



**CHAPTER - II**

**DEVELOPMENT OF  
CO-OPERATIVE BANKING  
IN INDIA**



## CHAPTER II

### DEVELOPMENT OF CO-OPERATIVE BANKING IN INDIA

---

#### 2.1 Introduction

The Indian co-operative movement is one of the largest voluntary movement in world and the Urban Co-operative Banks is one of its important constituents. In order to understand the working and history of urban co-operative banks, an attempt is here made to understand the meaning of the word 'Co-operation' and urban co-operative banks and then to trace briefly the origin and development of urban credit co-operative movement in the world followed by its origin and development in India with special reference to Maharashtra and in particular to Kolhapur District and Kolhapur city.

#### 2.2 Co-operation

In a general sense, co-operation means living, thinking and working together. In its technical sense, it means a special method of doing business. Right from the hunting age upto the present day the progress and development of human beings, in all spheres - social, economic, religious and political - is marked by a sense of thinking, working and living together.

The word co-operation comes from the Latin word 'co'- together and 'aptare' - to choose. Thus, the word 'co-operation' means involvement of all in a joint venture for the common benefit of all. According to Calvert, *Co-operation is, "a form of organisation wherein persons voluntarily associate together as human beings on a basis of equality for the promotion of economic interests of themselves."* According to Professor Lambert,

*“a co-operative society is an enterprise formed and directed by an association of users, applying within itself the values of democracy and directly intended to serve both its own members and the community as a whole.”*

Lambert’s definition has received the widest recognition. It clearly shows that a co-operative organisation is not only meant to serve the interest of its members, but also of the entire community.

It was during the Industrial Revolution that they strongly felt the need to come together, to fight jointly against capitalism and through their combined efforts to improve their lot. The Industrial Revolution in Great Britain divided the society in two classes, namely, the capitalist class and the working class. At that time capitalist class started exploitation of the working class which was exploited by the capitalist class looked about for an alternative to save themselves from the grip of ruthless greedy employers. During that time social reformers like Robert Owen and Dr. William King gave thought to the formulation of a new philosophy. Since then co-operation as a thought and system has found acceptance under all political and economic systems all over the world. Thus, co-operation according to economists today means is a form of business organisation which protects the interests of the people having limited means. Today the co-operative movement in India is one of the largest voluntary movement in the world dedicated to the well-being of the persons having limited means.

### **2.3 Types of Co-operative societies**

There are many forms of co-operative societies and various attempts have been made to classify the different types of co-operative societies.

From the functional point of view the co-operative societies have been classified as – productive societies and auxiliary societies. From the legal point of view they have been classified into unregistered and registered societies. According to economic status of members, the co-operative societies are classified into Producers' Co-operative Societies, Consumer's Co-operative Societies, Employees' or Workers' Co-operative Societies, etc.

Prof. C. R. Fay has given the following classification of Co-operative Societies.

- i) Co-operative Banks or Credit Co-operative Societies,
- ii) Co-operative Agricultural Societies,
- iii) Co-operative Workers' Society,
- iv) Co-operative Stores<sup>1</sup>

On the other hand, according to the Reserve Bank of India, Co-operative Societies are classified as under :-

### **1. Co-operative Banking Structure**

It includes agricultural credit societies, rural banks, district central co-operative banks, state co-operative banks, central land mortgage banks, primary land mortgage banks and urban credit co-operative societies.

### **2. Co-operation as an aid to Production**

It includes agriculture and allied production co-operative societies and industrial Production co-operative societies.

### **3. Co-operative Marketing**

It includes primary marketing societies, central marketing societies, state marketing societies, national agricultural marketing federations, sugarcane supply societies and co-operative sugar factories.

### **4. Other Forms**

Other forms of co-operative societies include consumer co-operative stores, housing societies, women's co-operatives, insurance co-operatives, etc.<sup>2</sup>

#### **2.4 Co-operative Banking**

As commercial banks cater the requirements of the highly organised industries and commercial undertakings and organisations, the co-operative banks provide banking facilities to highly disorganised sector of the country's economy. Co-operative banks provide credit for productive purpose. Co-operative credit is guided by the principle of mutual help and thrift and stress more emphasis on service rather than profit. It also lays emphasis on the character and capacity of the member who borrows it.

A co-operative bank has been defined in many ways.

A co-operative bank has been defined as, *"an agency which is in a position to deal with small man on his own terms, accepting the security he has and without drawing on the protection of the rich. That agency must not be a channel for pouring charity or subsidising the small man out of the public fund, instead the material help must be packed by moral improvement and strengthening the fiber."*<sup>3</sup>

Devine defines co-operative bank as, *"A mutual society formed, composed and governed by the working people themselves*

*for encouraging regular savings and granting small loans on easy terms of interest and repayment.”<sup>4</sup>*

From the above definitions it is clear that a co-operative bank must have co-operative character. Thrift and savings is the fulcrum of working of co-operative banks. Co-operative banks act for the agriculturist as a friend, a philosopher and as a guide.

A statutory definition of co-operative bank which is laid down in section 2 of the RBI Act, 1934 is ideal one;

1. *Co-operative bank means a state co-operative bank, a central co-operative bank and primary co-operative bank.*
2. *Primary co-operative bank means a co-operative society other than primary agricultural society,*
  - a. *the principle business of which is the transaction of banking business*
  - b. *the paid-up capital and reserve fund of which are not less than one lakh of rupees, and*
  - c. *the bye-laws of which do not permit admission of any other co-operative society as a member.*

## **2.5 Co-operative Banking Structure**

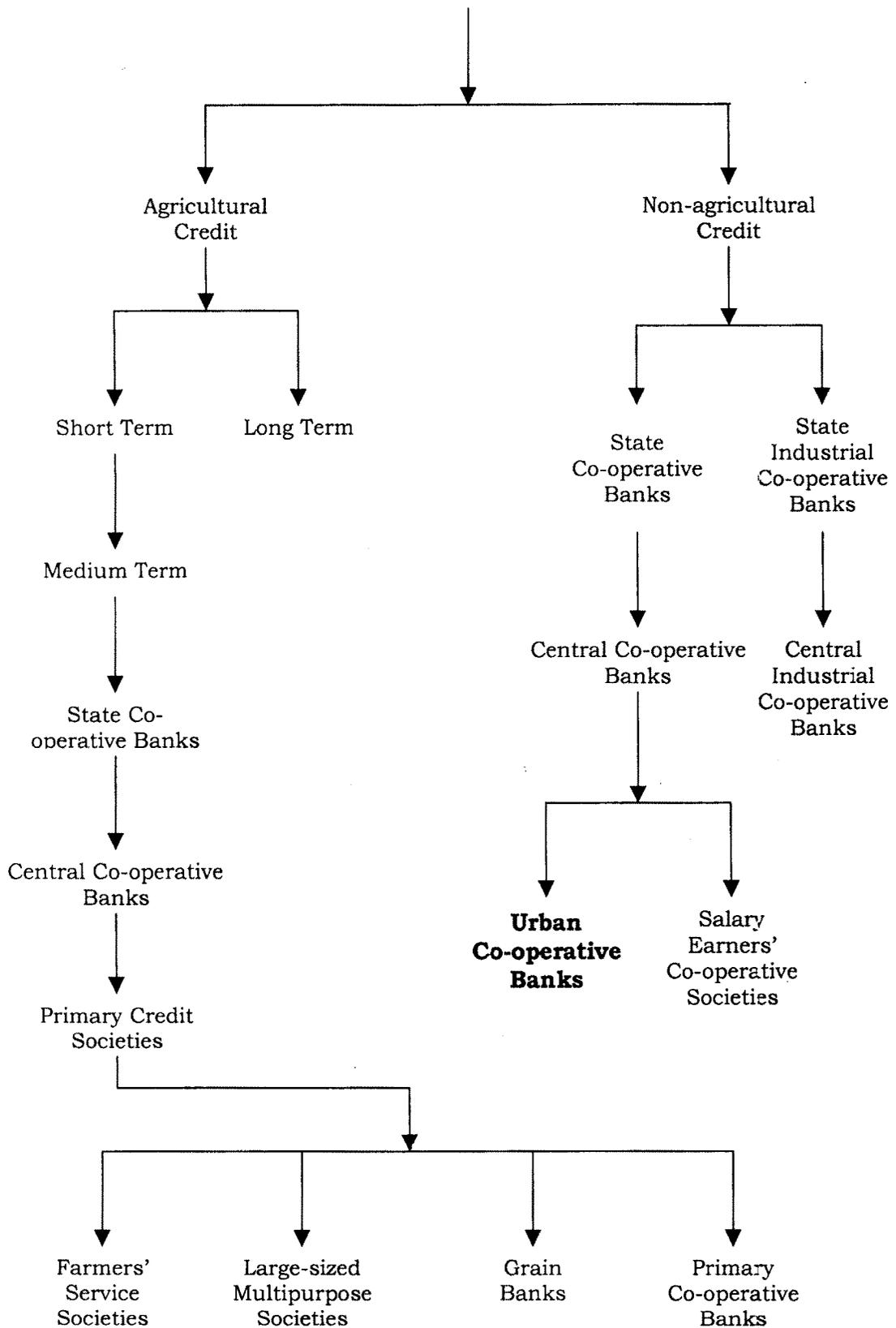
Among the above stated form of co-operatives societies, co-operative banking sector forms an important segment of the co-operative movement. The co-operative banking structure as it has since been developed consists of two parts, one engaged in short term and medium term credit and the other long term credit. The Co-operative banking structure is pyramidal in character.

At the base i.e. at the village level, there are primary credit societies upon which the whole building of co-operative credit

is based. These societies are federated at the district level into a central society called The District Central Co-operative Banks (DCC Banks). At the state level these District Central Co-operative Banks are federated into an apex bank which is called as State Co-operative Bank. The State Co-operative Bank in its term closely linked with the Reserve Bank of India, which provides considerable financial assistance to co-operative credit structure.

The long-term credit structure consists of two tiers. They are Primary Land Mortgage Banks at the base and Central Land Mortgage Banks at the top. In some states central and development banks operate through their branches. There are, in addition, a few industrial banks operating at state or district level. The following chart shows the structure of co-operative banking in India.

**Chart No. 2.1**  
**Co-operative Credit Structure in India**



The above chart No. 2.1 shows the co-operative credit structure in India. The Urban Co-operative Banks, however, do not exactly fit into above federal structure. Generally speaking, Urban Co-operative Banks have got unitary structure. It was based on presumption that Urban Co-operative Banks will be affiliated to the District Central Co-operative Banks and therefore there is no necessity of organising separate district and apex organisations for such banks.

However, in actual practice most of the Urban Co-operative Banks are self-sufficient, they do not require any funds from the District Central Co-operative Banks. In the above chart the Agricultural Credit Societies function in villages whereas, the Non-agricultural Credit Societies function in towns and cities.

## **2.6 Genesis of Urban Co-Operative Banks**

As we know co-operative movement in India is one of the largest movement in the world dedicated especially to the upliftment and well being of the people having limited means. In India we have more than 3.5 lakhs co-operative societies comprising of more than 16 crore membership and working capital over Rs. 72,000 crore in the country.<sup>5</sup>

The urban co-operative credit movement originated in Germany when Herr Franz Schulze (1809 -1883) started such societies for the benefit of artisans. The circumstances in Germany like famine, poverty, exploitation and indebtedness forced Herr Franz Schulze for the introduction of Urban Co-operative Societies. At the same time, in Italy the credit for starting such societies goes to Lougi Luzzatti. The depression of 1880, poverty and backwardness were some of reasons that do form a first bank in Italy. From the encouragement by the success of the urban

co-operative societies in Germany and Italy, some social workers in India also began to think to establish such society in terms of co-operative principles.

The seed of urban co-operative movement was sown by the Maclagan Committee (1915). The committee said "Urban credit societies might serve useful purpose in training the upper and middle classes to understand ordinary banking principles." This committee's report created a favourable climate for the development of urban co-operative societies. Though, the first experiment in urban co-operative credit like non-agricultural credit was made in the Baroda State on February 5, 1889. Prof. Vithal Lakshaman alias Bahusaheb Kavathekar arranged a dinner at his residence and the party ended with the decision to set up 'Anyonya Sahakari Mandali' with the object of promoting thrift and providing relief among Maharashtrian residents in Baroda city. The 21 Maharashtrians attending the dinner became founder-members on the spot agreeing to subscribe at least Rs. 2 each per month. It was a mutual aid society of subscriber-members without the assistance from the Baroda state.

Subsequently, inspired by the experiments in the Baroda state, voluntary associations were set up in the Bombay presidency by public-spirited men without Government's assistance.

After the enactment of the co-operative credit societies act in 1904, the first urban co-operative credit society was registered in Oct. 1904 at Canjeevaram in Madras Province. Subsequently, the Betegiri co-operative Credit Society in Dharwar district in the undivided Bombay province and the Bangalore City Co-operative Credit Society in the erstwhile Mysore state were registered in October 1905 and December 1905 respectively.

Simultaneously many urban credit societies were set up in India during that time.

## **2.7 Definition of Urban Co-operative Banks**

There are many definitions of Urban Co-operative Banks. Initially upto 1939, most of the Urban Co-operative Banks in India were organised as credit co-operative societies and later on converted into urban banks. There were no any distinction between an urban co-operative bank and an urban credit society. All urban credit societies were included in non-agricultural credit societies.

The first attempt to define Urban Co-operative Bank was made by Mehta-Bhansali Committee (1939) in Bombay. According to this committee an urban credit society having paid-up capital of Rs. 20,000/- or more and accepting deposits on current account or otherwise subject to withdrawal by cheque, draft or order came within the category Urban Co-operative Banks.

However, in many provinces, this term was used for credit societies working in urban areas irrespective of the size of share capital or nature of deposits accepted by them, for example, in Madras province, 'urban credit societies accepting deposits on current account and maintaining liquid resources according to the standards prescribed by the Registrar of Co-operative Societies were called urban banks.'

According to the co-operative planning committee (1946) urban banks receiving deposits on account should have –

- i. paid-up share capital of at least Rs. 20,000/-,
- ii. maintain liquid resources on the scale prescribed by the registrar of co-operative societies, and
- iii. carry to the reserve fund at least one third of their net profit till it equals to the paid-up share capital and

thereafter at least one fourth of the net profit . Such reserve fund should be invested in gilt-edged securities or deposited in the banks approved by the registrar and should not be used for the business of the bank.

For uniformity in definition of urban co-operative banks in context of the ability of the institution to employ qualities, trained and experienced staff the study group on credit co-operatives in non-agricultural sector appointed by the Government of India in 1963, under the chairmanship of Late Shri. V. P. Varde. The study group has recommended that the definition of Urban Co-operative Bank should include following features;

- i. a credit co-operatives registered under the state co-operative societies act in urban and semi-urban areas,
- ii. a minimum paid-up capital of Rs. 50,000/- and
- iii. provision of banking facilities.

Following the extension of certain provisions of the Reserve Bank of India Act 1934 and the Banking Regulation Act 1949 to co-operative banks, from 1<sup>st</sup> March 1966, an Urban Co-operative Bank came to be called as a Primary Co-operative Bank and defined as a co-operative society other than Primary Agricultural Credit Society –

- i. the primary object of which is the transactions of banking business,
- ii. the paid-up share capital and reserves of which are not less than Rs. 1 Lakh and
- iii. the bye-laws of which do not permit admission of any co-operative society as a member.

The category of primary co-operative bank also includes salary earners' society having paid-up share capital and reserves of Rs. 1 Lakh or more and the bye-laws of which provides acceptance of deposits from non-members.

In addition to the primary co-operative banks, there is a separate type of 'primary credit societies' which are allowed to call themselves the banks, but are kept outside the Reserve Bank of India's control until their paid-up share capital and reserves come to a level of Rs. 1,00,000/- or more. So the difference between a primary co-operative bank and primary credit society is only in respect of their share capital and reserves of Rs. 1,00,000/- or over in the former case and less than Rs. 1,00,000/- in the later case.

The Co-operative Societies Act 1912 having aimed at providing the refinance facilities to the primary credit societies, devised the existence of three tier co-operative banking structure.

At the base level the Primary Agricultural Credit Societies (PACS), District Central Co-operative Banks (DCC Banks) in the middle and State Co-operative Bank (Apex Banks) at the top.

At the time of 7<sup>th</sup> All India Conference of urban co-operative banks and credit societies was convened, it made several recommendations for reviving and restructuring the urban co-operative banks. A few of the most important were as under.

#### **1. Issue relating to the co-operative Law.**

Co-operative Law should be amended suitably---

1. to ensure autonomy of the Urban Co-operative Banks and credit societies,
2. to remove restrictive provisions in the existing act,
3. to avoid dual control of Reserve Bank of India and State Governments,

4. to include an exclusively separate chapter on Urban Co-operative Banks in Multi-state Co-Operative Societies Act and State Co-operative Societies Act keeping in view the special needs of these self-reliant democratic institutions.

## **2. Review of classification of UCBs as 'Primaries'**

The Urban Co-operative Banks are categorised as 'primary co-operative banks'. In spite of significant achievements, the urban co-operative banks have not been able to position themselves properly. Moreover, the services rendered by DCC Banks and State Co-operative Banks in present three-tier arrangement have been proved to be detrimental to the growth of urban co-operative banks. RBI should remove urban co-operative banks from the category of primary co-operative banks by amending the relevant provisions of Banking Regulation Act, 1949 so that the Urban Co-operative Banks can be positioned properly. <sup>6</sup>

The important features of Madhavdas Committee Report (December 1999) on review of performances of Urban Co-operative Banks as stated are given below;

1. The committee recommended five grades of entry point norms instead of the existing three grades entry point norms for new Urban Co-operative Banks.
2. New banks can extend their areas of operation to the entire district of their registration and adjoining districts.
3. The committee has recommended fixation of capital to risk asset ratio of 6% for non-scheduled Urban Co-operative Banks and 8% for scheduled Urban Co-operative Banks to be achieved till 31.03.2001, which will be raised to 9% till 31.03.2003.

4. Dual control to be done away with regulation of co-operative societies responsible for registration, approval and amendment of bye-laws.
5. Reserve Bank of India should be the regulator authority related to investment, prudential norms, branch licensing, remission of debts, change of management, etc.
6. Section 5 to be amended to drop the word 'primary' so that the banks will be called as Urban Co-operative Banks.<sup>7</sup>

RBI has prescribed the following Entry Point Norms for the Urban Co-operative Banks in April 1998.

**Table No. 2.1**

**Entry Point Norms for the Urban Co-operative Banks**

**Prescribed by RBI in April 1998**

(Rs. in Lakh)

	Category of Centers		
	A	B	C
• <i>For General Category Banks</i>			
▪ Share Capital (Rs.)	100.00	50.00	25.00
▪ Membership (in Nos.)	2000	1500	1000
• <i>Relaxed Entry Point Norms for –</i>			
<i>A. Less developed States</i>			
▪ Share Capital (50% of the entry point share capital) (Rs.)	50.00	25.00	12.50
▪ Membership (in Nos.)	2000	1500	1000
<i>B. Least developed States (North-East States, Tribunal areas, etc.)</i>			
▪ Share Capital (33.33% of the entry point share capital) (Rs.)	33.33	16.67	8.33
▪ Membership (in Nos.) (66.66% of the entry point norms)	1334	1000	667
<i>C. For Banks organised by Mahilas / SCs / STs</i>			
▪ Share Capital (50% of the entry point share capital) (Rs.)	50.00	25.00	12.50
▪ Membership (in Nos.)	2000	1500	1000

Category of Centers means—

<b>Category</b>	<b>Population</b>
A- Metropolitan	10 Lakhs and above.
B- Urban	1 Lakh and above but less than 10 Lakhs.
C- Semi-urban	10,000 and above but less than 1 Lakh.

A High Power Committee (HPC) on Urban Co-operative Banks had been constituted by the RBI in May 1999, to review among other regulatory issues, the licensing policy of Urban Co-operative Banks. The HPC has recommended that the licensing policy of Urban Co-operative Banks should be based on twin criteria of

1. Strong start up capital and
2. Professional background of promoters with proven track record.

RBI has examined these recommendations in consultation with Government of India and decided to approve the licensing policy approach of HPC. Revised licensing policy for Urban Co-operative Banks were as follows;

**Table No. 2.2**

**Revised Entry Point Norms for UCBs**

(Rs. in Lakh)

	Category of Centers			
	A	B	C	D
• <i>For General Category Banks</i>				
▪ Share Capital (Rs.)	400	200	100	25
▪ Membership (in Nos.)	3000	2000	1500	500
• <i>For Unit Banks / Banks organised by Mahila / SCs / STs / Less Developed States</i>				
▪ Share Capital (50% of the entry point norms) (Rs.)	200	100	50	12.50
▪ Membership (in Nos.)	3000	2000	1500	500
• <i>For Banks organised in Least Developed States / North Eastern States / Tribal Regions</i>				
▪ Share Capital (33.33% of the entry point norms) (Rs.)	133.33	66.67	33.33	8.33
▪ Membership (66.66% of the entry point norms) (in Nos.)	2000	1334	1000	334

Category of Centers means—

<b>Category</b>	<b>Population</b>
A	Over 10 Lakhs.
B	5 Lakh and above but less than 10 Lakhs.
C	1 Lakh and above but less than 5 Lakhs.
D	Below 1 Lakh.

## **2.8 Role of Urban Co-operative Banks**

As the Urban Co-operative Banks are concerned with the development and financing to artisans, small traders, salary earners, etc. and middle class peoples, these Banks play significant role in the development of banking economic activity. The role assigned to Urban Co-operative Banks is changing day by day. Following are some of the opinions expressed by various committees and commissions throw light on the role played by Urban Co-operative Banks;

1. Macglagn Committee on Co-operation in India (1915) pointed out that Urban Credit Societies might serve a useful purpose in training the upper and middle classes to understand ordinary Banking principles.
2. The Indian Central Banking Enquiry Committee (1931) observed the role of urban banks as follows;

"The duty of Urban Co-operative Banks should be to try to do for the small traders, the small merchants and the middle class population what the commercial banks are doing for the big traders and big merchants."

3. The role of the Urban Banks was explained by the co-operative planning committee (1946) in following words;

"Joint stock banks are not interested in developing the business of small loans, because of the cost of advancing and recovering it is high. Further, as the joint stock banks are not likely to have under ordinary circumstances full and intimate knowledge of the standing and resource of the persons of moderate means. They will not advance loans on personal security. On the other hand they are in urban areas, numerous persons of small means like traders, merchants, artisans, factory workers, street hawkers and motor drivers, who resort to money lenders and similar agencies for small loans and obtain them at high rate of interest. Ex-servicemen like technicians and skilled workmen like carpenters, black smiths, mechanics, etc. will also require credit for setting up their own business in small workshops. Urban Co-operative Bank qualify by establishing personal and intimate relationship with people of this class as the most suitable agencies for serving their credit needs."

4. The rural banking enquiry committee (1950) also commented on the role that Urban Co-operative Banks could play in providing banking facilities. The committee observed that urban banks which were established in many towns in Bombay and Madras would be able to offer facilities both to urban people and to individuals in the nearby rural area and in view of their relatively low cost establishment and operations can go to the places smaller than taluka towns.
5. The working group on Industrial Financing through co-operative banks (1968) appointed by Reserve Bank of India recognised the key role which the urban banks could play in providing finance to cottage and small scale industries and recommended that high priority should be given to the

organisation of such banks in areas where there was sufficient concentration of cottage and small scale industries carried on by individuals as well as firms and joint stock companies.

6. According to Damary Committee (1968) Urban Co-operative Banks are the most suitable agencies for financing small-scale industries.
7. According to Jogalekar Committee appointed by the Government in 1974 Urban Co-operative Banks are not just suitable lending agencies, but they are better substitutes with a special character and function.
8. The banking commission appointed by the Government of India (February 1969) under the chairmanship of Shri. R. G. Saraiya has evaluated the role of Urban Co-operative Banks as follows

*"Urban Co-operative Banks do useful work in mobilising deposits and financing the sector of small borrowers such as small scale industries, professionals, retailers and so on. Another useful activity is financing of house constructions and repairs for members of the banks. Also this type of banking provides an useful avenue for those who have the necessary ability to set up bank."*

## **2.9 Functions of Urban co-operative banks**

Generally, following functions are carried out by urban co-operative banks, which includes;

1. to borrow funds from members and others to be utilised for loans to members for useful purposes;

2. to act as an agent for the joint purchase of domestic and other requirements of the members;
3. To undertake collection of bills drawn, accepted or endorsed by members and constituents and discount cheques and bills of approved members;
4. to encourage thrift, self help and co-operation among the members;
5. to arrange for the safe custody of valuables and documents of the members and constituents; and
6. to carry out instructions for periodical collections, remittances, etc. of the members and the depositors.

## **2.10 Urban Co-operative Banks Vs. Commercial Banks**

Urban co-operative banks differ from commercial banks. Following aspects reveals the distinction between these two forms of banking.

### **1. Share Capital**

The share capital of a commercial bank is generally fixed. In case of urban co-operative bank the share capital varies due to admission of new members and grant of loans and advances, etc.

### **2. Voting power**

In case of urban co-operative bank every member irrespective of his size of holding, has only one vote. In commercial bank the number of vote which a shareholder can cast depends upon his shareholding.

### **3. Dividend**

Commercial banks are interested in paying high dividends on the share capital, whereas there is a restriction on payment of dividends to the shareholders in case of urban banks.

### **4. Management**

The management of urban co-operative banks is done with bye-laws of that bank, whereas the management of commercial bank is done with orders of Central Government and RBI Act.

### **5. Board of Directors**

The members of Board of Directors of Nationalised banks are selected by the Central Government. The management committee members are elected officers and they are the main of Board of Directors, whereas the directors of the urban co-operative banks are elected by its shareholders.

### **6. Status**

All Nationalised Banks are by born scheduled banks, whereas some eligible urban co-operative banks shall become scheduled banks.

### **7. Interest on Deposits**

Urban co-operative banks are authorised to pay 1% extra rate of interest on deposits as compared to the rate of interest paid on deposits by nationalised banks.

### **8. Control**

Nationalised banks are controlled and regulated by Banking Regulation Act, 1949. But in case of urban co-operative bank in addition to the provisions of Bank Regulation Act, 1949 the provisions of respective State Co-operative Societies Act are also applicable.

## **9. Disputes Tribunals**

For settling disputes of employees of nationalised banks, there is separate Act at national level named as Industrial Dispute Act whereas for urban co-operative banks the same disputes are settled by Banking Industrial Relations Act.

### **2.11 Growth and Development of UCBs in India**

The progress of Urban Co-operative Banks in India can be studied in three important stages. viz.

- A. Progress before independence
- B. Progress after independence till application of Banking Regulation Act. (1948-49 to 1965-66)
- C. Progress after the application of Banking Regulation Act to the co-operative banks.

#### **A. Progress before independence**

Urban Co-operative Banking movement in India is more than a hundred years old. The origin of the urban credit movement in India can be traced to the end of nineteenth century. By the success of urban credit institutions organised by Mr. Hermann Schultz of Germany and Mr. Luigi Luzzatti of Italy, some middle class Maharashtrian families settled in the Baroda state founded a mutual aid society in Baroda on 5<sup>th</sup> February 1889 under the guidance of Shri. Vithal Laxman Kavathekar.

In 1904 the first co-operative credit societies act was passed and as a result it received legal status. The first Urban Co-operative Credit Society was registered in October 1904 at Canjeevaram in Madras province under this new Act. Thereafter, subsequently urban co-operative societies were formed in erstwhile provinces.

The failure of joint stock banks during the year 1913-17 also enabled for the organisation of new urban credit societies. The economic boom created by the Second World War provided further stimulus to the movement. It attracted large membership and deposits as a result of rise in income. With the passage of time many urban co-operative credit societies came to be organised in Bombay and Madras provinces in the inter-war period (1919-1938).

**B. Progress after independence till application of Banking Regulation Act to Co-operative Banks. (From 1948-49 to 1965-66)**

The urban co-operative credit movement had made its progress after independence steadily. Because of there was no uniform definition or criteria for defining urban co-operative banks, data on all India level basis are not available prior to 1948-49. Certain data on all-India level basis are available in the Reserve Bank's Review of the Co-operative Movement for the years 1948-49 to 1959-60. Even these data suffer from various limitations as no uniform definition of Urban Co-operative Bank was adopted by the different states. Even if, these data provide an indication of the growth of urban banks. The following table shows the progress of the banks in the period 1948-49 to 1965-66.

**Table No. 2.3**  
**Growth & Development of**  
**Urban Co-operative Banks before 1966**

		(Rs. in Crores)				
Sr. No.	Particulars	1948-49	1957-58	1965-66	% Growth	
					49-58	58-66
1.	No. of UCBs	815	829	936	1.71	12.90
2.	Owned Funds (Rs.)	04	08	18.91	100	136.37
3.	Membership (in '000)	535	1181	--	--	--
4.	Deposits (Rs.)	17	27	76	58.62	181.48
5.	Working Capital (Rs.)	22	57	100.61	159.09	176.50
6.	Loans & Advances (Rs.)	19	33	66.97	73.68	102.93

Source : Shri Pise N.C. – Performance Appraisal and Services Marketing of Chikodi Urban Co-operative Bank Ltd. – A Case Study, Unpublished Ph.D. Thesis, Feb.2002.

Observations from the Table No. 2.3 are as follows;

1. During the year 1948-49, the number of Urban Co-operative Banks in our country was 815, which has increased by just 14 numbers in the year 1957-58. Only 1.71% increase rate recorded during this decade. Whereas a higher growth percentage of 12.9% was recorded in the period 1958-66 as compared to its earlier decade. Thus the number of urban co-operative banks increased upto 107 i.e. from 829 to 936 during 1957-58 to 1965-66.
2. As we know owned funds play important role in financial structure of any bank. The owned funds were just Rs. 4 crore in 1948-49, got doubled in the next decade reaching Rs. 8 crore which was again increase upto Rs. 18.91

crores showing 136.37% increasing rate as compared to the year 1957-58.

3. As far as deposits are concerned it raised from Rs 17 crore in 1948-49 to Rs. 27 crore in 1957-58 with further increase by Rs. 49 crore from 1957-58 to 1965-66. Thus the deposits recorded the growth rate of 181.48% in 1965-66 from 58.82% in 1948-49.
4. Working capital is called as the life-blood of any business. Adequate working capital shows satisfactory performance in terms of healthy financial position. Working capital during the year 1948-49 was noticed Rs. 22 crores and rose to Rs. 57 crores in 1957-58 and further increased to Rs. 100.61 crores in the year 1965-66. The growth rate during the years 1949-58 was 159.09% increased to 176.5% during the years 1958-66.
- 5 Loans and advances during the year 1948-49 was Rs. 19 crore and increased to Rs. 33 crore in the year 1957-58 and further increased to Rs. 66.97 crore during the year 1965-66. There was increment in the growth rate of 102.93% during the years 1958-66 from 73.68% during the years 1949-58.

**(C) Progress after the application of Banking Regulation Act to the co-operative banks (From 1966 and onwards)**

In this third phase, major developments were happened in the urban co-operative banking sector. Application of Banking Regulation Act, 1949 to the co-operative banks, Recommendations of Madhav Das Committee 1977, are the important events in the history of Urban Co-operative Banks in India. As a result, there has

been a significant growth of urban co-operative banking sector not only in terms of numbers but also in terms of their operations also.

The following table indicates the growth of Urban Co-operative Banks from 1966-67 to 2000-01.

Table No. 2.4

Table Showing Progress of Urban Co-operative Banks After 1966

(Rs. in crores)

Part 1	1966-67	1976-77	% Growth	1986-87	% Growth	1996-97	% Growth	1997-98	% Growth
No. of banks	1106	1105	-10	1359	22.98	1653	21.63	1502	-9.13
Deposits	153	519	239.21	4318.18	732.21	27738.4	542.21	40692	46.70
Loans & Advances	---	406.53	---	3848.9	844.3	19086.42	397.18	27807	45.69
Owned Funds	58	117	101.72	272.66	133.04	4343.46	1591	5985	37.79
Working Capital	222	722	225.22	5840.87	708.98	37915.64	549.14	52229	37.75

Part 2

Particulars	1998-99	% Growth	1999-00	% Growth	2000-01	% Growth
No. of banks	1587	5.66	1781	12.22	2084	17.01
Deposits	52617	29.31	71183	35.28	94000	32.05
Loans & Advances	34172	22.89	45993	34.59	50000	8.71
Owned Funds	7314	22.20	9312	27.31	9000	-3.35
Working Capital	66985	28.25	85000	26.89	110000	29.41

N. B.: Growth Rate is based on previous year's figures.

Source : 1) Shri Pise N.C. - Performance Appraisal and Services Marketing of Chikodi Urban Co-operative

Bank Ltd. - A Case Study, Unpublished Ph.D. Thesis, Feb.2002.

2) The Maharashtra Urban Co-operative Banks Federation Ltd. Mumbai Nagari Bank - Varta Patra Jan. 2002.

Observations from Table No. 2.4 are as follows :

1. The number urban banks in 1966-67 were only 1106 numbers which were increased upto 2084 in the year 2000-01. However in 1976-77 and in 1997-98 there recorded decrease in number of urban banks. Some banks gone into liquidation. From the year 1999-2000 the growth rate of number of urban banks increased.
2. As far as deposits were considered deposits in the year 1966-67 stood only Rs. 153 crores which abnormally raised upto Rs. 27738.40 crores in 1996-97 which again increased to Rs. 52617 crores in the year 1998-99 recorded nearly two fold increase in the amount of deposits. However the percentage of growth of deposits was not stable one.
3. Loans & Advances during the year 1986-87 was Rs. 3848.90 crores and increased to Rs. 50000 crores in the year 2000-01. However it is important to note that as compare to the year 1999-2000 the growth rate of loans & advances in the year 2000-01 is just 8.71.
4. Working capital is also plays important role in banking business. Working capital recorded in the year 1966-67 was Rs. 222 crores increased to Rs. 37915.64 crores during the span of 30 years in the year 1996-97. It was recorded Rs. 110000 crores in the year 2000-01.

## **2.12 Imbalance Growth of the Urban Co-Operative Banks**

The Urban Co-operative Banks have continued growth alone without any financial participation or help from the Government. Only 815 banks in 1948-49 reached to 2084 in 2000-01 with development from all sides. But unfortunately, the growth and development of Urban Co-operative Banks in our country is uneven and imbalance. This imbalance growth of Urban Co-operative Banks as on 31/03/2003 is shown in the following table.

**Table No. 2.5****State-wise Urban Co-operative Banks as on 31.03.2003**

<b>State</b>	<b>No. of UCBs</b>	<b>State</b>	<b>No. of UCBs</b>
Andhra Pradesh	169	Manipur	05
Assam	13	Meghalaya	03
Bihar	09	Mizoram	01
Chhattisgarh	14	Nagaland	01
Dehli	19	Orissa	19
Goa	07	Pondicherry	01
Gujarat	362	Punjab	05
Haryana	08	Rajasthan	44
Himachal Pradesh	05	Tamilnadu	136
Jammu & Kashmir	04	Tripura	01
Karnataka	324	Uttar Pradesh	78
Jharkhand	01	Uttaranchal	07
Kerala	65	West Bengal	55
Madhya Pradesh	77	Sikkim	01
Maharashtra	670		
<b>Total</b>		<b>2104</b>	

*Source : Report on Trend & Progress of Banking in India 2002-03 Page 87.*

Various social, political and economic factors are responsible for this imbalance growth and development of Urban Co-operative Banks. Economically advanced states, industrially developed states are on the highest position in forming major Urban Co-operative Banks, while less developed states, North-East states, etc. are yet long beyond this

competition. The following table indicates state-wise growth of Urban Co-operative Banks in India from 30/06/1977 to 31/03/2001.

**Table No. 2.6 Statewise growth of Urban Co-operative Banks in India From 30.06.1977 to 31.03.2001**

**Part 1**

(Rs. in Crores)

Sr. No.	States	No. of Banks (Nos.)			Share Capital (Rs.)			Owned Funds (Rs.)		
		30-6-77	28-6-91	31-3-01	30-6-77	28-6-91	31-3-01	30-6-77	28-6-91	31-3-01
1.	Maharashtra	321	358	587	28.44	141.21	922	43.45	550	4504
2.	Gujarat	261	288	323	14.34	90.49	357	26.65	464.14	2731
3.	Karnataka	177	201	266	6.35	38.03	210	11.66	97.88	628
4.	Andhra Pradesh	43	63	133	2.02	10.29	92	3.16	26.92	267
5.	Tamil Nadu	127	128	134	5.32	21.65	104	9.94	63.88	284
6.	Other States	176	267	368	13.45	48.1	283	21.85	122.94	898
	<b>Total</b>	<b>1105</b>	<b>1305</b>	<b>1811</b>	<b>69.92</b>	<b>349.77</b>	<b>1968</b>	<b>116.71</b>	<b>1325.76</b>	<b>9312</b>

**Part 2**

Sr. No.	States	Reserves (Rs.)			Deposits (Rs.)			Loans and Advances (Rs.)		
		30-6-77	28-6-91	31-3-01	30-6-77	28-6-91	31-3-01	30-6-77	28-6-91	31-3-01
1.	Maharashtra	15.01	408.79	3582	209.99	5229.91	38994	145.89	3892.38	25079
2.	Gujarat	12.31	373.69	2374	141.76	2773.21	16241	104.48	1862.2	10385
3.	Karnataka	5.31	59.85	418	41.57	590.82	4738	33.88	471.61	3093
4.	Andhra Pradesh	1.14	16.63	175	13.09	202.50	2897	12.23	170.05	1820
5.	Tamil Nadu	4.62	42.23	180	40.84	401.58	2673	38.94	339.42	1715
6.	Other States	8.4	74.84	615	71.40	978.78	5640	71.11	643.56	3901
	<b>Total</b>	<b>46.79</b>	<b>976.03</b>	<b>7344</b>	<b>518.65</b>	<b>10176.8</b>	<b>71183</b>	<b>406.53</b>	<b>7379.22</b>	<b>45993</b>

Source : Compiled from Unpublished Ph.D. Thesis of Shri. Kiran C. Shreshthi on 'A comparative study of Bank customer Relationship in Scheduled Commercial Banks & Urban Co-operative Banks, December 2002, Page 63.

### **2.13 Urban Co-operative Banks in Maharashtra**

Co-operative movement in Maharashtra has been the pioneering sector in the country. There are almost 670 of Urban Co-operative Banks in Maharashtra as on 31/03/2003. Shri. Vithal Laxman Kavathekar, a representative of middle class society of Maharashtra formed the first urban co-operative society at Baroda in 1889, but the co-operative movement in Maharashtra started with speed after passing Co-operative Societies Act, 1904.

The urban credit society is the origin of the Urban Co-operative Bank. Therefore, most of the Urban Co-operative Banks were, initially, organised and registered as urban co-operative Societies and then afterwards converted into urban co-operative banks. After the enactment of the Co-operative Societies Act, 1904, the first Urban Co-operative Bank in Maharashtra was formed and registered on 9<sup>th</sup> January 1906 in Poona named 'Defense Accounts Co-operative Bank Ltd. by the employees of defense department.

The second bank was also registered in Pune on the same ground on 18<sup>th</sup> January 1906 known as 'Cosmos Co-operative Bank Ltd., Pune' to serve the urban people of Pune city which is still today considered as an eminent urban bank in Pune.

The third urban co-operative bank formed in Solapur District at Barshi under the title 'Barshi Central Urban Bank Ltd., Barshi' on 24<sup>th</sup> April 1906.

'Shamrao Vithal Co-operative Bank Ltd.' was the fourth bank in Greater Bombay established on 20<sup>th</sup> December 1906.

Thus upto 1906, urban co-operative banking business started in Maharashtra, but there was no any urban co-operative bank formed during the next two years, though the above mentioned new urban co-operative banks were working smoothly and efficiently.

Subsequently, on 27<sup>th</sup> December 1908 'Dhule Urban Co-operative Bank Ltd., Dhule' formed in Dhule district. Then during the year of 1909 'Bhaunagar Urban Co-operative Bank Ltd.' was started in Ahmednagar District at Ahmednagar on 28<sup>th</sup> March 1909. Another Urban Co-operative Bank was formed in the same district at Ahmednagar under the title 'Nagar Urban Co-operative Bank Ltd., Ahmednagar' as on 31<sup>st</sup> March 1910.

Thus it was the beginning of urban co-operative banking business in Maharashtra with real sense. After the enactment of Co-operative Societies Act, 1912 a number of urban co-operative banks were formed in the Bombay province. Thus during the period of 1905 to 1915, 11 urban co-operative banks were established in six districts of Maharashtra. Namely, Bombay - 2; Pune - 3; Nagpur - 2; Solapur/Dhule - 1/1 and in Kolhapur 2.

From the World War II and notably after independence, there has been a persistent growth in urban co-operative banking in the state of Maharashtra. Because of the recommendations and reports of the various committees appointed by RBI favourable circumstances were created for the development of urban co-operative banking activities.

The present position of Urban Co-operative Banks upto the year 2001 in Maharashtra can be seen from the following table on next page.

**Table No. 2.7**

**Position of Urban Co-operative Banks in Maharashtra (1991-2001)**

(Rs. in Crores)

Sr. No.	Year	No. of UCBS (Branches in brackets)	Memb-ership ('000)	Working Capital (Rs.)	Share Capital (Rs.)	Own Funds (Rs.)	Deposit (Rs.)	Loans (Rs.)	Net Profit (Rs.)	Overdues (Rs.)
1	1991	381 (1316)	4472	7398	201	616	5794	4371	93	487.29
2	1992	371 (NA)	4468	8201	NA	747	6363	4740	NA	573.19
3	1993	368 (1421)	4574	9900	233	923	7607	5296	124	716.33
4	1994	371 (1554)	4797	12585	270	1163	9826	6686	122	786.50
5	1995	370 (1673)	5031	14529	309	1340	11304	7943	110	834.71
6	1996	402 (1958)	5391	18413	369	1654	14092	10070	176	1003.22
7	1997	459 (NA)	5681	22971	NA	2069	17871	12263	NA	1180.46
8	1998	482 (2402)	5961	28473	509	2630	22215	14975	121	1511.12
9	1999	510 (2535)	6030	32544	580	2836	25499	16688	164	1421.51
10	2000	528 (2720)	6425	41170	700	3454	32769	21300	278	1776.00
11	2001	658	---	55000	---	4500	42300	23000	---	---

Source : Compiled from Statistical Statement relating to operations of UCBS in Maharashtra Co-operative Banks

Federation Ltd., Mumbai Nagari Bank – Varta Patra Jan. 2002.

The figures in the above table shows that there are continuous increase in number of Urban Co-operative Banks and their branches from the year 1995 (370) which is increased to 658 in the year 2001. The same increasing trend were seen in respect of capital, owned funds and deposits. The Net Profit was also increased from 1991 (Rs. 93 crores) to the year 2000 (Rs. 278 crores) Thus from the above table various activities of urban co-operative banks in Maharashtra in ten years, said that the overall performance of urban co-operative banks is praiseworthy and remarkable one.

#### **2.14 Urban Co-operative Banks in Kolhapur District**

After discussing the history and development of the urban co-operative banks in India and in Maharashtra, we will now discuss the history and development of urban co-operative banks in Kolhapur District, because the bank, which is taken for study represents Kolhapur District.

The Kolhapur district urban co-operative credit movement was started in 1913 at Karveer Tahsil, named the Kolhapur Urban Co-operative Bank Ltd. At that time circumstances were favourable for the growth and progress of the urban co-operative banking sector in Kolhapur district. During the period from 1913 to 1947, 12 Urban Co-operative Banks were established whereas from 1947 to 1966 14 Urban Co-operative Banks were registered. Additional 14 Urban Co-operative Banks were established during the span of 18 years from 1966 to 1984 i.e. from application of Banking Regulation Act to urban co-operative banking sector. At present there are 62 reporting Urban Co-operative Banks in Kolhapur district as shown in the following Table No. 2.8.

**Table No. 2.8**

**Progress of UCBs in Kolhapur District for the period from 31.3.1992 to 31.3.2002**

Sr.No.	Particulars	(Rs. in Lakhs)										
		31.3.92	31.3.93	31.3.94	31.3.95	31.3.96	31.3.97	31.3.98	31.3.99	31.3.00	31.3.01	31.3.02
1	No. of Reporting Banks	42	42	42	43	44	57	61	61	63	61	62
2	No. of Branches	181	181	197	201	234	260	267	304	319	304	320
3	Deposits	40182	44385	59859	65206	74307	90392	114693	152492	182268	213375	242685
4	Advances	33391	35094	45037	53360	60830	68417	82270	99983	123851	146604	162673
5	Working Capital	51334	55214	73365	82039	95521	110596	139952	178907	217275	252119	289562
6	Net Profit	529	311	347	538	725	1497	1315	1985	1505	1539	1995
7	Owned Funds	5501	6303	7948	9224	10293	12658	15331	18322	18299	21507	20647
8	Overdues	3150	3404	4117	4203	4507	5391	6250	7468	18667	10491	---

Source: Compiled from 1) Record of Dy. Registrar of Co-operatives, Kolhapur.

2) Various Annual reports of Kolhapur District Urban Co-operative Banking Federation, Kolhapur.

It is to be noted from the above Table No. 2.8 that the Urban Co-operative Banks in Kolhapur district have made rapid progress with satisfactory results particularly during the period 1996 to 2002.

In Kolhapur district there are 64 Urban Co-operative Banks with 351 branches within the district. Outsides or adjoined district banks branches were recorded 25 numbers whereas Kolhapur districts banks opened their 36 branches outside Kolhapur district. Thus there are totally 376 Urban Co-operative Banks working in Kolhapur district.<sup>8</sup>

### **2.15 Urban Co-operative Banks in Kolhapur City**

Kolhapur, the famous city in Maharashtra with its historical, cultural, political and industrial development is located in South Maharashtra with its head quarter of the district by the same name. The location of surroundings and area of Kolhapur city introduced a well marked industry, commercial business and banking centre place.

The Co-operative Credit Societies Act, 1904 and 1912 are responsible for starting co-operative credit movement in Kolhapur city in 1913. Accordingly, the first Urban Co-operative Credit Society was established on 24th May 1913 known as 'Kolhapur Urban Credit Society Ltd.' Later on this name was changed as 'Kolhapur Urban Co-operative Bank Ltd. The spirit behind the establishment of this bank was mainly for the development of common people and persons of limited means. The impressive and effective directions of Shrimant Chhatrapati Shahu Maharaja and people's kind co-operation created a satisfactory performance with steady development of the Urban Co-operative Banks in Kolhapur since 1913.

Thereafter in 1915, five Urban Co-operative Banks were introduced banking activities with very limited means of financial resources. Then with passing of time, the resources of Urban Co-operative Banks took

progressive trends by the middle class and common people. As a result the Urban Co-operative Banks gradually increased with increasing demand for credit facilities attracted towards urban co-operative banking sector. This initial upsurge was restricted by outbreak of the Great Depression in 1929.

Then another new 5 Urban Co-operative Banks were established upto 1942. Thus about 10 banks introduced their banking activities with challengeable circumstances and such development led to the emergence of new urban banks. At present there are 18 urban banks working in Kolhapur city.

The exact position of Urban Co-operative Banks in Kolhapur city can be seen from the following table.

**Table No. 2.9****Urban Co-operative Bank in Kolhapur city as on 31.3.2002**

<b>Sr. No.</b>	<b>Name of Bank</b>	<b>No. of Branches</b>	<b>Date of Registration</b>
1.	The Kolhapur Urban Co-operative Bank Ltd.	08	24.05.1913
2.	Shree Balbheem Co-operative Bank Ltd.	09	17.10.1915
3.	Kop. Zila Govt. Servants Co-operative Bank Ltd.	06	03.07.1917
4.	Shahu Co-operative Bank Ltd.	06	24.03.1927
5.	Shree Mahalaxmi Co-operative Bank Ltd.	07	10.10.1933
6.	The Kolhapur Maratha Co-operative Bank Ltd.	14	20.10.1933
7.	Mahaveer Co-operative Bank Ltd.	11	11.05.1937
8.	Prathamik Shikshak Sahakari Bank Ltd.	08	12.10.1939
9.	Veershaiv Co-operative Bank Ltd.	23	21.02.1942
10.	Kolhapur Janata Sahakari Bank Ltd.	10	17.11.1960
11.	The Commercial Co-operative Bank Ltd.	05	18.12.1961
12.	Ravi Co-operative Bank Ltd.	03	01.07.1962
<b>13.</b>	<b>Shri Panchagana Nagari Sahkari Bank Ltd.</b>	<b>03</b>	<b>22.02.1972</b>
14.	Kolhapur Mahila Sahakari Bank Ltd.	05	19.05.1972
15.	Youth Development Co-operative Bank Ltd.	11	16.06.1975
16.	Shree Patraodada Sahakari Bank Ltd.	Nil	15.05.1995
17.	Satyashodhak Sahakari Bank Ltd.	Nil	14.01.1997
18.	Parshwanath Co-operative Bank Ltd.	08	02.02.1998

Source : Compiled from Annual Report of Kolhapur District Urban Banks  
Co-operative Federation Ltd., Kolhapur.

## **REFERENCES**

1. Hajela J. N. Principles, Problems and Practice of Co-operation, Shivalal Printersn, Agra, 1979, P 12.
2. Ibid., P 12,13.
3. Ibid., P 232.
4. Choubey B. N., 'Principles of Co-operative Banking in India' Asia Publishing Co-operative house, Bombay, 1968, P 3.
5. Shri. Pise N. C., Performance Appraisal and Services Marketing of Chikodi Urban Co-operative Bank Ltd., A Case Study, Unpublished Ph.D. Thesis, Feb. 2002 P 52.
6. Urban Credit of 'NAFCUB', Vol. XVIII (4) December 1996, P 9.
7. Sahkari Vishwa, year 30 Jan. 2000 Vol. XXIV, P 24.
8. Compiled from 24<sup>th</sup> Annual Report of The Kolhapur District Urban Co-operative Banks Federation, Kolhapur, 2001-02, P 8.