

**CHAPTER II**

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**URBAN COOPERATIVE BANKING  
: A RETROSPECT**



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### URBAN COOPERATIVE BANKING : A RETROSPECT

#### 2.1 STRUCTURE OF COOPERATIVE CREDIT

The cooperative credit structure is pyramidal or federal in character, with its two major wings, viz. agricultural and non-agricultural credit societies. Within the short term credit stream, at the base, i.e. at the village level, there is primary credit society. These societies are federated to the district level, called the Central Cooperative Banks. At the state level, the district banks are federated into an Apex Bank. It is linked with the National Bank for Agricultural and Rural Development. It provides considerable financial help to the cooperative credit structure. This is the set up in regard to short term financing. The urban banks do not exactly fit into this structure.

The long term credit structure has two tiers. These are Primary Land Development Banks at the base and Central Land Development Banks at the top. In some states, Central Land Development Banks operate through their branches. There are a few Industrial Banks operating at the state or district level.

Urban cooperative banks have got unitary structure. It was based on the presumption that the urban banks would be affiliated to the District Central Cooperative Banks. Therefore, there was no necessity of organizing separate district and apex organizations for such banks. In actual practice, most of the urban banks are self-sufficient. They do not approach Central Cooperative Banks for assistance. Some of the urban banks are even stronger than Central Cooperative Banks.

In Maharashtra, a District Central Urban Cooperative Bank has been established at Ahmednagar. It is a mixed type of federal structure. It is a unique example of a federal structure in the field of urban banking in the country. The general structure remains linked with the District Central Banks and State Cooperative Banks.

Chart 1 provides a glimpse of the hierarchy of the cooperative credit structure of India.

# COOPERATIVE CREDIT STRUCTURE IN INDIA

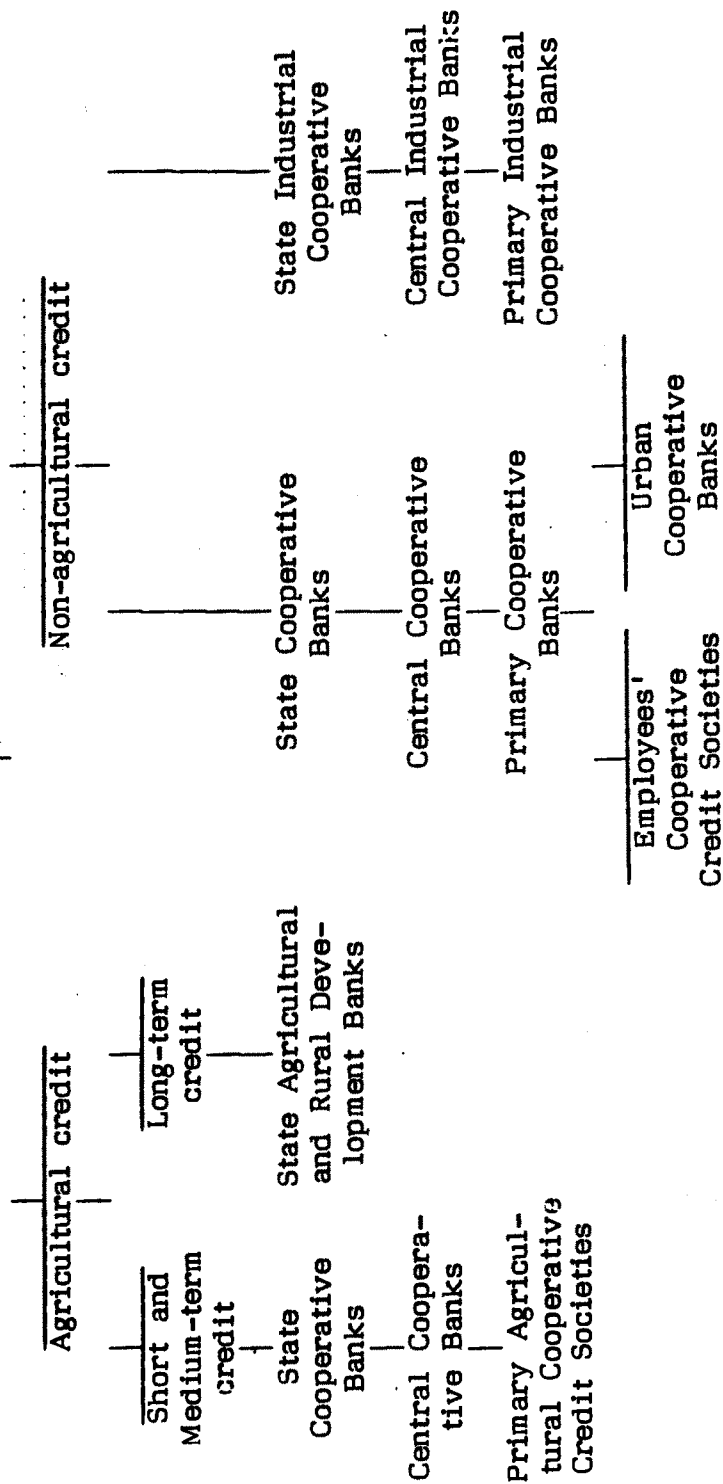


CHART 1

## **2.2 URBAN COOPERATIVE BANKING IN INDIA**

### **2.2.1 Phase I (before 1904)**

The urban cooperative credit movement originated in Germany when Herman Schultze started such societies in 1849 for the benefit of artisans in the cities. In Italy, the credit of starting such societies goes to Luigi Luzzati. The success of these societies encouraged social workers in India. The first urban cooperative bank was established on 5th February, 1884, at Baroda. Cooperative Societies Act of 1904 provided for the establishment of both rural and urban credit societies. In Madras, the first such society was registered in October, 1904 at Canjeevaram.

### **2.2.2 Phase II (1904-47)**

As a result of the recommendations of the MacLagan Committee (1915), a number of urban credit societies came up. The committee itself has numbered the non-agricultural credit societies as 602. The banking crises of 1913 to 1917 saw the failure of many commercial banks, which paved the way for the organization of new agencies. The Great Depression of the 1930's severely affected the agricultural credit societies more than the urban credit cooperatives. Upto the year 1938, all the urban banks were included in the first list of non-agricultural credit societies. There was practically no difference seen between an urban credit society and an urban cooperative bank. In Bombay, an urban credit society could

be styled as an urban bank if it had a paid-up share capital of Rs.50,000 upto 1938 and since 1938, Rs.20,000. With all the ups and downs during this phase, ultimately in 1947-48, in India, there were 1,060 UCBs having membership of 6.98 lakhs, owned capital of Rs.5.64 crores, working capital of Rs.26.9 crores, loans advanced to the tune of Rs.8.22 crores and 6.8 per cent of overdues to total loans outstanding.

### 2.2.3 Phase III (Post-Independence Period)

A greater fillip to the development of urban cooperative banking was given during the years after Independence

#### \* Scenario of Progress

Progress of urban cooperative banks over four decades between 1948-49 and 1988-89 has been presented, decadewise, in Table 2.1. Broad observations from the Table follow:

- (1) Increase in the number of banks during the period from 1948-49 to 1957-58 was marginal to the extent of only 1.59 per cent. Deposits rose by 58.8 per cent whereas owned funds and loans moved up by 100 per cent and working capital by 159 per cent.
- (2) Progress during the second decade (1958-59 to 1967-68) was relatively better as the number of banks rose by 11.98 per cent whereas owned funds, deposits and loans increased by 462, 415 and 235 per cent, respectively. Ratios of deposits to working capital, owned capital to working capital and loans to deposits

Table 2.1

## Scenario of the Urban Cooperative Banks in India

Particulars	1948-49	1957-58	1967-68	1977-78	1988-89
1. Number of banks	815	826	925	1162	1378
2. Owned funds (Rs.crores)	4	8	50	121	1082
3. Deposits (Rs.crores)	17	27	156	532	7232
4. Loans (Rs.crores)	12	24	157	434	5820
5. Working capital (Rs.crores)	22	57	214	761	9560
6. Owned funds per bank (Rs.lakhs)	0.49	0.96	5.40	10.41	78.52
7. Deposits per bank (Rs.lakhs)	2.09	3.27	16.86	45.78	524.82
8. Loans per bank (Rs.lakhs)	1.47	2.91	16.97	37.34	422.35
9. Working capital per bank (Rs.lakhs)	2.10	6.10	23.14	65.49	693.76
10. Ratio of deposits to working capital (%)	77	47	73	70	76
11. Ratio of owned capital to working capital (%)	18	14	23	16	11
12. Ratio of loans to deposits (%)	70	89	101	82	80
13. Membership (in lakhs)	5	12	31	NA	37
NA: not available.					

Source: Artha Samwad, October-December, 1990, Vol.14, No.3, p.213.

swelled by 26, 9 and 12 per cent, respectively. Membership enrolment of 31 lakhs registered an increase of 158 per cent.

- (3) In the next decade of 1968-69 to 1977-78, the number of banks rose by 25.6 per cent and further by 18.5 per cent during the following decade (1978-79 to 1988-89). There was a phenomenal rise in owned funds, deposits, loans and working capital. Percentage increase in these stood at 142, 241, 176 and 255 per cent during the former decade and 18.5, 794, 241 and 1156 per cent in the latter decade.
- (4) Position of 1988-89 may be looked vis-a-vis that in 1947-48 in order to perceive the progress over a span of four decades after Independence. The number of banks moved up by 69 per cent, owned funds shot up by 270 times, average amount of deposits collected moved up from Rs.2.09 lakhs to Rs.524 lakhs, average amount of advance spurted from Rs.1.50 lakhs to Rs.422 lakhs and membership rose by 640 per cent during the period under consideration. The number of banks given in Table 2.1 includes both urban banks and salary-earners' Cooperative Societies. The Banking Regulation Act was applied to those banks whose owned funds were more than Rs.1 lakh with effect from 1st March, 1966. Since then, those UCBs and salary-earners' Cooperative Societies which come under the purview of the Banking Regulation



Act are together known as 'Primary Cooperative Banks'. On March 1, 1966, in India, there were 1,091 such banks, of which 403 were urban banks and 688 were salary-earners' societies. In 1989, the number of such banks swelled to 1,378, of which 95 were salary-earners' societies. Further, in 1988-89, there were 33 women's UCBs, 22 of which were in Maharashtra State alone.

\* Statewise coverage

It will be interesting to examine the regional spread of UCBs. It will throw light on the efforts made by different states and union territories in promoting the cause of urban banks. Table 2.2 brings out the statewise figures of the primary cooperative banks, detailing at the same time, the numbers of urban banks and salary-earners' societies. It appears from Table 2.2 that Maharashtra leads among all the states, followed by Gujarat, Karnataka and Tamil Nadu. These four states together covered nearly 75 per cent of the primary cooperative banks in the country both in 1978 and 1989. Share of each of these states in the total changed only marginally over the span of 11 years. Strikingly, Maharashtra's share improved while shares of the other three states declined marginally. Particularly, West Bengal exhibited a reversal and its number of primary banks went down conspicuously. So far as share of other states is concerned, improvement was shown by Andhra Pradesh, Assam, Haryana, Himachal Pradesh, Madhya Pradesh, Goa, Pondicherry, Meghalaya,

**Table 2.2**  
Statewise development of UCBs in India

States/Union Territories	UCBs			
	1978		1989	
	Number	Percentage	Number	Percentage
1. Andhra Pradesh	44	3.6	65(3)	4.7
2. Assam	2	0.2	5	0.4
3. Gujarat	264	21.9	295(5)	21.4
4. Haryana	4	0.3	8(1)	0.6
5. Himachal Pradesh	3	0.2	4	0.3
6. Karnataka	202	16.7	217(16)	15.7
7. Kerala	59	4.9	59(4)	4.3
8. Madhya Pradesh	24	2.0	39	2.8
9. Maharashtra	321	26.6	385(30)	27.9
10. Manipur	1	0.1	5	0.4
11. Orissa	10	1.0	12(1)	0.9
12. Punjab	6	0.5	5(1)	0.4
13. Rajasthan	17	1.4	21(3)	1.5
14. Tamil Nadu	127	10.5	137(9)	9.9
15. Uttar Pradesh	25	2.1	36(9)	2.6
16. West Bengal	75	6.2	48(9)	3.5
17. Delhi	17	1.4	18(3)	1.3
18. Goa, Diu, Daman	4	0.3	6	0.4
19. Pondicherry	1	0.1	2	0.2
20. Meghalaya	-	-	2	0.2
21. Jammu & Kashmir	-	-	3	0.2
22. Tripura	-	-	1	0.1
23. Bihar	-	-	4(1)	0.3
24. Mizoram	-	-	1	0.1
<b>Total</b>	<b>1,206</b>	<b>100.0</b>	<b>1,378(95)</b>	<b>100.0</b>

**Notes:** 1. 'Number' indicates total number of primary cooperative banks.  
2. Figures in parentheses indicate number of Salary-earners' Cooperative Societies.

**Source:** As per Table 2.1.

Jammu & Kashmir, Tripura, Bihar and Mizoram.

It is significant to know the inter-regional growth of the urban banks. Unbalanced growth in respect of UCBs is found in India. Table 2.3 depicts the number of districts covered by UCBs in each state. It is observed that 199 districts in the country are not having even a single UCB. In Maharashtra, 96.6 per cent of the districts have these banks. It leads among all the states and is followed by Gujarat, Andhra Pradesh, Rajasthan and West Bengal. On the contrary, the States like Haryana, Madhya Pradesh, Manipur, Meghalaya, Punjab and Uttar Pradesh have shown normal coverage, that is, between 40 and 50 percent. In the remaining states (Bihar, Assam, Himachal Pradesh, Jammu & Kashmir, Tripura, Sikkim) and the Union Territories, the performance is very poor.

\* Performance Evaluation

It can be concluded that the progress of UCBs was slow during the first two decades after Independence, due to lack of resources, unhealthy competition, lack of cooperation, inefficient management, etc. Later on the movement has picked up quite well.

The main causes for significant performance are briefly stated below:

- (1) Management of the banks has improved considerably as the function of supervision has been strengthened. The banks

**Table 2.3**  
**Statewise coverage by UCBs**

State/Union Territories	Total no. of districts	No. of districts covered by UCBs	No. of districts where no UCB is functioning
1. Andhra Pradesh	23	16 (69.5)	7
2. Assam	10	2 (20.0)	8
3. Bihar	33	2 ( 6.0)	31
4. Gujarat	19	18 (94.7)	1
5. Haryana	12	5 (41.6)	7
6. Himachal Pradesh	12	4 (33.0)	8
7. Jammu & Kashmir	14	3 (21.0)	11
8. Madhya Pradesh	45	23 (51.0)	22
9. Maharashtra	30	29 (96.6)	1
10. Manipur	7	3 (42.8)	4
11. Meghalaya	5	2 (40.0)	3
12. Nagaland	7	-	7
13. Orissa	14	6 (42.8)	8
14. Punjab	12	3 (25.0)	9
15. Rajasthan	26	18 (69.0)	8
16. Tripura	3	1 (33.0)	2
17. Uttar Pradesh	56	26 (46.0)	30
18. West Bengal	17	10 (58.8)	7
19. Sikkim	4	-	4
20. Arunachal Pradesh	9	-	9
21. Mizoram	3	1 (33.0)	2
<b>Union Territories:</b>			
22. Andaman & Nicobar	2	-	2
23. Dadra and Navar Haveli	1	-	1
24. Daman & Diu	2	-	2
25. Lakshadweep	1	-	1
26. Pondicherry	4	1 (25.0)	3
27. Chandigarh	1	-	1
<b>Total</b>	<b>372</b>	<b>173</b>	<b>199</b>

**Note:** Figures in parentheses are percentages to total.

**Source:** Note of the RBI Standing Advisory Committee for Urban Cooperative Banks, 31st May, 1988, p.30.

are able to keep close contact with the borrowers and have made all out efforts to remain viable units.

- (2) Leadership plays a crucial rôle in the progress of any bank. Fortunately, these banks secured enlightened leadership which strove for impressive performance.
- (3) Most of the members of the board of directors are educated. They too have contributed their mite in the development of these banks on sound footing.
- (4) Administrative arrangements for recovery of loans are effective. Therefore, compared with agricultural credit societies, these banks have low levels of overdues.
- (5) Urban banks have adopted the policy of diversification particularly in their lending programme.

### **2.3 URBAN COOPERATIVE BANKING IN MAHARASHTRA**

First urban cooperative bank was established in Bombay on 20th December, 1906, named Shamrao Vithal Cooperative Bank. This provided impetus to many persons to follow suit and thus there was rapid increase the number of the UCBs in the State. It may be specifically noted that in June 1989, 385 out of 1,378 UCBs were in Maharashtra, constituting 30 per cent of the total. In June 1990, 48 out of 100 top UCBs were in Maharashtra and 45 per cent of the total branches of the UCBs in the country existed in Maharashtra.

\* Progress:

Table 2.4 shows the progress of the UCBs in Maharashtra State between 1961 and 1990 (both end-June).

Table 2.4  
Progress of Primary Cooperative Banks in  
Maharashtra (1961 to 1990)

Particulars	1961	1971	1981	1991*
1. Banks	149	265	345	376
2. Membership	433	883	1,618	4,600
3. Share capital	294	987	4,201	18,700
4. Deposits	1,243	6,832	65,779	4,82,000
5. Working capital	NA	9,260	88,704	5,90,000
6. Loans advanced (gross)	NA	12,381	87,343	7,85,000
7. Banks in profits	NA	229	330	370
8. Net profit	25	160	1,170	5,500

Note : PCBs : Urban banks and Employees' Credit Societies coming under the purview of the Banking Regulation Act, 1949.

1. Rs.in lakhs

2. Members in thousands

3. NA = Not available

4. \*Provisional

5. Loans advanced include gross cash credit.

Source: Cooperative Movement At-A-Glance in Maharashtra State .  
(1986 and 1990), Commissioner for Cooperation and  
Registrar of Cooperative Societies, Maharashtra State,  
Pune, pp.10 and 45.

There was a phenomenal increase in the number of banks during the first decade of the period under consideration (1961 to 1971). It increased by 77.85 per cent. In the next decade, the rise was 30.19 per cent. There was marginal addition (8.99 per cent) to the total number of banks during 1981-90.

The number of members doubled each time during the first and second decades of the period. There was nearly 2½ times rise in the membership over a period of 9 years from 1981 to 1990.

There was an overwhelming rise in the share capital. The percentage increase in the share capital of the banks stood at 235.71, 325.61 and 345.13 during 1961-71, 1971-81 and 1981-90, respectively.

The growth of working capital was higher during 1971-81 compared to that of 1981-90. In terms of percentage-rise, it was 857.93 and 565.13 during the two decades.

The banks had spectacular rise in their loans advanced. During 1971-81 and 1981-90, it was up by 605.46 and 798.76 per cent respectively.

The number of banks in profit was 370, out of 376, on 30th June 1990. It is an index of impressive performance of the banks.

Rise in net profit was to the extent of 540 per cent and 631.25 per cent during the first and second decades under reference and was to the tune of 370.09 per cent during 1981-90.

#### \* Regional Dispersion

Even though Maharashtra state has shown an outstanding performance in the growth of PCBs, the growth is spatially uneven. It can be perceived with the help of Table 2.5.

Table 2.5  
Spatial distribution of PCBs  
in Maharashtra (1989-90)

Division	Number of PCBs*	Percentage to total
1. Bombay	124	33
2. Nasik	66	17
3. Pune	136	36
4. Aurangabad	18	5
5. Amravati	19	5
6. Nagpur	15	4
<b>Total</b>	<b>378</b>	<b>100</b>

Note: \* Urban banks and employee' credit societies coming under the purview of Banking Regulation Act, 1949.

Source: Cooperative Movement At-A-Glance in Maharashtra, 1990, 28th issue, pp.80-81.

It is clear from Table 2.5 that there is heavy concentration of 'PCBs in Pune and Bombay Divisions of the state. 36 per cent of the total banks are in Pune Division and 33 per cent in Bombay Division. It means these two Divisions together covered 69 per cent of the banks. Nasik Division is third with 17 per cent of the banks. Aurangabad, Amravati and Nagpur Divisions showed only a sporadic existence of the PCBs. In sum, development of the PCBs in Maharashtra has remained largely restricted to the Western Maharashtra, and as such, the picture is very much skewed.

#### 2.4 URBAN COOPERATIVE BANKING IN KOLHAPUR DISTRICT:

##### \* The District

Kolhapur District is located between 15° and 17° North latitude and 73° and 74° East longitude. The district is bounded



by Sangli at the North, Belgaum district from Karnataka state on the South-East and Ratnagiri district at the West. Kolhapur district is situated at the fag-end of Maharashtra state on the Western side.

The area of the district is 8,059 sq.kms. Population, according to 1981 Census, stood at 25,06,330; out of which, the rural population is 18,24,308, forming 75 per cent of the total population. The district comprises of 12 tahsils.

\* Urban Banking

The history of the cooperative movement in Kolhapur is similar in many respects to that in the rest of the country. Yet, it has a special touch of the administration of the Princely State. Cooperative Movement in Kolhapur was initially sponsored by the government officials of the erstwhile Kolhapur State and a few prominent social workers. The movement had taken inspiration from the trends of cooperative movement in the old Bombay Presidency. After the passing of the Cooperative Societies' Act of 1912, it was made applicable to Kolhapur State in 1913 and the first cooperative society, namely, the Urban Cooperative Credit Society, was registered in that year. The cooperative mutual help associations, in the form of Chit Funds or Paisa Funds were in operation very actively throughout the district, including the rural areas. The saving habit and mutual cooperation, therefore, helped a great deal in organizing urban cooperative banks during the

subsequent years. The progress of the urban cooperative banks since 1901 is shown in Table 2.6.

Table 2.6  
Growth of UCBs in Kolhapur district  
(1911-90)

Period	Number of banks established	Percentage to total
1911-1920	4	9.5
1921-1930	3	7.0
1931-1940	4	9.5
1941-1950	4	9.5
1951-1960	4	9.5
1961-1970	10	24.0
1971-1980	11	26.0
1981-1990	2	5.0
<b>Total</b>	<b>42</b>	<b>100.0</b>

Source: Office of the Deputy Registrar of Cooperative Societies, Kolhapur District, Kolhapur.

It can be seen from Table 2.6, UCBs upto 1960 was rather slow. The period 1961 to 1980 presents a picture of phenomenal progress of the banks, as 21, out of 42 banks, were established during the two decades. The progress was very much slow in the last decade. Presently, there are 42 UCBs in Kolhapur district; of which, 15 are located in Kolhapur city, the district headquarters. One point needs to be noted specifically that over the long span of 90 years, there has not been any dropout of the established banks. A few details of all these banks are presented in Table 2.7.

Table 2.7  
UCBs in Kolhapur district (1990)

Name of the UCB	Year of establi- shment	Share capital	Deposits	Branches
1.	2.	3.	4.	5.
Rs.in lakhs				
<b>(A) Kolhapur City</b>				
1. Kolhapur	1913	58.35	2,127.35	6
2. Shree Balbheem	1915	49.01	1,230.36	6
3. Government Servants'	1917	126.00	340.00	4
4. Shree Raviwarpeth	1924	29.41	531.88	2
5. Shree Shahu	1927	53.29	967.98	7
6. Shree Mahalaxmi	1933	49.47	1,754.92	4
7. Kolhapur Maratha	1933	92.98	2,587.00	9
8. Shree Mahaveer	1937	46.59	2,404.00	10
9. Primary Teachers'	1939	313.95	591.05	9
10. Shree Veerashaiva	1942	27.70	3,300.00	11
11. Kolhapur Janata	1960	49.49	1,772.48	7
12. Commercial	1962	30.07	770.00	2
13. Shree Panchaganga	1972	23.63	595.04	2
14. Kolhapur Mahila	1972	17.99	268.76	1
15. Youth Development	1975	30.40	924.23	-
<b>Total:</b>		998.33	20,165.05	80
<b>(B) Rest of the District</b>				
16. Kagal (Kagal)	1917	10.71	368.00	2
17. Ichalkaranji (Ichalkaranji)	1930	45.96	1,682.63	4
18. Murgud (Murgud)	1947	9.93	127.62	-
19. Paisa Fund (Hupari)	1950	26.25	275.36	6
20. Gadhinglaj (Gadhinglaj)	1950	60.99	437.00	1
21. Kurundwad (Kurundwad)	1956	32.63	860.23	6
22. Vadgaon (Vadgaon)	1957	27.51	747.33	5
23. Udgaon (Jaysingpur)	1960	11.83	224.44	-
24. Ajara (Ajara)	1961	36.46	2,654.54	10
25. Nagari (Kodoli)	1962	20.86	243.00	2

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1.	2.	3.	4.	5.
26. People's (Ichalkaraji)	1962	29.42	542.93	-
27. Ichalkaranji Janata (Ichalkaranji)	1963	93.81	4,532.67	9
28. Janata (Ajra)	1963	35.50	769.00	5
29. Rendal (Rendal)	1964	15.86	115.10	-
30. Shree Warana (Warananagar)	1966	72.14	115.10	-
31. Ganesh (Kurundwad)	1966	-	-	-
32. Ichalkaranji Kamagar (Ichalkaranji)	1969	9.98	130.62	-
33. Bharat (Jaysingpur)	1971	66.39	1181.97	4
34. Nutan Nagari (Ichalkaranji)	1971	22.00	716.93	2
35. Shivaji (Gadhinglaj)	1971	19.70	305.36	-
36. Shivaneri (Ichalkaranji)	1972	28.95	871.99	1
37. Ichalkaranji Mahila (Ichalkaranji)	1972	12.25	282.12	1
38. Yashawant (Kuditre)	1974	20.50	251.54	1
39. Kumbhi Kasari (Kuditre)	1976	16.77	231.77	-
40. Doodh Sakhar (Bidri)	1979	5.53	110.00	-
41. Chandgad (Chandgad)	1982	13.12	-	-
42. Choundeswari (Ichalkaranji)	1982	29.68	911.74	2
<b>Total 'B':</b>		<b>774.73</b>	<b>20763.89</b>	<b>70</b>
<b>Grand Total 'A'+'B':</b>		<b>1773.06</b>	<b>40928.94</b>	<b>150</b>

Source: Office of the Deputy Registrar of Cooperative Societies, Kolhapur District, Kolhapur.

It can be seen from Table 2.7 that the 42 UCBs in the district together hold a share capital of Rs.1,773.06 lakhs, deposits of Rs.40,729.84 and have extended their activities through 150 branches, as per details of end-June, 1990. Of the 150 branches, 80 (53 per cent) are located in Kolhapur City. One can locate the biggest of the 42 on the basis of the three

parameters used in Table 2.7. They are: Primary Teachers' (Kolhapur), on the basis of share capital (Rs.313.95 lakhs); Ichalkaraji Janata (Ichalkaranji) on the basis of deposits (Rs.4,532.67 lakhs) and Veerashaiva (Kolhapur) on the basis of branch network (11).

In the final analysis, a glance at the taluka-wise spread of the 42 banks is as given in Table 2.8.

Table 2.8  
Spatial dispersion of the UCBs in  
Kolhapur district

Taluka	Number of UCBs
1. Karveer	17
(A) Kolhapur City	15
(B) Rest of the Taluka	2
2. Hatkanangale	11
3. Shirol	4
4. Radhanagari	-
5. Panhala	2
6. Bhudargad	-
7. Gadhinglaj	2
8. Shahuwadi	-
9. Kagal	3
10. Ajara	2
11. Chandgad	1
12. Gagan Bawada	-
<b>Total:</b>	<b>42</b>

Source: As per Table 2.7.

It is clear from Table 2.8 that there is a concentration of UCBs in Kolhapur City and Hatkanangale taluka. Nearly 62 per cent of the total banks are found in these two regions. There are no banks in major portion of the Western part of the district, particularly in Bhudargad, Gagan-Bawada and Shahuwadi talukas, for the basic reason that there is no urban area in these talukas. On the other hand, major concentration is found in Kolhapur City and Hatkanagale talukas, as both these regions are the hives of industrial and commercial activities.

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