

# Chapter - 2

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# DEVELOPMENT OF URBAN CO-OPERATIVE BANKS IN KOLHAPUR

### 2.1 Urban Banks and Their Resources

Urban banks as primary units are members of the central co-operative banks. They are expected to borrow from the Central Co-operative Banks if they are not able to meet their demands out of their own resources. But their borrowings from Central Co-operative Banks are very negligible. The Central Co-operative Banks are also reluctant to give loans to the urban banks as they are heavily committed to the PACS. The Varde Committee had recommended that the urban banks should be affiliated with Central Co-operative Banks and the latter should provide them occasional loans and overdrafts required from time to time.

Of late when the urban banks started lending small scale industries they required larger resources. The Working Group on Industrial Financing through Co-operative Banks appointed by the Reserve Bank of India had recommended that the Reserve Bank of India should provide refinance facilities to the urban banks in respect of their working capital advances to approved small scale and cottage industries and funds may flow through the apex banks directly to urban banks or funds from the apex arrangements preferred by the banks. This recommendation was accepted in 1969 and since then such refinance facilities were made available to urban banks for financing working capital requirement of 22 broad groups of approved cottage and small scale industries.

While lending money, the urban banks should make it a point that finance provided by them must be most productive and useful. The Varde Committee made it a plea that the lending policy of urban banks should be more imaginative and in keeping with the general programmes for economic development. In other words, it should be production oriented and related to the repaying capacity of the borrower rather than the security.

The All India Conference on Urban Co-operatives had pointed out that, "Urban Banks should adopt a sufficiently diversified loaning system. In addition to loans to small industries, loans upto limited amounts on personal securities, larger loans on mortgage of real property or security of negotiable instruments may be made. Loans for consumption purposes should be largely connected with purposes promoting economic efficiency e. g. education, durable consumer goods etc. The first seminar of the Chief Executive of urban banks tried to fix the proportion of resources. The seminar said, "While it is not easy to suggest any proportion of resources among different categories of loans, it would appear advisable that the bank should ensure that at least 60% of the loanable funds are granted for production purposes."

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

There was no distinct definition of Urban Co-operative Bank in India till the year 1938. They formed part of non-agricultural credit societies. The distinguishing criterion between urban credit society and urban bank was mainly the volume of working capital. On the basis of the

volume of working capital Metha-Bansali Committee defined "A Urban Bank as a Co-operative Organisation with a share capital of Rs. 20,000 or more undertaking banking business as defined in Section 277 of the Indian Companies Act (1913) and amended in 1936."<sup>1</sup>

According to a study group on credit co-operative in the non-agriculture sector "An Urban Bank is –

- 1) A credit co-operative registered under the State Co-operative Societies Act in urban and semi-urban areas.
- 2) Provides banking facilities<sup>2</sup>

The Banking Regulation Act 1949 defined, 'An Urban C-operative Bank as Primary Co-operative Bank having paid up share capital and reserve of Rs. 1 lakh and above. These banks are required to obtain license to carry on banking business, to seek prior permission for opening cash reserves and liquid assets and submit returns prescribed under the rules formed as per the Act."<sup>3</sup>

Madhav Das Committee (1973) appointed by Reserve Bank of India defined, "An Urban Co-operative Bank as a Primary Co-operative Bank and Co-operative Society other than Primary Agricultural Credit Society.

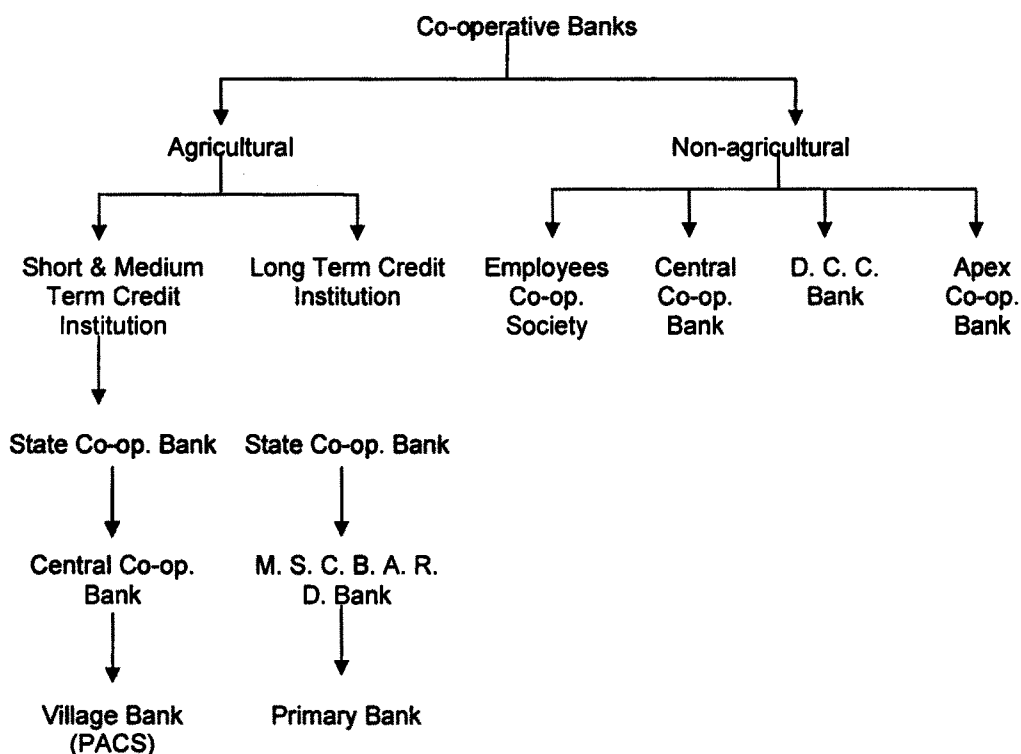
1. The primary object of which is the transaction of banking business.
2. the paid up share capital and reserves of which are not less than Rs. 1 lakh

3. The by-laws of which do not permit.

If we consider above definition we will find that at present there is uniformity in the definitions of urban co-operative banks. Madhav Das Committee remarks that instead of primary co-operative bank, urban bank is the term, which is more popular in common parlance.<sup>4</sup>

### 2.3 Classification of Co-operative Banks

Mainly there are two types of co-operative credit institutions, one is Agricultural Credit Institution and the other is Non-agricultural Credit Institution. The following chart depicts the detailed classification of the various types of co-operative credit institutions.



The bank under study falls under the non-agricultural credit institutions and particularly under the primary co-operative urban banks. At present there are two types of urban banks.

A co-operative society registered with a share capital as per the criteria in force at present and which being banking business after getting license under Section 22 of the Banking Regulation Act 1949 from the Reserve Bank of India.

Co-operative society registered with a share capital as per the criteria in vogue and carrying on banking business as a primary credit society, which obtains license under Section 22 of the Banking Regulation Act 1949 from Reserve Bank of India after the share capital reaching the level prescribed for registration of urban banks.

## **2.3 Urban Co-operative Banking in India**

### **2.3.1 Phase – I (Before 1904)**

The urban co-operative credit movement originated in Germany when Henman Schultz started such societies in 1849 for the benefit of artisans in the cities in Italy, the credit of starting such societies goes to Luzi Luzati. The success of these societies encouraged social workers in India. The first urban co-operative bank was established on 5<sup>th</sup> February 1884 at Baroda. Co-operative 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.

### **2.3.2 Phase – II (1904-1947)**

As a result of the recommendations of the Macglan Committee (1915) a number of urban credit societies came up. The committee itself has numbered the non-agriculture credit societies as 602. The banking crisis of 1913 to 1917 saw the failure of many commercial banks, which paved the way for the organisation of new agencies. The great depression of the 1930s severely affected the agricultural credit societies more than the urban credit co-operative 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 co-operative 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 1060 urban co-operative banks having membership of 6.98 lakh owned capital of Rs. 5.64 crores, working capital of Rs. 26.9 crores, loans advanced to the tune of Rs. 8.32 crores and 6.8 percent of overdue to total loans outstanding.

### **2.3.3 Phase – III (Post Independence Period)**

A greater fillip to the development of urban co-operative banking was given during the years after independence.

### Statewise Coverage

It will be interesting to examine the regional spread of urban co-operative banks. It will throw light on the efforts made by different states and union territories in promoting the case of urban banks. Table 2.1 brings out the statewise figures of the primary co-operative banks, detailing at the same time, the number of urban banks and salary earners societies, it appears from Table 2.1 that Maharashtra leads among all the states, followed by Gujarat, Karnataka and Tamil Nadu. These four states together covered nearly 75 percent of the primary co-operative banks in the country.

**Table 2.1**  
**Statewise Development of Urban Co-operative Banks in India**

Sr. No.	States	No. of UCBs	No. of districts covered by UCBs
1	Andhra Pradesh	65	16
2	Assam	5	2
3	Gujarat	295	18
4	Haryana	8	5
5	Himachal Pradesh	4	4
6	Karnataka	217	22
7	Kerala	59	14
8	Maharashtra	385	29
9	Tamil Nadu	137	17

It is significant to know the inter-regional growth of the urban banks, unbalanced growth in respect of urban co-operative banks is found in India. The number of district covered by UCBs in each state it is observed that 199 district in the country are not having even a single



urban co-operative bank. In Maharashtra 96.6 percent of the district have these banks.

#### 2.4 Urban Co-operative banking in Maharashtra

First urban co-operative bank was established in Bombay on 20<sup>th</sup> December 1960 named Shamrao Vitthal Co-operative Bank. This provided impetus to many persons to follow it and thus there was rapid increase in the number of the UCBs in the state. It may be specifically noted that in June 1998 285 out of 1378 UCBs were in Maharashtra constituting 30 percent of the total in June 2001 48 out of 100 top UCBs were in Maharashtra and 45 percent of the total branches of the UCBs in the country existed in Maharashtra.

#### Progress

Table 2.2 shows the progress of the UCBs in Maharashtra state.

**Table 2.2**  
**Progress of Primary Co-operative Banks in Maharashtra**

Sr. No.	Particulars	1971	1981	1991	2001
1	Banks	149	265	345	376
2	Membership (in thousand)	433	883	1618	4600
3	Share Capital (in Rs. lakh)	294	987	4201	18700
4	Deposits (in Rs. lakh)	1243	6832	65779	482000
5	Working Capital (in Rs. lakh)	NA	9260	88704	590000
6	Bank in Profits	NA	829	330	370

Note : PCBs Urban Banks and Employees Credit Societies coming under the purview of the Banking Regulation Act 1949

Source: Commissioner of Co-operation and Registrar of Co-operative Societies, Maharashtra State, Pune

There was a phenomenal increase in the number of banks during the first decade of the period under consideration is increased by 77.85 percent. In the next decade, the rise was 30.19 percent. There was marginal addition to the total number during 1991-2001.

The numbers of members doubled each time during the first and second decades of the period. There was nearly 2 ½ times rise in the membership over a period of 9 years from 1991-2001.

There was an overwhelming rises in share capital. The percentage increase in the share capital of the banks stood at 235.7%, 325.61% and 345.13% during 1971-81 to 1991-2001 respectively.

The number of banks in profit was 370 out of 376 on 30<sup>th</sup> June 2001. It is an index of impressive performance of the banks.

### 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 2.3.

**Table 2.3**  
**Spatial Distribution of PCBs in Maharashtra**

Sr. No.	Division	No. of PCBs	% 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

Note : Credit Societies coming under the purview of Banking Regulation Act, 1949  
Source : Co-operative Movement at a Glance in Maharashtra 2000.

It is clear from Table 2.3 that there is heavy concentration of PCBs in Pune and Bombay division of the state 36% of the total banks are in Pune division and 33% in Bombay division. It means these two divisions together covered 69% of the banks. Nasik division is third with 17% of the banks development of the PCBs in Maharashtra has remained largely restricted to the Western Maharashtra and as such the picture is very much skewed.

## **2.5 Urban Co-operative Banking in Kolhapur**

### **The District**

Kolhapur district is located between 15<sup>0</sup> and 17<sup>0</sup> North latitude and 73<sup>0</sup> and 74<sup>0</sup> 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 8059 sq. kms. Population according to 2001 census stood at 5309660. The district comprises of 12 tahsils.

### **Urban Banking**

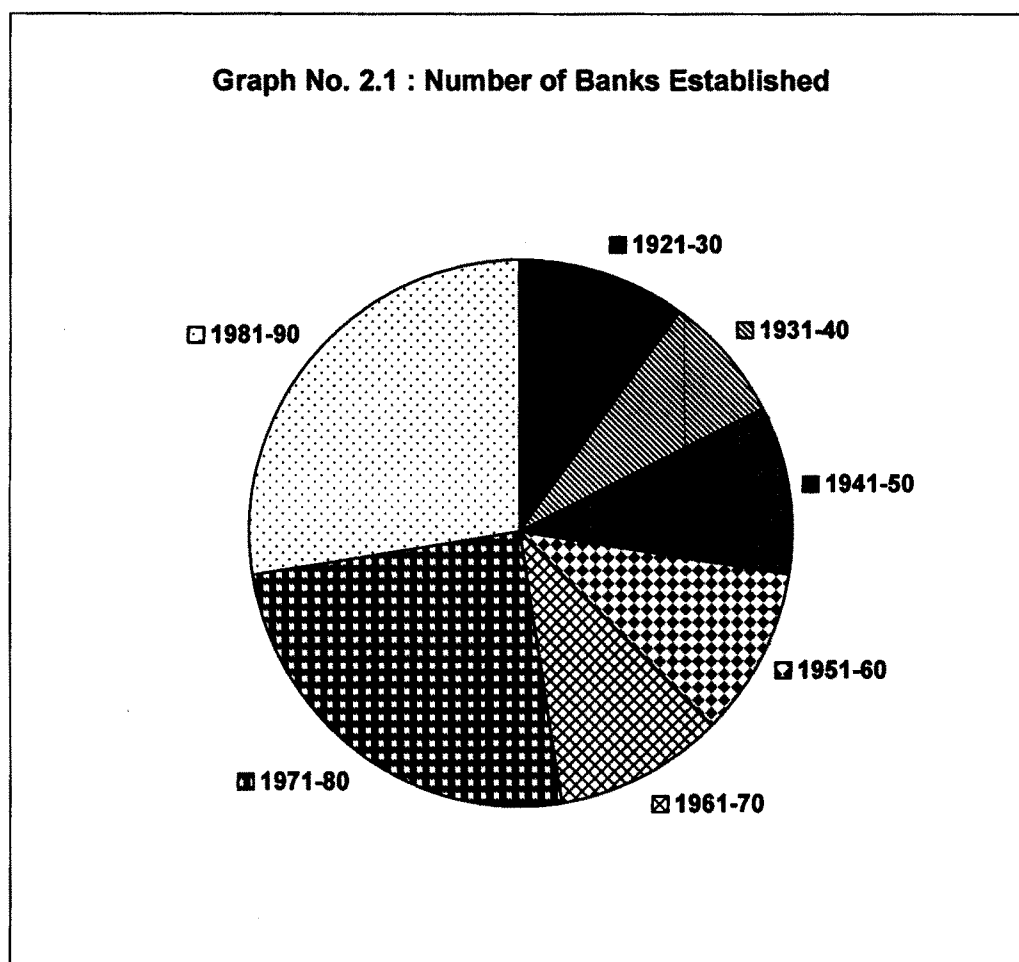
The history of the co-operative movement in Kolhapur is similar in many respects to that in the rest of the country. Yet it has a special touch of the administration of the Princely State co-operative movement in Kolhapur was initially sponsored by the government officials of the erstwhile Kolhapur State and a few prominent social workers. The movement had taken inspiration from the trends of co-operative

movement in the old Bombay Presidency. After the passing of the co-operative societies Act of 1912, it was made applicable to Kolhapur State in 1913 and the first co-operative society namely the urban Co-operative Credit Society was registered in that year. The co-operative 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 co-operation therefore helped a great deal in organising urban co-operative banks during the subsequent years. The progress of the urban co-operative banks since 1901 is shown in Table 2.4.

**Table 2.4**  
**Growth of UCBs in Kolhapur District**

Period	No. of Banks established
1921-30	4
1931-40	3
1941-50	4
1951-60	4
1961-70	4
1971-80	10
1981-90	11
1991-2000	2
<b>Total</b>	<b>42</b>

Source: Office of the Deputy Registrar of Co-operative Societies, Kolhapur District



It can be seen from Table 2.4 that UCBs upto 1970 was rather slow. The period 1971 to 1990 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.

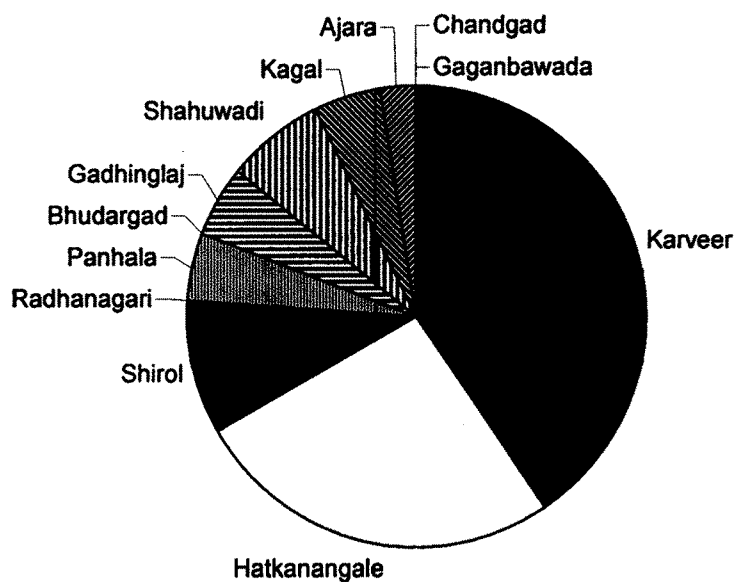
In the final analysis, at a glance at the taluka wise spread of the 42 banks is given in Table 2.5.

**Table 2.5**  
**Spatial Dispersion of the UCBs in Kolhapur District**

Sr. No.	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	3
9	Kagal	2
10	Ajara	1
11	Chandgad	-
12	Gaganbawada	-

Source : As of Table 2.4.

**Graph No. 2.2 : Number of Urban Co-operative Banks in Kolhapur District**



It is clear from Table 2.5 that there is a concentration of UCBs in Kolhapur city and Hatkanangale taluka. Nearly 62% 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, Gaganbawada 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 Hatkanangale talukas, as both these regions are the hives of industrial and commercial activities.

### **Urban Bank's Management**

The management of an urban bank is vested with the general body, the elected Board of Directors and the paid employees working under the Secretary/General Manager. The general body which convened usually once in a year, is the ultimate authority of the management. The directors are elected by the members of the general body. The elected directors are expected to possess qualities of leadership and the ability to guide the bank on sound lines. In all the affairs of the bank the board of directors have to depend on the Secretary/Manager and his colleagues. The board of directors in urban banks are better informed and efficient than other co-operatives. Because they are represented by all sections of the urban elite whatever the urban banks achieved success there we can find the efficient non-official leadership and better management.

### **Concept of Urban Banks**

The urban banks are governed by the following enactments.

1. The State Co-operative Societies Act and Rules
2. The Banking Regulation Act
3. The By-laws of the Banks
4. Directives issues by the Reserve Bank of India from time to time and
5. Multi Unit Co-operative Societies Act is applicable where the bank is having its branches in more than one state.



The Reserve Bank of India exercises the monetary discipline over the urban banks in the following manner.

1. Statutory liquidity under Section 18 and 24 of the Banking Regulation Act
2. Annual inspection of the banks under Section 35, and
3. Issue of directives.

### **Norms of Viability of Urban Co-operative Banks**

The Reserve Bank of India has revised the norms of viability for the existing urban co-operative banks as well as for those to be newly organised in metropolitan urban and semi-urban areas.

**References**

1. Quoted from the Report of the Committee on Problems of Urban Co-op. Banks in Maharashtra (1974-77), p. 7
2. Report of the Study Group on Credit Co-operative in the Non-agricultural Sector, Government of India, p. 15
3. Banking Laws 1965, Reserve Bank of India Bulletin, Oct 1995
4. Ibid, p. 13