

CHAPTER : THREE

URBAN CO-OPERATIVE BANKS

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CHAPTER - THREE -

URBAN CO-OPERATIVE BANKS

3.1 INTRODUCTION :

After Independence of India, national government had to face multi-dimensional problems in socio-economic and political areas. This led to the acceptance of 'Socialistic pattern of society democratic planning and mixed economy' as a frame of national economy. The objectives of economic planning were to attain social equality and justice by extending benefits to commoners. Hence decentralisation of industrial development, elimination of regional imbalance, and rational economic growth were kept as the 'Key-notes' of planning.

To realise the socio-economic goal '.....', cooperation is expected to play a significant supplementary role in the national economic development. It has to operate as a prominent approach to revitalise rural India and up-lift peasants and labourers. Cooperative movement is not expected simply to limit its activities to the basic economic needs of poor people, but has to attain a philosophical goal of establishing a novel social structure of co-operative culture, where people can enjoy equality, fair justice and glorified co-existence.

The Urban Co-operative Credit Banks in India have been started on the Schulze Model of Germany (Volks

Banks) and Luggati's Italian Model (Banka Populaire). The aim of such banks was to meet the needs of middle class and lower class people - small traders, businessmen, artisans, factory workers, small scale and Cottage industrialists and so also salaried people, in the urban and semi-urban areas. They have been playing significant role by mobilising small savings in their fields of operation and making the funds available to the developmental activities in the country. These banks are making way-out to remove the imbalance in the economy and extend benefits to the common persons;; In rural, urban and semi-urban areas, they are trying to develop banking habit amongst the people and teaching them, "Thrift and self help philosophy." To talk significantly from social point of view co-operative movement in India has not simply remained an economic movement but it is leading the society to "New Co-operative Culture."

3.2 MEANING OF THE CONCEPT OF CO-OPERATION:

The concept of co-operation is as old as the human history itself. 'Work together and live together ' has been found to be naturally developed way of life and philosophy of human race. Since the hunting age to present day, all the socio-economic, political and religious activities are marked by the sense of working together, i.e. in co-operation and cherishing co-existence.

That is why a literary observer has aptly said, "Man is a social animal".

In modern socio-economic thinking, Co-operation has emerged with a special significant philosophy to uplift the poor lot in the lower strata of society to a higher and better standard of living and cultured co-existence. Co-operation, has been introduced during the second half of the 19th century as a new approach to solve financial problems of the middle and lower class people and liberate them from the clutches of private money lenders.

3.3 CO-OPERATION : FEATURES & OBJECTIVES :

Some important features of co-operative can be stated as -

A) It is an association of persons :- The main feature of co-operative society is that it is an association of persons and not an impersonal grouping of capital like a joint stock company. The emphasis is on man and not on capital he contributes.

B) It is an undertaking :- A co-operative undertaking not only an association but it is also an undertaking. A cooperative enterprise runs by members themselves at their own expenses and own risk.

C) It is a voluntary organisation : No one is forced to join a society against his will. A cooperative enterprise is based on a voluntary form of organisation.

D) It is a democratic organisation : Cooperative organisation is governed on the basis of democratic principles. Every member of society can give only one vote and no more irrespective of the number of shares held by him.

E) The Key-note is service and not profit: A cooperative enterprise is motivated by a spirit of service, its whole business mechanism is geared towards the provision of most economical service.

F) The basis of equality : Another feature of a cooperative enterprise is that within its membership, relations between man and man are governed by a rule of equality.

G) It is based on proportionality : The distinctive feature of cooperative is social economy in the method of distributing the social product. The surplus is distributed not according to share holding but according to proportion of business operation a member has effected with the society.

H) It is a Socio-Economic Movement : It aims at bringing about revolutionary changes in the social and economic structure by peaceful means. It is based on self-help and stands for moral uplift and honesty.

I) At the service of members and community : Basic object of co-operative is not only to serve individual members, but also the community as a whole.

OBJECTIVES OF CO-OPERATIVES :

After considering the important features of Co-operative, it needs to examine the basic and foremost objectives of co-operatives. They are as under :

A) Improving the economic, social and cultural situation of persons of limited resources and opportunities as well as encouraging their spirit of initiative.

B) Increasing personal and National Capital resources by the encouragement of thrift by eliminating unwise expenses and careful use of credit.

C) Democratic Control of economic activity and of an equitable distribution of surpluses.

D) Increasing National income revenues and employment by a fuller utilisation of resources.

E) Improving social conditions and supplementary social services in such fields as housing, health, education, and communication.

F) Helping to raise the level of general and technical knowledge of their members.

G) Develop inter co-operative relationship and help the co-ordinated functioning of the personal, social and national sectors.

H) Generally undertake such other activities or functions as are considered incidental or conducive to the attainment of the objects of the society as co-operative members for better services.

I) Working and operation of the policies framed, for the weaker section development and enabling the poor individual members to attain better status and standard of living by availing all possible means of improvement.

3.4 DEFINITIONS OF CO-OPERATIVE BANKS -

The term co-operation has been defined by different thinkers with slight variations, but giving the same central sense.

"Co-operation is coming together and forming an association voluntarily of a group of people within the

legal frame, with the object of pooling small saved funds, for promoting mutual welfare of the members by the approach - Help mutually each other help self."

According to Mr. H. Calvert,

"Co-operation is a form of organisation, wherein persons volutarily associate together as human beings on the basis of equality for the promotion of economic interests of the members."

Mr. N. Barou, in his book - 'Consumers Co-operation' - has defined as, "As a bank formed by co-operative and labour organisations for the purpose of accumulating their collective funds and savings of their individual members; it manages their financial interests, grants credit to co-operative and labour enterprises and helps to satisfy the needs for personal credit of their individual members; the bank's surpluses are distributed between shareholders, depositors and broowers or placed reserves".

'Bombay Co-operative Societies' Act VII (1925)

"Whereas it is expedient further to facilitate the formation and working of co-operative societies for the promotion of thrift, self help and mutual aid among

agriculturists and other persons with common economic needs, so as to bring about better living, better business and better methods of production etc.

3.5 CLASSIFICATION OF CO-OPERATIVE BANKS :

CLASSIFICATION OF CO-OPERATIVE BANKS	
Agricultural	Non - Agricultural
<ul style="list-style-type: none"> • • Short & Medium term credit institutions. • • State Co-operative Banks • • Village Banks 	<ul style="list-style-type: none"> • • Long Term Credit Institutions • • Primary Land Development Banks. • • Employees' Credit Societies • • Central Co-op. House Mortgage Banks • • City Co-operative House Mortgage Banks • • Central Co-op. Urban Bank • • Primary Urban Co-op. Banks • • Apex Industrial Co-op. Banks • • Primary Industrial Co-op. Banks

3.6 DEFINITION, MEANING & FUNCTIONS OF URBAN
CO-OPERATIVE BANKS :

DEFINITION : The study Group on Credit Co-operatives in Non-Agricultural sector has defined Urban Co-operative Banks as, " any credit organisation which is registered under the state Co-operative Societies Act, which has a minimum paid up capital of Rs. 50,000/- and which provides banking facilities to its members and customers in Urban and Semi-Urban areas can be considered as an Urban Co-operative Bank."

MEANING : The Urban Co-operative Banks are basically Non-Agricultural banking organisations of middle and lower class people with small earnings, specially developed to promote - Thrift and Mutual help to each other, by including them to save their earnings and deposit with their bank to meet the common needs of all the members on equality basis and uplift them to better standard of living.

FUNCTIONS :

- 1) To attract deposits from the members as well as customers (non-members) - mobilising capital.
- 2) To advance loans to members and customers within the local territory of the bank for wise productive purposes - Wise use.

- 3) To act as an agent for the joint purchases of domestic goods, vehicles etc. of the members - Consumers' Credit.
- 4) To enable the people themselves to create efficient management - updating management.
- 5) To provide safe deposit custody facility for keeping valuable ornaments and important securities - Utility Service.

3.7 URBAN CO-OPERATIVE CREDIT MOVEMENT AT THE
GLOBEL LEVEL :

Germany stood up as the first and pioneer country to adopt co-operative philosophy and principles in the field of banking and credit under the ablest leadership of Mr. Herr Franz Schulze (1808-1888) the Co-operative Credit Movement was led in Germany to uplift the crushed poor and under privileged section of the society - peasants, artisans and workers etc. who were under the heavy debts of money market ruling Jews. Mr. Schulze, a man of profound mercy and compassion for the poor, helpless and hungry lot was a great foresighted thinker. He took initiative to introduce the co-operative philosophy - 'Mutual help for self help', for developing people's Co-operative societies. In 1853,

the first Credit Association was formed by him and then after followed Volk-Banks (People's Bank). They began to spread in different parts rapidly. It is because of his initiative, the first co-operative act was enacted in 1867, in Prussia and the same was adopted in the entire Germany in 1889. On Schulze's model banks were started in West Germany too.

About 65% of the total members of such co-operative Credit Societies or banks were self employed persons and they enjoyed 85% of the total loans advanced.

PROF. LUIGI LUGGATI : Professor of Economics of Italy was attracted by the Schulze's Urban Co-operative Bank's Movement and he studied the entire approach going to Germany. With deep interest he observed the organisation and working of "Volk Banks" - People's Banks in Germany. Then after returning to Italy in 1864-65 he organised "Friendly society" adjusting to the local situations and conditions. In 1866, Milan Co-operative Bank was established. Then after number of banks came into existence on the same model. These banks are known as, "Bank Populaire" in Italy (Popular Banks).

France followed the lead of Luggati and established, " Credit Populaire". In the same manner Denmark, Swiden, Switzerland and Israel etc. also started Co-operative Credit Banks on Schulze's model. America being

industrially well developed advanced country, such organisation could not come up as in other countries, but there too, 'Credit Unions' were organized which do the functions of Workers' Co-operative Credit Societies. So also we find in Canada quite modern credit unions.

In this way the Urban Co-operative Credit Movement gathered momentum in different parts of the world due to Germany's pioneership.

3.8 URBAN CO-OPERATIVE CREDIT MOVEMENT IN INDIA :

The Indian Co-operative movement was the child of prevailing deplorable economic situations and distressed conditions of peasantry and labour class, like its counterparts in the other countries in the world. Burning poverty, recurring famines, over indebtedness and inhuman exploitation of the commoners by money lenders were the marked features. These situations compelled the then British Govt. also to think sympathetically and make available cheap credit facilities to the poor lot and help them to get liberated from the clutches of exploiting money lenders. This very idea led to the initiation of Co-operative movement in the country.

Govt. appointed a Committee in the year 1901 to study the different aspects related to the supply of rural credit and providing the facility through

the co-operatives. On the basis of recommendations of above committee the first Co-operative Societies Act came into existence in 1904. Later on it was amended in the year 1912. Montague Chelmsford Reforms of 1919 made important recommendations regarding co-operative movement and "Co-operation" was entered as a subject in State List. This continued after Independence in Federal Constitution also. During the first few decades of the 20th Century Co-operative movement had not gathered momentum. After Independence on account of active encouragement by the Govt. and more particularly the vital role played by the R.B.I. the co-operative movement began to spread all over the country rapidly.

The Urban Bank in India, were initially started as credit societies and got converted into banks subsequently. Although the banking movement had made its beginning towards the close of last century, it had not made much progress till 1915. After 1915 the potentiality of Urban Co-operative Banks as the means of promoting banking habit among the middle and lower class people of Urban and Semi-urban areas came under sharp focus. The failure of the Joint Stock Banks in the country at the wake of the economic depression gave further impetus to the Urban Co-operative Credit Societies. At

this time there came about a growing realisation that Urban co-operative societies were eminently suitable institutional agency for mobilising local savings and providing succour to those with smaller means by freeing them from the exploitation of money lenders.

The first Urban Co-operative Credit Society in India was organised in the erstwhile Baroda State, by a few middle class Maharashtrian families. On 5th February, 1889 at Baroda under the guidance of Mr. Vitthal Laxman Kavathekar. In the same way first such society was registered in Madras in October, 1904 at Conjeevaram. Similarly, the Betegiri Co-operative Society in Dharwar district was the first one to be registered in Bombay in 1905. So also the Bangalore city Co-operative Credit Society was registered in Mysore in December, 1905. In this way, during the inter-war period (1919-1938), many Urban Credit Co-operative Societies came into existence in Bombay and Madras Provinces. The economic boom created by the Second World War provided further stimulus to the Urban Co-operative Credit Movement in India and Urban Banks went on increasing in number and size too. The period also saw a diversification of their activity. A significant development during this time was that Co-operative societies which had hitherto been providing finance for consumption

purposes mostly, started financing small artisans, small entrepreneurs and businessmen and so also to the small scale and cottage industries etc.

The Urban Banking Movement had made rapid strides since Independence. According to the financial report of 1987 of the R.B.I., during the year 1986-87 the number of Urban Banks had risen from 815 as at the end of 1948-49 to 1359. During the same period, deposit of Urban Banks had risen from Rs. 17 Crores to around Rs. 4413 crores. Out-standing advances had also risen from Rs. 12 crores to about 3509 crores. In terms of aggregate the operation of Urban Banks are quite small and modest as compared to those of commercial banks. This is on account of their specific local character and particular line of operations from which these banks can not divert otherwise. During the post Independence period R.B.I. appointed different committees from time to time to make recommendations for effecting balanced overall developments of the Urban Co-operative Banks in all the parts of the country and improve their operational efficiency by updating banking technique in modern line. In this connection, Varde Committee of 1963, Damry Committee of 1967, Jogalekar Committee of 1976, Madhavdas Committee of 1977 and Hate Committee of 1981 have made their recommendations for bringing qualitative as well as quantitative

improvements in the Urban Co-operative Banks. According to the report of R.B.I. of 1987, during 1986-87 R.B.I. had facilitated refinancing limit to 53 Urban Co-operative Banks of Rs. 30 crores for the purpose of advancing loans to the small scale and cottage industries at the concessional rate of interest for short term period. Out of this limit Rs. 25 crores were utilised by those banks. According to the census of 1971, 23% of the Urban population and 32% of semi-urban population was within the jurisdiction of Urban Co-operative banks. There is a great scope for the spread of Urban Co-operative banking activities in all the parts of Urban and Semi-urban India. The average members of Urban Banks in India in the different parts are as follows :

	<u>STATES</u>		<u>NO. OF MEMBERS</u>
1)	Tamilnadu	..	7,000
2)	Maharashtra	..	3,000 & more.
3)	Orisa	..	1,800
4)	Madhya Pradesh	..	1,000
5)	Rajasthan	..	300

The development in all these states is not found similar. In 1982 out of the total 1238 Urban Banks 338 were in Maharashtra state; 270 in Gujarath; 212 in Karnataka; 135 in Tamilnadu and the remaining balance were

in other states together. According to 1987 statistical information, out of total 1359 Urban Co-operative Banks, 336 were in Maharashtra. This picture clearly reveals that Maharashtra stands as a sensitive and pioneer state in the Urban Co-operative Banking Movement in India.

3.9. URBAN CO-OPERATIVE BANKING MOVEMENT IN MAHARASHTRA :

Maharashtra has the pride of being the cradle of the Urban Co-operative Banking Movement in India. As noted already, the first Co-operative Credit Society was organised at Baroda by a few Maharashtrian families long back in February, 1889. Since the Maharashtra has been the vanguard of the Co-operative movement including Urban Banks. The Co-operative movement in Maharashtra has proved to be ideal and pioneering one to the nation, from quantitative as well as qualitative point of view. In case of Urban Co-operative Bank too number of favourable factors were brought together and the movement was started in right direction. Winning the people's confidence, the able leadership in Maharashtra Urban Co-operative Banking has been proved to be prosperously developing far faster than the Agricultural Credit Societies. In the year 1947 about 125 Urban Co-operative Banks were functioning in Bombay region. More particularly after 1960 these banks made all round development with a rapid pace. In the development of

these banks' earnest positive helping approach of government as well as State Co-operative Apex Bank is of great importance. The all-round progress achieved by the Urban Co-operative Banks in Maharashtra State can be illustrated by concrete statistical figures. Of the total number of 1352 banks in the country, as many as 383 banks forming 28.33% are located in this state. The deposits and advances of these bank as at the end of June 1986 amounted to Rs. 1887.55 crores and 1378.57 and constituted 47.92% and 44.11% of the total deposits and advances of the Urban Co-operative Banks in the entire country. The two Urban Co-operative Banks which have been authorised to deal in foreign exchange business are in this state. The number of banks with a working capital of Rs. 5 crores and above constituted 44.30% of the total number of such banks in the country. This is the only state in India, having Urban Banks with deposit of Rs. 100 Crores and above. In this state only Urban Co-operative Banks have taken the initiative in providing consortium finance for housing to the economically weaker class.

The progress of Urban Co-operative banking in

Maharashtra can be traced out from the following tables:

TABLE NO. 3:1

S.No.	Particulars	As on 30/6/1960	As on 30/6/1967
1.	No. of Banks	141	221
2.	No. of Members	4,04,000	6,34,000
3.	Share Capital	Rs. 2,49,00,000	Rs. 6,32,00,000
4.	Owned Funds	Rs. 4,54,00,000	Rs. 9,97,00,000
5.	Deposits	Rs. 19,67,00,000	Rs. 43,18,00,000
6.	Working Capital	Rs. 25,22,00,000	Rs. 56,76,00,000
7.	Loans and Advances	Rs. 22,93,00,000	Rs. 73,53,00,000

SOURCE : Amrut Mahostava Smriti Gandh of
Shri. Veershaiv Co-operative Bank Ltd.,
Kolhapur 1969.
P.No. 66

With this background there has been accelerated growth and development of Urban Co-operative banks in this scope and content in this state. On the lines of quantitative progress in Co-operative sector as a whole, the Urban Co-operative Banking has remained increasingly greater and wider. Urban Co-operative banks have become increasingly popular in Maharashtra in the banking field of as effective financing agencies in Co-operative sectors.

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Following comparative statement indicates the position of Urban Co-operative Banks in Maharashtra and in all other states in India.

TABLE NO. 3:2

Urban Co-operative Banks in various states As on 30/6/1979.

States	No. of banks offices	Deposits (Rs. in Crores)	Loans (Rs. in Crores)
Maharashtra	348	381	246
Gujarath	270	226	157
Tamil Nadu	131	55	52
Karnataka	231	57	42
Kerala	68	26	20
Andhra Pradesh	133	18	20
West Bengal	188	13	9
Goa-Div-Daman	4	14	11
Other States and Union Territories	125	34	31

SOURCE : " Commerce " 31st December, 1983.

It is seen from the above table that the State of Maharashtra ranks first among all the states, in respect of number of banks, deposits and loans. Then Gujarath ranks second. The state of Maharashtra could achieve this position because of real spirit of development of Co-operative movement.

The real position of the Urban Co-operative banks in Maharashtra from 1961 to 1982 is also shown in the following table.

TABLE NO. 3:3

Urban Co-operative Banks in Maharashtra
(Rs. in lakhs)

Item	1961	1971	1982
No. of Banks	149	250	352
Membership	433	802	1,550
Paid-up - Share Capital	Rs. 294	Rs. 1,102	Rs. 3,300
Deposits	Rs. 1,243	Rs. 8,798	Rs. 66,500
Loans and Advances	N.A.	Rs. 15,978	Rs. 92,000
Profit	Rs. 25	Rs. 160	Rs. 1,100
Working Capital	Rs. N.A.	Rs. 11,823	Rs. 86,800

SOURCE : Co-operative Movement at a Glance in
Maharashtra 1982, Co-operative department,
Government of Maharashtra, P. no. 10

Thus the Urban Co-operative banks in Maharashtra made an attempt for development and growth of the banking business and banking activities. Right from the beginning of the Co-operative Credit Movement the Urban-Co-operative banks played dominant role in their development.

The impressive performance of the Urban Co-operative banks can also be seen from the following table.

TABLE NO. 3:4

Urban Co-operative Bank in Maharashtra as on
30th June, 1983.

No. of Reporting Banks	..	345
Branch Net Work	..	1,089 lakhs.
Membership	..	2,586 lakhs
Staff Working	..	18,979 (approx.)
Owned Funds	..	13,023 Crores
Total Deposits	..	1,010.51 Crores
Borrowings	..	29.04 Crores
Working Capital	..	1,345.19 Crores
Loans Outstandings	..	747.90 Crores
Overdues	..	53.33 Crores
Net Profit	..	18.35 Crores

SOURCE : SSI National Monthly for Small Industries,

Manazine Vol. 9, No. 3 March 1984, P.No. 12

A close look at the table also reveals the recent overall progress and growth of Urban Co-operative banks in the state.

3.10 URBAN CO-OPERATIVE BANKS IN WESTERN MAHARASHTRA

After studying the development of Urban Co-operative banks in the whole Maharashtra in general, the study of



these banks in Western Maharashtra is also an important part of the present study.

In Western Maharashtra there are 6 districts - Pune, Nagar, Satara, Sangli, Sholapur and Kolhapur. So far as development of Urban Co-operative banks is concerned these districts are leading one as compared to other 22 districts in Maharashtra. Out of 350 Urban Co-operative banks in Maharashtra 130 Urban Co-operative banks are in Western Maharashtra.

TABLE NO. 3:5

Table Showing The Position of Urban Co-operative Bank

In Western Maharashtra as on 30th June 1982.

(Rs. in lakhs)

Districts	Member- -ship	No. of Banks	Owned Funds	Deposits	Loans out- -stan- -ding	Profit
1	2	3	4	5	6	7
Pune	130518	38	461.46	9417.51	6745.18	112.98
Kolhapur	167653	39	602.81	6750.89	5367.04	124.37
Sholapur	51223	18	216.93	2536.10	2125.30	80.47
Sangli	24209	18	219.09	3783.69	3218.72	52.36
Satara	42857	14	237.52	2512.30	2002.94	61.17
Nagar	68658	13	149.93	2304.26	2054.11	49.37

SOURCE : Statistical Information of Urban Co-operative Banks in Maharashtra - Maharashtra State Cooperative Bank Ltd., Bombay - 1982

Looking at the other side of the Urban Cooperative banks one can not neglect the drawbacks of some Urban banks which indicate the defective working of them. The Apex Cooperative Bank as the leader of the cooperative movement in the state will to pay greater attention to the defective working in some banks. There are as many as 62 Urban banks in Maharashtra which come in this category and their working is characterised by serious irregularities, gross mismanagement, poor quality of advances portfolio and recovery efforts manifesting itself in heavy overdues and erosion in the value of assets. Some of these banks even do not comply with the statutory requirements relating to minimum share capital and non-variable. In spite of these few drawbacks, Maharashtra State as a pioneer, has to set an example in the matter of up-to-date operational efficiency, prompt and courteous services, training and up-gradation of technical know-how and skills to the banks in the other states.

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