

CHAPTER-I

I N T R O D U C T I O N

## CHAPTER - I

### **INTRODUCTION**

"Co-operation" is an association of the weaker section of the society which has common economic interest. This association starts any economic activity on the basis of self-help with mutual aid. The fundamental principles of co-operation such as free and open membership, limited interest on capital, democracy, equal and equitable distribution of profit etc. tells us that how co-operative system is a golden mean between capitalist enterprise and socialist economy.

The rise of co-operative movement in the world was a strong reaction of the capitalist enterprise system prevailed in the early 19th century. The emergence of co-operative movement in India was not spontaneous like western countries but it was the part of economic policy of the British Government to improve the rural economy in general and economic conditions in particular. Then the British Government took initiative in starting agricultural banks for meeting the needs of rural population for removing the poverty of the masses. Thus the introduction of village banks in different States of India was the beginning of the Indian Co-operative movement.

#### **1.1 THE GENESIS OF URBAN CO-OPERATIVE BANKING IN INDIA :**

Thanks to the British Government who had made pioneering effort of laying down the foundation of urban co-op.

banking in India. The co-operative credit societies Act of 1904 recognised the need of urban co-operative banks to help the small businessmen and petty traders in both urban and rural areas. Accordingly some urban co-operative societies were established on the pattern of Schultze Delitch Model under the supervision of Registrar of co-operative almost in every province.

The first urban co-operative society was set-up by a few Maharashtrian families in the Baroda State in Feb.,5,1889 under the guidance of Mr.V.L.Kawathekar. In Madras the first such a type of society was registered in Oct.,1904 at Kanjeevaram. The Betegiri co-operative credit society was registered in December 1905. But very little attention was paid to this aspect till it attracted the attention of Meclagan Committee in 1915. Meclagan Committee on co-operative pointed out that urban credit society might serve useful purpose in training the upper and middle class staff to understand banking business.

The central banking inquiry committee in 1931 recommended that limited liability of co-operative societies generally known as urban banks should be established wherever necessary facilities and condition exist for the benefit of these classes of the population. The duty of these urban banks should be to help small traders, small merchants and middle class population what commercial banks does for big traders and merchants.

According to review of Reserve Bank of India 1939-40, "Urban Credit Societies and Banks are the most important features of the urban co-operative movement in India". Urban Co-operative Credit Societies and Banks occupy a prominent place among the agencies supplying the credit needs of people residing in urban areas. They advance loans mostly to the small traders, artisans and salary earners on personal security as well as against gold, silver and agricultural produce. This clearly shows the role and need of urban co-operative banks in urban areas.

Taking into account all the above factors it can be said that urban co-operative banks and employees credit societies are the most important agencies for meeting the credit needs of urban middle class population.

Working group under the Chairmanship of V.P.Varde made various recommendations for better development of urban cooperative banks. Till 1965 these institution function exclusively within the area of co-operative societies Act of various States and under the control and supervision of the Registrar of Co-operative Societies. But with rapid growth of co-operative banking societies it was felt necessary to bring them also within the control of a central authority i.e. Reserve Bank of India.

The most important point to note is that the progress in the organisation of urban banks was relatively swifter after 1969-70 i.e. in the post nationalisation period. The

large number of urban banks came to be set up after 14 major commercial banks were nationalised in July, 1969. The number increased from 664 in 1969 to 1206 in 1977-78 i.e. nearly doubled in these 9 years. The great progress was achieved by urban banks in the year 1977-78 with membership 5312 lakhs and owned funds Rs.143 crores. The urban co-operative banks went on developing with their membership and efficiency. On 30th June, 1984 there were 1258 urban co-operative banks in with the owned capital of Rs.2274.80 crores, deposits of Rs.2274.04 crores, paid up share capital of Rs.146.20 crores. and outstanding loans and advances of Rs.1425.11 crores. It is very important to note that 80 percent of total urban co-operative banks in India concentrated in four States namely Gujrath, Maharashtra, Tamilnadu and Karnataka.

## 1.2 REVIEW OF CO-OPERATIVE CREDIT MOVEMENT IN MAHARASHTRA BEFORE INDEPENDENCE :

The State of Maharashtra is on the forefront of the co-operative movement in India and credit co-operative movement is one of the biggest part of the co-operative movement in Maharashtra. The credit co-operative movement is broadly classified into agricultural credit co-operatives and non-agricultural credit co-operatives. Urban co-operative banks are the part and parcel of non-agricultural credit co-operative movement in India. The urban co-operative banks have been playing a very important role in the economic development of urban area. The Maharashtra State is contributing a very predominant role even in the area of urban co-operative bank.

The first urban co-operative bank was started in Bombay on 27th Dec., 1906 named the 'Shamrao Vitthal Co-operative Banks' initiated by Rao Bahadur S.S. Talmaki, the famous co-operator. There are 6 urban co-operative banks registered in the period 1904-16.

### 1.3 PERIOD OF 1924 TO 1937 :

The urban co-operative banks in the Bombay State got a status symbol when urban banks got facility for clearing the cheques. As a result the total number of urban co-operative banks increased from 37 in 1923-24 to 127 in 1936-37. The membership increased from 58,000 in 1923-24 to 1.86 lakhs in 1936-37. The owned funds, deposits and working capital all have increased considerably during the period of 1923-24 to 1936-37 remarkably even in the early phase of the development the net profit of urban co-operative banks increased from 3.70 lakhs in 1923-24 to 8.26 lakhs in 1936-37. (See Table No. : 1.1)

### 1.4 PERIOD OF 1937 TO 1947 :

The decade before independence (1937-47) showed a good amount of progress of urban co-operative banks in terms of deposits, share capital and working capital. The comparative banking system got its full-fledged status and there were reorganised from the administrative point of view. The Second World War imposed occasional strength on co-operative

Table No. : 1.1

**Urban Banks in Maharashtra (excluding Sind)  
During 1924-37**

Sr. No.	Particulars		1923-24	1928-29	1936-37
1.	Banks	No	37	66	127
2.	Members -				
	a) Total	Lakhs	0.58	1.02	1.86
	b) Average per Bank	No	1568	1545	1465
3.	Paid-up Share Capital	Lakhs	21.24	42.88	79.22
4.	Reserves and Other Funds	"	5.19	12.73	59.35
5.	Owned Funds	"	28.43	55.61	138.57
6.	Deposits	"	87.60	168.21	323.12
7.	Borrowings	"	2.92	6.22	6.55
8.	Working Capital	"	117.05	230.03	468.23
9.	Gross advances during the year	"	124.91	198.04	316.87
10.	Loans Outstanding at the end of the year	"	108.18	181.43	312.95
11.	Overdues	"	6.32	17.16	43.56
12.	Cost of Management	"	1.44	3.23	6.93
13.	Net Profit	"	3.70	6.64	8.62

Source : "Seven decades of Innovative Banking" - Silver Jubilee issue of Maharashtra State Co-operative Bank Ltd.-1983.

banking system. Co-operative banks accepted this challenge and their progress continued to be important. The urban banks could establish closer relations with Reserve Bank of India and the Bombay Co-operative Bank Association for co-ordinating and guiding the activities of co-operative banks. As a result, three significant developments took place since the beginning of 1941.

First step was taken to avoid unfair competition from central financing agencies. Second, the various standards of sound banking policies were made applicable to the urban banks.

Third, the bank resorted to a policy of developing urban banks of small traders at taluka market centres, if necessary by lending its staff and providing guidance. The growing prosperity of the semi-urban areas, the licensing regulations for branch banking of joint-stock company and the urban banks. Efforts to expand banking services and better their quality combined to hasten the pace of their growth.

#### 1.5 PROGRESS OF CO-OPERATIVE MOVEMENT IN MAHARASHTRA DURING THE PLAN PERIOD :

According to the latest statistical information as given in the table No.:1.2, out of total number 3,41,622 co-operative societies (all types) 83,460 societies were in Maharashtra State only as on 30th June,1987. This number



Table No. : 1.2

COMPARATIVE POSITION OF CO-OPERATIVE SOCIETIES BETWEEN  
 MAHARASHTRA AND INDIA AS ON 30TH JUNE, 1987

Sr. No.	Item	Maharashtra			India		
		A	B	C	A	B	C
1.	No. of Societies	26,139 (22%)	57,321 (25.72%)	83,460 (24.43)	1,18,801 (100)	2,22,821 (100)	3,41,821 (100)
2.	Membership (in lakhs)	142 (12.89)	69 (18.90)	211 (14.39)	1,101 (100)	365 (100)	1,466 (100)
3.	Paid-up Share Capital Cr. Rs.	433 (27.42)	1,186 (25.77)	2,746 (26.75)	2,746 (100)	1,680 (100)	4,426 (100)
3A.	of which from Govt.	22 (5.41)	232	254	406 (100)	NA	NA
4.	Working Capital Cr. Rs.	9,319 (24.71)	3,501 (35.55)	12,820 (26.95)	37,705 (100)	9,847 (100)	47,552 (100)

\* Figures in brackets shows percentage.

- 1) A : All credit societies,
- 2) B : All Non-credit societies,
- 3) C : Total societies ( A + B ),
- 4) Source - AABARD

NA : Not available

Source : 'Cooperative Movement at glance in Maharashtra State - 88'  
 Publication Department of Co-op. Maharashtra State

consists of 26,139 all types of credit societies and 57,321 all types of non-credit societies. Percentagewise it can be said that the State of Maharashtra is having 24.43 percent of all types credit and non-credit co-operative societies at All India Level. Remarkably more than 25 percent of credit co-operative societies in India are in the State of Maharashtra.(see Table No.: 1.2).

**1.6 COMPARATIVE POSITION OF MAHARASHTRA IN RESPECT OF URBAN CO-OPERATIVE BANKS AT ALL INDIA LEVEL :**

The comparative position of Maharashtra State in respect of the progress of urban co-operative banks is given in the Table No.: 1.3 . It is observed that out of 1263 urban co-operative banks in India, the Maharashtra is having maximum number of 30.40 percent of the urban co-operative banks. These banks have attracted nearly 2100 crore of deposits and their loan operations were to the tune of Rs. 1700 crores. Percentagewise, the urban co-operative banks in Maharashtra were have 48.23 percent of total deposits in all urban co-operative banks in India. It is very remarkable to note, the contribution made by the urban co-operative banks in Maharashtra is the field of foreign exchange banking. Out of total number of 28 Urban Co-operative Banks dealing with foreign exchange, the maximum number of 18 banks are in the Maharashtra State only (See Table No.: 1.3).

Table No. : 1.3

**Position of Urban Co-operative Banks in India  
as on June 1986**

Sr.No.	Item	India	Maharashtra	Percentage
1.	Urban Co-op. Banks	1263	384	30.40
2.	Branches	3064	1310	42.75
3.	Deposits (Cr.)	4472	2157	48.23
4.	Loans "	3678	1694	46.00
5.	No.of Urban Co-op. Banks holding Licence for foreign exchange dealing	28	18	64.28
6.	No.of Banks getting permiss- ion for accept- ing deposits from foreign citizens	100	48	48.00

Source : Governer of Reserve Bank of India Dr.Oza's  
speech - 21.11.1986

**1.7 PROGRESS OF URBAN CO-OPERATIVE BANKS IN MAHARASHTRA**  
**DURING THE PLAN PERIOD :**

The progress of urban co-operative banking in Maharashtra during the Planning period is given in Table No.: 1.4.

Firstly, the number of urban co-operative banks increased from 149 in 1960 to 239 in 1970, and it increased upto 366 in 1985-86.

Secondly, the membership increased from 4.02 lakhs in 1960 to 7.37 lakhs in 1970 and it reached to 2411 lakhs in 1985-86.

Thirdly, the financial position of urban co-operative banks in respect of share capital, owned fund and deposits has been showing fantastic progress. Share capital increased from 205.46 lakhs in 1959-60 to 804.24 lakhs in 1969-70. It increased upto 7000 lakhs of Rupees in 1985-86.

The amount of deposits attracted by urban co-operative banks in Maharashtra reached to the tune of Rs.1967.72 lakhs in 1960, 6012.76 in 1970, 41000 in 1980 and Rs.1,59,260.00 lakhs in 1985-86.

Fourthly, the loans and advances increased from Rs. 50,200.00 lakhs in 1980 to Rs.1,40,000 lakhs in 1985-86.

Fifthly, out of total number of 366 urban co-operative banks in Maharashtra as on 30th June,1986, 330 banks were

earning profit. The amount of net profit as on 30th June, 1986 was 2355.00 lakhs. All these above figures shows sound economic position of the urban co-operative banks in Maharashtra (see Table No.: 1.4).

#### 1.8 URBAN CO-OPERATIVE BANKS IN WESTERN MAHARASHTRA :

After explaining the development of urban co-operative banks in the whole Maharashtra, it is important to see the development of urban co-operative banks in Western Maharashtra.

In Western Maharashtra there are six districts namely Pune, Ahmednagar, Kolhapur, Sangli, Satara and Solapur. So far as the development of urban co-operative banks are concerned these districts of Western Maharashtra are leading ones as compared to other remaining districts in Maharashtra which have 366 urban banks. Again it is important to note that Solapur is not behind among the Western Maharashtra in respect of number of urban co-operative bank membership, share capital and loans and advances. Thus Solapur district is leading in urban co-operative banks as on 30th June, 1989.

Pune and Kolhapur districts are ahead to Solapur district in respect of number of banks, membership, share capital and profit.

Position of urban co-operative banks in Western Maharashtra is given in Table No. : 1.5. The latest data regarding the urban co-operative banks in Western Maharashtra is not available. The figures are available upto 1989



Table No. : 1.5

**Position of Urban Co-operative Banks in Western Maharashtra as on 30-8-1982**  
(Rs. in lakhs)

Sr. No.	Region	No. of Banks	Membership	Owned funds	Deposits	Loans Advanced	Profit
1.	Pune	38	1,30,518	461.46	9,417.51	6,785.16	112.98
2.	Kolhapur	39	1,67,653	602.93	6,750.89	5,367.04	128.37
3.	Solapur	18	51,223	216.93	2,536.10	2,125.30	80.47
4.	Sangli	16	52,209	219.09	3,783.69	348.72	52.36
5.	Satara	14	42,857	232.52	2,512.30	2,002.94	61.17
6.	Ahmednagar	13	68,658	149.93	2,304.26	2,054.11	49.37

Source : 'Statistical Information of Urban Co-operative Banks in Maharashtra' -  
Maharashtra State Co-op. Banks Ltd., Bombay - 1982

Accordingly out of the Pune and Kolhapur districts each having the maximum number of urban co-operative banks. Their strong financial position could be assessed from the fact that the owned funds of urban co-operative bank was more than 4.61 crores in Pune district and more than 6.00 crores in Kolhapur district. The deposits attracted by the urban co-operative banks in Pune district was more than 95 crores and that Kolhapur district was nearly more than 67 crores. Comparatively the performance of urban co-operative banks in Satara district and Ahmednagar district was inadequate.

#### 1.9 URBAN CO-OPERATIVE BANKS IN SOLAPUR DISTRICT :

The Solapur district has 19 Urban Co-operative Banks as on 30th June, 1989. Out of these, north Solapur Taluka (which includes city of Solapur) is having maximum number of 11 urban co-operative banks and Pandharpur Taluka is having 2 banks. The remaining Talukas such as Malshiras, Mangalwedha, Akalkot, Barsi, Madha and Karmala are having only one bank each. Very surprizingly there is not a single urban co-operative bank in three talukas of Mohol, Sangola and South Solapur. (See Table No. : 1.6).

The overall financial position of urban co-operative banks in Solapur district can be stated with the help of the indicators such as share capital, working capital and deposits given in the Table No. : 1.7.

Table No. : 1.6

**Talukawise Urban Co-operative Banks  
in Solapur District as on 30-6-88**

Sr. No.	Taluka	No. of Urban Co-op. Banks
1.	Pandharpur :	2
2.	Malshiras :	1
3.	Mangalwedha :	1
4.	North Solapur :	11
5.	Akkalkot :	1
6.	Barsi :	1
7.	Madha :	1
8.	Karmala :	1
9.	Mohol :	-
10.	Sangola :	-
11.	South Solapur (City) :	-
Total :		19

Source : Office of the D.D.R. of Co-operatives,  
Solapur.



Table No. : 1.7

**Position of Urban Co-operative Banks in  
Solapur District as on 30th June, 88**

(Rs. in thousands)

Sr. No.	Item	Figures
1.	No. of Banks	19
2.	Membership (No.)	1,06,528
3.	Share Capital	26,950
4.	Reserve & Other funds	64,799
5.	Deposits	7,64,729
6.	Working Capital	9,73,951
7.	<u>Loans -</u>	
	a) Advanced	5,69,480
	b) Recovered	3,68,603
	c) Outstanding	4,25,829
	d) Overdues	63,249

Source : Office of the D.D.R. of Co-operatives,  
Solapur.

1. The total no.of 19 urban co-operative banks are having total membership of 1,06,528 with total share capital of Rs.2.69 crores.

2. The total amount of deposits with these 19 banks were to the tune of Rs.76.47 crores and the working capital was Rs.97.39 crores.

3. The total advances given by 19 urban co-operative banks in the district was nearly 57 crore of rupees, out of which 36.86 were recovered. The amount of loans outstanding as on 30th June,1988 was more than Rs.42.58 crores and overdues reached at the level of 6.32 crores.

4. Though the total number of urban co-operative banks in Solapur district is comparatively very small. Three Banks i.e. Barsi Central Urban Co-operative Bank, The Pandharpur Urban Co-operative Bank and Laxmi Co-operative Bank, Solapur were established before Independence in 1906, 1912 and 1929 respectively. The other banks were started in 60<sup>s</sup>, 70<sup>s</sup> and even in 80<sup>s</sup>.

#### 1.10 THE PRESENT RESEARCH WORK :

In view of the predominant role of urban co-operative banks in the development of non-agricultural credit co-operative movement particularly the urban development, the present research work tries to study the role of urban co-operative banks in the development of small scale industries and trade

with particular reference to Solapur Janata Sahakari Bank Limited, Solapur.

#### 1.11 OBJECTIVES :

- 1) To take brief review of 'Urban Co-operative Credit movement in Maharashtra in general and Urban Co-operative Banks in particular.'
- 2) To highlight the salient features of urban co-operative banks in Solapur district with particular reference to Solapur Janata Sahakari Bank Limited, Solapur. ✓
- 3) To study the progress and performance of Solapur Janata Sahakari Bank Limited, Solapur under study.
- 4) To analyse the contribution made by the Solapur Janata Sahakari Bank to the development of small scale industries and trade in Solapur town.
- 5) To suggest some policy implications for increasing the role of Solapur Janata Sahakari Bank in the development of small scale industries and trade in weaker section of the urban community.

#### 1.12 METHODOLOGY :

- 1) The data available from the office of Solapur Janata Sahakari Bank was used to study the performance of the Bank.
- 2) One hundred beneficiaries in industry and trade sector was randomly selected to study the impact of Bank.

3) The interview of those beneficiaries were held with the help of opinion survey type unstructured schedule.

4) The said interview schedule contains the aspects such as identification, financial position of the trade and business of the respondents, credit gap and the problems faced by them etc.

#### 1.13 LIMITATIONS :

The present research work is a case study of one urban co-operative bank. In view of the limited time and resources at our disposal the sample of one hundred beneficiaries was very limited. Therefore, the findings thereof could not be generalised.