>
</tr>
<tr>
<td>1990-2000</td>
<td>300</td>
</tr>
<tr>
<td>2000-2003</td>
<td>302</td>
</tr>
</tbody>
</table>

Sources: Karnataka News, Karnataka State Federation of Urban Co-operative Banks Ltd, Bangalore.
The overall performance of Urban Co-operative Banks has continued to be a satisfactory. However some undesirable regional factors noted by the Madhav Das Committee still prevailed. The Urban Co-operative Banks continued to be concentrated in the five states of Maharashtra, Gujarat, Karnataka, Tamil Nadu and Andhra Pradesh. Together they accounted for 75 percent of total deposit of Urban Co-operative Banks in India. The first two states alone accounting for more than 50% of deposits of the Urban Co-operative Banks in the country.

These banks have advanced 60% of their total loans and advances to the priority sectors, of which the share of the weaker sections is 25%. As on 31.03.2003 the Urban Co-operative Banks in the state have lent 70% of their total advances to priority sectors. Further these banks are assisting the members in preparing technically feasible and economically viable schemes providing their credit needs and ensure that the credit provided promotes productivity.

Because of the licensing liberalisation policy of the Reserve Bank of India, more and more urban banks are being established. In Karnataka particularly, Mahila Co-op Banks have responded well to the Reserve Bank of India policy.

Accordingly, as many as 110 Urban Co-operative Banks have been established till date, of which 25 are Mahila Co-op Banks and the rest are
General Urban Co-operative Banks, Mahila urban Co-op Banks which have been functioning well.

All the districts in the state have been covered with urban banks.

Efforts are on, to establish Mahila Co-operative Banks in all the 27 districts of the state and we have succeeded in establishing Mahila Banks in 19 districts so far.

**Progress of Mahila Urban Co-op Banks.**

<table>
<thead>
<tr>
<th>Sl No</th>
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<th>31.03.2003</th>
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<td>2</td>
<td>No of Branches</td>
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<td>13</td>
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<td>3</td>
<td>No of members</td>
<td>130371</td>
<td>145578</td>
<td>147186</td>
</tr>
<tr>
<td>4</td>
<td>Paid up share capital</td>
<td>1316</td>
<td>1466</td>
<td>1613</td>
</tr>
<tr>
<td>5</td>
<td>Reserves &amp; Other funds</td>
<td>988</td>
<td>1233</td>
<td>1932</td>
</tr>
<tr>
<td>6</td>
<td>Owned funds</td>
<td>2304</td>
<td>2699</td>
<td>3545</td>
</tr>
<tr>
<td>7</td>
<td>Deposits</td>
<td>16896</td>
<td>20996</td>
<td>22810</td>
</tr>
<tr>
<td>8</td>
<td>Working capital</td>
<td>19483</td>
<td>23994</td>
<td>27023</td>
</tr>
<tr>
<td>9</td>
<td>Loans and advances</td>
<td>10197</td>
<td>12960</td>
<td>15163</td>
</tr>
<tr>
<td>10</td>
<td>Priority sector Advances</td>
<td>6118</td>
<td>8424</td>
<td>11539</td>
</tr>
<tr>
<td>11</td>
<td>Net Profit</td>
<td>274</td>
<td>299</td>
<td>366</td>
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</table>

Sources : Directors of Urban Co-operative, The Karnataka State co-operative Banks Federation Ltd Bangalore.

The trends in growth of UCBs in Karnataka during 1993-94 to 2002 to 03, were as follows:

1. **No of Banks:**

The number of Urban Co-operative Banks increased from 209 in 1993-94 to 302 by the end of 2002-03. The growth of banks was 1.8 times during the study period and 100 Urban Co-operative Banks were formed.
while 6 Urban Co-operative Banks were liquidated during the period under study.

2. **No of Branches:**

   The bank branches of Urban Co-operative Banks increased from 253 in 1993-94 to 658 by the end of 2002-03. The growth of number of Urban Co-operative Banks and the growth of branches was 1.9 times during study period. During the study period 250 branches were formed and eight branches were liquidated.

3. **No of members:**

   The number of members increased from 12,09,581 in 1993-94 to 23,65,820 by the end of 2002-03. The growth of members was 0.8 times during the study period.

4. **Paid-up Share Capital:**

   The growth of paid up share capital was 1.8 times during the study period. The paid up share capital was Rs 63 crores during 1993-94 and increased to Rs 357 crores during 2002-03.

5. **Reserves and other Funds:**

   The growth of reserves and other funds was 1.9 times during the study period. During 1993-94 reserves and other funds were 132 crores and increased to 853 crores during 2002-03. The reserves and other funds increased at higher proportion to paid up capital and thus leading to
stability of capital funds in the Urban Co-operative Banks. The Urban Co-operative Banks are moving towards self reliance in funds.

6. Own funds:

The growth of owned funds during the study period was 1.9 times. Own funds during 1993-94, were Rs 195 crores and increased to Rs 1210 crores during 2002-03. The increase in owned funds was due to increase in reserve and other funds in a greater proportion.

7. Deposits:

The growth of deposits of UCBs was 1.9 times during the study period. Deposits during 1993-94 were Rs 1045 crores and increased to Rs 7991 crores during 2002-03. Deposits are the principal sources of operational funds of banks. The continued increase in deposits is a very healthy sign of efficiency in the operation of Urban Co-operative Banks. It also demotes that Urban Co-operative Banks success in attracting savings of the people in the form of deposits.

8. Working Capital:

The growth of working capital of Urban Co-operative Banks was 1.8 times during the study period. During 1993-94 working capital was Rs 1271 crores and increased to Rs 9382 crores during 2002-03. The growth of working capital has put Urban Co-operative Banks on the map of prosperity and profitability of banking sector.

9. Loans and Advances:
The growth of loans and advances of Urban Co-operative Banks during the study period was 1.8 times. During 1993-94 loans and advances were Rs 800 crores and increased to Rs 5365 crores during 2002-03.

10. Priority Sector Advances:

The growth of priority sector advances of Urban Co-operative Banks was 2.1 times during study period. During 1993-94 priority sector advances were Rs 455 crores. They increased to Rs. 3960 crores during 2002-03. Urban Co-operative Banks had achieved the target of 60 percent loan and advances to priority sector as per Reserve Bank of India guidelines.

11. Net Profit:

The growth of net profit of Urban Co-operative Banks was 1.8 times during the study period. During 1993-94 Urban Co-operative Banks earned Rs. 33 crores and during 2002-03 Rs. 139 crores. Urban Co-operative Banks were performing well in commercial towns.

12. Over dues:

The over dues to the total loans and advances outstanding were 10 percent in 1993-94 and decreased to 8 percent in 2002-03. This is a healthy sign of progress and prosperity of Urban Co-operative Banks.

13. Number of employees:
The growth of trained employees of Urban Co-operative Banks during the study period was 0.8 times. During 1993-94 the number of trained employees was 5715. It increased to the 14524 during 2002-03.

**Organisational Structure and Resources of the Urban Co-operative Banks**

A brief account of the organisational structure of the Urban Co-operative Banks that has been evolved in the country has been provided here to highlight the functional dimensions of these financial institutions. The discussion has also focussed on the financial resources and their relative importance in the financial dimensions of these banks in India.

**Organisational Structure:**

Urban Co-operative Banks are an important constituent of the multi-agency banking system in the country. But they are basically co-operative organisations, engaged in banking function. Urban banking has to be viewed as a distinct type conforming to the principle of co-operatives on the one hand and those of commercial banking on the other. These are the institutions with broad based membership, democratic management with duly elected board of directors and therefore comprising vested interest and serving of the entire community.

Being a co-operative organisation urban banks enjoy certain advantages: Urban Co-operative Banks are authorised to pay one percent extra interest on deposits which helps them in their deposits mobilisation efforts. Co-operative institutions in their transactions with their members are
exempt from stamp duty. Income of co-operatives out of business of banking or income by providing credit facilities to members is exempt form income tax. Further the Urban Co-operative Banks can look to the co-operative institution or department for settlement of their disputes with borrowers. This process is quicker and consumes less time than needed under normal process. The statutory cash reserves and liquid assets requirements are lower than those prescribed for commercial banks. They have to invest a major portion of their resources in government and trustee securities, where as Urban Co-operative Banks keep almost the entire statutory liquid assets with higher financing agencies in the co-operative sector.

**Organisation of Urban Co-operative Banks**

Organisation is concerned with the building, developing and maintaining of a structure of working relationship to attain objectives. Study of organisational structure is of prime importance, because it is the structural frame work with which individual efforts are co-ordinated and various tasks are performed. Mostly Urban Co-operative Banks all over the country have an elected body and paid staff. But the general body of members is the supreme authority.
The Organisational Structure of Urban Co-operative Banks is shown in chart III-1

Organisational Structure of Urban Co-operative Banks:

Policy Making wing

Executive Wing

General Body

Board of Management

Executive committee

President

Vice-President

Manager

General

Administrations

Establishment

Section

Loans and

Operations

Section

Planning and

Developing

Section

Branch and

Accounts

Section

Branch

controls

inspection

Section Manager

Office superintendent

Section officer

Inspector

Office Assistants
i) Policy making wings:

A Policy making wing maps out the course along which the banks activities are to be conducted to serve the purpose for which it is established. Policies are also described as the going principles established by the bank. Policy making wing of Urban Co-operative Banks are concerned with making policies regarding various aspects of banks. Policy making wing consists of:

A) General body
B) Board of Director's
C) Executive committee
D) President-vice President.

A) General body

The general body is the supreme authority in all the matters pertaining to the bank. However, it is not the ultimate in the true sense of the term because it has to act with in the framework of the bylaws of the bank, the North Karnataka Co-operative Societies Act and Reserve Bank of India. The general body meets atleast once in a year. Such meetings provide an opportunity to the members to express their feelings of the functioning of the bank and offer suggestions for improvement. All decisions in this mean are arrived in democratic process in which each member has the right to cast a vote.
Functions of General body:

Following are the important functions of General body

i. Consideration of Annual Report

ii. Consideration of the Registrar's note on auditors inspection
    and adoption of audit certificate.

iii. Disposal of Net Profit and sanctioning of dividend

iv. Amendment or repeal of existing bylaws or enactment of new
    bylaws.

v. Election of members to Board of Director's and their removal
    from the Board.

vi. Approval of Annual Budget

vii. Appointment of auditor's

viii. Appeal against the decision of Board of Director by any
     members.

ix. Review of loans and advances to members of the Board of
    Director's

x. Expulsion of members.

B) Board of Director's:

Board of Directors is the heart of the bank. It has to act as
trustee of the members in managing the banks activities with care and
diligence, so as to safeguard their interest to maximum. The Board of
directors represents the general body of the bank and infact the most
vital organ in the organisational structures. It is the board which thinks plans and frames policies as well as ensures effective implementation of such policies.

**Functions of Board of Directors:**

i) Preparing of annual Budgets, approval of Annual Budget  
ii) Admission to members.  
iii) Raising and investment of funds.  
iv) Granting of advances.  
v) Taking the disciplinary action on the erring employee's  
vi) Convening the meeting of the general body.

C) **Executive Directors:**

Executive committee is formed with a view to secure balanced view on any of the vital matters connected with decision making and execution of policies to decide about the basic policies of the bank. Executive committee consists of president, vice president and directors elected by the board from amongst themselves. The committee being appointed annually, holds offices till their successors are appointed. Powers are delegated by the Board of directors to the executive committee. The executive committee is concerned with the consideration of credit application, sanction of loans, examination of the cases of arrears and taking initiative actions for recoveries, fixation of rents of the offices/branches sanction of the increments, bills etc.
D) President – Vice president:

The president is annually elected from among the directors who shall exercise general control and supervision over the affairs of the bank and work of its officers. He presides over the meetings of the general body the board and the executive committee. The vice president is also elected annually from among the director's. He shall exercise the power and performs the duties of the president whenever the letter is absent.

II Executive Wing:

The executive wing is concerned with the execution of the policies formed by the policy making wing and also of the various policies of the Government relating to the conduct of the business of the banks.

The executive wing consists of

A – General manager

B – Section manager

C – All other employees of Urban Co-operative Banks

A) General manager:

The General manager is one to whom administration functions and power's are delegated by the Board of directors. The General manager should be a man of vision and a master of strategy. He must be capable of stimulating and leading men employed in the bank. He should define the duties and responsibilities of subordinates in such a
way that standards of achievements are attained by them in their jobs. The senior most employee of the Urban Co-operative Banks happens to the General manager who is the chief executive officer of the bank with complete control over the entire administration of the banks subject to the control of Board of management.

i. Functional power

ii. Administrative power

i. Functional power of the General manager

i. To borrow, interest and tap deposits.

ii. To buy, sell, pledge and endorse the securities.

iii. To operate the bank account.

iv. To examine loan applications.

v. To review the collection of overdues.

vi. To pay taxes.

vii. To sign all.

ii. Administrative power:

i. To deal with all communications made in the name of the General manager.

ii. To arrange for the meeting.

iii. To shoulder responsibility for maintenance of accounts.

iv. To prepare for election and issue intimation letters of due date of election

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v. To submit all returns and reports under the Banking Regulation Act, etc.

B) Section managers:

Section managers are concerned with the task of implementing the policies and plans chalked by the supreme authorities. Such section manager are responsible for the execution and interpretation of policies and for the successful operation of policies and for the success of assigned actions. In executing the work, the general manager of Urban Co-operative Banks is assisted by section manager of four sections:

i. Administration and establishment section

ii. Loans and operation section

iii. Planning and developing section

iv. Branches and account section

v. Branches control inspection section

Each section manager functions with definite responsibility in specific areas as marked for them. Each of the section manager is in turn, assisted by office superintend, section officers, inspections and office assistants.

Structure of Urban Co-operative Banks

In general Urban Co-operative Banks have got unitary structure. They have been required to work exclusively without any support from any higher level of financing institution. Unlike Urban Co-operative
Banks primary co-operative credit societies and land development banks which are the agricultural credit wing of the co-operative credit structure, have state level apex bodies. As a result Urban Co-operative Banks are functioning under various constraints which can be overcome only after their separate and independent apex banks established. The unitary structure of Urban Co-operative Banks was based on the presumption that Urban Co-operative will be affiliated to the district level Central Co-operative Banks. Therefore there was no necessity of the organizing separate district and apex organisation for them. But the field experience is that most of the Urban Co-operative Banks are self sufficient and do not require any substantial funds from the district level central co-operative banks. In fact some of the Urban Co-operative Banks are stronger than the Central Co-operative banks.

In Maharashtra state, however district Central Co-operative banks have been established at Ahamadanagar. This bank is efficiently managed and has achieved a commercial or commendable success. It is a solitary example of a federal structure in the field of urban banking in the country. The main argument advanced against the formation of separate financing agencies for Urban Co-operative Banks, is that it will mean the competition at the district level and will result in different of funds available for the co-operative movement and might create a dearth of honorary workers to manage co-operative institution. The
example of Ahamadanagar district central co-operative urban banks, have proved that above argument is not always everywhere applicable.

Urban Co-operative Bank is unique by its nature: Branch banking is not the function of urban bank for the simple reason that its objective is to serve a particular locality. However of late they have found it necessary to open branches for very many reasons such as reaping the economies of large scale operations, of the employment of better techniques attain higher lending capacity, better administration with decentralized working etc. Consequently many Urban Co-operative Banks have opened branches and also have succeeded in branch banking.

It is necessary according to the Act and the rule that the name of the proposed Urban Co-operative Banks should be such as not to denote that it is meant for any particular section of the community. That the bank should have a truly co-operative character. Promoters should belong to a cross section of society in the area. There is no objection to according a few persons whose sources of income is predominantly agricultural provided they are residing in semi urban or urban centres where the banks are in operation. The banks shall however provide only non agriculture finance. They should concentrate primarily an non agriculture lending business, such as financing small business, professionals, artisans etc. There will however be no objection to the
lending to activities allied to agriculture such as diary farming, poultry etc., conducted by its members in urban and semi urban centres, within the area of operation of the bank.

Membership of Urban Co-operative Banks:

Membership of a co-operative institution shall be voluntary and available without artificial restrictions or without any social political, racial or religious discriminations, to all person's, who can make use of its service and are willing to accept the responsibilities of membership.

Urban Co-operative Banks in the country today have three types of membership

1) Regular membership
2) Associate or nominal member's
3) Small scale Industry membership.

The regular members alone contribute to the share capital of the banks and they have also the right to vote. The associate members have no right to vote, and they are not required to make any contribution to the share capital. Further, persons are enrolled as nominal members only for the limited purpose for enabling them to stand sureties for the borrower or for borrowings, for short periods and that too against tangible security. Of late Urban Co-operative Banks advances to nominal members for the purchase of consumer durables subject to the condition that amount of such advances should not
exceed Rs 10,000/-. Further, total number of nominal members shall not exceed 10 percent of the regular members at any point of time. Industrial membership is treated separately as they have to pay higher share capital and at the same time entitle for higher amounts of loan's.

Broadly speaking the members of urban banks, comprise of persons living in urban area. The eligibility condition for the membership of banks are prescribed under rules and byelaws. The study group on credit co-operative in an non agriculture sector was of the opinion that the membership should be open to all persons who are residing in the area of the operation of the bank and who are competent to control or conduct. The average membership of Urban Co-operative Banks varies from state to state. It is different to determine the reasonable size of the membership of an urban bank. Situation may be equally bad both in the case of an unwieldy and a small bank. In the former there may not be any personal contract and the bank may be transformed only into a capitalist enterprise. As the Maclagan Committee pointed out large societies are to be deprecated since they must inevitably lose their co-operative character.

The Central Banking Enquiry Committee insisted that the organisation of larger banks should be encouraged. According to the report on the survey of Urban Co-operative Banks 1957-58 the average membership of an urban bank should be 1500. If it has to be
of the view that the Urban Co-operative Banks should have a strong base, so that it may raise adequate resources of meeting demand and for creating confidence among the depositors. Co-operative mean a voluntary organisation with unrestricted membership. But entire business of a co-operative bank is based on the mutual knowledge of members, their habits, positions and business methods. The best security for a co-operative banks is the moral worth of its members.

**Democratic Functioning:**

An Urban Co-operative Banks is a Service organisation for two reasons. Firstly it is based on co-operative principle. Secondly it is engaged in banking which is a service. Being an users organisations it is managed and controlled by its members. A co-operative institution must have democratic control. This principle implies that the affairs of the society must be administered by the members themselves or they, shall have a thoroughly representative management. Their affair shall be administered by persons elected or appointed in a manner required by persons. The members are accountable to them, member should enjoy equal rights of voting and participate in decisions affecting their society. General body of members is the supreme authority.

A co-operative bank is an association of individuals, not an association of capital. Here members associate as persons and not as investors of capital. Members have only one vote irrespective of their financial stakes in the bank. It
is not possible for only voter to get support to his view point through proxies.
They shall work on the basis of one man one vote.

**Area of Operations:**

The Area of Operation of Urban Co-operative Banks differ from state to state. In fact the area of operation of urban banks is determined by its bylaw. Usually in small towns an Urban Co-operative Banks covers the entire municipal area. This policy is followed in state like Tamil Nadu, where one bank for one town has been kept as a principle. In states like Maharashtra and Gujarat in the same town many banks have been started and duplication exists in fixing their area of operation. Urban Co-operative Banks registered under the multi unit act go beyond a state by opening branches.

The committee on problems of Urban Co-operative Banks in Maharashtra (1976) did not favour an Urban Co-operative beyond a district. The Reserve Bank of India in 1973, to examine the working of some newly registered Urban Co-operative Banks in Maharashtra observed that the area of operation of Urban Co-operative Banks should ordinarily be confined to the town or city where it has its head office. In metro politain cities, it was suggested that the area of operation should be confined to contiguous towns.

The Varde committee (1963) was of the view that the area of operation of an Urban Co-operative Banks should be restricted to municipality or taluka town where it operates. With the advent of branch banking by Urban Co-operative Banks, they were to have wider area of operation and some think
that they can go beyond a district and even states. But the committee on Urban Co-operative Banks (Madhav Das committee) is of the view that any process of widening the area of operation beyond prescribed limits is bound to make the operations of an urban banks increasingly impersonal and in the long run will not be in the interest of bank itself. Hence the committee has not suggested any large scale relaxation in the limits prescribed for the operation of an Urban Co-operative Bank. However, in view of the emerging needs of the situation the committee recommended that;

A) the Urban Co-operative Banks having their area of operation confined to the municipal limits of the town may be permitted to extend the operational areas up to the peripheral limits in conformity with the definition of Urban Co-operative Banks agglomeration as given in Urban Co-operative Banks Act 1976.

B) Secondly, the present restriction of the acres to contiguous wards indicated by the Reserve Bank of India in metropolitain centres will need relaxation.

In the opinion of the committee if the area of operation is restricted to contiguous wards, problems may arise in regard to financial or productive purpose. This is because the area where bank is operating may provide ample scope for deposit mobilisation; but may not have scope for profitable employment of resources. Converty there may not exist adequate potential for loaning in the operational area of the bank.
But from the point of view of mobilising deposits, the prospects, may be comparatively poor. Therefore it is desirable to permit banks in the metropolitan centres to operate throughout the limits of the metropolitan area.

From the above definitional discussion it appears that the Urban Co-operative Banks may be given freedom to fix their own area of operation and open branches according to their own conveniences.

**Objectives of UCBs:**

The objective of a particular Urban Co-operative Banks are listed in its bylaws. However, general objective of all the Urban Co-operative Banks are identical. Further the registrar of co-operative societies in the state of Karnataka has issued model bylaws for Urban Co-operative Banks. Consequently all the Urban Co-operative Banks in their state have drafted their bylaws in consequence with the model bylaw. Therefore there could not be much difference between the objectives of two Urban Co-operative Banks. The committee on Urban Co-operative (1979) has listed three main objective of Urban Co-operative Banks:

They are:

i. Promotion of thrift and mobilisation of resources from the community they serve.

ii. Provision of credit at reasonable rates to small borrowers.

iii. Provision of banking and other subsidiary services.
Urban Co-operative Banks originally organised with particular objectives, predominate among which was the inculcation of a sense of thrift and saving among lower income groups and grants of finances for meeting their needs primary of a consumptive nature. In the changed context today they have to assume a somewhat different role. Urban Co-operative Banks are now an integral part of the banking system which is reckoned as an important instrument for attainment of socio-economic objectives as embodied in our five years plans. Hence Urban Co-operative Banks also have to work for achievement of national objectives and priorities. (Priorities)

**Limited Interest on Capital:**

Profit making is a subordinate consideration with co-operative banks. Contribution made by a member to the share capital of an Urban Co-operative Bank is more in the nature of an advance payment for future service rather than an investment for earning profit.

As a corollary to this and reward for capital subscribed to Urban Co-operative Banks is strictly limited.

Urban Co-operative Banks are allowed to pay dividend to the members on their paid up share capital at the rate permitted by the Acts and the Rules passed. On the other hand Urban Co-operative Banks can pass on the profit to the depositors in the form of higher interest on their deposits and to the borrowers in the form of rebate in the interest chargeable. However, to argue that profits are irrelevant for Urban Co-operative Banks as they are co-
operative organisation is to miss an important point. Earning a reasonable level of profits is necessary for banks to provide cushion to support its credit and interest rate risk. Moreover Urban Co-operative Banks are different from other forms of co-operative institutions. They accept deposits from the, non members and are under the constant obligation of the providing reasonable returns to those who have reposed faith in them and deposited their hard earned savings with them. Therefore profits should be earned by Urban Co-operative Banks.

**Resources of the Bank:**

An Urban Co-operative Bank obtained funds from the following resources;

i. Share capital on which dividend is paid subject to adequate profits and subject to co-operative acts and rules.

ii. Deposits on which cost is incurred by way of interest

iii. Borrowing from Reserve Bank of India, state or central co-operative banks on which interest cost is incurred.

iv. Refinance from Reserve Bank of India/IDBI NABARD under specific scheme on which interest cost is incurred.

v. Rediscount of Bills with IDBI on which discount is paid.

vi. Float funds and residual liabilities on which cost may not be incurred.
vii. Retained profits including resources may be classified into the broad category;

All the above maintained resource may be classified into two category viz;

a) Owned funds comprising share capital and various funds credited by ploughing back profits.

b) Borrowed funds comprising deposits and other borrower.

**Share Capital:**

Share capital of a commercial bank normally remains fixed. The share capital of Urban Co-operative Banks however varies almost continuously due to admission of new members, registration of existing members, grant of loan etc. Further according to co-operative principle share capital of a co-operative institution shall receive strictly limited rate of interest (dividend). No such restrictions exist on the shares of commercial banks.

**Linking of share Holding with Borrowings**

In co-operative institutions in order to strengthen their capital base automatically, there is a system of linking share holdings by the borrowers to the assistance that they derive from banks. Unless a person becomes a member of the Urban Co-operative bank by contributing to the share capital, he is not eligible for borrowing. A loanee in a joint stock bank is not required to hold or buy shares. Moreover shareholders of an Urban Co-operative Bank can borrow in fixed multiples of the shares held by him. For higher borrowings he will have to acquire more share. As a result, simultaneously with the increase
in the lending business of an Urban Co-operative Bank, the share capital also goes or rising.

It appears too heavy by making each member to have credit equal to so many times of his stakes in its capital. Insistence on a high ratio of share linking to borrowings involves an element of compulsion and would increase the cost of borrowings to the members. It is also likely to wean away potential borrowers from co-operatives banks. Share linking in reasonable proportion is essential for inducting in members a sense of belonging with the institution.

Following the recommendation made by the working group on individual financing through co-operative banks (1968). The Reserve Bank of India since 1969-70 has been providing loans to State Govt. out of national agricultural credit (long term operations). Funds to enable them to contribute to the share capital of Urban Co-operative Banks. This facility has been extended to banks which finance or propose to finance small scale and cottage industries.

Retained Profits:

Retained profits also known as reserve funds is another major source of internal capital, in any co-operative enterprise. The reserve fund generated out of net profit is a zero-cost source which will reinforce the earning power without incurring extra cost. The building up of reserve fund is contingent upon the quantum of net profit earned. According to the Co-operative Societies Act in the state, not less than 25 percent of the net profit should be contributed to
reserve fund every year. Any dividend which remains unclaimed by a member for a period of three years or move from the date of declaration of dividend shall be credited to reserve fund. Receipts on account of forfeited shares, should be carried to reserve fund. Reserve fund of an Urban Co-operative Banks is indivisible. It belongs to the whole body of members and not to individual. In view of these conditions reserve fund of an Urban Co-operative Banks goes an accumulating.

Urban Co-operative bank instead of dissipating the income in distribution of dividend regularly ploughs back considerable proportion of profits into reserves, which not only help in the strengthening the capital base but also insulate the organisation against business risks. Paid up share capital and various reserves constitute the owned funds of the bank. Growth of owned funds is a healthy prospect. Greater the owned funds greater will be the base for higher borrowing power.

**Deposits:**

Deposits are the main stay of funds for Urban Co-operative Banks, particularly the small and the medium size banks. In India we have administered rate structure on deposits. The Urban Co-operative Banks are permitted to offer interest at 1 percent higher than interest rate offered by commercial banks to give them a competitive edge over commercial banks. The underlaying objective is to enable the Urban Co-operative Banks to overcome the possible inhabitions in the minds of the depositors and the public.
arising out of the small, size of the bank, the limited sphere of activity and above all lack of an image as compared to the commercial banks. This may help the Urban Co-operative Banks in deposit mobilisation but it increases the cost of funds as higher rate of interest is to be paid. Urban Co-operative Banks are the members of the Deposits Insurance Corporation and their deposits up to Rs one lakh per depositer are insured.

**Borrowings from higher Financial Institutions:**

So far as borrowings are concerned, if the experience of growth and prospects of Urban Co-operative Banks in North Karnataka district is of any guide, this is not a very significant component of the resources of Urban Co-operative Banks. However they should not shun borrowing, which they can get it Urban Co-operative Banks as the primary units are member of their control co-operative urban banks. They are expected to borrow from the central co-operative banks if they are not able to meet their demands out of their own resources. But the Urban Co-operative Banks raise adequate resources by way of deposit.

No doubt cash credit provided by district central co-operative banks is an important source of funds. However by maximum borrowing power fixed by the bye-laws is one of the restrictive features of resources mobilisation of Urban Co-operative Banks which is normally ten times of paid up share capital and reserve fund. There are special schemes like refinance from the Reserve Bank of India under section 17(2) (bb) of the Reserve Bank of India Act 1934,
for financing the working capital requirement of 22 approved broad groups of
cottage and small scale industries units. Then there is Industrial Development
Banking of India. There is industrial development scheme of refinance and bill
rediscounting.

The Reserve Bank of India scheme is relevant in so far as it enables
the Urban Co-operates banks to provide financial assistance to the small scale
and cottage industries at concessional rate of interest at the same time
allowing a margin of 25 percent to Urban Co-operative Banks when they
borrow directly from the state co-operative banks. The IDBI schemes are
particularly relevant. In so far as they provide the only channed for the Urban
Co-operative Banks for securing resources for supporting their term loan
business which otherwise they would not have been able to do with in the
limitations of the Reserve Bank of India norms of long term loan.

Deployment of Resources:

The investment policy of a banking institute depends chiefly on the
nature of its resources and period for which they are available and the
objectives for which it has been organised. The deposits of the Urban Co-
operative Banks are mainly, short term loan and medium term loans. Obviously
their investment will have to be of short term and long term. Their lending
policy is laid down by their bye-laws. However an Urban Co-operative Banks
has to fulfill certain statutory obligations. There three percent of the deposits is
to be kept, as liquid cashes compulsory cash reserve and another 25 percent
of the deposits is to be kept in the form of liquid assets. Remaining amount of
the banks resources is available for lending or investments.

Lending policy of the Urban Co-operative Banks is governed by three
factors viz; 1) bye laws of the banks 2) governing body of the banks 3) the
Reserve Bank of India directions. Within the broad guidelines of Reserve Bank
of India the governing body of the Urban Co-operative Banks has considerable
autonomy in so far as the sanction, purpose and amount of loan is concerned.
Urban Co-operative Banks have to adopt broad based system of lending to suit
the needs of their members. The purpose of loan should as far as possible be
productive. So the borrower is able to clear his loans with interest out of the
additional income generated by him.

Unsecured loans should not exceed the limit fixed by Reserve Bank of
India, which is 331/2 percent of time and demand liabilities. While advancing
loans current national policy of assisting priority sector should be kept foremost
in mind. Sixty percent of the advances should be lent to the, priority sector of
which not less than twenty five percent of the loans should be to the weaker
sections. Surplus if any, after meeting the needs of the members, may be
invested with higher financing institutions or as permitted by Law/bank’s bye
law: In the exceptional cases the Registrar of co-operative societies may permit
the investment of surplus funds in current deposit with the commercial banks.
The Urban Co-operative Banks also invest small proportion of their working
capital in the share of other co-operative institution. The investment in the
shares of capital of central co-operative banks of the area to which the Urban Co-operative is affiliated is desirable and expedient. Such investment may be linked with their borrowing from central co-operative banks. They may also invest in the shares of state co-operative banks.

Loans by Urban Co-operative Banks may be divided into two broad groups on the basis of the present purpose of which they are granted. These are distress loans and business loans. Business loans are but a subsidiary form of the lending activity though with growth of Urban Co-operative Banks the later form of lending operations has assumed considerable importance. Distress loans are given on the security of two sureties, while considering the requisite for distress loan the bank has to take into account its revenue resources for lending, the adequacy of security etc, but is not unusual for Urban Co-operative Banks to make a human approach, while examining the application for such loans. The bylaws therefore put a ceiling on the personal or distress loans granted to individual members.