

Chapter 2

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2.1 Introduction

The main object of this chapter is to Theoretical background of subject matter relating to the information of co-operative banking in this introduction and review of co-operative banking. History of urban co-operative bank in India.

The progress of urban co-operative bank in Maharashtra in this part historical and statistical profile of UCBS in Maharashtra.

2.2 Co-operative Bank

The co-operative bank has history of almost 100 years. The co-operative banks are an important constituent of the Indian Financial System, judging by the financial role assigned to them, the expectations they are supposed to fulfill, their number, and the number of offices they operate. The cooperative movement originated in the west, but the importance that such banks have assumed in India is rarely paralleled anywhere else in the world. Their role in rural financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary co-operative banks.

While the co-operative banks in rural areas mainly finance agricultural based activities including farming, cattle, milk, hatchery, personal finance etc.

Along with some small scale industries and self employment driven activities, the co-operative banks in urban areas mainly finance various categories of people for self employment, industries, small scale units, home finance, consumer finance, personal finance, etc.

Some of the cooperative banks are quite forward looking and have developed sufficient core competencies to challenge state and private sector banks.

According to NAFCUB the total deposits and lending's of co-operative banks is much more than Old Private Sector Banks and also the new private sector banks. The exponential growth of co-operative banks is attributed

mainly during to their much better local reach, personal interaction with interactions with customers, and their ability to catch the local clients.

Though registered under the co-operative societies Act of the respective states the banking related activities of the co-operative banks are also regulated by the Reserve Bank of India. They are governed by the Banking Regulations Act 1949 and Banking Laws Act, 1965.

2.2.1 Overview

Co-operative movement is quite well established in India. The first legislation on co-operation was passed in 1904. In 1914 the Maclagen committee envisaged a three tier structure for cooperative banking viz. Primary Agricultural Credit Societies (PACs) at the grass root level. Central Cooperative Banks at the district levels and State Co-operative Banks at state level or Apex Level. The first urban cooperative banks in India were formed nearly 100 years back in Baroda.

Co-operative institutions are engaged in all kinds of activities namely production, processing, marketing, distribution, servicing, and banking in India and have vast and powerful superstructure. Co-operative banks are important cogs in this structure.

In the beginning of 20th century, availability of credit in India, more particularly in rural areas, was almost absent. Agricultural and related activities were starved of organized, institutional credit. The rural folk had to depend entirely on the money lenders, who lend often at usuries rates of interest.

The co-operative banks arrived in India in the beginning of 20th century as an official effort to create a new type of institution based on the principles of co-operative organization and management suitable for problems peculiar to Indian conditions. These banks were conceived as substitutes for money lenders, to provide timely and adequate short term and long term institutional credit at reasonable rates of interest.

In the formative stage cooperative banks were urban cooperative societies run on community basis and their lending activities were restricted to meeting the credit requirements of their members. The concept of Urban Cooperative Bank was first spelt out by Mehta Bhansali Committee in 1939 which defined on Urban Co-operative Bank Provisions of section 5(CCV) of Banking Regulation Act 1449, defined on Urban Co-operative Society were made applicable in 1966.

With gradual growth and also given Philip with the economic boom, urban banking sector received tremendous boost and started diversifying its credit portfolio. Besides giving traditional lending activity meeting the credit requirements of their customers they started catering to various sorts of customer's viz. self-employed, small businessmen/ industries, house finance, consumer finance, personal finance etc.

2.3 History of Urban Co-operative Banks in India

The term urban co-operative banks (UCBs), though not formally defined, refer to primary co-operative banks located in urban and semi urban areas. These banks, till 1996, were allowed to lend money only for nonagricultural purposes. This distinction does not hold today. These banks were traditionally centered around communities, localities work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably.

The origins of the urban cooperative banking moment in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the co-operative movement in Britain and the co-operative credit movement in Germany such societies were set up in India. Co-operative societies are based on the principles of cooperation mutual help, democratic decision making and open membership. Co-operative decision represented a new and alternate approach to organization as against proprietary items, partnership firms and joint stock companies which represent the dominant form of commercial organization.

2.3.1 The Beginnings

The first known mutual aid society in India was probably the 'Anyonya Sahakari Mandali' organized in the erstwhile princely state of Baroda in 1889 under the guidance of Vitthal Laxman also known as Bhusaheb Kavathekar, Urban co-operative, in their formative phase came to be organized on a community basis to meet the consumption oriented credit needs of their members. Salary earners societies inculcating habits of thrift and self help played a significant role in popularizing the movement, especially amongst the middle class as well as organized labor, from its origins then to today, the trust of UCBs historically, has been to mobilise savings from the middle and low income urban groups and purvey credit to their members many of which belongs to weaker sections.

The enactment of cooperative credit societies act, 1904. However, gave the real impetus to the movement. The first urban co-operative credit society was registered in Kanjeevaram in the erstwhile Madras province in October, 1904. Amongst the prominent credit societies were the Pioneer Urban in Bombay(November 11,1905), the number 1 military accounts mutual help co-operative Credit Society in Poona(January 9,1906), Cosmos in Poona(January 18,1906), Gokak urban(February 15,1906) and Belgaum Pioneer (February 23,1906) in the Belgaum district, the Kankavali Math co-operative credit society and the Varavade Weavers Urban Credit Society(March 13,1906) in the south Ratnagiri (now Sindhudurg) district. The most prominent amongst the early credit societies was the Bombay Urban Cooperative Credit Society, sponsored by Vitthaldas Thackersey and Lauubhai Samaldas established on January 23, 1906.

The co-operative credit societies Act, 1904 were amended in 1912, with a view to broad basing it to enable organization of noncredit societies. The Maclagan committee of 1915 was appointed to review their performance and suggest measures for strengthening them. The committee observed that such institutions were eminently suited to cater to the needs of the lower and middle income strata of society and would inculcate the principles of banking amongst the middle classes. The committee also felt that the urban co-

operation credit movement was more viable than agricultural credit societies. The recommendations of the committee went a long way in establishing the urban co-operative credit movement in its own right.

In the present day context, it is of interest to recall that during the banking crisis of 1913-14, when no fewer than 57 joint stock banks collapsed, there was a flight of deposits from joint stock banks to co-operative urban banks. Maclagan Committee chronicled this event thus:

“As a matter of fact, the crisis had a contrary effect, and in most provinces, there was a movement to withdraw deposits from non-cooperative and place them in co-operative institutions, the distinction between two classes of security being well appreciated and a preference being given to the latter owing partly to the local character and publicity of co-operative institutions but mainly, we think, to the connection of government with Cooperative Movement”.

2.3.2 Recent Development

Over the years, primary cooperative banks registered a significant growth in number, size and volume of business handled. As on 31st march, 2003 there were 2104 UCBs of which 56 were scheduled banks. About 79% of these are located in five states- Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamilnadu. Recently the problems faced by a few large UCBs have highlighted some of the difficulties these banks face and policy endeavors are geared to consolidating and strengthening this sector and improving governance.

2.4 Progress of UCBs in Maharashtra

After independence cooperation became one of the important instruments of Maharashtra state policy. With that policy, UCBs came to be encouraged and assisted. A survey of UCBs conducted by the study group on credit cooperatives in nonagricultural sector in 1963 known as Varde committee. This committee recommended the need for establishing new urban banks and extending their membership, making the banks economically

viable, diversifying their loan, portfolio and ensuring enhanced financial assistance from them to small industrialists and artisans, in 1966 the UCBs were brought under banking regulation act 1949 to faster their growth and also to bring them under financial disciplines and regulations. In 1967 the working group on industrial financing through cooperative banks was set up by the RBI under the chairmanship of its Deputy Governor Shri. P. N. Damry. This committee recommended that the UCBs was the only suitable cooperative financing agency which could successfully undertake the function of providing adequate finance to small industrial units.

The development of UCBs attracted by Govt. and apex bank and resulted into rapid growth of the UCBs. At that time apex bank declared its policy not to competing with UCBs. Mobilization of small savings and financing to the members of limited means are also the reasons for the growth of UCBs. Taking into consideration these facts the Registrar permitted to UCBs to finance industrial and housing sector. This resulted that number of UCBs in Maharashtra state doubled during the period from 1948 to 1970. In 1977 Madhavdas committee was set up by RBI under chairmanship of executive director, Shri. Madhavdas. This committee made a study of past performance and future potentials of UCBs. This committee noticed that UCBs were mainly suitable to fill existing gaps in banking and credit needs in urban and semi-urban areas with comparatively less cost of operation and their simplicity, close contact, local feel and financial difficulties could also enjoy the confidence of local people. Thus this committee recommended a preference for UCBs in opening branches in semi urban areas.

In 1983 the standing advisory committee for UCBs was set up by RBI under the chairmanship of Deputy governor Dr. M. V. Hate. This committee known as Hate committee. This committee recommended that "The UCBs should be exhorted to achieve a target of 60% of their total advances for priority sector lending by 30th June 1985." Of the total priority sector advances at least 25% advances should have been given to weaker sections.

In this way the recommendations and reports of the various committee favorable circumstances were created for the development of UCBs activity.

Factors like dynamic leadership and potential for deposits mobilization and the urge to form cooperative institutions for self help and thrift have helped to promote UCBs.

Table 2.1 Growth in number of UCBs, membership and Share capital of UCBs in Maharashtra

(Rs. in Lacks)

Years	Number of UCBs	% change	Membership (000)	% change	Share capital	% change
1970-71	265	-	883	-	947	-
1980-81	345	30.19	1618	83.24	4201	343.61
1990-91	381	10.43	4464	175.90	18682	344.70
2000-01	654	71.65	7808	74.91	89875	381.08
2002-03	654	-	8309	6.42	142809	58.90
2003-04	641	-1.99	8291	-0.22	139359	-2.42
2004-05	637	-0.62	7986	-3.68	154106	10.58
2005-06	624	-2.04	6678	-16.38	154280	0.11
2006-07	635	1.76	6055	-9.33	181287	17.51

Source: Cooperative movement at glance of respective years.

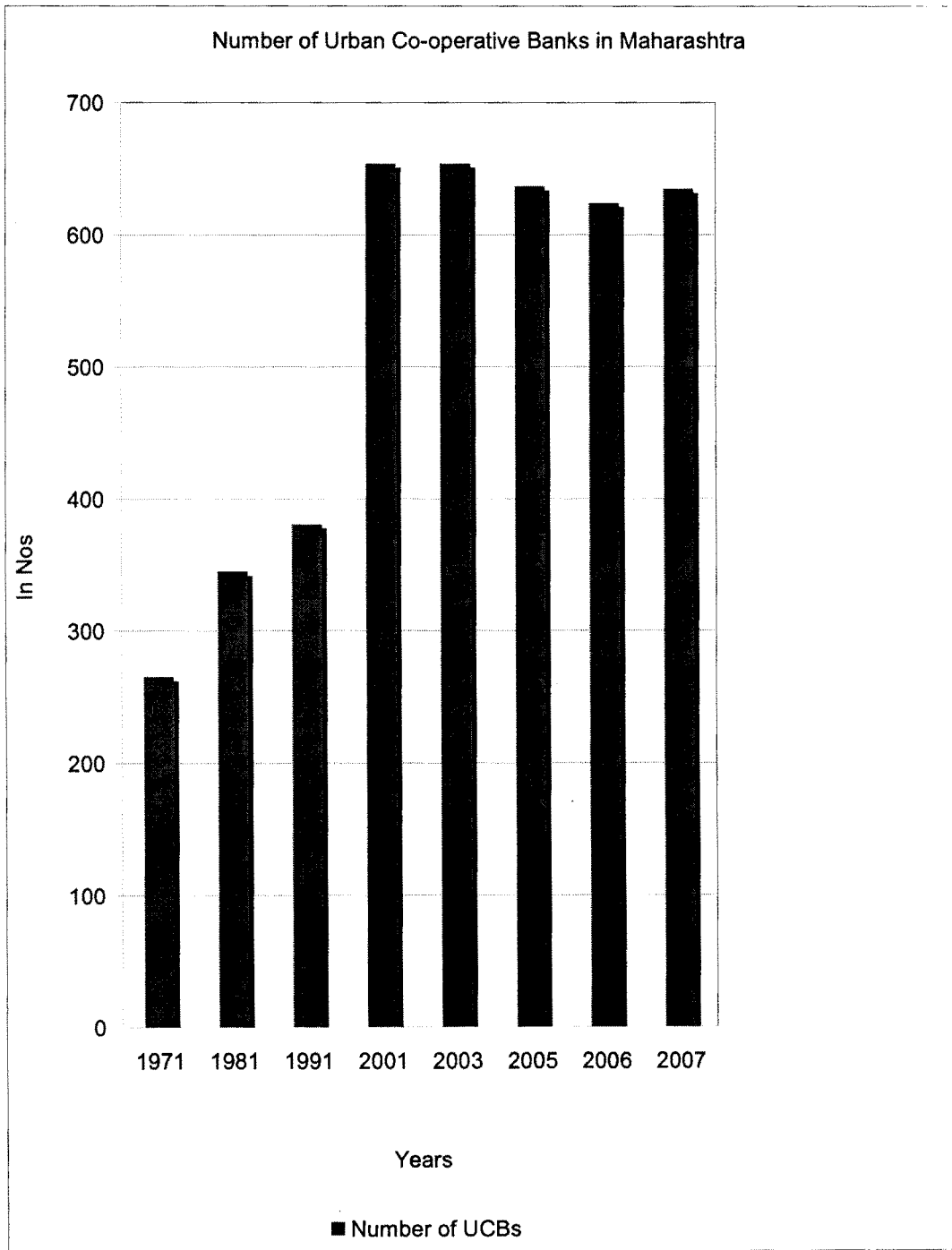
I) Number of UCBs

In 1970-71 the number of UCBs in Maharashtra was 265 which increased to 345 in 1980-81 showed 30.19% change. In the year 2000-01 the UCBs was 654 showed 71.65% change shows highest change. After the 2003-04 the number of UCBs decreased 641 in 2004-05 to 624 in 2005-06. Again it was increased to 635 in 2006-07.

II) Membership

In 1970-71 membership of UCBs was 883 thousand which increased to 1618 thousand in 1980-81 and 4464 thousand in 1990-91 showed 175.90% change over previous year. In 2000-01 it was increased 7808 thousand indicated 74.91% change. In 2003-04 membership of UCBs was decreased to 8291 thousand to 6055 thousand in 2006-07 showed -0.22% to -9.33% changes.

Graph 2.1



III) Share Capital

In 1970-71 share capital of UCBs in Maharashtra was Rs. 947 lack it was increased to Rs. 4201 lacks. In 1980-81 showed 343.61% change. In 1990-91 it was further increased to Rs. 18682 lacks and Rs. 89875 lacks in 2000-01. In the year 2003-04 the share capital of UCBs decreased Rs. 139359 lacks showed -2.42% change over previous year. Again it was increased to Rs. 181287 lacks in 2006-07.

Table 2.2 Growth in Owned Fund, Deposits, Borrowing and Working Capital of UCBs in Maharashtra

(Rs. in Lacks)

years	Owned fund	% change	Deposits	% change	Borrowings	% change	Working capital	% change
1970-71	1502	-	6832	-	308	-	9260	-
1980-81	8530	467.91	65779	862.81	1666	440.91	88704	857.93
1990-91	55540	551.11	466298	608.89	32965	1878.69	617642	596.30
2000-01	431770	677.40	4092326	777.62	75440	128.85	5574123	802.48
2002-03	534261	23.74	5257838	28.48	94758	25.61	6550977	17.52
2003-04	799213	49.59	5309752	0.99	81802	-13.67	6874942	4.95
2004-05	885662	10.82	5833164	9.86	98895	20.90	7457979	8.48
2005-06	21811	-97.54	5239803	-10.17	92251	-6.72	8024326	7.59
2006-07	765129	3408.00	3977615	-24.09	542125	487.66	7547963	-5.94

Source: Cooperative Movement at a glance of respective years.

i) Owned fund

In 1970-71 owned fund of UCBs in Maharashtra was Rs. 1502 lacks which increased to Rs. 1502 lacks which increased to Rs. 8530 lacks in 1980-81 showed 551.91% change. It was further increased to Rs. 55540 lacks in 1990-91 and Rs. 431770 lacks in 2000-01. In 2002-03 owned fund of UCBs was Rs. 534261 lacks it was further increased to Rs. 799213 Lacks in 2003-04 shown 49.59% change .it was increased to Rs. 885662 lacks in 2004-05 showed 10.82% change over previous year. In 2005-06 it was decreased to Rs.

21811 lacks and again it was increased Rs. 765129 Lacks in 2006-07 showed 3408% change.

Thus UCBs in Maharashtra have made satisfactory progress in increasing their owned funds during 1970-71 to 2006-07 which ultimately reflect the efficiency of these banks.

ii) Deposits

In 1970-71 deposits of UCBs in Maharashtra was Rs. 6832 lacks which increased to Rs.65779 lacks in 1980-81 and Rs.466298 lacks in 1990-91 showed 608.89% change over previous year. It was increased to Rs. 4092326 lacks in 2000-01, Rs. 5257838 lacks in 2002-03. In 2003-04 it was again increased to Rs.5309752 lacks and Rs. 5833164 lacks in 2004-05 showed 9.86% change. However it was decreased to Rs. 5239803 lacks in 2005-06. In 2006-07 it was decreased to Rs.3977615 lacks.

iii) Borrowings

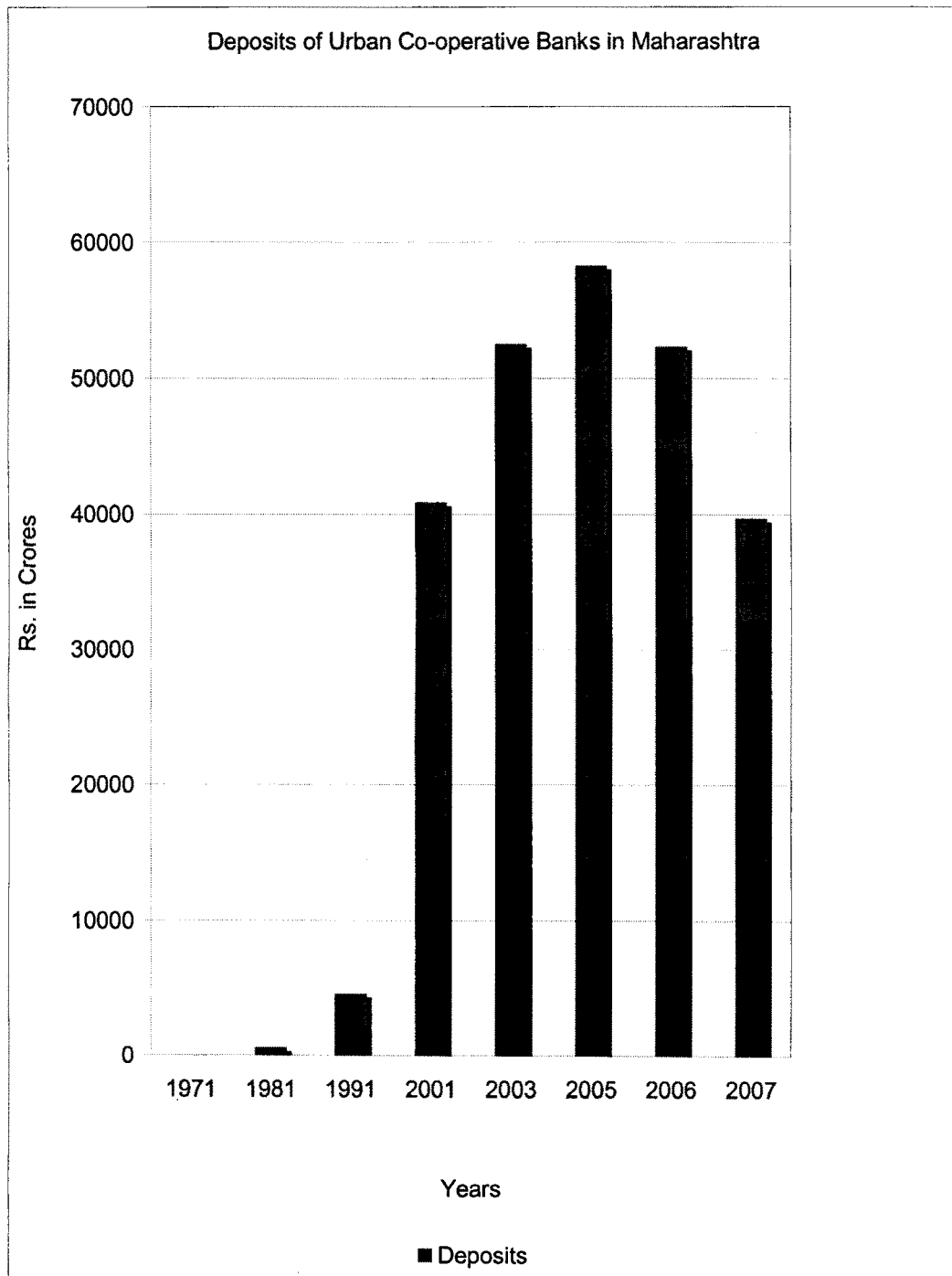
In 1970-71 borrowings of UCBs in Maharashtra was Rs. 308 Lacks which increased to RS.1666 lacks in1980-81showed 440.91% change. It was further increased Rs.32965 lacks in 1990-91 showed 1878.69% change. In 2000-01 borrowings of UCBs was increased Rs.75440 lacks it was increased Rs. 94758 lacks in 2002-03 indicated 25.61% change over previous year. Borrowings of UCBs was decreased to Rs. 81802 lacks in 2003-04. In 2004-05 it was increased to Rs. 98895 lacks and it was decreased to Rs.92251 lacks in 2005-06. Again it was increased to Rs. 542125 lacks in 2006-07 and showed 487.66% change over previous year.

iv) Working Capital

In 1870-71 working capital of UCBs in Maharashtra was Rs.9260 lacks which increased to Rs.88704 lacks in 1980-81 showed 857.93% change. In 1990-91 it was increased to Rs.617642 lacks Rs. 5574123 lacks in 2000-01 and Rs. 6550977 lacks in 2002-03. In 2003-04 it was increased 6874942 lacks and Rs. 7457979 lacks in 2004-05 showed 8.48% change. It was again

increased Rs.8024326 lacks in 2005-06 showed 7.59% change and in 2006-07 it was decreased Rs7547963 lacks.

Graph 2.2



Graph 2.3

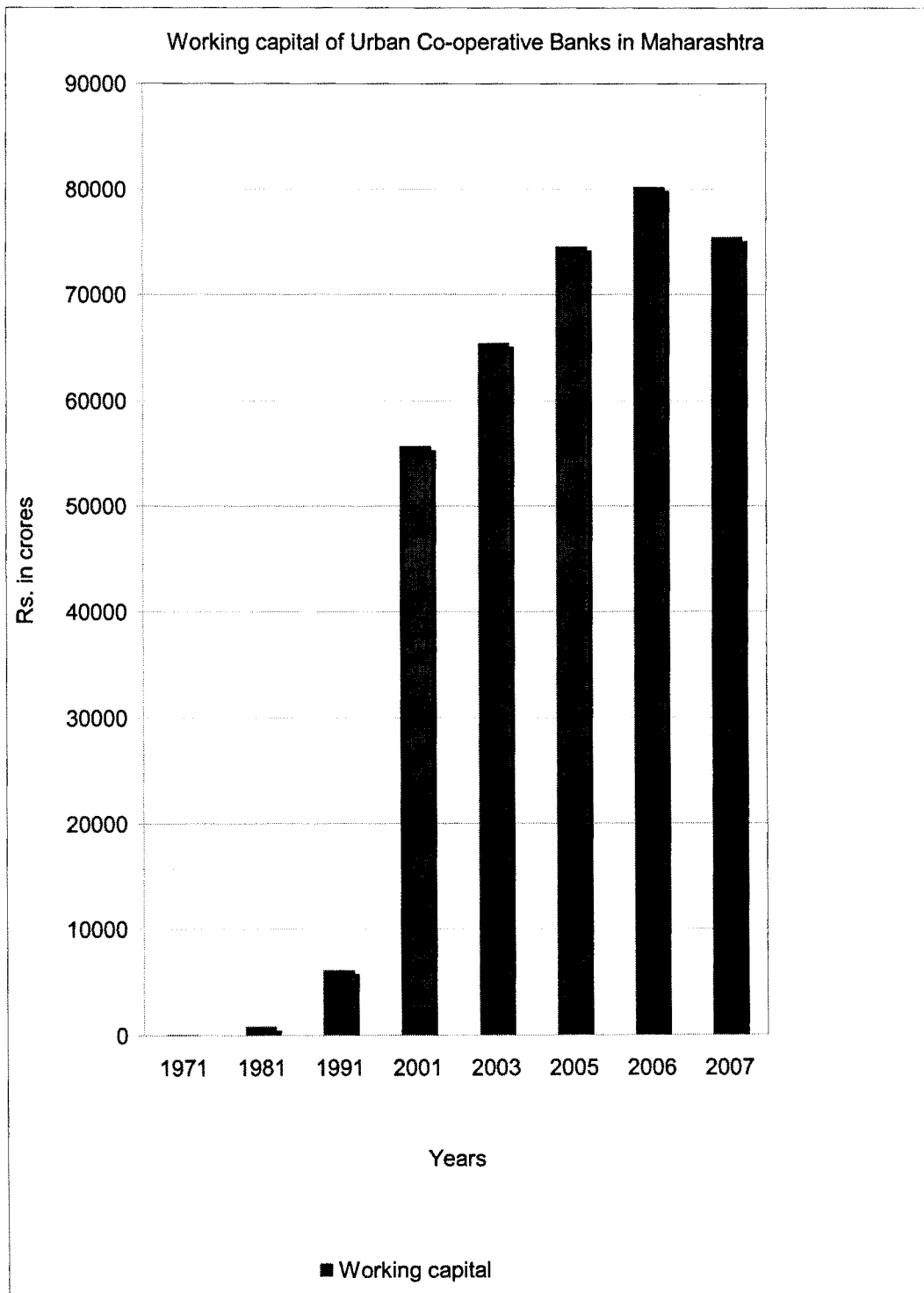


Table 2.3 Loans Advanced by UCBs in Maharashtra

(Rs. in lacks)

Years	Loans advanced	% change	Loans outstanding	% change	Loans overdues	% change
1970-71	12381	-	5007	-	364	-
1980-81	73430	493.09	48008	858.82	3732	925.27
1990-91	555246	656.16	322718	572.22	45735	1125.48
2000-01	3221062	480.11	2834956	778.46	182409	298.84
2002-03	3969406	23.23	3725412	31.41	224694	23.18
2003-04	4208324	6.02	3843710	3.18	253216	12.69
2004-05	4312446	2.47	3890094	1.21	258936	2.26
2005-06	3932645	-8.81	4357558	12.02	586417	126.47
2006-07	3617766	-8.01	3924682	-9.93	447676	-23.66

Source: Cooperative Movement at a glance of respective years.

I) Loan overdues

In 1970-71 loans advanced by UCBs in Maharashtra was Rs.12381 lacks which increased to Rs.73,430 lacks in 1880-81 and Rs.5,55,246 lacks in 1990-91. In 2000-01 it was increased to Rs.32,21,062 lacks Rs.39,69,406 lacks in 2002-03 and Rs.42,08,324 lacks in 2003-04. In the 2004-05 it was increased Rs 43,12,446 lacks shows the highest loans advanced by UCBs in Maharashtra and showed 2.47% change over previous year. Further it was decreased Rs.39,32,645 lacks and Rs.36,17,766 lacks in 2005-06 and 2006-07.

II) Loans outstanding

In 1970-71 loans outstanding of UCBs was Rs.5007 lacks which increased to Rs.48008 lacks in 1980-81 showed 858.82% change. Again it was increased to Rs.322718 lacks in 1990-91, Rs.2834956 lacks in 2000-01, Rs.3725412 lacks in 2002-03 and Rs.3843710 lacks in 2003-04. In 2004-05 it was again increased to Rs.3890094 lacks and Rs.4357558 lacks in 2005-06 showed 12.02% change. Loans outstanding of UCBs were decreased to Rs.3924682 lacks in 2006-07.

III)Loans overdue

In 1970-71 loans overdue of UCBs in Maharashtra was Rs.364 lacks which increased to Rs.3732 lacks in 1980-81 showed 925.27% change. In 1990-91 it was increased to Rs.45735 lacks and Rs.182409 lacks in 2000-01 showed 298.84% change. In 2002-03 it was increased to Rs.224694 lacks, Rs.253216 Lacks in 2003-04. In 2004-05 it was increased to 258936 lacks which is increased in Rs.586417 lacks in 2005-06 showed 126.47% change. It was decreased to Rs.447676 lacks in 2006-07.

Graph 2.4

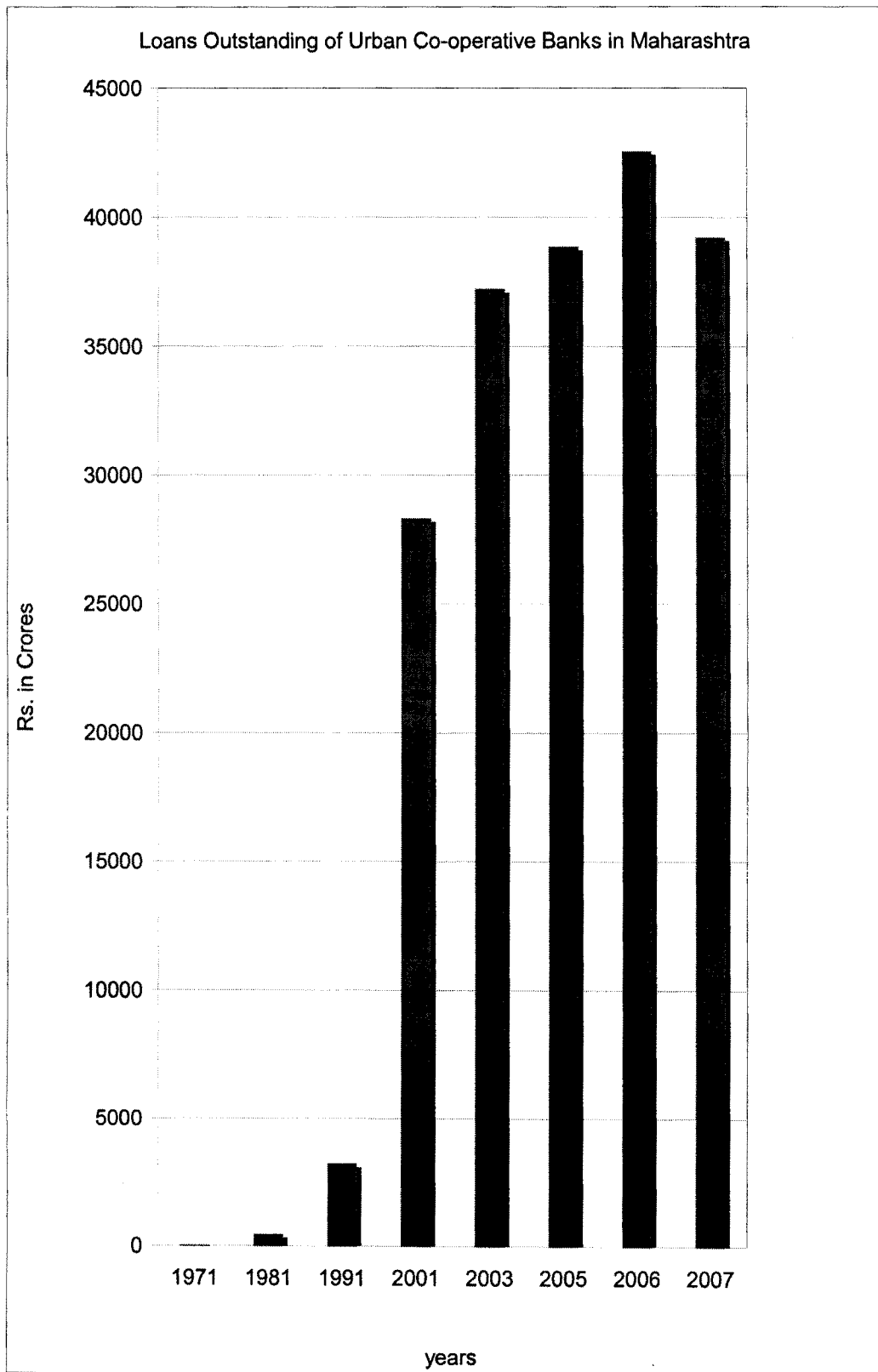


Table 2.4 Growth in profit and loss of UCBs in Maharashtra

(Rs. In Lacks)

Years	Number of UCBs in profits	Amount of profit	Number of UCBs in loss	Amount of loss
1880-81	330	1170	7	6
1990-91	367	7116	13	163
2000-01	559	4875	92	13122
2002-03	602	50015	50	9575
2003-04	578	64410	62	24418
2004-05	497	49032	135	33981
2005-06	535	57680	84	35992
2006-07	521	65117	106	34027

Source: Cooperative Movement at a glance of respective years.

I) Growth in Profit

In 1980-81, 330 UCBs was in profit in Maharashtra and amount of their profit was Rs.1170 lacks. Number of banks in profit was increased to 367 and number of profit was increased to Rs. 7116 lacks in 1990-91. In 2000-01 number of UCBs in profit was decreased that is 559 and amount of profit also decreased to Rs. 4875 lacks. In 2002-03 number of UCBs in profit was 602 show high increases in number of banks of their profit was Rs. 50015 lacks. Number of UCBs in profit was decreased to 578 but amount of profit increased to Rs.64410 lacks in 2003-04. In 2004-05 number of UCBs in profit was also decreased to Rs 49032 lacks. In 2005-06 number of UCBs in profit was again increased to 535 and amount of profit was also increased to Rs. 57680 lacks. In 2006-07 number of UCBs in profit was decreased to 521 but amount of profit was increased to Rs. 65117 lacks as compared to 2005-06.

II) Growth in Loss

In 1980-81, 7 UCBs in Maharashtra and amount of their loss was Rs. 6 Lacks. Number of UCBs in loss was increased to 13 and amount of loss was increased to Rs. 163 Lacks in 1990-91. In 2000-01 number of UCBs in loss was increased to 92 and amount of loss was increased to Rs. 13122 lacks. Number of UCBs was also decreased to 50 and amount of loss was also decreased to Rs. 9575 lacks in 2002-03. In 2003-04 and 05 the number of UCB in loss was increased to 62 and 135 and amount of loss was also increased to Rs. 24418 lacks and 33981 lacks. In 2005-06 number of UCBs in loss was decreased to 84 and amount of loss increased to Rs. 35992 lacks. In 2006-07 number of UCBs in loss was increased to 106 but amount of loss decreased to Rs. 34027 lacks as compared to 2005-06.