
CHAPTER - I

An over view of the developments in
Co-operative Banking sector in India
and Maharashtra.

INTRODUCTION

1.1 The overall economic activities in India from the beginning of the planned economic development have been broadly divided into 3 forms of organisation namely private, public (Government), and the Co-operative. These three types of Organisations are now present vogue, in the different spheres of productive financial marketing, processing and may other like activities. Even though the Co-operative sector covers a wide range of economic activities. We would like to confine our analysis in the sphere of financial activities and that too; in the co-operative banking sector. In the co-operative banking sector again we are going to confine our study to the urban co-operative banks, and their financial activities namely collection of deposits, lendings to the different sectors of the economy and their contribution to the development of industries, trade and commerce. The short term and long term co-operative finance to the Agriculture is the exclusive monopoly of the co-operative sector, while the industrial finance is a recent development as far as the co-operative sector is concerned.

1.1. Non Agricultural Credit Movement :

The need for urban co-operative banking arose from the fact that the Joint Stock Banks in the private sector were not interested in providing short and medium term credit to the urban middle income group of people because this was not advantageous to the Joint Stock Banks to lend small loans to a large number of borrowers on account of the high cost of maintaining the account and the recovery of the loans. Moreover, the Joint Stock Banks were not in a position to have full and intimate knowledge of the credit worthiness of the small scale borrowers with moderate means. As a result the urban middle income group people and also lower income group people had to depend upon private money lenders, shroffs, multani's kharrri for meeting their financial requirement necessary to carry out their businesses and even to satisfy their private consumption requirement. Not only that the urban businessman were dependent on private money lenders but they had to borrow loans of rather bitter exhorbitant rates of interest. In this connection the following observations of W.K.H. Campell are significant.

" A very little investigation of the condition of the salary earning class is frequently enough to reveal that, when sudden emergency arises which make an unexpected demand on these fixed salaries they have to borrow; that they do so on most unfavourable terms and that, as a class they are heavily and in most cases helplessly indebted ".

It is evident from the above quotation that, the co-operative credit movement in India, both in urban and rural sectors was started with a view to loosening the grip of the money lenders and creating an institutional alternative to private credit to the urban population and the rural population as well. For example the small traders, salary earners, businessmen, the artisans and the small factory producers would have an easy access to the institutional finance. With this in view the 1st urban co-operative bank in Baroda (now in Gujarat State) was started in the year 1989.

Incidentally the urban co-operative movement has completed } in the current year its country. Since then the number of urban co-operative banks has continuously increased, as on 3.6.1988 their number amounted to 1374 in India out of these 387 (29%) are located in Maharashtra State.

From the growing number of the urban co-operative banks in India, one can point out the growing popularity of the urban co-operative banks among the urban masses, despite the growing popularity the growth of the urban co-operative banks may not be considered as evenly distributed over the different states of the India. Among the various states, Maharashtra, Gujarat, Karnataka and Tamilnadu are the states, where we find there concentration still if we taken into account. Maharashtra State alone certain districts like Gadchiroli and Chandrapur there is neither even single urban co-operative bank nor even a branch of the others co-operative banks.

Since 1st March 1966 the urban co-operative banks have been brought under the perview of the banking regulation act besides Maharashtra State co-operative societies Act of 1960 is made applicable, to the urban co-operative banks.

1.2 Urban Co-Operative banks and Nationalised Commercial Banks :

In the Urban sector the nationalised commercial bank and other commercial banks still play a dominant role, the large industrialist, or factory owners' and merchants borrow heavily from this nationalised and other commercial

banking sector. Of course the growing financial needs of the big industrialists and merchants have got to be made by such big banking sector with huge financial resources. but at the same time the credit needs of the various types of the common urbanised have got to be met. Growing urban population and with its growing needs for housing facilities means of transport and incidental expenditures under the present circumstances to be met by the urban co-operative banking sector. The expansion of the urban co-operative banking sector could be considered as effective mean of satisfying the growing financial requirement of the urbanise belonging to the classes stated earlier, Somewhere yet the financial activities of this banking sector.

1.13. Development of Urban Co-operative banks in Maharashtra State :

Instead of going far back, we intend to take a brief review of the Urban Co-operative bank's development during ✓the period of 1961-1988. . Development could be assessed in terms of their numbers, the number of their members, the amount of share capital, deposits mobilised, their working capital and loan advanced to the borrowers. The number of the urban co-operative bank has increased by three fold (from 149 in 1961 to 387 in 1988).

Similarly the number of the members of these urban co-operative bank increased by several fold for example the number of the members increased from 433 thousands to 3481 thousands, during the same period under reference the share capital of these banks in Maharashtra increased enormously i.e. from Rs. 294 lakhs to 11408 lakhs by the end of 1988. This is in accordance with the growing number of membership. The urban co-operative banks in Maharashtra revealed a tremendous progress as far as deposits mobilisation are concerned. The aggregate deposits of all the urban co-operative banks in Maharashtra went on increasing year after year the deposits mobilised from Rs. 12.43 ✓ crores (1961) to Rs. 2543.30 crores in 1988. This growth of deposits could be accounted for by the urban co-operative banks efforts to mobilised the deposits from the members as well as non members of the bank. Not only that but general public in the urban sector of Maharashtra has shown its confidence in the smooth functioning of the urban co-operative banks. The deposits mobilised have enabled them to undertake the lending activities on a larger scale and with a wider coverage. If we see the column of borrowing the urban co-operatives have not relied on external borrowings to facilitated - their increasing loan activities. The figures of loans have increased to such an extent that these increased loans have their sources in their own funds including share capital, reserves and / deposits.

The borrowings from the external institutions have declined and remained almost static since 1980 onwards, in terms of their percentages to the bank's total working capital. Similarly the loans advanced by the banks have showed an uptrend over the period year after year for example in the year 1971 the loans advanced amounted to Rs. 159.78 crores to Rs. 836.02 crores in 1981. During the 10 years period the loan advanced increased by 423.23% . In the same way the loans advanced amounted to Rs. 1390.29 crores during the 3 years period (1981-84) in terms of percentage the loans advance increased by 66.29% by 1984. During another 3 years succeeding period the loan of these to, their customer i.e. (1984-1987) increased to Rs. 13,386.65 crores. The percentage increased works out to be ^{annexed?} 143.59 over the amount of loans of 1984. The last year of 1988 the amount of loan (provisional loan) works out to be Rs. 4090.50 crores. During one year the percentage increased over the preceeding years loans works out to be 30.55%. From the changes in the loans advanced we notice that , the volume of the loans of the Urban Co-Op. Banks in Maharashtra has been contineously expanding during the period under reference.

The expanding volume of the Urban Co-Op.Banks suggests the growing economic activities in the Urban Sector and to a large extent the Urban Co-Op. in Maharashtra and especially in Western Maharashtra have been trying their level best in

extending their hands of co-operation in terms of financial assistance required for varied economic activities of the common people. Still the Urban Co-Op. banks are able to advance loans of larger magnitude to the big borrowers and the businessmen but because of the RBI's restrictions in terms of ceilings imposed on the size of the loans of the Urban Co-Operative banks to the individual borrower, the loans above a particular limit (Rs. 30 lakhs) the Urban Co-Operative banks are not permitted to grant the loan to individual borrower for carrying out industrial/business activity. The loans above Rs. 30 lakhs to the industrialist/ manufacturers has been exclusively reserved for the nationalised commercial and private commercial bank. Some times some of the big urban co-operative banks with larger deposits are being confronted with the problem of surplus deposits lying idle with them because of this limitations. So the R.B.I. will have to reconsider its policy regarding the ceiling of the loans imposed on the urban co-operative banks. Because this type of discrimination amounts to, a step-motherly treatment rendered by the R.B.I. to the Urban Co-operative banking sector.

ees in lakhs.

bers in thousands.

. = Not Available.

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visional. (*)

| Year | Ban 1. | Loans. 7. |
|-----------|-----------|--------------------|
| 1961 | 149 | N.A. |
| 1971 | 250 | 15978 |
| 1981 | 335 | 83602 (423.23) |
| 1984 | 348 | 139029 (60.29) |
| 1987 | 373 | 338665 (143.59) |
| * 1988 | * 387 | 409050 (30.55) |

Source :- " C

Note :- 1. Br

2. Sq

3. Br of reference.