CHAPTER I

INTRODUCTION

The movement of urban cooperative banking came into existence with the main motto of meeting the credit needs of weaker sections in urban areas of the country that have hitherto neglected by the commercial banking sector and to promote their economic position through self-reliance on the principle of equity being governed by the democratic system which is a unique in Indian banking sector. The services of urban cooperative banks in deploying credit and rendering other services are indispensable and important for qualitative improvement in the economic conditions of poor people in urban areas and thereupon social status.

The urban cooperative banks mobilize their own resources from the myriad surplus income savings of weaker sections in the form of deposits for carrying on business on the sound lines with the common canon of openness to all the members. This principle has made the urban cooperative banking a vibrant in Indian cooperative movement and made rigorous progress in banking business.

GENESIS OF URBAN COOPERATIVE MOVEMENT

The history of the urban cooperative banking movement in India can be traced to the close of nineteenth century when inspired by the success of experiment related to the cooperative movement in Britain and the
cooperative credit movement in Germany. Indian Cooperative Movement which was born in 1904 is the largest voluntary organisation came into being for well-being of people at large and the benefit of weaker sections on the principle of equity which is a pre-condition for the involvement of people in the process of the conduct of business development. The cooperative movement, thus, is an effective and efficient instrument to alleviate poverty. Vesa Lakkonen (1974) has considered cooperative movement as: “Cooperation is considered on integral part of social welfare policy.”

The Government of India has recognized the important of starting of institutions in towns by a group of non-agriculturists as non-agricultural cooperative credit societies which were expected to grow themselves. It is appropriate to remember the opinion of Maclagan Committee which said thus: “The interest on loans paid by the urban people should not lower than that charged to agriculturists. Any form of organization such as cooperative society has a tendency to alleviate poverty is the worthy of support. For one reason or other, that must eradicate the poverty of urban society, extend cooperation among the non-agricultural classes provided with the provision of carefully supervision and controlled.” As result, a number of urban cooperative credit societies came into existence.
A cooperative institution is a collective social action, but its true potential is lost if its value undermine once the State Government took the responsibility of its development and growth. The State Government being the regulator of cooperative movement in the State with the public interest is expected to define the needs to be served; where and by whom in the interest of uplift of the poor and the weaker section people who deserve in urban areas. This approach entirely changes the contents in the procedure and policy in which the urban cooperative banks had been fashioned and crafted strategies for pace progress of urban cooperative movement and promoting the economic condition of quality life of weaker sections in the society.

The cooperatives have, in India, emerged out of official policy, expanded largely in the post-independence era. The urban cooperative banks have come a long way since the enactment of the Cooperative Societies Act, 1904 with an extensive coverage with local operational work-base. They helped in enlarging the ambit of institutional credit by way of providing banking access to the urban and rural masses and cultivating the banking habits among the poor for whom the formal organizational system is unreached and, thus, a vehicle for demonstration of the Indian financial system.
URBAN COOPERATIVE BANKING

The urban cooperative banks held a prestigious position in the field of cooperative sector and are very significant component in the States in Union of India as urban credit system has a strong resource base. To-day, the presence of urban cooperative banks an immense felt-need in the arena of business operations in the present day banking business; describing them as ‘friend-of-poor’ and the borrower as ‘friend-of- urban cooperative banks.’

The dream of cooperation has inspired by the founding fathers on whose sincere efforts, the urban cooperative banks functioning was put on the sound principles with which achieved robust progress adhering to the cooperative spirit of helping the weaker section people. The working of urban cooperative banks disclosed a factual observation as: “An unprecedented growth in the number of urban cooperative banks up to 2003 at all India level and ironically, also led to certain weakness that adversely affected the public perception.”

The role of urban cooperative banks is a memorizing by the means of rendering the untouched or unreached and weaker sections in the urban society, and continued in conduct of business operations in the ever-changing competitive environment. The development of weaker and the priority sector need to be monitored by the urban cooperative banks with the principle of equity as strength to the weak. The survival of the urban
cooperative banks is heavily depended on the improvement of the socio-economic conditions of weaker sections and their repaying capacity. Hence, a need arose on them for development of professionalism in the management of urban cooperative banks which is a high order in the competitive era both within the sector and outside the sector. The prudent management would sharpen the core fitness with the competency and devise a market driven business strategy appropriate to the circumstances of the situation to the urban cooperative banks in the country.

The urban cooperative banks hailed as an important constituent of multi-agency banking system in India. Without the State Government participation or support from its agencies, they cater to the requirements of small entrepreneurs and thus, have developed a niche market in the priority sector. But, it is quality that has deteriorated over the years due to the excessive patronage which is extended by the Government. These institutions, consequently b have been transformed into appendages of the State administrative approach. Hence, there is an urgent need to reorient the cooperative credit institutions in India including urban cooperative banks. The need to reorient has arisen due to neglect of urban and rural poor by the other financial institutions in the market. The role play of urban cooperative banks which is established with infrastructure for promotion of socio-economic status of people particularly weaker sections; they do render banking services to the
urban and semi-urban areas with a view to creating opportunities for self-reliance of people. Their focus on activities is as flows.

- To inculcate thrift and self-help among the members and attract deposits from the surplus income savers of myriad people
- To render banking services including credit to the needy urban weaker sections and the segment of priority sector in urban areas
- To improve the economic conditions of urban people with its sound and effective banking policy

**ROLE OF URBAN COOPERATIVE BANKS**

Among various financial institutions which mobilise deposits and deploy funds to the needy urban borrowers, the urban cooperative banking has emerged as the main functionary in meeting the banking services as well as the credit needs of them. They also do the business with simplicity; involvement and commitment, and render the valuable services. They emerged on account of commercial banks which could not show considerable interest in meeting the credit needs of small means of people in urban areas, which aroused the need for. Primarily, the urban cooperative banks are meant to uplift the poor and deserved weaker sections.

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come a long way since the enactment of the Cooperative Societies Act, 1904 with an extensive coverage with local operational work-base. They helped in enlarging the ambit of institutional credit by way of providing banking access to the urban and rural masses, and cultivating the banking habits among the poor who are unreached by the formal organizational system.

The urban cooperative banks were established to provide much needed financial assistance to the poor section of the society and safeguard them from the clutches of money lenders who charge a high rate of interest and, thus, to-day have a unique position in the banking and financial system in the country. The commercial banks were class-banks and their security-oriented loaning operations denied the financial service to the weaker section people. This trend cannot be allowed further as it has its own effect on social, economic and cultural value of people which resulted in emergence of the urban cooperative banks even before India’s Independence.

The Bombay Mercantile Cooperative Bank Ltd. (BMCB) was established in 1939. Things were in new bad shape at that period. The money market was tight and was opened only to the elite sections of the society who can provide security. The small traders, hawkers, push cart sellers and house-to-house sellers were particularly under the severe strain. They were not only able to get financial help from the commercial banks but were financially excluded by the commercial banks and other formal banking
system. The only source available to them was money lenders. Unfortunately due to their charging exorbitant interest rates, the traders were sinking deep into indebtedness. To come out from the clutches of system and to promote socio-economic equal society, there emerged the cooperative banks which came forward and provided much need financial assistance to the needy sections of society. “Today, the urban cooperative banking sector is one of the strongest sections in Indian cooperative movement.”

Like the different stages of development of cooperative credit societies changed the rural life of the people, the urban cooperative banks have changed the life of urban and semi-urban people through improvement in their socio-economic conditions. It is fact that the urban cooperative banks essentially collect local surplus savings and provide them as credit to the small traders and middle class people especially engaged in non-agricultural activities in towns and urban areas. The growth rate of deposit mobilization and deployment of credit has remarkable progress by the urban cooperative banks compared to the commercial banks.

Banking industry plays a vital role in economic growth of the country. At present, banking industry is undergoing radical transformation. If banks offer better services to the customers, it ensures effectively the banker and the customer relationship. Meeting the expectations of customers is one of the biggest challenges of the urban cooperative banks. The urban cooperative banks are counterparts of primary agricultural credit societies.
in rural areas and parts of commercial banks in urban areas providing credit to small entrepreneurs who had neglected by the latter. Reddy C R., and Sreenivasulu, V., viewed this: “The democratic elite, proximity and familiarity with the urban clientele and personalized touch are the distinctive merits of the urban cooperative banks which enjoyed in their noble tasks as strongest section in Indian cooperative movement.”

Despite several years of operational experience, the financial performance of many urban cooperative banks is not up to the mark. The introduction of aspects such as good governance, sound investment policy, commitment to better customer service and focus on newly emerging business areas like microfinance is expected to strengthen the urban cooperative banks. Transparency and compliance of the cooperative banks will have to gear up and prove their worth in order to survive in this changing world.

In the present competitive environment, the urban cooperative banks need to offer superior services and one of the most challenging tasks is to retain the customer base. The urban cooperative banks need to bring about total customer-orientation not only in their product and service, but also in their policies and strategies with focus on their customers. Identification of genuine profitable customers, understanding their needs and preferences, improving the delivery system and reducing the transactions costs are the need of the hour. If urban cooperative banks do not take care of customers, they may lose the customers.
The business process of re-engineering strategy be designed keeping in mind the Reserve Bank of India’s prudential norms for enhancing the bank capability to progress. The Reserve Bank of India also suggested indirectly that the urban cooperative banks which do not meet the prudential norms will not sustain in the ever changing competitive world. Therefore, the management of urban cooperative banks has to adopt the suitable draft strategies for their survival for achieving their goals.

**WHAT COMMITTEES SAY?**

The term urban cooperative bank, though not formally defined, refers to primary cooperative bank located in urban or semi-urban area. Till 1996, the urban cooperative banks were allowed to lend money only to non-agriculture purposes and were rationally centered on communities, localities and various work place groups. Essentially, they lent small borrowers and businessmen. Today, their scope of operations have widened considerably. From its origin till today, the thrust of urban cooperative banks has been on mobilizing savings from the middle and low surplus income of urban people and providing credit to their members, many of which belong to weaker sections.

Historically, the urban cooperative banks have an important role to play, as felt, by a host of committees. The Indian Central Banking Enquiry Committee (1931) felt that urban cooperative banks have a duty to help the small business, and lower-middle class people. The Mehta-Bhansali
Committee (1939) recommended that those societies which fulfilled the criteria of urban cooperative banking should be allowed to work as banks. The Cooperative Planning Committee (1946) went on record that the urban cooperative banks have been the best agencies for small people in whom the joint stock companies are not interested. The Rural Banking Enquiry Committee (1950) recommended the establishment of such urban cooperative banks in smaller places than taluks and towns. The first report based on the Study of Urban Cooperative Banks by the Reserve Bank of India (1961) recommended the need to establishment of primary urban cooperative banks in the new centres and suggested the State Government should lend active support to their development.

The Varde Committee (1963) stated that such urban cooperative banks should be organized in all the urban centres with a population of 1 lakh or more, and not with single caste or community. It also recommended the idea of minimum capital requirement and the criteria of population defining the urban centre where urban cooperative banks were incorporated. The Damry Group (1968) broadened the scope of activities of the urban cooperative banks by recommending that they should finance small and cottage industries. This recommendation was accepted by the Banking Commission (1969) and the Madhav Das Committee (1979).

The Hate Working Group in (1981), the Marathe Committee (1979), the Madhava Rao Committee (1999), the Ananth Geeth Committee (2000),
etc., have recommended various measures to strengthen and streamline the operations of urban cooperative banks. Many other Committees studied about the working of urban cooperative banks and have recommended solutions that those societies which have fulfilled the criteria of banking should form as an association for small means of people.

**PRUDENTIAL NORMS**

The Reserve bank of India has taken a number of initiatives relating to professional management of business being called prudential norms in ever-changing competitive business of banking in consonance with the initiation of banking sector reforms to strengthen the urban cooperative banking sector also to:

- Align with the rest of financial sector
- Decide the future of weak entities
- Improve corporate governance
- Resolve the issues emanating from dual control

The measures that undertaken for revamping the urban cooperative banks are summarised briefly as:

**CRR and SLR:** Earlier, unlike the commercial banks, the urban cooperative banks were exempted from the provisions Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). In the recent time, different
norms are prescribed, for instance, Statutory Liquidity Ratio holdings in Government and other approved securities. From April 2003, all the scheduled urban cooperative banks are required to maintain the entire Statutory Liquidity Ratio in Government and other approved securities. A fund called Investment Fluctuation Reserve (IFR) from the profits to mitigate the risk arising from such investments. The Cash Reserve Ratio maintains at 5 per cent from October 2, 2004.

**Capital Adequacy:** Though the urban cooperative banks were exempted from the conditionality of capital adequacy norm in the past, they by March 2004 need to fulfil the CRAR of 9 per cent. It is expected to provide the soundness and stability to the urban cooperative banks and protect the interests of the depositors.

**Flexibility and Freedom:** For improving the profitability and competing effectively in the market, the urban cooperative banks are given flexibility in deployment of surplus funds in equity and bonds/shares of the All India Financial Institutions.

**Assets Classification:** The urban cooperative banks have to make full provision of 100 per cent for non-performing assets classified as doubtful for more than three years’ category. To ensure greater transparency, the time period for reckoning an advance as non-performing aspect has been reduced from the existing norm of 180 days to 90 days with effect from March 31, 2004 except gold and other small loan sup to $1 lakh.
**No Loans to Director:** To stop self-interest of Directors, sanction of loans to the family members and the relatives of Director without adequate security from October 1, 2003 as per the Joint parliamentary Committee (JPC) has been stopped.

**Professionalism of Management:** For improving the corporate governance, it is mandatory for all the urban cooperative banks to have at least two directors on the Board of Management with relevant and rich banking experience or Chartered Accountants with bank audit experience. The urban cooperative banks are advised to constitute an Audit Committee to review the internal audit, statutory audit and the Reserve Bank of India inspection report.

**REVIEW OF LITERATURE**

Review of earlier research work done on the issue of urban cooperative banks would throw light on the need for the present and policy prescription as well. The contribution of urban cooperative banks in promoting the socio-economic status of the weaker sections and the nation’s economic development has been recognized as a progressive key factor. The urban cooperative banking sector has been attracted the attention of many researchers, academicians and planners. A humble attempt has been made to review the earlier research studies on the study of subject. Some of the related studies on the subject taken up by
the researchers as well as institutions are reviewed to know and to felt need of the present study.

Amin is of the opinion that “urban cooperative banking movement has been, to a greater extent, self-reliant in most of the States and in the cooperatively advanced and progressive States wherein it has developed on a sound footing of its own and has eye-catching achievements.”

Venkataraman examined the sources and use of funds by urban cooperative banks keeping in view of the optimum relations. He said that on a working capital of $3000 crore, the annual return by the way of profit has remained comparatively low at $80 crore despite the economy availability in expenditure measures. Further, he emphasised on the basic needs to improve the financial management in urban cooperative banks.

The emphasis is on the:

- Faster rotation of funds
- Modified lending pattern and policies
- Choosing of proper clientele

Bansal has thoroughly examined the working of urban cooperative movement and observed thus: “The urban cooperative movement has growing stronger day-by-day and become self-reliant.” Rajendra Singh the then Honourable Minister for Agriculture and Cooperation has pointed out that “the urban credit sector had made strides in the recent years.
Further, he mentioned that the urban credit movement had acquired a special importance in the content of increasing urban population in the country.\(^9\)

Man Mohan Singh, the then Governor of Reserve Bank of India expressed the motive role of the urban cooperative banks in India as: "The urban cooperative banks play a very useful and purposeful role in promoting the habit of thrift and savings; and a major portion of their advances was to help the persons of small means as well."\(^{10}\) On the study of urban cooperative banks, Rage has categorically observed that "the urban cooperative banks have made satisfactory progress only after they came under the control of Reserve Bank of India. They banks are progressing on the strength of their own funds."\(^{11}\)

Gotawale, S.R., the former Honourable Minister for Co-operation, Government of Rajasthan has critically noticed that "17 urban cooperative banks are working in the desert State of Rajasthan and 32 per cent of their loans had been provided to the weaker sections of the urban society."\(^{12}\) Adiseshaiah who expressed his opinion on urban cooperative banks as: "Almost all the urban cooperative banks were self-reliant"\(^{13}\) The interfering by the State Government as well as the Reserve Bank of India is hindering the progress of urban cooperative banks in the country.

Krishna Rao, the ex-president Andhra Pradesh State Cooperative Town and Urban Cooperative Banks Federation Limited, expressed his opinion
as: “The infinity of urban cooperative banks in Andhra Pradesh is to comply with the Reserve Bank of India’s directive of 60 per cent of loans should be provided to priority sector.” An inferential conclusion that Patil drawn is as: “The urban cooperative banks have registered a considerable progress in making the need requirements of the persons of small means.”

Subscribing to the view of the Maclagan Committee, Patil on urban cooperative banks opined thus: “The urban cooperative banks are an ideal institutions to meet the credit and banking service requirements of small means like the low-middle class people, wage earners, labour class, small traders and entrepreneurs, artisans, blacksmiths etc.” On critically examination the working of urban cooperative banks by Singh who drew his conclusion thus: “All is not well with the working of urban cooperative banks. There is certainly a difference in their concept and practice. A strong view on part of urban cooperative banks is that the checked all the deficiencies and unhealthy trends which to give a true urban bank character.”

A prudent management is required for the effective governance of modern banking as it involves the complex procedure including feasibility report on the project on which loan sought by the borrower. Hence the need arise on the professional management in modern banking. In view of this, Vax has reported that “banking is becoming highly technical and, therefore, a professional outlook is inescapable. Adoption of modern
techniques in management of accounts and customer services should be given high priority. The services of mechanisation and computerisation are now the order of the day and being introduced in commercial banks. The urban cooperative banks cannot lag far behind, and the mechanisation may be introduced slowly and gradually looking to the size of capacity of a bank.”

Thyagarajan has reported that “a multi-pronged and consultative approach adopted by the Reserve Bank of India to prevent deceleration of economy and strengthen the urban cooperative banks. It is hoped that the adopted several measures in the recent years resulted in turnaround the urban cooperative banks tuning the fine health of them.” The ex-Chief General Manager of Reserve Bank of India, Ratnakar Deole has diligently observed on the working urban cooperative banks thus: “The failure of Madhavapura Cooperative Bank alone in Gujarat State in 2001 has made the entire cooperative sector, as a whole, suffered a severe setback affecting the confidence of public. All this made a rumour causing the deposits of even well and financially sound cooperative banks resulting in large withdrawal of deposits.” A study on urban cooperative banks is studied which are facing the following (a) internal challenges, (b) external challenges by Kulakarni P.B.

The former includes (i) management weakness, (ii) financial problems, (iii) technological challenges; (iv) need to improve efficiency of the employees and (v) customer oriented services
The latter covers recent challenges including the Reserve Bank of India policy initiates covering fresh licenses sanction. In its Annual Policy of 2004-05, Reserve Bank of India has clearly stated about stopping the fresh branch licences. This was a draft of the Vision Document for the sector to outline the frame work that would facilitate strengthening the sector.

Keeping certain objectives, the Reserve Bank of India has finalised the vision document on the urban cooperative banks containing the as:

- Rationalisation of existing regulatory and supervision approach
- Identifying the unviable entities
- Addressing the problems of dual control

The urban cooperative banks play a key promotional role. In this regards, Pranjothi critically observed in drawing conclusions as: “In the development process like credit delivery and deposits mobilisation from the persons of small means, the services provided by the urban cooperative banks are so essential and important for qualitative improvement in terms of improving the economic conditions of poor in the urban area.”

The strategic management is utmost necessary in modern management of banks successfully in attaining their goals. On diagnosing the urban cooperative banks, Junare, S.O., detected that “the bankers and urban cooperative banks should decide first the strategies for regaining the
public confidence by organising campaigns, seminars, workshop and highlight the achievement, values and ethics of the cooperative sector in general and urban cooperative banks in particular.\textsuperscript{23} “The story of development of urban cooperative banks in the State Karnataka reveals that all is not well in the State and in the post-liberalisation period they have landed in a situation making them either to perform or perish” is the conclusion of Patil M.B.\textsuperscript{24}

Banking technology has greater impact on banking business on one hand and ensure speedy of transactions to the borrowers. Sonia Chavan has reported that urban cooperative banks have to tune to a wide range of electronic systems including home banking, tele-banking. Automated Teller Machine (ATM) services, etc., the customers do not want to carry cash but usage of various plastic cards i.e., credit cards, debit cards and smart cards in their banking transaction.\textsuperscript{25}

As a facility, the banking should always consider the request of customers considerately. According to Arvind G. Deshpande who reported this: “The Reserve Bank of India should take a sympathetic view in extending relaxations to the urban cooperative banks particularly grading them whose performance in the area of non-performing assets has fulfilled the norms.”\textsuperscript{26} Kulkarni A.V., in his study on the working of the urban cooperative banks has made that “Reserve Bank of India guidelines, banks policy and procedures should ensure a better performance of the bank leading success and achieving the conclusion.”\textsuperscript{27}
On mergers and acquisitions of urban cooperative banks, Shireesh Kulakarni observed a critical view. It is thus: “The merger and acquisitions would finally hits the shores of cooperative banking. There is no disruptions in business operations of banking system for filling up economy of the country. The Reserve Bank of India said that “the consolidation drive is aimed at a non-disruptive exit of weak urban cooperative banks”.

Sumithra Cowaikar in his study analyzed the expenditure and reported thus: “It is necessary to curtail the superficial expenditure. Efficiency in every respect needs to be enhanced the corporate Government leading to success. Reserve Bank of India directive must be strictly followed by the urban cooperative banks. It is quite essential to build-up reserves for developing the capacity to compete with other banks.”

In the modern environment, Mariappan V., studied a study on urban cooperative banks and reported as: “Urban cooperative banks take the cognizance of the present business environment. The future banking operations for which the foreign banks are waiting to enter in a big scale, to design suitable strategies with regard to the operational issues, functional issues and structural issues. The Management needs to issue measures for meeting the competition.” The role of banking is supposed to improve the economic conditions by actively involving in the anti-poverty programmes of the country.
The urban cooperative banks have reached a stage where their role in the goals of national development has become increasingly important. Fresh business of banks inevitably depends on recovery of loans lent. On this issue, Pandit P.T., has conducted a study and reported this: “Cooperative urban banks do recover loans lent as their banking business depends upon it. The initiative to improve the recovery performance should mainly come from the urban cooperative banks themselves.”

According to Arvind G. Deshpande, the urban cooperative credit sector is the oldest sector of the cooperative movement which has a vast potential looking at the vital role it is playing at present in the economy and creating employment generation.

The performance of urban cooperative banking movement has to become more energetic and rigorous in performance in tune to the business goals. Asthana, A.K., has perceived that “the urban cooperative banks as a part of short-term cooperative credit structure have emerged as a vibrant part of Indian financial system.” The observation of Nadkarni, R.V. on the working of urban cooperative banks is this: “The overall performance of urban cooperative banks in respect of their numbers, membership, share capital, reserves, deposits, borrowings, loans and advances, recoveries has been commendable.” In the study conducted by Ramesh, K., has noted that “the urban cooperative banks play an important strategic role in meeting the growing banking needs of middle and lower income group apart from assisting weaker sections.”
A Standing Committee for Urban Cooperative Banks constituted by Reserve Bank of India in January 1983 under the Chairmanship of the then Deputy Governor in-charge of the Urban Bank division. The committee advised this: “The urban cooperative banks do strengthen on various aspects such as organisational matters, mobilisation of resources and their deployment in various sectors including the priority sector, coordination with other institutions, training and education of personnel in the urban banks.”

In pursuance of the recommendation of the First Standing Advisory Committee, a circular has issued by Reserve Bank of India on September 9, 1983 that the urban cooperative banks had been directed to achieve the target of 60.00 per cent of their total advances for the priority sector lending by January 30, 1985.

The Vision Document published by Reserve Bank of India has recognized that the urban cooperative banks are an important part of the finance system in India. The document clearly spells-out this: “The urban cooperative banks should emerge as a sound and healthy network of jointly owned by the Board and the management which democratically controlled and ethically managed banking institutions providing the need based quality services of banking, essentially to the middle and lower middle-class and marginalized sections in urban and semi-urban of the society.”
Venkataramana analysed the sources and uses of funds of urban cooperative banks and expressed that “faster rotation of funds with modified lending pattern and policies and choosing of proper clientele are the needs to improve the financial management in urban cooperative banks.”\(^{40}\) The Committee on Urban Cooperative banks reported that “the urban cooperative banks are eminently suitable for filling-up the existing credit inadequacy in urban and semi-urban areas at comparatively lower.”\(^{41}\) The Gujarat Urban Cooperative Banks Federation stated that “the urban cooperative credit and banking sector in the well developed States such as Gujarat, Maharashtra, Karnataka and Tamilnadu have been made good achievements due to the efforts of the dedicated cooperative leaders and social workers; and due response of the urban population.”\(^{42}\)

Of all the inputs factors in any enterprise, the one input which being made use of the other inputs on its availability is the capital. Schumpeter J.A., spoke of credit as “a phenomenon of development.”\(^{43}\) On the impact of reforms on the growth, functioning and performance of urban cooperative banks in India, Raikar observed that “the performance of urban cooperative banks is better as compared to other banks. But due to the application of prudential norms, their performance has deteriorated since 2001-02. Imposition of norms by Reserve Bank of India, the performance is improving and improved the confidence among people.”\(^{44}\)
On evaluation of the performance of urban cooperative banks in Kolhapur district, Teli concluded that “the urban cooperative banks showed a considerable growth in deposits, loans and net profits but coupled with overdues too. Diversification of the loan portfolio and increase of income from other sources with transparency in working for rebuild the confidence avoiding political interference is must.” There are some other studies which discussed and reviewed the functioning of urban cooperative banks in India for their healthy growth.

Though found valuable suggestions in the above review of literature on account of independent working for achieving the measure of economic feasibility and commercial viability but they could not achieved their set goals in servicing people and the suggestions made in them have become outdated in the changing context of environment today in which the issues like non-performing assets and prudent management are essentially the core aspects in the sphere of banking system.

**STATEMENT OF PROBLEM**

Having realised the vital role of the urban cooperative banking sector, the Government of India has extended its help and encouragement particularly after implementation of social control in 1968. Urban poverty is the flow of rural poverty. In providing credit in urban society to the weaker sections, the commercial banks have been neglected them. In promoting the economic interest of the weaker sections of the urban
society which is one of the national objectives, the urban cooperative banks are entrusted with the responsibility of financing on priority basis of small means of urban sector like trader, artisan, merchants, workmen like carpenters, blacksmiths, mechanics, self-employed, small transport operators, etc. The opened issues are:

- Have the urban cooperative banks been able to cover the poor people of urban society?
- Have they been effective in credit deployment and recovery?
- Have they been adopting prudent management in conduct of business?

The urban cooperative banks though rendering the services to the needy weaker section people; the performance is not viably sound as the academia had a feeling that they have no better performance and have become a prey in mounting overdues due to varied reasons. Mounting overdues is the major factor responsible together no fulfilment of the norms of non-performing assets. Keeping all these, the need for the present investigation arise on finding the logical reasons of and the causes for such state of affairs. Hence is the present investigation.
OBJECTIVES OF STUDY

The main motto of the urban cooperative banking is to promote the socio-economic status of the small means of people of urban society. The focuses of the specific objectives of the present study are given below.

1. To diagnose the macro analysis of urban cooperative banks
2. To study the sources of funds and deployment of funds of banks including priority sector finances
3. To examine the management of funds
4. To analyse the managerial performance
5. To suggest remedial measures on the findings of the study

METHODOLOGY

The present study is confined to the functioning of urban cooperative banks in the Union of India with focus on the sample urban cooperative banks working in the City of Bangalore which is the capital of Karnataka State. A two-stage sample design was adopted in selection of urban cooperative banks and respondents for study. A list of urban cooperative banks working in the City of Bangalore has collected from Karnataka State Cooperative Urban Banks Federation Limited. From the list four urban cooperative banks operating at different areas of Bangalore City are selected as sample urban cooperative banks.
The thrust of present study focus is on the aspects of urban cooperative banks for the weaker sections in the study area of Bangalore city. The aspects covered are sources of funds, deployment of credit, recovery of credit, flow of funds and managerial performance including democratic management. The study covers a period of seven years from 2005-06 to 2011-12. The study is empirical in nature.

**SAMPLE SELECTION**

A two-stage sampling approach is adopted in the present study. In the first stage, the selection the urban cooperative banks for the study for which the criterion of overdues to owned funds was adopted. If the overdues are less and more than 40 per cent of owned funds, then the urban cooperative banks are termed as better bank and average bank respectively. Two urban cooperative banks from each group having the highest and lowest percentage of overdues to owned funds were selected for the study. Thus, four urban cooperative banks were selected from the list prepared with 40.08 per cent, and 41.24 percent, 48.72 per cent and 59.66 per cent of overdues to the owned funds. The selected four sample urban cooperative banks for study purpose are (i) The Bharat Cooperative Bank, (ii) Thyagaraja Cooperative Bank, (iii) Sri Subramanyeswara Cooperative Bank and Amanath Cooperative Bank.

The selection of households who availed the services of urban cooperative banks is concerned itself in the second stage. A pre-designed schedule
was administered to 160 respondents for eliciting their opinion on the working of urban cooperative banks from which they availed services and suggestions for strengthening them. This sample of 160 was selected at the rate of 40 each from four urban cooperative banks. Whoever coming out from the sample urban cooperative banks after availing the services of them banks were administered the schedule. For the purpose of eliciting opinion including suggestions, four intervals were adopted each spreading a period of 15 to 20 days. The collection of response from the respondents was conducted and completed during the span of four months from April to July 2012. Due care was taken in getting information from the respondents and also re-checked on phone which collected from them at their first met.

**PROFILE OF STUDY AREA**

A woman offered the cooked beans to the king who accepted wholeheartedly. The prince named the place as Bendakaluru (place of boiled beans) which becomes Bangalore in course of time. Bangalore which is the capital of Karnataka State is one of the fast growing urban centres in India and the world as well. Its geographical location in the South Indian and congenial climate has contributed to its growth; the reasons for this phenomenal growth are urbanisation of rural units and incorporation of the surrounding areas on a continuous basis over the years. At present, Bangalore is in the forefront of many areas such as science, politics, business and arts; and finding its voice in the world.
Bangalore is a favourable place for informal workers but has become a haven for a large number of informal workers who find job in an unorganised business which includes papad and envelop-making, beedi-making, umbrella repair, repairing shoes and electric equipment to electronic devices. It also includes tailors, rag-pickers, petty-shop owners, pan and catwalks, recyclers, vendors of old newspapers, newspaper distributors, real estate agents, cooks, small and large hoteliers, bangle sellers and polishers of granite and stones. Around 5000 people are migrating to the City of Bangalore on various streams, be it for employment, relocation, marriage, business or education.

Industrialisation is a driving force for rapid urbanisation. Various mills such as Mysore Spinning and Cotton Mills, Government Soap Factory, Minerva Mills, Mysore porcelain Factory and Mysore Lamps had started working in and around Bangalore. There is a concentration of giant industrial units serving the heavy machine tools, electricity, aircrafts, telecommunications, railway wheel and axle plant (WAP), watch factory, etc. In addition, the manufacturing of perfume-sticks and banking are important industries. Once the City of Bangalore was an area of 68 Sq.kms has, now, reached to 2978 Sq.kms. Today, the structure of city has changed and improved beautification, the city has been called in different ways such as garden city, air-conditioned city, pensioners Paradise, the model city of the model State, beautiful city and centre of technology and commerce.
DATA SOURCE AND COLLECTION

Both the primary and secondary data was used in the present study. The secondary was compiled from the annual report of the sample urban cooperative banks, Reserve Bank of India – Currency and Finance and other published sources. The primary was collected from the customer-respondents in relation to various parameters adopted by the sample urban cooperative banks for the good corporate governance and the assessment of the customers satisfaction. Interview was held with the Directors, managers and bank officers for knowing the extent of practice of governance of the urban cooperative banks.

DATA ANALYSIS

The compiled and collected data were analysed and presented in the form of tables for arriving on the functional analysis to interpret the results. To get clear picture of the different variables over a period of time and their operational consistency, average is used. The Coefficient of Variation is used to know the variation in the progress of business variables during the period. The less the coefficient of variation, the more is the consistency or uniformity.

A linear growth rate is studied to know the operational efficiency of sample urban cooperative banks. The elasticity of funds use is applied to know the measure of efficiency and utilization of funds. The tools applied for the variables of membership, share capital, reserves, owned funds,
deposits mobilization, credit deployment and recovery of credit. To explain the recovery (independent variable) involvement in lending credit (dependent variable) Karl Pearson’s Correlation Coefficient is used. The formulas of the tools studied in the study are:

(1). Coefficient of Variation (CV) = S.D/Mean x 100

(2). Elasticity of Funds Use (E_u) = \( \frac{\Delta U}{U} \)

\( \Delta U = \text{Change in use of funds} \)

\( \Delta S = \text{Change in source of funds} \)

\( S = \text{Total source of funds} \)

\( U = \text{Total use of funds} \)

(3) Break-Even-Point (BEP) = FC/CR

\( \text{CR} = \text{AR} - \text{VC} \)

\( \text{AR} = \text{TR/OP} \)

\( \text{VC} = \text{VC/OP} \)

Where,

\( \text{FC} = \text{Fixed cost} \)
CR = Contribution ratio

AR = Average revenue

VC = Variable cost per unit

Op = Total output

TR = Total revenue

RATIONAL OF STUDY

The findings the on empirical and analytical approach of this study has been made suggestions for sound operations of urban cooperative banks. The suggestion made on logical conclusions would certainly help in framework and prescription of policy to the urban cooperative banks in the study area or elsewhere in the country. Further, the study will add literature to the subject.

LIMITATIONS OF STUDY

The present study is based on the performance of urban cooperative banks and drawing logical conclusions on which offering suggestions. The study is based on the secondary and primary data; these two types sources of data are subject to the limitations – the former is take on figures appeared in annual reports while the latter is subject the memory remembrance of pact events.
CHAPTER PLAN

The report this study is divided into seven chapters. The first introduces the subject, review of literature, statement of problem, objectives, methodology, data source and collection, data analysis and chapter plan. The methodological issues are present in the first chapter. In the second chapter, organization and management of urban cooperative banks are discussed. The macro-analysis of urban cooperative banking at all-India is examined in the third chapter. The sources and deployment of funds of sample urban cooperative banks are diligently examined in the fourth chapter. Financial analysis of sample urban cooperative banks in terms of operational efficiency including the managerial performance of sample urban cooperative banks is found in fifth chapter. Perception of respondents is diagnosed in the sixth chapter. Conclusions and suggestions on the working urban cooperative banks are dealt in the last chapter.
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