Chapter One
i) Introduction:

Co-operative Banking is one of the important segments of Indian Banking system. The Indian banking system is passing through a crucial phase in the face of economic reforms undertaken by the Government of India to make the country vibrant, competitive, and prosperous. Financial sector reforms triggered off by the economic liberalisation measures pursued by the Government would be one of the major turn around events of this century. The Urban Co-operative Banks could not remain unaffected by the ongoing change in the banking sector. Economic pursuits are impossible without the active association of one's fellow beings in the form of some sort of organisation, and concerted action towards pre-determined goals. Co-operation, thus becomes a concomitant of the economic activity.

Co-operative movement began primarily to curb the exploitative dominance of the money lenders over the middle and financially weaker sections of the population in the early nineteenth century. The urban co-operative banking forms an important constituent of co-operative banking movement in India.

Co-operation is the very basis of human civilization, since the dawn of the human civilization, people have co-operated first in the foraging and than
faster in hunting, cater on the agricultural then in manufacture, distribution and banking activities. Practically there is nothing which a man by himself alone can accomplish. "Among the variety of doctrines, which have emerged to deal with social and economic ills, no doctrine has received as much attention; thought and experimentation as the co-operative doctrine."2

Urban Co-operative banks are getting various concession's such as exemption from stamp duty, registration charges and income tax. Such concessions have enabled these banks to do well and pay good returns but still some special efforts are needed.

But under the new liberalised policy and in a free market environment only those banks which are fiercely competitive, innovative and have the ability to adopt quickly to the environment change are likely to survive.

Urban Co-operative banks are looked upon as small man's banks. They were once considered to be the exclusive bankers for certain segment of urban population like salary earners, small traders, artisan's etc. The niche in the banking market is no longer the sole preserve of urban co-operative banks. With the nationalization of commercial banks in 1969, the public sector banks started encroaching the areas of Urban Co-operative banks.

Today commercial banks have penetrated into small town's and semi urban centers. They have extended banking services to the poor and men of small mean's. It may be due to the urgency for accelerated growth of the economy. The fields so for reserved for co-operatives have been opened to
commercial banks. This has in many cases led to duplication of the services and competition between different financial institutions.

In the wake of deregulation, liberalisation and globalisation of the Indian economy the banking system is also getting gradually liberalised and internationalized in the new liberalised atmosphere. The banking industry has to face, the challenges of the new millennium.

However co-operatives enjoy certain characteristics features like open membership, members participation in management, the local feel and familiarity, mutual knowledge, personalised and courteous services etc. all of which are eminently suitable to cater to the needs of small men and small sectors of industries.4

The down trend in lending rates witnessed in the past few years has reduced the spread for banks and for Urban Co-operative banks the spread is further reduced because of one percent extra interest paid by them on their deposits.

With rapid advancement through computers and office automation, it would be difficult for the existing banks to ensure cost effective operations and retain their competitive edge. For small urban banks it would be much more difficult to adjust to the bank.

Thus, on the one hand, urban banks are faced with new challenges and, on the other hand, a number of opportunities are thrown open to them. Against this background it would be useful to know how urban banks combine
in their management and working, the two concepts of co-operative and sound banking practices. Can they cope up with new challenges and make full use of the opportunities available to them? The answer to this question depends on how best urban banks conduct their banking business? Therefore a study of the working of urban co-operative banks is imperative. Helping the hither to neglected and weaker sections of society was one of the cherished goals of bank nationalisation. And this was sought to be achieved through deliberate concessional lending to on priority basis and deposit basis to certain people and certain purposes which came to be known as priority sector lending or deposit directed credit programme.

Being local institutions, Urban Co-operative banks vitally interested in local development and hence, they can play an important role in mobilizing local resources and making them available locally for purposeful and productive activities conforming to the priorities as per the state or central plans.5

Growth and prospects of Urban Co-operative banks in the North Karnataka, an important issue in the development agenda, relates to the problem of provision and delivery of credit to the poor. The poor which come out of their poverty through meaningful productive activities for which credit assistance was necessary. But they had no tangible security to offer nor they could produce a guarantee of a well to do party. Banks were reluctant to advance credit to them because they were not bankable risks. They could not
get credit. Therefore greater access and sustained flow of credit became critical for the empowerment of the poor and that was sought to be achieved through the scheme of directed credit programme. Consequently targets for priority sector lending were fixed both for commercial and urban banks.

Thus after nationalisation of banks there was a shift from class banking to "mass banking" slogans like "poor man's bank", "bank for the downtrodden" etc, were coined. Mass banking had brought about a lot of changes which were aimed in tune with the socio-economic policies of the Government, but in the process also left behind a trail of serious problems. According to the Committee on Financial Reforms (1991) the Indian banking sector has made impressive progress in achieving social goals but suffered heavily in the form of decline in productivity and efficiency. In consequence there was serious erosion of their profitability even to the points of raising doubts about the viability of some important constituents of the system.5

The Committee on Financial Reforms considers compulsory concessional credit to priority sector as one of the reasons and deposits for the declining profitability of banks. Therefore the committee recommended the priority sector should be redefined. Priority sector should henceforth be fixed at ten percent of the aggregate credit. Replying to a supplementary in the parliament, the minister of the state of finance, Dr. Abrar Ahmed said that the Narasimahm committee recommendations regarding reduction in Priority sector advance to ten percent of the total advances has not been accepted.7
That means their will be no immediate phasing out of directed credit programme.

Today many consider the directed credit management as a drag on bank profitability. It has been criticised on different grounds. A number of studies conducted to evaluate the impact of bank lending to priority sector have come to diverse conclusions. A study conducted by the Economic Research Department of the State Bank of India has concluded that, bank credit to weaker sections in Kerala has not only raised incomes but also enhanced the dignity and social status of the borrowers. According to B. S. Bhatia and A.S.Chawla of Punjab University, bank lending to priority sector in Punjab has not promoted economic development in a desired direction. According to them preferential treatment to the agriculture may be in tune with national priorities, but certainly not in tune with the development priority of the state. Therefore they suggested that priorities for bank lending and deposit should be laid down at state level.

According to Veerashekharappa Institute for Social and Economic Change, Bangalore, directed lending to agricultural sector has helped the larger formers. Even the measures to help the poor and needy are ultimately used by rich. According to Dr. S.C.Anand priority sector lending and deposits and investment by commercial bank is being wrongly maligned and the rhetoric views expressed against priority sector. Lending has made us to believe that the scheme of directed credit programme is a static and now a dying concept.
However all these arguments and counter arguments are with reference to deposits and investments lending by commercial banks. On the other hand urban banks are considered to be the most suitable agency for saving the credit needs of the common man.

A number of committees and working groups appointed from time to time by the Reserve Bank, Central Government and State Government, have emphasised the role of urban banks in helping the common man. A study conducted by the Reserve Bank 1981, revealed that, even before the minimum target for deposits and investment, lending for Urban Co-operative banks was fixed, they were extending credit to this deposits in excess of the targets fixed for them.

In the new liberalised free market environment, commercial banks are more likely to withdraw from the less profitable field of financing sector. When the lending to the priority sector by commercial banks is reduced or when the directed credit programme is phased out as recommended by the Narasihman Committee, though such a course of action is not acceptable to the Government at present, then the common man and the weaker sections will be once again left to be looked after by cooperative institutions. Thus, there exists a case for priority sector lending by Urban Co-operative banks.

The Estimate Committees of the parliament in its 62nd and 84th reports suggested that the public sector banks should arrange for collection and maintenance of relevant information to ascertain the impact of the bank credit
to weaker sections of the society. Banks like State Bank of India have setup project monitoring and evaluation cell. Urban banks particularly the smaller ones neither have the expertise to conduct such studies nor are they in a position to setup evaluation cells. Naturally not much work has been done to evaluate the impact of Urban Co-operative banks on the weaker sections. More over evaluation of credit schemes and deposits, programmes provides valuable feedback to policy makers and operational functionaries in terms of identifying the factors which facilitates or impede the implementation of the scheme. In this background it would be extremely useful to study the impact of financial sector lending by Urban Co-operative banks.

While promoting thrift and savings to rehabilitate the precarious economy of the weaker sections these banks can and do make a very valuable contribution to capital formation by such sections of the community. These banks are not to operate as just purveyors of credit but to function as friendly guides to their clients and to help them adopt better production techniques, sound financing and account systems. This is very essential because the persons financed by the urban banks constitute very small percentage they do not normally have the capacity to secure the services of experts in the field. The Urban banks can play this role very effectively in view of the fact that unlike commercial banks, they are local institutions with their clients as their members and having intimate contacts with them. They are in a better position
to appreciate the needs of the members and to adjust their policies and procedures to such needs with the greater degree of flexibility.

Being local institutions urban banks are vitally interested in local development and hence, they can play an important role in mobilizing local deposit and resources, making them available locally for purposeful and productive activities conforming to the priority sector as per the state or central plans.

**Importance and Need for the present study**

Financial management techniques of Urban Co-operative banks have been studied with a view of covering over all pictures of Urban Co-operative banks in general and those in North Karnataka district in particular.

In view of fast and vast change which have been taking place in the Indian banking industry, the urban banks are now finding it difficult to get financial resources in a competitive world. The financial management is recording an upward trend. Even the scope for profitable growth and prospects of urban banks getting available resources is restricted in view of the competition from their cooperative counterpart and nationalised and scheduled commercial banks operating in the same area.

Growth and prospects of urban banks the operating efficiency and effectiveness of the management policies of the Urban Co-operative banks will affect not only these co-operative units but also the co-operative movement in general and Urban Co-operative banks are functioning without government
assistance and are the most important agencies in providing banking facilities and credit assistance to the poor and middle class sections of the society. It is difficult to channel the urban credit through weak and inefficient Urban Co-operative banks. The weakness of the co-operative movement in a state is synonymous with the weakness of Urban Co-operative banks which are growing in size and shape of operations.

The urban credit structure presents a picture of uneven development in the state, in a few district like Bangalore, Belgaum, Dharwad and Bijapur. The urban credit structure is fairly strong in North Karnataka in terms of resources and operational efficiency and has been able to make continuous progress. In other districts the movement has, in recent years remained stagnant, in some cases, even suffered a set back. In part this also suggests that the Urban Co-operative banks operating in these areas could not mobilise substantial resources and promote priority sector lendings, operational efficiency. The present study focuses on financial resources and the Growth and prospects of Urban Co-operative banks in North Karnataka. The researcher felt that adequate research work on these aspects of the Urban Co-operative Banks in the region has not been done. Hence there is a sufficient scope and need for the present research work.
ii) STATEMENT OF THE PROBLEM:

Despite sickness of some of the urban co-operative banks and continuous efforts of the Reserve Bank of India and the respective state Federations for the past many years to impart strength for better working of the urban co-operative banks, in future; It is widely accepted that urban co-operative banks are most suitable agencies as an ingredient of multi agency system of routing the credit to, and mobilising the savings of middle class masses. Hence the present study is on "Growth and Prospect of Urban Co-operative Banks in North Karnataka"

iii) Objective of the Study:

The main objectives of the present study are:

1. To study the role of UCBs in the Indian Co-operative Banking System.
2. To study the origin growth and, prospects of the UCBs both in India and Karnataka State, particularly in North Karnataka area.
3. To analyse the deposit pattern and to appraise the efforts of the UCBs in North Karnataka in the sphere of deposit mobilisation.
4. To study the development pattern of the funds by the UCBs in North Karnataka.
5. To appraise the efforts of UCBs in the sphere of credit management.
6. To evaluate overall profitability to analyse the structure of cost management.
7. To study the recovery and overdues of UCBs in North Karnataka.
8. To suggest corrective measures in the light of findings for improving the performance of the UCBs in North Karnataka.

4) Hypotheses:

The following hypotheses have been formulated for the purpose of the study:

1. Urban Co-operative banks in the study area have a strong financial base.

2. Urban Co-operative banks in Karnataka have sound financial management with professional touch.

5) Sources of Data

The present study is based on the secondary data. The data used in the analysis are mainly collected from the following sources:

i. Karnataka state urban co-operative banks news House magazines for the related year's published by the Karnataka State urban co-operative banks Federation Ltd Bangalore.

ii. Directories of the Urban co-operative banks in Karnataka for the urban co-operative banks.


iv. Published records of Research and Evaluation Cell, Co-operative Department, Government of Karnataka Bangalore.
v. Report of the Committee on Urban Co-operative Banks (1978) and published records of the meetings of the standing advisory committee for urban co-operative banks.

vi. Statistical profile relating to the urban co-operative banks and Credit Societies Ltd, New Delhi.

vii. Statistical statement relating to co-operative movement in India.

viii. Records of the state level bankers committee published by the Syndicate Bank.

ix. Financial statements; Annual Reports and official records of Urban co-operative Banks in Karnataka state.

x. Official files of Registrar for Co-operative Societies in Karnataka.

6. Methodology:

Tools of Data Collection. The present study is based on both primary as well as secondary data, on survey technique and case study method.

The methodology adopted includes:

i. Case study of selected urban co-operative Banks in North Karnataka.

ii. Discussions with the concerned General manager and manager.

To elicit information regarding the area of operation, number of branches, amount of deposits, amount of advances and the manner of functioning and the beneficiaries covered by the urban co-operative banks in North Karnataka, a request letter was mailed to all urban co-
operative banks. The banks supplied the information by sending their annual reports.

A total number of 35 Urban Co-operative Banks were selected for the case study. Five UCBs were selected from each of the 7 North Karnataka districts at random.

**Scope of the study:**

The present research work covers 35 urban co-operative banks and their 100 branches (as on 31st March 1999) scattered in seven district of North Karnataka region and all of which come under the purview of Banking Regulation Act 1949. The District wise the Growth & Prospects of Urban co-operative Banks in North Karnataka, is selected for the purpose of analysed. The causes for disparity are identified and suggestions for sustainable, and balanced development of urban co-operative banks in seven districts of north Karnataka have been made.

The new norms of financial accounting like recognising only real income, reclassification of assets and making appropriate provisions for the same, higher efforts for the capital base with the prescribed time have affected and changed the operational aspects of banking.

On the other hand rapidly changing financial sector scene has thrown as many opportunities to urban co-operative as the challenge it has posed. In the competitive atmosphere there would be a same change in the attitude of
the banks productivity and profitability would become the most essential element of planning.

Banks would progressively withdraw from the sector's which are less profitable. It is in this context that one can see vast scope for urban co-operative banks. With rapid growth of large industrials there will be corresponding growth in the small scale and ancillary sectors thereby opening up opportunities for urban co-operative banks to come up and help their members to share the gain of economic boom.

On the one hand, urban co-operative banks are faced with new challenges and on the other hand, a number of opportunities are thrown open to them. In this background it would be useful to know how Urban Co-operative Banks combine their management and working sound banking practices. Therefore, a study of the working of urban co-operative banks is imperative.

Limitations of the study:

1. Since the data are obtained from more then one source, there may be slight discrepancies between one source and the other about the same variable of the study.

2. While computing the percentage, and averages, the figures are approximated. Therefore some times the total may not exactly tally.

3. The various accounting and statistical tools and techniques used in the present study are not free from limitations.
Period of the study:

The research study is confined to a period of ten years along with information of new economic policy of the liberalisation, privatization and globalisation by the Government of India. Reserve Bank of India brought many changes during this period, which were applicable to both urban co-operative banks as well as to other banks on the basis of recommendation's of committees formed by Reserve Bank of India. Deregulation of interest rate; application of prudential norms, reduction of non-performing assets, etc are some of the major changes which are introduced during this period.

Statistical tools – Data Processing

The data collected for the study are analysed by using various accounting and statistical tools such as,

Ratios, percentages, tables, averages etc. The positive and negative growth of various parameters are worked out in percentage which provide an in depth evaluation of yearly and average growth rate.

Organisation of the study

The study is divided into the following seven chapters

Chapter One: Introduction and Research Design

Chapter Two: Urban Cooperative Banks – An overview

Chapter Three: Profiles of the Urban Cooperative Banks in North Karnatak.

Chapter Four: Growth of Deposits and Other Resources of the Urban Co-
Chapter Five: Credit Dispensation and Investment Dimensions of Urban Cooperative Banks in North Karnatak

Chapter Six: Financial Performance of Urban Cooperative Banks in the Study Area an assessment through Ratio Analysis.

Chapter Seven: Major Findings Conclusions and Suggestions.

8. Review of Literature:

The individual studies and efforts in appraising the performance of the urban co-operative Banks are very few. There is a dearth of current literature in the form of research work.

The study undertaken by Dr (miss) G.A Dave on "Urban Co-operative Banks of Gujarat" (1974) has focussed its attention on the role of the urban co-operative banks in financing the capital formation and in accelerating economic growth. She has examined the balance sheet items of 100 sampled Urban Co-operative banks in Gujarat. Her study is more of narrative type but logical in presentation.

Dr. S. Nakkiran of Tamil Nadu has conducted a research study on "Financial Policies and Products of Urban Co-operative Banks in Tamil Nadu" and submitted his thesis to University of Pune for his PhD degree in 1977. In his study, he has focused on organisation and management of urban co-operative Banks and their resources mobilization and their loan practices.
In 1977 Dr. C. S. Rathod submitted the thesis on “Urban Co-operative Banks – Role and Development in India with a Special Reference to Gujarat to M.S. University of Baroda for Ph.D. degree. This study was a sample survey of 71 Urban Co-operative banks in Gujarat. He has analysed role, progress and working of Urban Co-operative banks.

Dr. K. G. Munshi has undertaken a study on “Financial Management Techniques. A Study of Urban Co-operative Banks in Gujarat State.” He has examined viability norms for the Urban Co-operative banks and financial structure aspects of Urban Co-operative Banks in Gujarat.

In 1990 Dr. (Mrs) P.P. Koli of Kolhapur, has conducted a research study on “Women’s Urban Co-operative banks in Western Maharashtra. The study has revealed that the Women’s Urban Co-operative Bank, have helped the women for their economic development both in urban and semi-urban and rural areas.”

In 1993 Dr. M. V. Gogate of Kolhapur, has conducted a research study on “A Study of Urban Co-operative banks with special references to Sangli district. The researcher has focussed the financial analysis of Urban Co-operative banks in detail by giving more importance to absolute facts and figures in the financial statements.

D.N.L. Jadhav, Shivaji University Kolhapur. In his “A study of Selected Urban Co-operative Banks” with special reference to customer
service" has highlighted the role of UCBs in providing efficient customer services.

Dr. R. V. Diwan16 has undertaken the research work on “Financial management of Urban Co-operative banks in Belgaum district” - Shivaji University Kolhapur in 1998. He has analysed financial aspects of Urban Co-operative banks with statistical techniques elaborately. He reviewed the financial structure of Urban Co-operative banks as well as capital adequacy and safety, liquidity and profitability of Urban Co-operative banks in the study area.

Dr. S.Y. Kattimani17 Karnataka University, Dharwad, has analysed the Deposit mix and performance appraisal, analysis of credit mix and credit management of Urban Co-operative banks in Karnataka.

In 1995 Dr. P. V. Naik18

The study emphasised the concept of priority sector lending and importance of (impact) of priority sector lending on income and employment by Urban Co-operative banks in Karnataka state.

Reports of Committees19

The role and importance of Urban Co-operative banks in financing the urban poor and middle class people was recognised by various communities, the study by the working groups appointed by the Central Government, the Reserve Bank of India and various state government. These
committees have evaluated the performance of the Urban Co-operative banks from time to time and have recommended measures to strengthen them.

1. In the year 1895 Sir Fredrick Nicholson recommended the dispersion of co-operative all over India as government policy. Co-operative Societies Acts were passed and implemented in the years 1904 to 1912.

2. The Maclagan Committee in the year 1850 pointed out that, Urban Co-operative societies might serve a crucial purpose in training the upper and middle classes to understanding ordinary banking principles. Therefore, the committee recommended the encouragement of the formation of urban co-operative banks, particularly in areas where joint stock, banking facilities were absent. The committee recommendations resulted in the enhanced number of non agricultural credit societies.

3. On the recommendation of Montague Chalmsterd Reform Act of 1919 the co-operative subject was transferred from Central list to State list; Bombay province was the first to enact Co-operative Society Act in 1925. Indian Central

4. Banking Committee, 1951 stated that urban banking movement would prove useful to small vendore, businessmen etc. Central Government appointed

5. Co-operative planning committee in 1945, under the chairmanship of R.G.Saraiya ultimately the committee submitted its report in 1946. Joint stock banks are not interested in developing the business of small men, because the cost of advancing and recovering them was high. It stressed the need for Urban Co-operative banks which would cater to the needs of middle and lower
class people of the society. According to the committee, urban co-operative banks by establishing close and personal relationship with the people of lower class could achieve greater creditability than joint stock banks which were interested in the serving the upper strata of the society.

6. Committee On Problems Of Urban Cooperative Banks In Maharashtra. The above committee was appointed by the government of Maharashtra under the chairmanship of V.N.Jogalekar. The committee submitted its report in the year 1976. Following suggestions are given by the committee to develop the urban co-operative banks in the state.

   a) The urban co-operative banks should be allowed to accept deposits from trusts, municipalities and statutory corporations.

   b) Housing societies should be allowed to open accounts in urban banks.

   c) The audit fees of urban banks should be linked with working capital of the bank.

   d) The urban banks recovery cases should be disposed off in a very period.

   e) The urban banks are controlled by co-operative department and Reserve Bank of India. RBI should look after only banking while the co-operative department should act according to the Co-operative Act of the state.

   The various committee and study groups sponsored by Reserve Bank of India and Government of India have attempted to study the over all
performance of urban co-operative Banks either in the country as a whole are in a state. They are:


In 1956; the Central Law Committee formed by the Government of India prepared a model bill for simplifying, rationalizing and modernizing co-operative legislation. It was circulated among all the state to be adopted with such modifications as were suited to local condition. After rural credit survey committee report, which was published by the Reserve Bank of India in 1961, several promotional measures were adopted both by central and state government and urban co-operative banks sector was left to stand on its own.

8. Madhav Das committee on Urban Co-operative Banks 1978:

In September 1977, the Reserve Bank of India appointed a committee on Urban Co-operative banks with Mr. K. Madhav Das, the executive director of Reserve Bank of India as chairman. The committee in its reports submitted in 1978; made a detailed study of the working of the urban banks, their strength, and weakness and made several recommendations to develop them further in a planned manner.


In January 1983, a standing Advisory Committee for urban co-operative banks was constituted by Reserve Bank of India under the chairmanship of the Deputy Governor in the charge of the urban co-operative banks division to advise the Reserve Bank of India on,
a) Organisational matters
b) Mobilisation of resources and deployment in various sectors including the sector.
c) Financing under the 20 points economic programme.
d) Co-ordination with other intuitions such as IDBI
e) Modalities on the rehabilitation of weak banks.

10. Marathe Committee 1991:

In September 1991, one more committee was constituted with Shri S.S. Marathe, the director, central board Reserve Bank of India as chairman to review of the policy Urban Co-operative banks and relating to the licensing of new primary Urban Co-operative banks and other related aspects. In 1985 government of India issued a notification granting permission to Urban Co-operative banks to maintain non resident ordinary Rupee Account and non resident (external) Rupee Account.


The beginning of total liberalisation of financial sector can be more specifically traced to the year 1991, after the Narasimahan committee on the financial sector reforms under chairmanship of Shri M. Narasimahan has been set up by Government of India in 1991 and the committee submitted its reports, in November 1991, covered the basic issue of operational flexibility and functional autonomy to the banking system of the country with a view to enhance efficiency productivity and profitability, and integrating, it with global
financial services. In short, the first Narasimahan committee focused its recommendations to build strong and efficient financial system.

12. Policy changes in 1996 by Reserve Bank of India:

In 1996, Reserve Bank of India made certain policy changes concerning Urban Co-operative banks.

The measures were aimed at granting more operational freedom to Urban Co-operative banks, e.g.

a. Urban Co-operative banks were permitted to extend their area of operation to rural areas, subject to the condition that they would finance only non agricultural credit activities. Well managed financially sound and operationally efficient Urban Co-operative banks having deposits of over Rs 50 crores, satisfying certain norms such a compliance with prudential manner in regard to provisioning for non performing assets, with NPAs less than 15 percent of total loans and advances and ‘A’ audit classification for three consecutive years were permitted to extend the area of operation even beyond the state of registration.

b. With a view to giving greater degree of freedom to financially strong and well managed Urban Co-operative banks for opening branches, the branch expansion policy was further liberalised. In terms of the new policy Urban Co-operative banks which satisfied certain prescribed norms were permitted to open branches at centres of their choices.
c. With a view to giving greater degree of freedom to urban co-operative banks the prescribed maximum limitation advances based on the banks demand and time liabilities was withdrawn. In view of these prudential exposure limit in respect of single borrower / group of borrower was prescribed in relation to capital funds.

d. Consequent to the notification issued under the banking regulation Act, 1949 by Government of India, the scheduled Urban Co-operative banks were permitted to undertake hire purchasing and leasing activities subject to an overall exposure limit of five percent of their total advances to each of these activities. The non scheduled Urban Co-operative banks could also approach Reserve Bank of India for undertaking these activities. (subject to an overall exposure)

e. Urban Co-operative banks having deposits of Rs 50 crores and above with 'A' audit classification and satisfactory management, were permitted to act as money changers.

f. Well management and operationally efficient scheduled. Urban Co-operative banks were permitted to undertake activities such as merchant banking business, bankers to new public issues and stock invest.

g. Urban Co-operative banks were given freedom to determine interest rates to be charges to the ultimate borrower on advances and
sanctioned to tiny cottage industrial units under section 17(2) (b1) read with section 17(4) (c) of Reserve Bank of India Act, 1934.

h. Urban Co-operative banks were permitted to invest their surplus funds in PSU bond and Equity of approved "All India Financial Institution upto 10 percent of their total deposits.

i. Scheduled / non scheduled Urban Co-operative banks were permitted to make investments in certificates of deposits issued by other financial institutions.

j. Scheduled Urban Co-operative banks were allowed to make investment in the commercial (banks) paper.

k. In order to provide alternative avenues of investment for PCBS, they have been permitted to subscribe to UTI. Upto 5 percent of their incremental deposits of the previous year subject to overall ceiling of 10 percent of their deposits.

l. In order to facilitate Urban Co-operative banks to invest their surplus funds, Registrar of co-operative societies of all the state were advised to give general permission in this regard.

13. Report of Madhav Rao panel on Urban Co-operative banks

Reserve Bank of India committee on Urban Co-operative banks has recommended that scheduled Urban Co-operative banks should achieve capital adequacy ratio (CAR) of 8 percent by march 2001.
In a report submitted to the central bank, the committee said that it is in favour of Urban Co-operative banks being subjected to CRAR (Capital Risk Assets Ratio) discipline in a phased manner, with initially lower CRAR norms being prescribed for non-scheduled Urban Co-operative banks as compared to scheduled Urban Co-operative banks.

By March 31, 2002 scheduled Urban Co-operative banks have to reach a CARA 8 percent in the next year to 9% and by March 31, 2003, on par with commercial bank, the high power panel, chaired by K. Madhava Rao (former chief secretary of Andhra Pradesh) stated in the report presented by Reserve Bank of India.

For non-scheduled Urban Co-operative banks the committee has recommended that they should reach 6 percent CRAR by March 31,2002, 7 percent in the following year and 9 percent by march 31, 2003, the report said.

Twin criteria of a strong start up capital and requisite norms for promoters eligibility should be prescribed at the entry level for the new Urban Co-operative banks, it said while pointing out that certain conceptual tools like existence of credit gap and the average population per bank office are not effective in determining the need for an Urban Co-operative Bank in a given locale.

For issuing license to new Urban Co-operative banks the committee has said that the criteria for viability standards should be dispensed with. They
should be replaced by qualitative norms like CRAR, to reference limit of non performing assets (NPAs) and operational efficiency.

The committee felt that existing entry point norms for urban co-operative banks are low and has suggested that they should be on par with smaller financial institution’s such as local area banks.

Reserve Bank of India has identified 295 Urban Co-operative banks as week as on March 31, 1999 of these 112 do not comply with the minimum capital norm of Rs one lakh. The committee has set out separate criteria for identifying week and sick bank based on CRAR; NPAs and history of losses.

Merger of sick urban co-operative banks with other Urban Co-operative banks has also been suggested by the committee including creation of rehabilitation fund by the Reserve Bank of India or an the Government which would be used by for maintaining the CRAR of the sick Urban Co-operative banks.

Branch licensing policy for Urban Co-operative banks should be on par with commercial banks according to the committee, provided they have complied with all the prudential and provisioning norms set out by Reserve Bank of India. Under legislative reforms, the committee has recommended amendments in the various state Acts so that regulation of Urban Co-operative banks would to under Reserve Bank of India to avoid the dual control regime.

Automatic conversion of primary co-operative credit societies into Urban Co-operative banks has been advised against to curtail sickness in the
sector. For good corporate governance, it has suggested that at least directors with suitable banking experience or relevance. Professional background should be present on the board and promoters should not be default to the financial system.

Pursuant to acceptance of recommendation of the high power committee on minimum capital adequacy norms headed by K. Madhav Rao, by Reserve Bank of India (Urban Co-operative banks Department) has announced the following entry point norms with immediate effect (Dec 2001)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Category of bank</th>
<th>Share capital</th>
<th>Membership</th>
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<tbody>
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<td>General category</td>
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<td>400.00</td>
<td>3000</td>
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<tr>
<td>Bank</td>
<td>B</td>
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<td>Unit Banks/ Banks organised</td>
<td>A</td>
<td>200.00</td>
<td>3000</td>
</tr>
<tr>
<td>by mahila/ SC/ST</td>
<td>B</td>
<td>100.00</td>
<td>2000</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>50.00</td>
<td>1500</td>
</tr>
<tr>
<td>Less Dev. States</td>
<td>D</td>
<td>12.50</td>
<td>500</td>
</tr>
<tr>
<td>North Estern states</td>
<td>A</td>
<td>133.33</td>
<td>2000</td>
</tr>
<tr>
<td>Least Dev. States</td>
<td>B</td>
<td>66.67</td>
<td>1334</td>
</tr>
<tr>
<td>Tribal Regions</td>
<td>C</td>
<td>33.33</td>
<td>1000</td>
</tr>
<tr>
<td></td>
<td>D</td>
<td>8.33</td>
<td>334</td>
</tr>
</tbody>
</table>
Categories of Centres:

A - population of over 10 lakhs

B - ,, of 5 lakhs and above but less than 10 lakhs.

C - ,, of 1 lakhs and above but less than 5 lakhs.

D - ,, of less than 1 lakhs

Other norms:

i) There should be at all times at least two directors with suitable banking experience or persons with relevant professional qualification i.e., chartered accountant.

ii) The promoters should not be defaults to any financial institution/banks/co-operative banks or society.

iii) No criminal proceeding should have been instituted against the promoters.

iv) Promoters should not be associated as directors with (director) any chit fund / NBFC / co-operative banks.


The Souharada Sahakari Act 2001 of Karnataka has been notified and brought into effect from 1st January 2001 as a parallel law for self reliant co-operative in the state.

Some high lights of the new Act are follows:

1. Registration process made easy; deemed registration is also provided for
2. Co-operative principles incorporated in the body of the Act.

3. Recruitment of staff and deciding of their terms and conditions is now the responsibility of the co-operative.

4. Audit by chartered accountant.

5. Division, Amalgamation, partnership of co-operative promotion of subsidiary organisation.

6. More freedom in mobilization and investment.

7. Formation of Federal co-operative at state level and mandatory affiliation of co-operative;

8. Registrar keeps the powers to settle disputes

9. The government keeps power to make rules.

**Definition of concepts**

The term "urban" specifies the area of operation of these institutions. It limits operation of these institutions to urban and semi urban place. In this sense economic improvement of the urban middle class and urban salaried people in particular and urban poor in general is the purpose of these organisation's.

The term "co-operative" indicates that these institutions are established in accordance with the Acts of the respective state. Co-operative principle one for all and all for one is the basis of these institutions.

The term 'banking' indicates the fields of activities of these institutions. They perform banking business in accordance with the banking regulation act.
1949 (as made applicable to co-operative banks) and come under the regulation of Reserve Bank of India.

Concepts used in the study:

i) Co-operative year: It is a time period beginning on the 1st July and closing on the 30th June of the year following co-operative year is the accounting years of Urban Co-operative banks.

ii) Credit: Financial assistance provided by co-operative banks & commercial banks/ Regional rural banks.

iii) Co-operative credit: Credit provided by co-operative institutions like PACS, CCBS, UCBs etc.

iv) Rural credit: A part of total credit provided to rural masses.

v) Non-agricultural credit: Credit provided to the purpose of other than agriculture.

vi) Credit mix: Pattern or composition of total credit provided by the urban co-operative banks.

vii) Cash credit: It is a financial limit sanctioned to the society up to which they can drew at any time.

viii) Banking system: The financial institution functioning in a particular district put together is referred to as banking system.

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