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C H A P T E R -II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 INTRODUCTION

Banking as an industry is primarily concerned with development of savings in the forms of deposits and channelling the amount of such deposits in the form of advances for the productive activities in the economy. The banks are financial intermediaries to ensure even and smooth flow of funds in the various sectors of the economy. In the developing countries like ours where capital is scarce factor or the role of banking remains more pronounced.

The banks along with other financial institutions are called upon to meet two ends namely approaching the large number of people with small amount of savings to mobilise the deposits and having such funds collected to invest the money in such a manner that the investment profile will satisfy the requirements of CRR, SLR, & lending to priority sector. Moreover the banks are also expected to maintain their reasonable level of profitability.

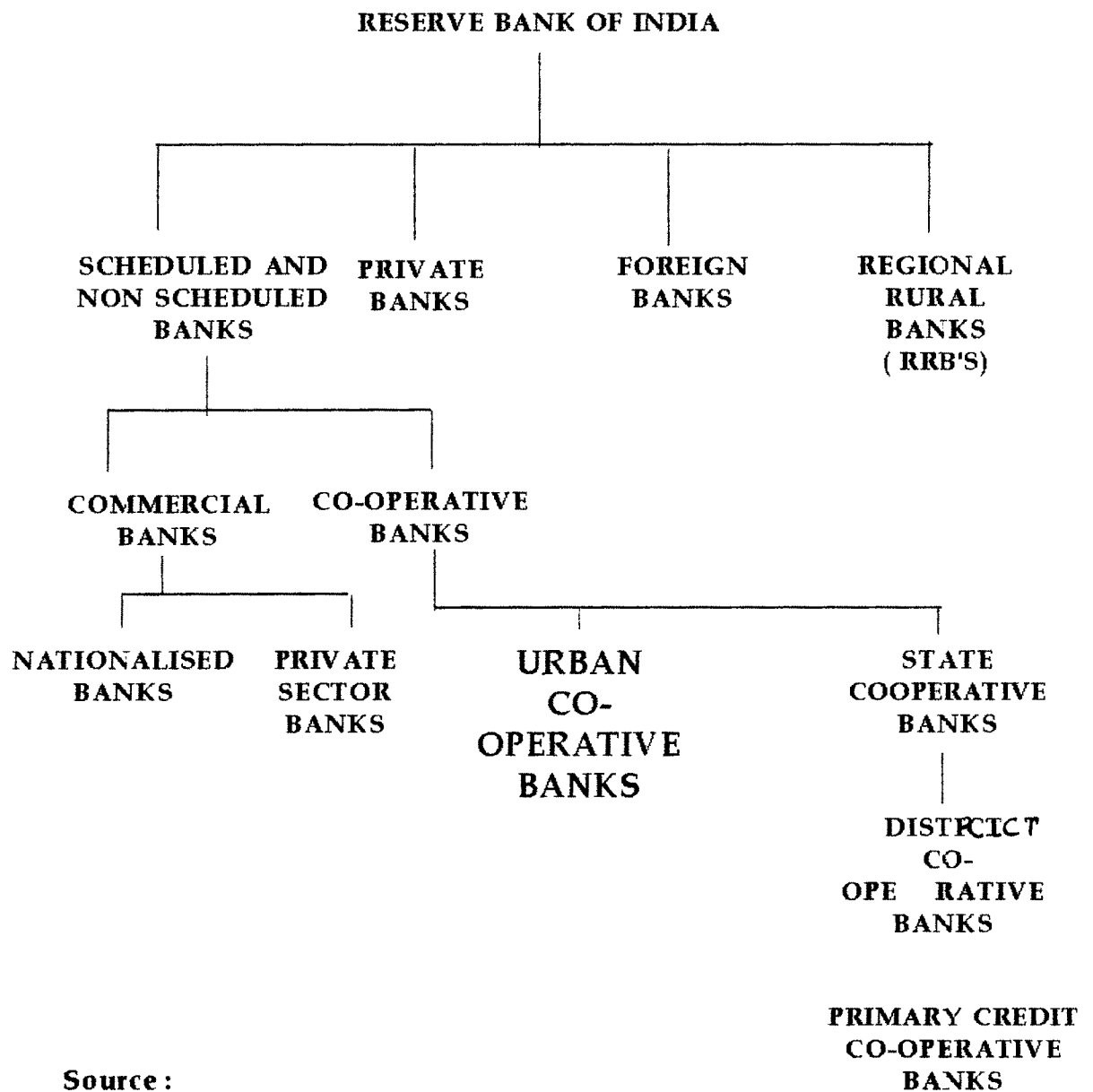
2.2 BANKING SYSTEM IN INDIA

Initially banking system in India was evolved by the industrialists and business houses to meet their own financial needs. Most of the banks were joint stock banks varying in origin and size. In 1935 the central bank of India i. e. R. B. I. was established R. B. I. plays the role as a

lender of the last resort acts as a fiscal agent of the Govt. . controls the currency and regulate credits.

In July 1955 S. B. I. was established by nationalizing the Imperial Bank of India . In 1969 other 20 major commercial banks were nationalized .Now this constituted major share of Indian banking system known as public sector banks . In the later half of the 19th century co- operative banks which were established in 1904 as co- operative credit societies become one of the important wings of the Indian banking system.

Recently Regional Rural Banks (RRB's) have also been established exclusively to meet the credit needs of rural people.

STRUCTURE OF BANKING IN INDIA

Narasimhan committee was appointed in 1991 . It has suggested the changes in Indian Banking System.

The committee feels that the system should evolve towards a broad pattern consisting of

- Three to four large banks (including SBI) which could become international in character.
- Eight to ten national banks with a network of branches through out the country engaged in universal banking.
- Local banks whose operations would be generally confined to a specific region.
- Rural banks (including RRB's) whose operations would be confined to the rural areas.
- Further structure of the banking industry will be affected by the increased competition implied in the following recommendations
- Reorganisation through market driven forces through mergers and acquisition.
- Free entry for new banks in the private sector.
- Liberalisation of entry of foreign banks as well as the liberalisation of branch expansion by foreign banks.
- Branch licensing to be abolished.
- Other financial institution such as development banks to be allowed traditional commercial banking that is short term lending.

2.3 ORIGIN AND DEVELOPMENT OF CO.OP BANKS.

Co- operative banking organised first in Germany and its pioneers were individuals Herman Schultze and F. W. Raiffeisan. After their retirement from the Govt. service both started social work in their native places . As a outcome of their social work there came in to existence two models of co-operative banks ,

- (1) that of Schultze
- (2) that of Raiffeisan.

While the Raiffeisan banks served the rural parts , Schultze banks were meant for serving the urban population.

Urban co-operative banks own their origin to Mr. Herman Schultze Mayor of Delitzsch in Germany. Mr. Schultze was full of love and sympathy for his countrymen whose property and helplessness attracted him to them. He found that provision of cheap and adequate credit to the poor people was essential to ameliorate their economic conditions . And he come to the conclusion that no one could help them unless they organised themselves on the basis of the self help through mutual help.

Schultze therefore founded a friendly society in 1949 for relief in sickness . For provisions of credit he founded in his native town his first loan society in 1950. His societies were known as " People's Bank"

Following are the main features of Schultze type banks or people's Banks.

- (1) Area of operation was wider.
- (2) Shares were of high denomination but amounts were payable by instalments.

- (3) Reserve fund was created by appropriating 20% of the annual profit.
- (4) Liability was unlimited.
- (5) Maximum limit for paying dividend was not fixed.

In India the first Urban Credit Co-operative society was registered in October 1904 at Canjeevaram in Madras province.

Subsequently the Betegiri Co-operative credit society in Dharwar district then Bombay Province and the Bangalore city co-operative credit society in the east while Mysore state were registered in October 1905 and December 1905 respectively.

The development of Urban co-operative credit societies did not receive much attention until 1915 . In those days all the urban credit societies including the urban banks were described as non agricultural credit societies . In 1915 MacLagan committee submitted its report to Govt. and recommended the extension of co-operation among the non agricultural classes provided that it is carefully supervised and controlled.

Because of failure of many commercial banks during 1913-17 the urban credit societies were organised . The Varde committee rightly pointed out that "The failure of Swadeshi Joint Stock Bank created an opportunity for co-operative banking to develop a medium for mobilising savings of persons of modest means and helping those whom financial distress caused by high living costs and unemployment had derived in to the clutches of money lenders".

The usefulness of urban co-operative banks in financing artisans , small traders , factory workers and middle classes was recognized by

various committees and working groups such as ,

- Central banking enquiry committee (1931)
- Co-operative planning committee (1948)
- Study group on credit co-operatives in non agri sector (1963) and
- Working group on industrial financial through co-operative banks (1968)

2.4 MEANING OF CO-OPERATIVE BANKING

Co-operative banks are the outcome of poor farmer's struggle who encourage similarly situated people to become members of the banks for mutual benefits . Co-operative banks invites the operation or co-operation from a similar class people . Such banks preserves common rights , common laws and common objective to become common to all equal financial holders.

2.5 DEFINITION OF CO-OPERATIVE BANK

" A Co-operative as a form of organization where persons voluntarily associate together as human beings on the basis of equality for the promotion of the economic interest of themselves ".

- H. Calvert

" A Co-operative bank is a mutual society formed , composed and governed by working people themselves for encouraging regular saving and granting of small loans on such terms of interest and repayment ".

Laud G. M.

2.6 NATURE OF CO-OPERATIVE BANKING

- (1) It is a society formed by the working people .
- (2) It is governed by the working people only as they are the only members.
- (3) Co operative banking emerge and exists for mutual benefit or common interest of the member workers.
- (4) Co-operative banks encourage the members to save and also give the loans to such members to meet their financial needs.
- (5) It is a democratic institution .

2.7 OBJECTIVES OF CO-OPERATIVE BANKS

Co-operative banks or Co-operative credit societies operate with a view to attain the following objectives ,

- (1) Co-operative credit societies function with the prime objective of making available loans at concessional rates to needy members. They lend funds against security to enable even the small farmers to avail of the credit facility. Loans are even granted against personal security.
- (2) Co-operative banks try to bring about the most effective use of the loans they advance. The loans are advanced mainly for productive purpose.

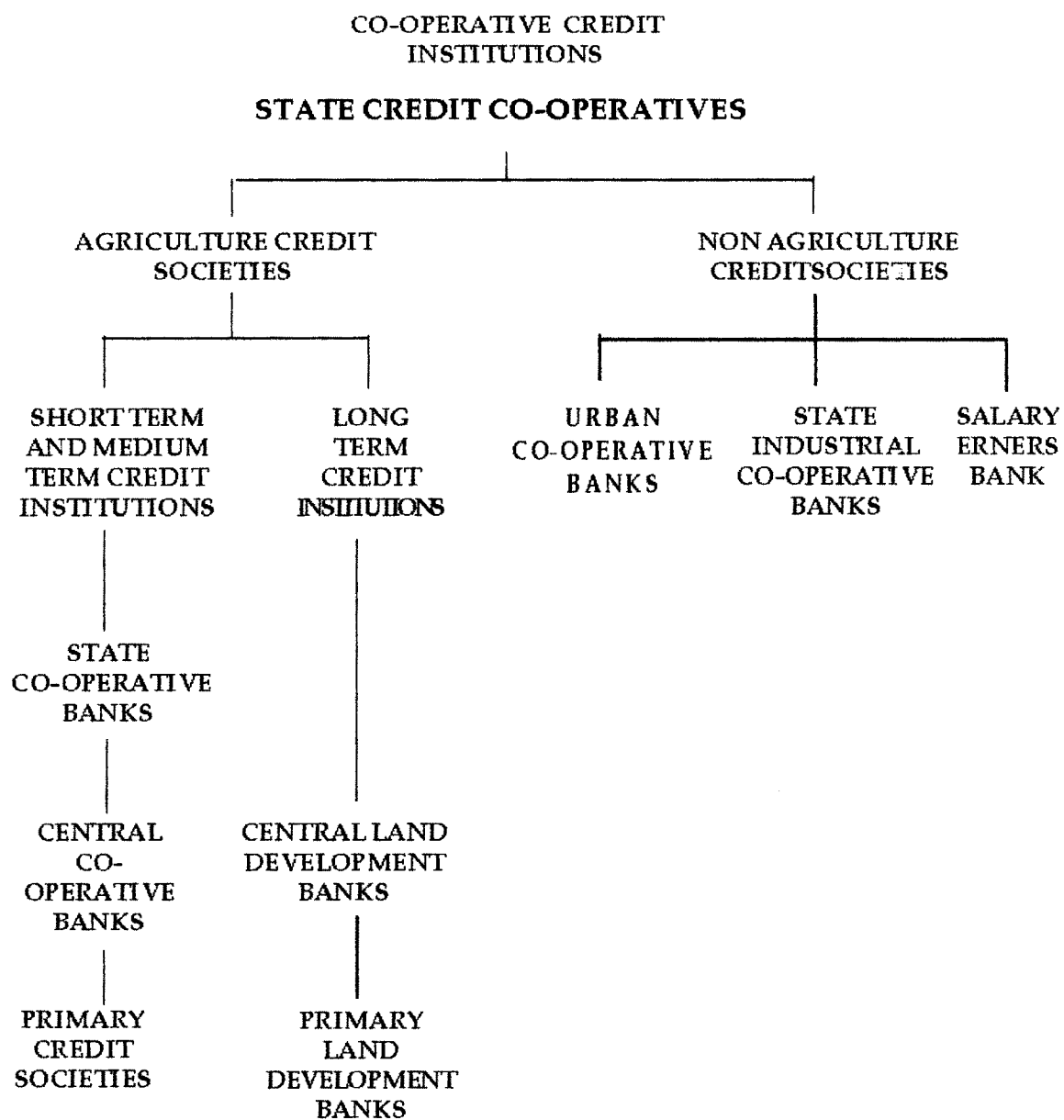
Secondly the banks supervises the activities of borrowers pertaining to the end use of the loans.

(3) The financial resources of co-operative banks alone may not be sufficient to cater the requirement of a large number of its members. Therefore the other objectives of a co-operative credit institution is to draw on the sources of funds outside the society to finance the productive activities of its members. Even though the co-operative bank is an association of small farmers who are often not that credit worthy it does not encounter much difficulty in securing loan from other financial agencies .

(4) The aim of the co-operative bank is also to minimise the risks in lending by a careful processing of the loan purposes utilization of the loans only for the productive purpose . The bank insists on and ensures that the borrowers will repay back the amounts on the due dates .

If no close watch is kept on the activities on the borrowers it is very likely that the borrowed funds would be used for consumption purposes in which case the borrower may becomes a defaulter and with it the risk of lending increases.

2.8 CO-OPERATIVE CREDIT STRUCTURE IN INDIA



2.9 URBAN CO-OPERATIVE BANKING

(A) GENESIS OF URBAN CO-OPERATIVE BANKS

Banking industry in India was organised largely on the basis of British Banks. In India upto 1960 the managing agency houses were acting as a promoters , managers and financiers. The English Agency House in Calcutta and Mumbai were the bankers to the East India Company and European Merchant in India.

The co-operative movement was started in India to ameliorate the conditions of the rural masses. However it was soon realised that co-operation offers a solution to the difficulties encountered not only by the agriculturists but also by the town man in respect of credit as well as other aspects of his business and life.

The MacLagan committee on Co-operation pointed out as early as 1915 that , " Urban credit societies might serve useful purpose in training the upper and middle classes to understand ordinary banking principles".

(B) DEFINITION OF URBAN CO-OPERATIVE BANK.

Among the non - agri - cultural credit societies urban co-operative banks occupy an important place. They cater to the credit needs of people residing in urban areas. They advance loans mostly to the small traders , artisans and salary earners on personal security as well as against gold , silver and produce. They accept deposits of various types and thereby afford facilities for investment to persons of small means. Like the commercial banks and central banks many of them provide banking

facilities of various kinds to their members and customers.

The study group on credit co-operatives in the non agricultural sector has recommended that the definition of an urban co-operative bank should include the following features.

- (a) A credit co-operative registered under the state co-operative societies Act in urban or semi urban areas.
- (b) A minimum paid up capital of Rs. 50000/-
- (c) Provision of banking facilities for example accepting for the purpose of lending or investment of deposits from members and non members , repayable on demand or otherwise and withdraw able by cheque , draft , order etc.

(C) SALIENT FEATURES OF URBAN BANKING

(1) Urban co-operative banks are essentially institutions established by persons of small means. These banks primarily work for promoting thrift and habit of saving among their members.

Most of the urban banks have large number of members having few shares each purchased by them. As regards deposits 70 % of the depositors are those who have handed over the amount not exceeding Rs. 1000 /-. While giving loans urban banks give priority to weaker sections of society. In this way urban co-operative banks are really the banks of the small people.

(2) Urban banks are self reliant institutions. Outside financial assistance is almost nil. All the urban co-operative banks have created credit which

is nearly 25 % of national income. UCB 's are playing dominant role not only in co-operative movement but also in the economy of the country as a whole.

(3) The working of urban co-operative banks is satisfactory. If we consider the overdues there are just marginal overdues to maximum extent of 9 % as compare to other banks. This is quite a minimum percentage of overdues for example , the percentage of overdues in DCC's and commercial banks is found to be 36 % to 45 % respectively .It shows that money of the UCB's rotates frequently in the hands of needy persons. There are minimum number of defaulters.

(4) Urban co-operative banks are the institutions of members , the members play important role in the functioning of these banks. They actually participate in formulating the policies. Member themselves are the depositors as well as borrowers.

(5) At present there is no organisation of UCB's at national level. In fact there is a need of apex co-operative bank on the lines of NABARD. At present state co-operative banks are not providing finance to UCB's from their own resources. They are only acting as a centre for routing the refinance by the Reserve Bank.

(6) UCB's were not included in the second schedule of RBI's Act. Therefore they were unable to offer guarantees to Govt. corporations , semi Govt. bodies etc. UCB's also did not enjoy free remittance facility from RBI. The demand of extending scheduled status to UCB's has a now been accepted. Those urban banks having Rs. 100 corers TDL have been

accorded scheduled status. There are 24 such a UCB's in Maharashtra , 5 in Gujarat and 1 each in Goa and Andhra Pradesh.

(7) UCB's are considered quite suitable to fill the credit gaps in urban and semi urban areas at comparatively lesser cost of operation due to their simplicity and close contacts with the people they can attract savings of the local people in the form of deposits.

(D) DEVELOPMENT OF URBAN CO-OPERATIVE BANKS IN INDIA

The first urban co-operative bank was started in the state of Baroda in Feb. 1889 , Late Mr. V.L. Kavathekar drew inspiration from successful urban co-operative credit institution in European continent. Later then Indian Govt. recognised the importance of urban co-operative banks and passed a separate Co-operatives Acts such as Indian Co-operative Societies Act of 1904 and 1912 to facilitate the registration and working of urban co-operative credit institution. In 1919 co-operation was made a state subject and in the following years each state passed separate co-operative laws for regulation of co-operative development from time to time many expert committees were appointed and legislative measures were taken to consolidate the development and growth of urban co-operative banks. In 1965 (1st march) Banking Regulation Act 1949 was made applicable to urban co-operative banks.

The Damary committee, Madhavdas committee of 1977, Marathe committee of 1991, Jogalekar committee and various study groups appointed by RBI and Govt. of India made number of recommendations for strengthening urban co-operative banking in India.

In 1984 a separate urban banks department was created by RBI for handling the matters related regulation, management and growth of urban co-operative banks. As a result urban co-operative banks depute their special feature have to be recognized as an integral part of the Indian banking structure.

It can be observed that most of the urban co-operative banks in India were started as credit co-operatives and got converted into banks subsequently. At present urban co-operative sector is the larger segment of Indian co-operative movement. Although urban banking movement started towards the close of the last century it did not gather much momentum till 1915. The failure of joint stock banks in the country in the wake of economic depression also give encouragement to urban co-operative credit societies. Many urban co-operative credit societies accordingly came to be organised in Bombay and Madras provinces in the interwar period of 1919 to 1938. The economic boom created by II world war provided further stimulies to the movement of urban co-operative banking.

As per the data released by the RBI the present position of urban co-operative banks can be depicted as follows,

TABLE NO. 2.1 DEVPT. OF UCB'S IN INDIA

PARTICULARS	MARCH 1995	MARCH 1996
1. Number of UCB's	1431	1501
2. Branches	4229	4501
3. Deposits (in Crores)	19711	24000
4. Advances (in crores)	14520	17640
5. Working capital	25977	-
6. Owned funds	3239	-
7. Annual growth rate	17.20%	-

Source :

Status paper on recommendations of the 6 th All India conference

(E) DEVELOPMENT OF UCB'S IN MAHARASHTRA

Maharashtra has been and continued to be a pioneer State in the field of urban co-operative banking movement in India. The first mutual aid society was organised as early as on 5 th Feb. 1889 at Baroda by a few middle class Maharashtrian families settled there. It was then realised that urban credit societies were eminently suitable in mobilising the local saving and to provide financial relief to the needy people belonging to lower and middle class. The co-operative movement in Maharashtra has followed a sequential evolutionary pattern.

Beginning with the German Raiffeism type of co-operative societies primarily meant for meeting the credit needs of the farmers in the state have over the last 90 years came to cover a wide range of activities in different sectors of the state economy.

Much of the process was however made only after independence and particularly during the past 40 years.

The present position of the development of urban co-operative banks in Maharashtra is shown below,

TABLE NO. 2.2 DEVPT. OF UCB'S IN MAHARASHTRA

PARTICULARS	MARCH 1996	MARCH 1997
1 No. of banks	401	428
2 No. of branches	2183	3245
3. Membership (Regular)	4907038	4695368
4 Paid - up share capital (In lakhs)	36550.19	42565.13
5. Reserves and other funds(in lakhs)	131413.21	156817.45
6. Deposits (in lakhs)	1394328.66	1733099.54
7. Advances(in lakhs)	974118.87	1172767.15
8. Working capital (in lakhs)	1519605.49	2151593.68

Source:

Statistical Information of Maharashtra State

31 st march 1996 -97

The Maharashtra UCB's Federation Ltd.

4th floor Bhartiya Krida Mandir Wadala Mumbai 400031

(F) DEVELOPMENT OF UCB'S IN KOLHAPUR

Among the various districts of Maharashtra Kolhapur which comes in western zone of Maharashtra is leading district in a development of co-operative movement. The economy of the Kolhapur district is basically agriculture economy. The district is endowed with a several acres of fertile land , the rainfall and other natural resources have made the district one of the well placed district of Maharashtra. As a result of this many sugar co-operative , cotton textile mills and such other co-operative organisations are successfully working in this district. The co-operative movement of Kolhapur district also consists of the development of multi purpose marketing co-operative societies like Shetakari sahakari sangh , Janata bazar , these various types of co-operatives have provided an adequate scope for development of co-operative banking in Kolhapur. Each successfully working co-operative complex has established its own urban co-operative bank. Almost each of co-operative sugar factories has its own urban co-operative bank. In fact throughout district there is a well developed network of urban co-operatives Banks. In the present study the research has taken two cases of such urban co-operative banks namely, " Kolhapur Janata Urban Co-op.Bank , Kolhapur " and " Kolhapur Mahila Urban Co-op.Bank , Kolhapur ".

The overall development of urban co-operative banks in Kolhapur District can be shown as under ,

TABLE NO. 2.3 DEVPT. OF UCB'S IN KOLHAPUR

PARTICULARS	MARCH 1996	MARCH 1997
1. No. of banks	46	48
2. No. of branches	237	238
3. Membership (Regular)	535424	481617
4. Paid - up share capital (In lakhs)	2827.84	3445.94
5. Reserves and other funds(in lakhs)	7739.94	9040.91
6. Deposits (in lakhs)	74364.17	89990.71
7. Advances(in lakhs)	60486.17	68150.14
8. Working capital (in lakhs)	95222.02	109608.29

Source :

Statistical Information of Maharashtra State

31 st march 1996 -97

The Maharashtra UCB 's Federation Ltd.

4th floor Bhartiya Krida Mandir Wadala Mumbai 400031

(G) DEVELOPMENT OF MAHILA URBAN CO-OPERATIVE BANKS -

In the year 1951 a bank in Madurai started a full-fledged Mahila Branch. This was really the beginning of women in organising Mahila Bank. Later on in year 1960 Syndicate Bank also experimented by opening a full-fledged Mahila Branch where a number of women were involved not only in the management of the bank but also for collection of deposits by visiting homes. Even though these two banks associated women in their banking activities, a separate Mahila Bank was not established till 1971. An independent Mahila Co-operative Bank was started in Maharashtra in the year 1971.

organisation and growth of Mahila Bank has now become one of the thrust areas of urban co-operative banking. The movement which is gaining momentum in the states like Gujarat, Maharashtra, Karnataka has become a vehicle of women. Some states like Karnataka, Madhya Pradesh have provided incentives for the establishment of Mahila Banks.

Later on a fairly large number of Mahila Banks were established in the country with a sizable number in Maharashtra state.

At present there are 45 Mahila Banks in the country out of which 27 are in the Maharashtra state.

The following table shows statewise position of women credit co-operatives in India ,

TABLE NO. 2.4 DEVPT. OF MAHILA UCB'S

NAME OF THE STATES	TYPE OF SOCIETY	NO. OF SOCITIES
Gujrat	Urban Banks	3
Himachal Pradesh	Thrift and Credit	135
Maharshatra	UCB's	8
Manipur	Thrift and Saving	2
Punjab	Thrift and Saving	2000
Delhi	Thrift and Saving	77
Total		2215

Source :-

The Maharashtra Co-operative quarterly -

July / Sept. 1996.

It is heartening that the response given by women in these Mahila Banks was very encouraging. Hence the Mahila Banks really did very well in the various states of our country. So far as Maharshatra is concerned out of 27 banks only one bank has become weak.

The establishment and development of separate Mahila Urban Co-operative Banks has now become well accepted fact. The guiding motives behind phenomenon of development of Mahila Urban Co-operative Banks

can be briefly stated as under -

- (1) The establishment of Mahila Banks will be helpful to reduce gender inequality prevailing in our society. Women will get opportunities to participate in the process of economic development.
- (2) Individually women will remain economically self-reliant as the Mahila Banks are expected to provide credit facilities to women. They can think of being independent in economic terms by undertaking some projects of their own.
- (3) Association of women with the banks will enable them to enter into the main stream of banking activities. Some women will associate with the banks as borrowers or working as managers, directors etc. The working of the women in these capacities would naturally result into participation of women in decision making.

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