CHAPTER I

REVIEW OF EMPIRICAL WORK AND HISTORICAL PERSPECTIVE

A - INTRODUCTION AND REVIEW OF LITERATURE

Man is a social animal. Collective efforts can be regarded as a basic human instinct. When we speak of “Co-operative” we definitely refer to an organization of people which works for the achievement of common economic objectives. This is only possible through mutual help and collective efforts. Like any other economic organization, the origin of the “Co-operative” is traced back to 1844 when the “Rochdale pioneers” of England established their store for a solution to their common problem of exploitation by traders. The Co-operative Movement was found to be “a bridge” between two opposing ideologies i.e. the extreme individualism of capitalism and complete state control of socialism.

The Urban Credit Societies in India are their origin to the enactment of the first Co-operative Societies Act of 1904 which was essentially directed at alleviating the hardships caused by agricultural indebtedness. The Co-operative Societies Act 1912 was enacted to fill up the lacunae of the 1904 Act. This gave a boost to the Co-operative movement. The Banking industry in the country started under the Capitalist Government. After Independence, India accepted planned development for achieving rapid socio-economic growth under a democratic government. The traditional capitalist Financial Institutions were found to be inadequate. The increasing importance of the socialist stunt in planning and the policies of Indian Government gave birth to a new and revolutionary perspective to the banking institutions, ‘the blood veins’ of the Indian economy. In view of this a Banking Commission was appointed by the Government of India for a review of all aspects of the banking system.

The Banking Commission was specifically asked to review the working of Co-operative Banks and to make recommendations to ensure a co-ordinated development of commercial banking and Co-operative Banks and the Commission recognized the important role played by the Urban Co-operative Banks in mobilizing deposits and finances to the weaker sections and the private sector of Indian Society like small retailers, hawkers, Small Scale Industries,
self employed, professionals and essential commodities like house construction and repairs. The Commission recommended a ‘Scheduled’ status for well-run urban banks and that the non-scheduled urban banks should receive free remittance and borrowing facilities from nationalized Banks. This recommendation helped to extend to growth of Urban Co-operative Banks in India.

As the deposits mobilized by the Urban Co-operative Banks amounted to a sizable proportion of the total deposits in the banking industry in the country, it was felt necessary to bring them within the preview of banking laws, as such. Certain provisions of the Banking Regulation Act, 1949, were extended to Co-operative Banks with effect from 1st March, 1966.

On 1st March, 1966, there were 1091 Primary Co-operative Banks - 403 Urban Co-operative Banks and 688 salary-earner’s societies - which were also classified as banks in as much as they satisfied the definition of the Primary Co-operative Bank. On 30th June, 1983, the number of Urban Co-operative Banks rose to 1175 while on 31st March, 1992, the number of Urban Co-operative Bank was 1401 as table no. 1.1 indicates.

### Table No 1.1

Position of Urban Co-operative Banks as on 31st March, 1992

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>Number of &quot;Unit&quot; Urban Co-operative Banks</td>
<td>797</td>
</tr>
<tr>
<td>ii.</td>
<td>Number of Urban Co-operative Banks having up to 5 branches</td>
<td>430</td>
</tr>
<tr>
<td>iii.</td>
<td>Number of Urban Co-operative Banks having more than 5 branches</td>
<td>123</td>
</tr>
<tr>
<td>iv.</td>
<td>Number of Urban Co-operative Banks placed under liquidation</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1401</td>
</tr>
</tbody>
</table>
### Table No. 1.2

**Position of Urban Co-operative Banks as on 27th September, 1991**

<table>
<thead>
<tr>
<th></th>
<th>Scheduled Urban Coop Banks</th>
<th>Non-Scheduled Urban Coop banks</th>
<th>Salary earners Societies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No of reporting banks</td>
<td>14</td>
<td>1201</td>
<td>82</td>
<td>1297</td>
</tr>
<tr>
<td>2. Deposits (Rs. in crores)</td>
<td>1,760.41</td>
<td>5,679.73</td>
<td>630.08</td>
<td>8,070.22</td>
</tr>
</tbody>
</table>

*Data not available in respect of the remaining banks.*

### Table No. 1.3

**Position of Urban Co-operative Banks as on 28th June 1991**

*(Rupees in Crores)*

<table>
<thead>
<tr>
<th>Top one hundred urban cooperative banks in the country</th>
<th>Deposits</th>
<th>Loans and Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,442.78</td>
<td>3,893.70</td>
</tr>
</tbody>
</table>

### Table No. 1.4

**Position of Urban Co-operative Banks as on 31st March 1991**

<table>
<thead>
<tr>
<th>i</th>
<th>No. of Urban Co-operative Banks whose working capital is up to Rs. 10 crores</th>
<th>1000</th>
</tr>
</thead>
<tbody>
<tr>
<td>ii</td>
<td>No. of Urban Co-operative Banks whose working capital is between Rs 10 Crores and Rs. 25 Crores</td>
<td>343</td>
</tr>
<tr>
<td>iii</td>
<td>No. of Urban Co-operative Banks whose working capital is between Rs 25 Crores and Rs. 50 Crores</td>
<td>30</td>
</tr>
<tr>
<td>iv</td>
<td>No. of Urban Co-operative Banks whose working capital is more than Rs 50 Crores</td>
<td>22*</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1395</td>
</tr>
</tbody>
</table>

*Includes 14 Scheduled Urban Co-operative Banks*
In India various committees were formulated after Independence for review and development of Urban Co-operative Banks. In 1968, the Reserve Bank of India appointed a committee under the chairmanship of Shri. P. N. Damri to study the aspects and the extent of industrial finance by Urban Co-operative Banks in India. In 1969 the Reserve Bank of India formed another committee under Shri. B. Venkatppiah for publication of the All Indian Rural Credit Review.

The Governor of Reserve Bank of India constituted a committee reviewing the role of Urban Co-operative Banks in the banking system and ensuring their growth, on 4th September, 1977, under the chairmanship Shri K. Madhava Das and entrusted to it the task of studying various aspects of the working of the Urban Co-operative Banks.

The Madhava Das committee made many recommendation for the fast growth and smooth functioning of the Urban Co-operative Banks. In India such as issuing licenses to the existing urban banks without delay; the government of India to actively involve itself in the development of Urban Co-operative Banks in different states to cater to the needs of urban middle classes and persons of low incomes for which purpose there should be a specific provision in the five-year plans; for the development of Urban Co-operative Banks in India they should take the advantages of the Credit Guarantee Scheme while financing for Small Scale Industries and cottage industries.

The Reserve Bank of India accepted the recommendation made by the Madhava Das committee.

After a period of a decade and a half, the Governor of Reserve Bank of India constituted a committee in September 1991 under the chairmanship of Shri S. S. Marathe to review the policy relating to the licensing of new primary Urban Co-operative Banks and for other related recommendations. The Marathe Committee made various recommendations for registration and licensing of new Urban Co-operative Banks, inclusion of primary Credit Societies in the list of primary Urban Co-operative Banks, viability of the Urban Co-operative Banks, licensing of the existing Urban Co-operative Banks, area of operation, rehabilitation of the weak Urban Co-operative Banks, branch licensing policy of the Urban Co-operative Banks and regulatory mechanism. The Marathe Committee recommendations cover a
fairly wide field and represents a major directional change with regard to the policies for the growth of Urban Co-operative Banking system. The committee submitted its report to the Governor of Reserve Bank of India in May 1992.

In 1991, Union Minister of Finance, Dr. Manmohan Singh constituted a committee on financial systems applicable to all banks including Urban Co-operative Banks in India. This committee was headed by Shri. M. Narasimham to ensure that financial services industry operates on the basis of operational flexibility and functional autonomy with a view to enhancing efficiency, productivity and profitability. The geographical progress of Financial Service Industry has exacted a heavy toll in the form of a decline in productivity and efficiency of the system and in consequence, a serious erosion of its profitability. The committee studied the capital adequacy accounting policies, profitability and structural organization of the banking system. The committee recommended freedom of entry into the financial system and that the Reserve Bank of India should permit the establishment of new banks in the private sector. The committee also proposed that the government should make a positive declaration that there would be no further nationalization of banks. Such an assurance would remove the existing disincentive for the more dynamic private sector banks, including Urban Co-operative Bank to grow.

Recommendations were made by the fifth All India Conference of Urban Co-operative Banks for preferential treatment to Urban Co-operative Banks for opening of branches. The meeting of the standing committee for Urban Co-operative Banks recommended expansion of business by scheduled / bigger primary Urban Co-operative Banks for Foreign Exchange, Mutual Fund Scheme and Inter bank Participation Certificates.

Though the Urban Co-operative Banks play a significant role, not only in the co-operative movement, but also in the banking system of India, their performance and rate have not received due attention of researchers. As mentioned above the Madhava Das committee and the Marathe committee made various recommendations for the fast development of Urban Co-operative Banks and on the other hand the Narasimham committee had recommended reduction of erosion in profit and allowed free entrance of private banks. Now the question arise as to the profitability of Urban Co-operative Banks and at the same
time for socio-economic development of middle and lower income groups of the society.

This study tries to study the future of Urban Co-operative Banks in a light of their past performance, recent changes in banking industry on the bases of the recommendations of the Marathe and the Narasimham committees. At the same time it tries to understand the creative role, the Urban Co-operative Banks are performing, in the development of Indian and Maharashtrian economy, with special reference to the development of Marathwada region in Maharashtra.

1. OBJECTIVES OF THE STUDY

The main objectives of the study are as under:

1. Historical review, growth of the financial services industry and development of Urban Co-operative Banks in India.

2. To review the progress of Urban Co-operative Banks in Maharashtra with special reference to the development in the Marathwada region of the state.


4. To analyze the financial performance and profitability of Urban Co-operative Banks with reference to the Narasimham Committee Report.

5. To analyze the role of banks in alleviation of the of urban poverty by meeting credit requirements of the various sections of the urban poor with special reference to Urban Co-operative Banks in Maharashtra and Marathwada.

6. To study the deposits growth of banks in India with special reference to that of Urban Co-operative Banks in Maharashtra and Marathwada.

7. To study the role of Urban Co-operative Banks in development of Marathwada region.

8) To study the future prospects of Urban Co-operative Banks in light the of the past experience and current changes in the environment of Indian banking industry.

The above objectives are studied in detail in the following chapters:
2. CHAPTER SCHEME

I. Review of Empirical Work & Historical Perspective :-

This chapter covers:

a) Introduction and Review of literature

b) Historical Perspectives

c) Emergence of the Co-operative Movement

d) Historical Review of Urban Co-operative Banks.

II. Growth and Development of Urban Co-operative Banks :-

a) Development of Urban Co-operative Banks in India / Various States of India

b) Development of Urban Co-operative Banks in Maharashtra State / Regions of Maharashtra

c) Development of Urban Co-operative Banks in Marathwada Region / Districts of the Region

III. Financial Analysis of Urban Co-operative Banks :-

a) Analysis of Financial Indicators of Urban Co-operative Banks

b) Analysis of Deposits Structure of Urban Co-operative Banks

c) Analysis of Advances of Urban Co-operative Banks

IV. Working and Management of Urban Co-operative Banks :-

a) Management of Urban Co-operative Banks

b) Working of Urban Co-operative Banks

c) Management of Urban Co-operative Banks and Madhava Das Committee Report

d) Management of Urban Co-operative Banks and Marathe Committee Report
V. Role of Banks in Alleviation Of Urban Poverty :-

a) Definition, magnitudes and characteristics of Urban Poverty
b) Alleviation of Urban Poverty - "Role of Banks"

c) Urban poverty and self-employment of women - "Role of Banks"

VI. Role of Urban Co-operative Banks in Marathwada Region :-

a) Development of Urban Co-operative Banks in Marathwada Region
b) Growth of Deposits of Urban Co-operative Banks in Marathwada Region
c) Classification of Deposits of Urban Co-operative Banks in Marathwada Region

VII. Development Role of Urban Co-operative Banks and their future Prospects in Marathwada Region :-

a) Financing by Urban Co-operative Banks for development of Marathwada region
b) Employment generation by Urban Co-operative Banks in Marathwada Region
c) Future role and prospects of Urban Co-operative Banks

VIII. Conclusion and Suggestions

3 - Research Methodology :-

The data used for this study is secondary data published by various government departments, co-operation department of the state government and other agencies. The Reserve Bank of India publishes many reports on financial and managerial aspects of Urban Co-operative Banks at regular interval i.e. quarterly, half yearly and yearly publications. The National Federation of Urban Co-operative Banks and various state associations/federations of these banks also collect data from Urban Co-operative Banks and publish them on annual basis.

The reports of various national, regional and state seminars/conferences on co-operative movement and the growth/working of Urban Co-operative Banks have also been used for
study as also the annual reports published by Urban Co-operative Banks in Maharashtra state and in Marathwada region. Various reports of the committees such as Madhava Das committee, Joglekar committee, Marathe committee, Narasimham committee, etc. and manuals on Urban Co-operative Banks have been used in this research work.

This study is also based on statements and information relating to co-operative movement in Maharashtra state published by the Commissioner for Co-operation and Registrar of Co-operative Societies, Pune, and the statistical information and statements relating to operation of Urban Co-operative Banks in Maharashtra state and Marathwada region published by the Maharashtra State Co-operative Banks Association, Bombay. The various books and research works published by eminent persons / experts and researchers in the field of co-operation and banking in India as well as in Maharashtra state have also been referred to for this research.

The financial performance/management of Urban Co-operative Banks is studied and analyzed on various statistical and financial techniques.

The statistical techniques of Mean Deviation, Standard Deviation, Coefficient of Variation and Trend Analysis are used for research purpose.

The financial techniques of ratio analysis is used to find out the relationship between various financial aspects/components. The various ratios such as liquidity ratio, stability ratio, capital ratio, etc. are used to study the financial performance of Urban Co-operative Banks while staff productivity ratio, fund management ratio etc. are used to find out the social efficiency of Urban Co-operative Banks in Maharashtra state and Marathwada region.

A study tour was also conducted to various large and small Urban Co-operative Banks in Marathwada i.e. at Aurangabad, Jalna, Nanded, etc. divisional commissionerate, divisional registrar of co-operative societies and district industries co-operation offices at Aurangabad, Nanded, etc. to get the primary data on Urban Co-operative Banks, co-operative movement and industrial growth in Marathwada region.

4. Limitation and scope:

The research materials published on the functioning of Urban Co-operative Banks are
limited. Literature on co-operative movement and Urban Co-operative Banks is lacking, that too in the form of books. Very few people have attempted to research and write on the Urban Co-operative Banking in India. The Reserve Bank of India published reports on the working of the Urban Co-operative Banks much after the start of the co-operative movement in India. The Reserve Bank of India published some reports and manuals on Urban Co-operative Banks in India only in the last quarter of the 20th century. There are only a few institutions in India which publish statistical statements and hence information required for this research study was lacking.

Inspite of the lack of sufficient information, there is a vast scope for future research through the analysis and study of various available data on co-operative movement, banking system and Urban Co-operative Banks. This data will be useful for many research works in future.

5. **Review of Literature**

As discussed above, the literature on Urban Co-operative Banks is very limited. There were a few important publication on Urban Co-operative Banks published after the K-Madhava Das committee report in 1978. These important publications are as under :

(1) **Dr. P. S. Sahasrabudhe**:

A banker, Dr. Sahasrabudhe, undertook a review of the growth of Urban Co-operative Banks in India in the year 1993 which emphasized the role of Urban Co-operative Banks in Maharashtra state. The report has studied the region wise growth and development of Urban Co-operative Banks in Maharashtra state. He also studied the financial position, viability and profitability of Urban Co-operative Banks. His research work is divided into nine chapters, touching almost all aspects of Urban Co-operative Banks. He observed that though there is an imbalanced growth of Urban Co-operative Banks, they are successful in making overall progress with respect to various indications of banking progress. The Urban Co-operative Banks registered a significant growth rate of deposit mobilization and an annual rise is of about 20 to 22% in deposits. The Urban Co-operative Banks performed well in advancing to the priority sector to the extent of 60% of their total advances.

(1) "Role of Urban Co-operative Banks in Maharashtra State" by Dr. P. S. Sahasrabudhe, 1993
The Urban Co-operative Banks in Maharashtra performed well in the field of recovery of loans too. Most of the Urban Co-operative Banks in Maharashtra are earning profits. The number of banks earning higher profits is increasing. The per bank and per employee profits have also increased. These banks deployed their funds for the upliftment of the small income persons and weaker sections of the urban society.

The author made some suggestions for future development of Urban Co-operative Banks, emphasizing a balanced development of Urban Co-operative Banks and the removal of dual control of the government.

(2) Dr. C. S. Rathod:

The origin and development of Urban Co-operative Banks in India has also been examined by Dr. C. S. Rathod. He reviews the historical growth of these banks and analyzes the role of Urban Co-operative Banks in meeting the credit requirements of the urban communities. He also assesses the deployment of Small scale industries. The author reviews the overall progress and working of the Urban Co-operative Banks in the various states of India. His research work is divided into nine chapters.

He found out that there are several concrete and credible achievements of Urban Co-operative Banks in India in general, and in several states, in particular. Despite various limitations, Urban Co-operative Banks have mobilized substantial local deposits and striven to serve small borrowers. The efficiency and financial soundness of Urban Co-operative Banks are evidenced by the reserve and other funds of these banks.

The author also observed some of the inadequacies in the working and management of Urban Co-operative Banks. He observed that there is interstate and intrastate disparity in spread and growth of Urban Co-operative Banks in the country. The membership of Urban Co-operative Banks is open to selective and influential people. Inspite of there inadequacies there is a bright future of Urban Co-operative Banks in India.

(2) 'Urban Co-operative Banks : Role and Development in India with Reference to Gujarat' by Dr. C. S. Rathod, M.S. University, Baroda, 1982.
(3) Dr. S. Nakkiran:

The review of the development of Urban Co-operative Banks in India was carried out by Dr. S. Nakkiran in the year 1982. He emphasized the role of Urban Co-operative Banks in India. The author highlighted the various problems faced by Urban Co-operative Banks in India. In order to overcome these problems he emphasized the role of the State Co-operative Banks and the Reserve Bank of India. These agencies could help in solving the problems of Urban Co-operative Banks.

(4) Shri Shanker Barde:

The first book, in Marathi, on the working of Urban Co-operative Banks was written by Shri Barde, the then deputy chief officer, the Reserve Bank of India. He systematically and briefly reviewed the hierarchical development of Urban Co-operative Banks in India. He explained the procedural aspects of the working of Urban Co-operative Banks. He also explained the establishment procedures of new Urban Co-operative Banks and management of funds of these banks. The author emphasized the role of Urban Co-operative Banks in financing to Small Scale Industries, Refinance from the Reserve Bank of India and the Reserve Bank of India policy vis a vis the Urban Co-operative Banks.

(3) 'Urban Co-operative Banks in India' by Dr. S. Nakkiran, Rainbow Publication, Coimbatore, 1982.

(5) The National Federation of Urban Co-operative Banks and Credit Societies Ltd.,
New Delhi:
This federation published an important book in the year 1986. This is an excellent introduction
to Urban Co-operative Banks and Credit Societies. It covers the various guidelines issued
by the Reserve Bank of India from time to time and also provides information about the
statutory requirements to be observed by Urban Co-operative Banks for licensing of existing
banks, setting-up new Urban Co-operative Banks, opening of new branches and
rehabilitation of weak Urban Co-operative Banks. The Federation has done a useful work
for researchers to know the principle, and functioning of Urban Co-operative Banks in
India. The book also highlights the problems of Urban Co-operative Banks.

(6) Shri M. B. Patil:
Shri Patil edited the book "Development Banking and Urban Co-operative Banks", a
collection of various papers presented by authors for a regional seminar organized by the
Co-operative Training College, Trivendrum in September 1986. The papers discussed the
role of Urban Co-operative Banks in the fast changing socio-economic scenario of the
country. This book has applied the SWOT (Strengths, Weaknesses, Opportunities and
Threats) analysis to Urban Co-operative Banks.

(5) 'Urban Co-operative Banks in India' Inter-India Publication, Delhi 1986.
(6) 'Development Banking and the Urban Co-operative Banks' (edited), Rainbow Publication,
Coimbatore, 1987

B- HISTORICAL PERSPECTIVES :-
Economic development in India is a very complex process. The private sector as well as
the public sector play important roles in the economic growth of our country. Economic
growth has been widely accepted by economists as a major goal of national policy in both
the developed and the developing countries. In fact, economic growth is not still understood
in its true sense. The concept of 'Economic Growth' received acceptance in the period
since World War II. Prof. J. R. Hicks says, "There is no single index which is a perfect
measure of economic growth. In order to see whether an economy is growing properly, we
need to look at a more thing than can possibly be expressed in a single figure”. He preferred national income, to consumption as a better measure. Some economist have defined economic growth as a relation between the rates of increase in capital and population, such as higher capital output.

The rate of economic development differs according to classification of nations into developed, developing and under-developed countries. This classification again depends on their economic resources and per capita income (PCI). A study reveals that the 12 richest countries have a PCI of above $700, while a number of countries had a PCI of under $100. A study also revealed that the wealth of the world is extremely unevenly distributed, ranging between the richest (USA with a PCI of $2000-2099) and the poorest (Burma with a PCI of $48) countries. On the whole, we can say, the world is still very much under-developed. India with a PCI of $68, is an economically poor country. It is surprising to note that economic growth in a developing country like India is slow because of traditional social attitudes and the immaturity of politics and institutions. In this connection, Mountjoy pointed out, “The readiness of investors, both internal and external, to deploy their capital in a country indicates some of its potentiality for advance from a traditional economy to a diversified and complex economic structure and to a position where enough capital is generated for re-investment to sustain progress and economic growth”. One of the suggestions is that a less developed country should raise the ratio of savings to national income. The rapid growth of financial infrastructure has facilitated channelising savings of the community through financial intermediaries, especially banking intermediaries, and this has been evidenced in the increasing share of deposits in the pattern of household savings.

A notable achievement of the Indian economy in the past two decades has been the growth of savings and in this the banking system has played a pivotal role. Between 1969-70 and 1986-87 the proportion of aggregate bank deposits to national income rose from about 18 per cent to about 49 percent. The share of bank deposits in gross financial savings of the household factor has averaged a little over 40 percent, during the eighties.
### Table 1.5

**Movement in Deposits in India in Relation to Gross National Product**

(Rs. Crores)

<table>
<thead>
<tr>
<th>Year Friday of March</th>
<th>Demand Deposits with Banks</th>
<th>Time Deposits with Banks</th>
<th>Aggregated Deposit (2+3)</th>
<th>GNP (at current)</th>
<th>Ratio of GNP to Demand Deposit</th>
<th>Ratio of GNP to Time Deposit</th>
<th>Ratio of GNP to Agg. Deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>2483 (44.5)</td>
<td>3103 (55.5)</td>
<td>5566 (100.0)</td>
<td>33521</td>
<td>13.5</td>
<td>10.8</td>
<td>6.0</td>
</tr>
<tr>
<td>1971</td>
<td>2910 (44.4)</td>
<td>3637 (55.6)</td>
<td>6547 (100.0)</td>
<td>36542</td>
<td>12.5</td>
<td>10.0</td>
<td>5.6</td>
</tr>
<tr>
<td>1972</td>
<td>3441 (44.1)</td>
<td>4370 (55.9)</td>
<td>7811 (100.0)</td>
<td>38983</td>
<td>11.3</td>
<td>8.9</td>
<td>5.0</td>
</tr>
<tr>
<td>1973</td>
<td>4213 (44.1)</td>
<td>5349 (55.9)</td>
<td>9562 (100.0)</td>
<td>42993</td>
<td>10.2</td>
<td>8.0</td>
<td>4.5</td>
</tr>
<tr>
<td>1974</td>
<td>4819 (43.0)</td>
<td>6399 (57.0)</td>
<td>11218 (100.0)</td>
<td>53501</td>
<td>11.1</td>
<td>8.4</td>
<td>4.8</td>
</tr>
<tr>
<td>1975</td>
<td>5438 (42.1)</td>
<td>7553 (57.9)</td>
<td>13036 (100.0)</td>
<td>63051</td>
<td>11.5</td>
<td>8.3</td>
<td>4.8</td>
</tr>
<tr>
<td>1976</td>
<td>6385 (41.1)</td>
<td>9143 (58.9)</td>
<td>15528 (100.0)</td>
<td>66375</td>
<td>10.4</td>
<td>7.3</td>
<td>4.3</td>
</tr>
<tr>
<td>1977</td>
<td>7636 (39.6)</td>
<td>11671 (60.4)</td>
<td>19307 (100.0)</td>
<td>71432</td>
<td>9.4</td>
<td>6.1</td>
<td>3.7</td>
</tr>
<tr>
<td>1978</td>
<td>5867 (23.5)</td>
<td>18518 (76.5)</td>
<td>24205 (100.0)</td>
<td>80698</td>
<td>14.2</td>
<td>4.4</td>
<td>3.3</td>
</tr>
<tr>
<td>1979</td>
<td>6843 (23.2)</td>
<td>22632 (76.8)</td>
<td>29475 (100.0)</td>
<td>87058</td>
<td>12.7</td>
<td>3.8</td>
<td>3.0</td>
</tr>
<tr>
<td>1980</td>
<td>7855 (22.6)</td>
<td>26648 (77.4)</td>
<td>34703 (100.0)</td>
<td>95511</td>
<td>12.2</td>
<td>3.6</td>
<td>2.8</td>
</tr>
<tr>
<td>1981</td>
<td>9336 (22.5)</td>
<td>32241 (77.5)</td>
<td>41577 (100.0)</td>
<td>122571</td>
<td>13.1</td>
<td>3.8</td>
<td>2.9</td>
</tr>
<tr>
<td>1982</td>
<td>10087 (21.1)</td>
<td>37697 (78.9)</td>
<td>47784 (100.0)</td>
<td>142916</td>
<td>14.2</td>
<td>3.8</td>
<td>3.0</td>
</tr>
<tr>
<td>1983</td>
<td>11290 (20.9)</td>
<td>43333 (79.1)</td>
<td>56023 (100.0)</td>
<td>158217</td>
<td>13.5</td>
<td>3.6</td>
<td>2.8</td>
</tr>
<tr>
<td>1984</td>
<td>13195 (20.0)</td>
<td>52833 (80.0)</td>
<td>66028 (100.0)</td>
<td>185462</td>
<td>14.1</td>
<td>3.5</td>
<td>2.8</td>
</tr>
<tr>
<td>1985</td>
<td>16382 (20.8)</td>
<td>62308 (79.2)</td>
<td>78690 (100.0)</td>
<td>205308</td>
<td>12.5</td>
<td>3.3</td>
<td>2.6</td>
</tr>
<tr>
<td>1986</td>
<td>18180 (19.6)</td>
<td>74739 (80.4)</td>
<td>92919 (100.0)</td>
<td>231876</td>
<td>12.8</td>
<td>3.1</td>
<td>2.5</td>
</tr>
<tr>
<td>1987</td>
<td>22240 (19.9)</td>
<td>89456 (80.1)</td>
<td>111696 (100.0)</td>
<td>259155</td>
<td>11.7</td>
<td>2.9</td>
<td>2.3</td>
</tr>
<tr>
<td>1988</td>
<td>23855 (18.5)</td>
<td>104858 (81.5)</td>
<td>128713 (100.0)</td>
<td>290292</td>
<td>12.2</td>
<td>2.8</td>
<td>2.3</td>
</tr>
</tbody>
</table>
NOTE: Figures in brackets indicate percentage growth of previous years

Source: (1) RBI, DESACS, RPCD & UBD, (2) CSO, National Income Statistics

In India the PCI varies according to states. In 1972, it ranged between Rs. 480 (Bihar) to Rs. 1172 (Punjab) while in 1984 it was between Rs. 1517 (Bihar) to Rs. 4097 (Punjab).

The detailed data for selected states in India are as under:

Table 1.6
Per Capita Deposits and Per Capita Income at current prices in selected states.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Per Capita Income</td>
<td>Per Capita Deposits At Current Prices</td>
<td>Per Capita Income</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>70</td>
<td>659</td>
<td>355</td>
</tr>
<tr>
<td>Assam</td>
<td>44</td>
<td>578</td>
<td>176</td>
</tr>
<tr>
<td>Bihar</td>
<td>64</td>
<td>480</td>
<td>228</td>
</tr>
<tr>
<td>Gujrat</td>
<td>241</td>
<td>764</td>
<td>770</td>
</tr>
<tr>
<td>Haryana</td>
<td>116</td>
<td>989</td>
<td>519</td>
</tr>
<tr>
<td>Karnataka</td>
<td>134</td>
<td>712</td>
<td>534</td>
</tr>
<tr>
<td>Kerala</td>
<td>114</td>
<td>617</td>
<td>528</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>52</td>
<td>573</td>
<td>229</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>375</td>
<td>881</td>
<td>1133</td>
</tr>
<tr>
<td>Orissa</td>
<td>28</td>
<td>576</td>
<td>166</td>
</tr>
<tr>
<td>Punjab</td>
<td>281</td>
<td>1172</td>
<td>1190</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>62</td>
<td>597</td>
<td>253</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>130</td>
<td>675</td>
<td>530</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>82</td>
<td>605</td>
<td>330</td>
</tr>
<tr>
<td>West Bengal</td>
<td>26</td>
<td>791</td>
<td>773</td>
</tr>
</tbody>
</table>

Notes:
1) Per Capita Deposits estimated on the basis of projected figures for different years (Sources: CMIE)
2) Per Capita Income data relating to financial Year.

1. Setup of Banking System

When we speak of Development, generally we speak about economic development but actually development involves social and institutional change. Development is a continuous process.
The economic development of a country depends, inter alia, on its financial structure. The financial institutions, or credit institutions have to play a vital role in this development. In the long run, the greater the proportion of financial assets to real assets, the greater the scope for economic development.

Investment is the pre and prime condition for economic growth.

As mentioned above, since finance is an important resources in economic development it has a crucial role to play in the economy. The most important function of financial institutions is to provide maximum financial assistance to the public. This can be done by:

1. Increasing the overall savings of the economy by enlarging the financial structure.

2. Rational distribution of existing savings in a more efficient manner.

3. Facilitating the transactions of trade, production and distribution for economic development through creating credit and deposit money.

**Structure of the Financial Sector**

The Indian economy is going through a period of increased “Financialization”. Extensive financial deepening has occurred and the share of assets of financial institutions in the G.D. P. has increased considerably. There are more than 4,58,782 institutions channelising credit in the various sectors of the economy.

The Finance/Credit institutions can be categorized as under:

(a) **Un-organized Sector** :-

One may include chits and hundis in the un-organized financial structure. In the pre-independence period, money market in India was dominated by this sector. In 1935 a central bank named the Reserve Bank of India was established and the un-organized sectors came under the purview of the Reserve Bank of India rules and regulations. Due to the rapid growth of commercial banking and Co-operative Banking in organized sector between 1935 and 1990 the domination of the un-organized sector has rapidly declined.
(b) **Organized Sector**

The organized sector is generally referred as the banking sector in Indian economy. The term banking has been understood differently at different times in different countries. In India an earlier act -"Indian Companies Act, 1913" dealt with the business of banking. In 1936 a separate act was enacted to regulate all banks. That is why between 1936 and 1942 even industrial concerns accepting deposits were likely to be classified as banks.

A broad structure of financial system in India is as under:

I. **Banking Financial Institutions** :-

As discussed above all financial companies governed by the Banking Regulation Act, 1949, are called Banking Institutions. The Indian banking structure is as under :-

II. **Non-Banking Financial Companies** :-

The deposit acceptance activities of financial, miscellaneous and residual companies are regulated by the Reserve Bank of India under the Non-banking Financial Companies (Reserve Bank) Directions, 1977, the Miscellaneous Non-Banking Companies (Reserve Bank) Direction, 1977 and the Residuary Non-Banking Companies (Reserve Bank) Direction, 1987.

III. **Non-Banking Non-Financial Companies** :-

In India public deposit is also being mobilized by companies which are not financial companies. These companies are governed by the Indian Companies Act for acceptance of deposits.

2- **Role and objectives of banks in India**

The major role of banks and other financial institutions, from an economic point of view, is as intermediaries channelling savings to investment and consumption.

Banks reconcile the investment requirements of savers with the credit needs of consumers and industrialists. For this purpose banks are involved in economic activities of the country. The savings placed at their disposal are employed in numerous and large transactions adapted to the specific needs of borrowers.
Indeed, the mediator role of banks for saver and investor leads to a reduction of risk which a very important factor. A major risk has directly to do with the transformation of deposits into loans. Besides this, the transactions themselves and the general management of the banking institution entails risks.

The banking sector has shown remarkable responsiveness to the needs of the planned economy. There has been a considerable growth in the efforts of banks at deposit mobilization. Banks have taken a number of measures to accelerate the rate of growth of deposits. Commercial banks opened various branches in urban, semi-urban and rural areas for achieving rapid growth. They also introduced various attractive schemes to attract public deposit.

Bank credit plays a vital role in economic development. The approach to the growth of credit has changed from security to productivity. Banks are also asked to cater, on a primary basis, to the credit needs of artisans, self-employed workers, professionals, retailers and other weaker sections of the nation. Banks have also started to function in rural and underdeveloped areas of the country for balanced regional growth.

**Objectives :-**

The main objective of a bank is to serve as an agent of development in various sectors of the economy. The first task of a bank is to accelerate the growth of the economy. For this purpose the banks aim at :-

1. Development of entrepreneurial skills
2. Development of backward areas
3. Undertaking rural development
4. To finance projects which are of great importance to the economy.
5. To finance housing and Small Scale Industries.

**3 - Progress of Banking :-**

Indian banking has aided economic growth during the last four decades in an effective way. It has brought about considerable progress in deposit mobilization. Aggregate deposits
of commercial banks increased from Rs. 884 crores in 1950-51 to Rs. 5025 crores in 1969 and further to Rs. 84706 crores in 1985-86. During the plan era (1951-1980), banks mobilized deposits to the tune of Rs. 97960/- crores.

Since nationalization of 14 major commercial banks in 1969 bank deposits have increased from Rs. 4686 crores as of June 1969 to Rs. 126323 crores in June 1988, giving an annual growth rate of 19%

The Indian banking industry has made remarkable progress in financing the credit needs for rural, semi-urban, urban and metropolitan areas. Banks have not only aided economic development but they also have extended credit for rural and semi-urban areas and as such they have contributed a lot towards balanced economic development. This can be studied from the following table.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>Credit</td>
<td>C/D Ratio</td>
<td>Deposits</td>
</tr>
<tr>
<td>Rural</td>
<td>306.3</td>
<td>115.3</td>
<td>37.64</td>
</tr>
<tr>
<td>(6.4)</td>
<td>(3.3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semi Urban</td>
<td>1053.7</td>
<td>453.0</td>
<td>43.00</td>
</tr>
<tr>
<td>(21.8)</td>
<td>(13.1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>1279.2</td>
<td>755.8</td>
<td>59.08</td>
</tr>
<tr>
<td>(26.5)</td>
<td>(21.8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metro-Politan</td>
<td>2183.3</td>
<td>2143.3</td>
<td>8.17</td>
</tr>
<tr>
<td>(45.3)</td>
<td>(61.8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4822.5</td>
<td>3467.4</td>
<td>71.90</td>
</tr>
<tr>
<td>(100.0)</td>
<td>(100.0)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Figures in brackets indicate percentage to total)

The total lending outstanding by banks and financial institution as of 1985 were Rs. 106,607 crores at of which 27.9% were for Agriculture, 36.4% for industries and 12.3% for trade.
C - **Emergence of the Co-operative Movement** :-

The origin of the co-operative movement can be traced long back to 1844 in "Rochdale Pioneers' Story" in England. The fundamental principles practiced by this "Rochdale Pioneers" were

1. Open membership
2. Democratic control
3. Limited interest on capital
4. Distribution of profits in proportion to purchases
5. Cash Trading
6. Dealing in pure and unadulterated goods
7. Members' education
8. Political and religious neutrality.

Most of these principles still form the backbone of modern co-operative economy. The committees appointed by the International Co-operative Alliance, first in 1937, and thereafter in 1966, recommended certain changes in "Rochdale Principles" of co-operative economy yet the basic content has remained intact.

As mentioned above, the co-operative economy started with the consumer co-operative stores and it achieved phenomenal success in England and European countries like Denmark and Sweden. A number of wholesale institutions were established in European countries to provide consumer good to the retail stores. A step ahead, these co-operative institution started to manufacture consumer goods and went in for export trade.

In Canada, marketing co-operatives are well developed. Marketing, particularly of agricultural products, is being handled by co-operative in this country. After the changes of "wheat boards" after World War - I, the farmers' co-operative organized "Wheat Pools" for grading and processing wheat before sales. France has specialized in co-operative societies for industrial producers and artisans. These societies have made remarkable growth in their
field.

The organization of "Luzzation Bank" on the Schulze-Delitch was the starting point for co-operative movement in Italy. The well-to-do people helped them and thus the banks raised sufficient funds by way of deposits.

The co-operative movement was sponsored and popularized on a large scale in the community countries like the old then USSR and China.

The role of Israel in co-operative movement is remarkable. The "KIBUTZ" in this country is a milestone in the history of co-operative movement. The "Kibutz" abolished private institutions. The needs of the workers of "Kibutz" are met by the kibutz instead of paying salary to them. These needs include education, child care, provision for old age, etc.

A brief study of the co-operative movement in various countries reveals that in advanced countries this movement spread faster than in the under-developed countries. Further, the development of co-operative movement in urban areas is faster than in rural and semi-urban areas. The coverage in agricultural and allied field is also comparatively higher than any other field. Though the initial progress of this movement was poor in the Middle East and Asia but now progress is considerably higher.

One more point to be noted is that the progress of co-operative movement is encouraging.

1. **Emergence of Co-operative Movement in India** :-

Sir Frederic Nicholson, for the first time, advocated the formation of co-operative Credit Societies in India in the year 1895. He argued that a farmer's capital is always blocked up in purchase of land, investment in weapons and purchase of cattle. In these conditions of resources it is inevitable that farmer requires credit for financing seasonal agricultural operations. He further argued that there was nothing with a farmer's raising loan nor it was a sign of weakness. Sir Frederic Nicholson's efforts led to the enactment of the first Co-operative Act in March 1904. Thus the co-operative movement was officially inaugurated at the beginning of this century. The aim of the Government of India in introducing it in 1904 was to bring to the indebted peasants. Agriculturists, as a class, were groaning under the load off debt, but the policy of "laissez faire", then holding sway, demanded that the
state should not act directly to afford relief, but government could suitably sponsor the system of co-operatives.

(a) Co-operative Acts of 1904 - 1912 and 1925

The Co-operative Societies Act of 1904 was essentially enacted for the purpose of alleviation of hardships caused by agricultural indebtedness which had then reached alarmingly high proportions. There were vigorous efforts for the organization of agricultural credit co-operative societies after the Act of 1904.

When the original Co-operative Credit Societies' Act of 1904 was full of enthusiasm, some inadequacies and limitations were observed and in order to fill the lacunae this act was replaced by the Co-operative Societies Act of 1912. This Act of 1912 allowed the setting up of co-operative societies for purposes other than credit. This act introduced the principle of limited liability. It also legalized formation of federal bodies. This gave a boost to the co-operative movement. The number of co-operative societies increased by 14038 from 1907 to 1914. In 1907 number of societies was 843; the number stood at 14881 in 1914. The membership also increased by 605154 during this period, from 90844 in 1907 to 695998 in 1914. "New types of societies for the sale of produce, cattle insurance, mall supply, yarn, silk and manure purchase and the retail of farm implements and common necessities had been registered and in most cases seemed to be prospering".

When the original Act of 1904 was replaced by the Act of 1912 certain provisions pertaining to the association of collectors with the administration of the law were omitted. If the sense of responsibility is to be developed among co-operators there should be an end to the dominating position occupied by permanent officials of the government. With this in view, in 1925, another Co-operative Societies' Act was passed. This Act incorporated, for the first time, the most vital principle of co-operation viz. one vote per member. In fact, this Act of 1925, was passed in Bombay but was widely emulated as a model in many other parts of the country as well.
(b) **Sir Maclagan Committee Report (1914-1915)**

A comprehensive all-India survey of the growth of co-operatives was brought out after the work of a decade by the committee on co-operation in India in 1914-1915. This committee was known as Maclagan committee. It was mainly concerned with the structure and functioning of agricultural co-operative credit committee Bank for relieving agricultural indebtedness. The Maclagan committee report made many constructive proposals. The three tiered structural organization recommended by the committee formed the “blue-print’ for future development for a number of years. The Maclagan committee described the role of the Registrar as that of guide, friend and philosopher of the co-operative movement.

(c) **The Period of Great Depression**

The period of the Great Depression of the “thirties” gave a setback to co-operative movement in India. The fall in prices of land and agricultural commodities threatened the existence of some of the societies. Loan recovery becomes difficult resulting in heavy overdues. Because of huge overdues and financial losses, some of the Central Co-operative Banks had to be closed. For example the Royal Commission on Agriculture (1927) stated that, “if co-operatives fail, the last hope for rural India will also fail”.

Many state governments came forward to assist the apex banks to enable them to extend fresh finance to members of rehabilitated societies. Separate land mortgage banks came to be organized in some progressive provinces like Bombay & Madras. The Reserve Banks India was established in 1935 and its agricultural credit department was charged with the responsibility of taking interest in agricultural credit. The central banks were required to maintain a good margin between borrowing and lending rate of interest so as to build up good reserves and this reserves were required to be invested outside the business of the institution with a view to co-ordinate the activities of central, urban and State Co-operative Banks. Associations were formed and started functioning in some states. The property of State Co-operative Banks was also defined.
(d) **Second World War and After** :-

The period of World War - II (1939-45) was a boom period. This period gave a boost to the development of co-operative movement for both credit and non-Credit Societies. In fact it was during this period that co-operative movement began to give much greater importance to production and distribution. Many credit, purchase and consumer co-operative societies took up the work of supply of scarce consumer goods. There was considerable improvement, during this period, in membership probability, turnover and working capital of various types of societies.

(e) **Policy Committee on Agriculture** :-

A policy committee on Agriculture under the chairmanship of Prof. D. R. Gadgil, for the first time, carried out an analytical review of the problems of rural finance. The committee recommended measures like long-term repayment arrangements through Land Mortgage Banks. It also recommended an active and purpose-oriented role of Government and the Reserve Bank of India in agricultural credit.

The Co-operative Planning Committee of 1946 also recommended more financial assistance to the co-operatives and their diversification of activities.

(f) **Post-Independence Period** :-

Indian independence ushered in a democratic form of government and brought in massive planned efforts for growth of the economy. In free India, 70% of the population lived in the villages and 80% earned their bread and butter from agriculture and allied activities, which amounted to nearly 50% of the national income, and efforts were made to rely on the co-operatives for ensuring decentralized growth and development of agriculture and agro-industries.

In the conference of State Ministers of Co-operative, held in Mysore in July 1959, the question of agricultural finance came up for consideration and, as recommended by the conference, a committee under the chairmanship of Shri Vaikunthbhai L. Mehta, "A Co-operative Buddha", was appointed to look into the matter of how to expansion of credit for agricultural production on a considerable scale.
The recommendations of the Mehta committee were discussed at the conference of State Ministers of Co-operatives held in June 1960, at Srinagar. On the basis of these recommendations and with a view to strengthening the co-operative institutions, the state accepted partnership in the share capital of the co-operatives. Liberal accommodation at concessional rate of interest through the Reserve Bank of India was made available to the co-operatives. Managerial subsidies were provided in the initial years for weak societies. Special schemes of assistance were formulated from time to time for the benefit of specific types of societies like marketing, consumers, housing, industrial, fisheries, forest laborers, milk dairies and co-operatives, etc.

2. Growth of Co-operative Societies in India :-

The net result of all efforts, as mentioned above, has resulted in the rapid growth of the co-operative movement in the country. It would not be an exaggeration to say that co-operatives in the country have touched all aspects of economic activities.

The following table will give an idea about progress of co-operatives in India.

<table>
<thead>
<tr>
<th>Year</th>
<th>Credit Co-op. Societies</th>
<th>Non-credit Co-op. Societies</th>
<th>All Co-op.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>124083</td>
<td>57407</td>
<td>181490</td>
</tr>
<tr>
<td>1960-61</td>
<td>234420</td>
<td>98062</td>
<td>332490</td>
</tr>
<tr>
<td>1967-68</td>
<td>193428</td>
<td>133638</td>
<td>327066</td>
</tr>
<tr>
<td>1975-76</td>
<td>159782</td>
<td>148927</td>
<td>308709</td>
</tr>
<tr>
<td>1983-84</td>
<td>119185</td>
<td>147513</td>
<td>266698</td>
</tr>
<tr>
<td>1984-85</td>
<td>121605</td>
<td>194053</td>
<td>315658</td>
</tr>
<tr>
<td>1987-88</td>
<td>120416</td>
<td>227740</td>
<td>348156</td>
</tr>
<tr>
<td>1988-89</td>
<td>119574</td>
<td>219226</td>
<td>338800</td>
</tr>
<tr>
<td>1989-90</td>
<td>110260</td>
<td>197820</td>
<td>308080</td>
</tr>
</tbody>
</table>

Source :- “Co-operative Economy : Problems and Potentials” Dr. W. C. Shrishrial

As shown above the number of co-operative societies which was 181490 in 1950-51 has now grown up to 308080 in 1989-90, a growth of 126590 and an increase of 69.75% within 40 years.
It can also be observed that as total number of societies have increased considerably, there is a tremendous growth of non-credit co-operative societies which from 57407 in 1950-51 has now gone up to 197820 (244\% growth) in 40 years. A surprising fact is that the number of credit co-operatives which were 124083 in 1950-51 has reduced to 110260 in 1989-90 which shows a decrease of 13823, an 11.14\% decrease within 40 years.

It is also interesting to note that the growth of co-operative societies in India differs considerably from one state to other. The progress in Maharashtra is on top followed by Gujarat, Tamil Nadu, Uttar Pradesh and Karnataka states.

It is observed that Maharashtra state constitutes about 1/3 of the credit societies in India. The paid-up capital and working capital of Co-operative Societies in Maharashtra state is also about 1/3 of all societies in India.
The membership of co-operative societies has also increased since 1950-51 and is as under:

Table 1.9

Growth of Membership of Co-operative Societies in India

(Figures in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Membership</th>
<th>Trend</th>
<th>% of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>137</td>
<td>100</td>
<td>—</td>
</tr>
<tr>
<td>1960-61</td>
<td>342</td>
<td>250</td>
<td>150%</td>
</tr>
<tr>
<td>1967-68</td>
<td>564</td>
<td>412</td>
<td>65%</td>
</tr>
<tr>
<td>1973-74</td>
<td>7707</td>
<td>5620</td>
<td>1266%</td>
</tr>
<tr>
<td>1983-84</td>
<td>12310</td>
<td>8985</td>
<td>60%</td>
</tr>
<tr>
<td>1984-85</td>
<td>14110</td>
<td>10299</td>
<td>15%</td>
</tr>
<tr>
<td>1987-88</td>
<td>15040</td>
<td>10978</td>
<td>7%</td>
</tr>
<tr>
<td>1988-89</td>
<td>15660</td>
<td>11430</td>
<td>4%</td>
</tr>
<tr>
<td>1989-90</td>
<td>15666</td>
<td>11435</td>
<td>—</td>
</tr>
<tr>
<td>1990-91</td>
<td>15566</td>
<td>11435</td>
<td>—</td>
</tr>
</tbody>
</table>

From the above, it is clear that there is a tremendous growth in membership of societies; from 13.70 million members in 1950-51 it has gone up to 155.66 million in 1990-91, an increase of 141.96 million, within 40 years, an average growth of 3.54 million p. a.
The working capital of the co-operative societies has also increased considerably, as shown under

**Table 1.10**

**Working Capital of Co-operative Societies in India**

(Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Working Capital</th>
<th>Paid-up capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>276</td>
<td>N. A.</td>
</tr>
<tr>
<td>1960-61</td>
<td>1312</td>
<td>N. A.</td>
</tr>
<tr>
<td>1967-68</td>
<td>3682</td>
<td>N. A.</td>
</tr>
<tr>
<td>1973-74</td>
<td>3682</td>
<td>N. A.</td>
</tr>
<tr>
<td>1978-79</td>
<td>13442</td>
<td>N. A.</td>
</tr>
<tr>
<td>1983-84</td>
<td>32749</td>
<td>3101</td>
</tr>
<tr>
<td>1984-85</td>
<td>37769</td>
<td>3536</td>
</tr>
<tr>
<td>1987-88</td>
<td>53881</td>
<td>4876</td>
</tr>
<tr>
<td>1988-89</td>
<td>62144</td>
<td>5242</td>
</tr>
<tr>
<td>1989-90</td>
<td>62145</td>
<td>5242</td>
</tr>
<tr>
<td>1990-91</td>
<td>71672</td>
<td>5325</td>
</tr>
</tbody>
</table>

The working capital of all co-operatives has gone up to Rs. 71672 crores in 1990-91 as compared to 276 crores in 1950-51, an increase of Rs. 71396 crores within 40 years, i.e. average growth of Rs. 1785 crores p. a.

The paid-up capital of all societies which was Rs. 3101 crores in 1983-84 now stands at Rs. 5325 crores (as on 30th June 1991), an increase of Rs. 2224 crores within 6 years, an average growth of Rs. 370.66 crores p. a.
3. **Growth of Co-operative Movement in Maharashtra** :-

Since its inception, Maharashtra has remained in the forefront of the co-operative movement in country. Co-operative movement in Maharashtra has always been a source of inspiration to similar movements elsewhere in the country. The structure and organization of co-operatives in Maharashtra has been emulated as a model by co-operatives in several states of the country.

The co-operative movement in Maharashtra has followed sequential evolutionary pattern in Maharashtra. The co-movement, initiated with the German Raitteisn type of co-operative societies, were primarily meant for meeting the credit needs of the agriculturists. But the movement in the state has, over the last ninety years, come to cover a wide range of activities in different sectors of the state's economy.

The co-operative movement, its development and organization in the state indicates certain peculiar features of the movement. In other states of India, the government played a vital role in the establishment and development of the co-operative societies through the agency of the collectors and registrars. But in Maharashtra the movement was initiated by social and political reformers and leaders such as G. K. Gokhale, V. L. Thackerathey, Deodhar and N. C. Kelkar. This tradition of establishment and development was carried further by another group of co-operationists, including well-known personalities such as Chunilal Mehta, R. G. Saraiya, V. Warde, D. G. Karve, D. R. Gagdil and V. L. Mehta.

As a result, the movement was initiated with the idea of helping the financially weaker sections of the society, such as the small farmers and industrial workers and thereby improving the existing social structure. In Maharashtra co-operative movement was thus initiated and developed by members of the stronger sections of society for the benefit of the weaker sector of the society and it was aimed at raising the income levels and social status of these low-income groups. These leaders worked at the local level and continued to work hard till the primary societies were well established. Due to the hard work of these pioneers of the co-operative movement in state of Maharashtra, the agricultural Credit Societies did not only continue for provision of providing loans, but also provided the function of formal improvements in the techniques of cultivation. The overall objective was to make
the farmers self-reliant and to improve the rural economy. The co-operative organization in the state was accepted as a medium for bringing about economic and social change which was essential for the development of the Indian economy. The apex organization, the Maharashtra State Co-operative Bank, established in 1911, was active and helpful in developing this attitude. The Apex Bank has been playing a very significant role.

The Apex Bank has not only given financial support but has also initiated new activities and guided the initial growth of societies by helping them in a number of ways such as provision of trained personnel and technical advice. Secondly, this Apex Bank has established a system of consultation and co-ordination between the various co-operative organizations at different levels.

The co-operative society in the state starts with the objective of developing a particular activity and as it progresses, it realizes the need for providing further functions to the members in order to achieve the original objective.

The well-managed and efficient co-operative societies have extended their activities to the field of production and other activities. Credit Societies have been providing the technical advisory services and as need arises they enter the field of production.

The movement of co-operative societies in Maharashtra has taken up a large number of activities in various fields. In the villages, starting from the provision of credit to the farmers, the societies have accepted the wider range of responsibilities of aiding the introduction of better techniques of cultivation. The movement covers a large proportion of the rural population. More than 60% of the cultivators are covered under this movement. In the urban areas, the co-operative societies are extending services to the industrial workers, the low and middle income groups. In fact, the co-operative movement does not reach the high income group in the urban areas.

The co-operative sector in Maharashtra enjoys the highest growth rate in the entire country. For instance, as on 30th June 1991, there were more than 104610 societies as against 308080 in India. These societies covers about 60 types of socio-economic activities, with a membership of around 268.80 lakhs and a working capital of more than Rs. 24177.46
crores.

Much of the progress was however, made after Independence and particularly during the last 30 to 35 years.

The outline of the growth and coverage of the co-operative movement in Maharashtra is as under:

### Table 1.11

Growth of Co-operative Societies in Maharashtra State

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Societies</th>
<th>Membership (in lakhs)</th>
<th>Paid-up Capital</th>
<th>Deposits</th>
<th>Advances</th>
<th>W/C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>31565</td>
<td>42</td>
<td>53</td>
<td>76</td>
<td>95</td>
<td>326</td>
</tr>
<tr>
<td>1971</td>
<td>42603</td>
<td>86</td>
<td>238</td>
<td>315</td>
<td>348</td>
<td>1490</td>
</tr>
<tr>
<td>1981</td>
<td>60747</td>
<td>148</td>
<td>600</td>
<td>1939</td>
<td>1116</td>
<td>5210</td>
</tr>
<tr>
<td>1984</td>
<td>71130</td>
<td>183</td>
<td>851</td>
<td>3554</td>
<td>1876</td>
<td>8332</td>
</tr>
<tr>
<td>1985</td>
<td>75360</td>
<td>186</td>
<td>957</td>
<td>4184</td>
<td>2215</td>
<td>9346</td>
</tr>
<tr>
<td>1986</td>
<td>79291</td>
<td>195</td>
<td>1065</td>
<td>4900</td>
<td>2650</td>
<td>10600</td>
</tr>
<tr>
<td>1987</td>
<td>83460</td>
<td>211</td>
<td>1186</td>
<td>5925</td>
<td>2875</td>
<td>12820</td>
</tr>
<tr>
<td>1988</td>
<td>87676</td>
<td>218</td>
<td>1105</td>
<td>6665</td>
<td>4251</td>
<td>13948</td>
</tr>
<tr>
<td>1989</td>
<td>92507</td>
<td>244</td>
<td>1478</td>
<td>8385</td>
<td>5400</td>
<td>18828</td>
</tr>
<tr>
<td>1990</td>
<td>98181</td>
<td>255</td>
<td>1669</td>
<td>9787</td>
<td>5905</td>
<td>21534</td>
</tr>
<tr>
<td>1991</td>
<td>104620</td>
<td>270</td>
<td>1957</td>
<td>11048</td>
<td>6300</td>
<td>24713</td>
</tr>
</tbody>
</table>

(Rs. in crores)

From the above data it is clear that the total no. of societies, which were 31565 in 1961, had reached to 104620 at end of 1991, an increase of 73055 and 231.44% growth within thirty years.
The percentage growth of societies for last three decades is as under:

**Table No. 1.12**

Percentage Growth of Co-operative Societies in Maharashtra

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of societies</th>
<th>% of growth</th>
<th>Membership (lakhs)</th>
<th>% of growth</th>
<th>Deposit (crores)</th>
<th>% of growth</th>
<th>Adv.</th>
<th>% of growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>31565</td>
<td>—</td>
<td>42</td>
<td>—</td>
<td>76</td>
<td>—</td>
<td>95</td>
<td>—</td>
</tr>
<tr>
<td>1971</td>
<td>42603</td>
<td>34.97</td>
<td>86</td>
<td>104.76</td>
<td>315</td>
<td>314.47</td>
<td>348</td>
<td>266.32</td>
</tr>
<tr>
<td>1981</td>
<td>60447</td>
<td>42.59</td>
<td>148</td>
<td>72.09</td>
<td>1939</td>
<td>515.56</td>
<td>1116</td>
<td>220.68</td>
</tr>
<tr>
<td>1991</td>
<td>104620</td>
<td>72.23</td>
<td>270</td>
<td>82.43</td>
<td>11048</td>
<td>469.78</td>
<td>6300</td>
<td>464.52</td>
</tr>
</tbody>
</table>

From the above chart one thing is clear that there is a tremendous growth in deposits of co-operative societies in the last two decades.
As mentioned above, co-operative movement in India differs from state to state. Maharashtra state is leading in co-operative sector. The following chart shows the percentage of holding of societies in Maharashtra state in relation in India.

Table 1.13

Comparative Position of Co-operative Societies in India and Maharashtra State

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Societies in India</th>
<th>Total Societies in Maharashtra</th>
<th>Percent of Societies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>332490</td>
<td>31565</td>
<td>9.50%</td>
</tr>
<tr>
<td>1968</td>
<td>327066</td>
<td>37400</td>
<td>11.44%</td>
</tr>
<tr>
<td>1984</td>
<td>266698</td>
<td>71130</td>
<td>26.67%</td>
</tr>
<tr>
<td>1985</td>
<td>315658</td>
<td>75360</td>
<td>23.87%</td>
</tr>
<tr>
<td>1988</td>
<td>348156</td>
<td>87676</td>
<td>25.18%</td>
</tr>
<tr>
<td>1989</td>
<td>338800</td>
<td>92507</td>
<td>27.30%</td>
</tr>
<tr>
<td>1990</td>
<td>338800</td>
<td>98148</td>
<td>28.97%</td>
</tr>
<tr>
<td>1991</td>
<td>308080</td>
<td>104610</td>
<td>33.95%</td>
</tr>
</tbody>
</table>

From above figures it is clear that the growth of societies in Maharashtra is much higher as compared to an all-India level.

The share of Maharashtra in co-operatives was 9.5 % in 1961 which regularly and considerably increased year by year and in 1990-91 it was 33.95 % i.e. more than 1/3 of all societies in India.
When we say that more than 1/3 co-operative societies are in Maharashtra, the distribution of co-operative societies in Maharashtra is considerably imbalanced. Some regions of the state of Maharashtra are rich in number/members of societies while others are poor. The following table will speak about it.

Table 1.14

Regional Distribution of Co-operative Societies in Maharashtra State

<table>
<thead>
<tr>
<th>Division</th>
<th>1989</th>
<th></th>
<th>1990</th>
<th></th>
<th>1991</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Societies</td>
<td>% of Total</td>
<td>No. of Societies</td>
<td>% of Total</td>
<td>No. of Societies</td>
<td>% of Total</td>
</tr>
<tr>
<td>Bombay</td>
<td>24240</td>
<td>26.20</td>
<td>25695</td>
<td>26.17</td>
<td>27054</td>
<td>25.96</td>
</tr>
<tr>
<td>Nasik</td>
<td>14822</td>
<td>16.02</td>
<td>15833</td>
<td>16.13</td>
<td>17088</td>
<td>16.86</td>
</tr>
<tr>
<td>Pune</td>
<td>23771</td>
<td>25.70</td>
<td>25732</td>
<td>26.22</td>
<td>27589</td>
<td>26.37</td>
</tr>
<tr>
<td>Aurangabad</td>
<td>14292</td>
<td>15.45</td>
<td>15231</td>
<td>15.52</td>
<td>16372</td>
<td>15.65</td>
</tr>
<tr>
<td>Amrawati</td>
<td>7019</td>
<td>7.59</td>
<td>7078</td>
<td>7.21</td>
<td>7438</td>
<td>7.11</td>
</tr>
<tr>
<td>Nagpur</td>
<td>8363</td>
<td>9.04</td>
<td>8579</td>
<td>8.75</td>
<td>9079</td>
<td>8.68</td>
</tr>
<tr>
<td></td>
<td>92507</td>
<td>100.00</td>
<td>98148</td>
<td>100.00</td>
<td>104620</td>
<td>100.00</td>
</tr>
</tbody>
</table>

From the above, it is clear that only two divisions i.e. Bombay and Pune enjoy more than 50% societies of the state, while Amrawati and Nagpur divisions are backward as far as the co-operative movement is concerned. They have only 15.79% of societies of the state.
4. Growth of Co-operative Movement in Marathwada Division of Maharashtra:

As discussed above the growth of co-operative societies in Marathwada has remained constant since the last three years. Its share in the societies of the state was 15.65% in 1991. Marathwada is at fourth position of holding of co-operative societies in the states.

The district wise growth of co-operative societies in Marathwada division in last five years is as under:

Table No 1.15

District-wise Growth of Co-operative Societies in Marathwada

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of</td>
<td>% of</td>
<td>% of</td>
<td>% of</td>
<td>% of</td>
</tr>
<tr>
<td>Aurangabad</td>
<td>2112</td>
<td>16.13</td>
<td>2002</td>
<td>15.98</td>
<td>2378</td>
</tr>
<tr>
<td>Jalna</td>
<td>1088</td>
<td>8.16</td>
<td>1041</td>
<td>8.31</td>
<td>1142</td>
</tr>
<tr>
<td>Beed</td>
<td>2041</td>
<td>15.58</td>
<td>1958</td>
<td>15.62</td>
<td>2228</td>
</tr>
<tr>
<td>Nanded</td>
<td>2718</td>
<td>20.75</td>
<td>2585</td>
<td>20.63</td>
<td>2965</td>
</tr>
<tr>
<td>Osmanabad</td>
<td>1427</td>
<td>10.90</td>
<td>1361</td>
<td>10.86</td>
<td>1521</td>
</tr>
<tr>
<td>Latur</td>
<td>1891</td>
<td>14.44</td>
<td>1816</td>
<td>14.48</td>
<td>2086</td>
</tr>
<tr>
<td>Marathwada</td>
<td>13096</td>
<td>100</td>
<td>12532</td>
<td>100</td>
<td>14292</td>
</tr>
</tbody>
</table>

The Co-operative Societies in Marathwada cover various activities. Primary agricultural credit activity is the prime and leading activity of the society followed by dairy and primary co-operative housing. The activity of running rice co-operatives was in the an last place as there is only one unit of rice mill at Osmanabad District.
D - Historical Review of Urban Co-operative Banks in India

1. Structure of Co-operative Banks

Co-operative banking in India has grown in size and value. When the co-operative movement was started in 1904, only agricultural co-operatives were popular. At present Co-operative Banks have been organized in many sections. A special feature of Co-operative Banks in India is that they have a federal structure, the units ranging from primary level to national level. A move is on to organize a National Co-operative Development Bank.

The co-operative structure in India can be divided into two main sections namely agricultural credit and non-agricultural credit. The agricultural credit can be further divided in two structures one for short term and medium term, and the other for long term credits. The short term and medium term credit is in three sections with a State Co-operative Bank at the apex level in each state, the Central Co-operative Bank at district level and Primary Agricultural Societies at the base. The central and State Co-operative Banks, though organized for the benefit of agricultural credit sector, serve non-agricultural societies also.

The Urban Co-operative Banks form a prominent part in the non-agricultural co-operative sector. In 1977 an All-India Federation for Urban Co-operative Banks and Credit Societies was organized. The Employees’ Co-operative Credit Societies and Employees’ Co-operative Banks are another important part of non-agricultural credit.

2. Historical Review of Urban Co-operative Banks

Under the Agriculturists Loans Act, 1984, state governments were empowered to frame rules for extending loans to farmers. Sir Streart Baylay, Governor General, in his speech at Governor General’s council at the time of introducing the Land Improvement Loans Act, emphasized that Land Improvement Act, 1871 was unsuccessful because it compelled farmers to revert to private money-lenders for their financial needs. The Famine Commission in 1880 had recommended the administration of the Land Improvement Loans through the Agricultural Department. They suggested handing over the work "to the officer of Agriculture
Department in each district who should make it his peculiar duty to encourage the landed classes to look to Government rather than money lenders for loan of this kind, and should supervise the proceedings of the native agency through whom the details of the procedure must ordinarily be carried on”.

The development of co-operative credit system during the First Five-years Plan was remarkable. A definite policy of integrated co-operative credit emerged by the end of the First Plan. The policy generally held ground for about a decade in the second and third plans. Although the same general approach to co-operative credit is still being pursued, the last decade has seen a shift in policy toward multi-agency approach to agricultural financing, with active involvement of the commercial banks in this business.

3. History of Urban Co-operative Banks in India

As we saw above, more attention was paid to the problems of agricultural and rural poor. Comparatively, little attention was paid to the problems of the urban poor vis-a-vis the rural poor. This gives birth to “the shield for the small urban man”. That is, Urban Co-operative Banks. The Urban Co-operative Banks enjoy distinct position in co-operative movement. They cater to the financial needs of the urban population, who have meagre means and who are not catered to by the commercial banks. The duties and responsibilities of Urban Co-operative Banks increase day by day and year by year. They are expected to play an important role in translating our national objectives into reality by providing needed financial and other help to the common man. The role of the Urban Co-operative Bank in this respect has received a significance with the recent shift in the government policy towards providing a prop, on a priority basis, to the village, Small Scale Industries, Artisans and other self employed persons so as to launch a frontal attack on the pressing problems of our economy viz., poverty and unemployment. It is therefore useful to attempt a historical review of the origin of the Urban Co-operative Banks in the country and Maharashtra state.

The banking industry in India was organized on the model of the British banks. Some of the big business houses started to form banks to cater to the financial requirements of industries in their groups. This led to the establishment of banks in the port towns and cities, which were the main business centers. The business policies and practices of these
banks were mostly to the requirements of their British counterparts.

Under these circumstances, the common man had no choice but to resort to the usurious private credit. This led to the formation of the first co-operative societies for distributing agricultural loans. In fact this act only gave legal recognition to the efforts in this direction already underway in the last quarter of the 19th century. The Co-operative Societies Act 1911 recognized the organization of societies in the non-agricultural sector too. Initially small traders, middle class people, salary earners and laboring classes organized their own societies, which in later years paved the ways for the formation of urban banks.

The inspiration to organize the Co-operative Banking institution in India was derived from the success of similar institution in the European countries, notably Germany and Italy, in the later half of 19th century.

The beginnings of the urban co-operative movement in India could be traced back to the formation of the mutual aid society, named Annyonya Sahakari Mandali under the guidance and leadership of Mr. Vithal Laxman at Baroda in Gujarat by middle-class Maharashtrian families who had migrated to Baroda to seek employment and were in financial distress. The society formed on 5th Feb. 1889 inaugurated the urban co-operative credit movement in India. The circumstances in which this pioneering experiment was made was worth noting. It recorded steady progress decade after decade and today it has become one of the premier Urban Co-operative Banks not only in Gujarat but also in India. The Urban Co-operative Banks encouraged the habit of thrift among the members. Prof. K. N. Naik has rightly pointed out the nature and importance of this institution by saying “The history of these institutions is indeed interesting and instructive. The urge for its organization and its development came from its members themselves. The remarkable growth of the institution shows what a co-operative organization can achieve if it an have a band of selfless and devoted workers”. 
4. **The Co-operative Societies Act 1904** :-

This act enabled the organization of "rural" as well as "urban" co-operative Credit Societies in the country. Although the inspiration for organizing co-operative Credit Societies was drawn from the successful working of such societies organized by Herman Schultze in Germany and Luigi Luzzatti in Italy, the actual organization was initiated by the government, mainly for emancipation of the rural and urban population from the evil practice of money lenders. Soon after passing of the Act of 1904 efforts were made for formation of Urban Co-operative Credit Societies. In Madras state, Urban Co-operative Credit Society was registered in 1904 at Kanjeevaram. The Betgiri Co-operative Credit Society was organized in Dharwar District of Maharashtra. The Bangalore City Co-operative Credit Society of Mysore state was established in 1905.

In Maharashtra State numerous Co-operative Banks were established after the 1904 Act. Some of these are:

1. The Shamrao Vithal Co-operative Bank in Bombay (1906)

2. The Cosmos Co-operative Bank Ltd. in Pune (1906)

3. The Barshi Central Urban Co-operative Bank Ltd. in Solapur District (1906)

4. Bhingar Urban Co-operative Bank. Ltd. in Ahmednagar District (1909)

The Act of 1912, which was a central Act, laid the foundation of the structure, later on recognized as the three tiers of co-operative institution engaged in dispensation of credit.

5. **Melagon Committee (1915)**

A committee on co-operative was appointed under the Chairmanship of Sir Edward Melagon. This committee published their report in 1915 wherein valuable recommendations were incorporated for the development of Urban Co-operative Credit Society Banks. This committee rightly thought that the Urban Credit Societies should serve the useful purpose of acquainting the upper and middle classes of urban population with ordinary banking practices and transactions.
As a result of this change in the outlook, Urban Credit Societies began to multiply, particularly in Bombay and Madras. However in the Bombay state urban co-operative Credit Societies were organized on common basis and proved remarkably successful. Deposits collected from members were used primarily for issuing loans for household or domestic expenditure and also for redemption of debts, either on mortgage/hypothecate/pledge of tangible securities and against personal surety.

The subject of co-operative was transferred from the central government to the state government. The Bombay Government passed the first Co-operative Societies Act in 1925 which not only gave size and shape to co-operative movement but proved as a pace setter of co-operative activities and stressed the basic concept of better living, better business, better methods of production, promotion of thrift, self-help and mutual aid.

6. The Bombay and the Indian Central Banking Enquiry Committees. (1930 & 1931)

These committees defined the role and functions of the Urban Co-operative Banks in regard to capital formation, mobilization of deposits and subsequent use of these resources in loans and advances. They have not only headed the societies to undertake the general banking business on the lines of commercial banks but, at the same time, paid attention to the role played by Urban Co-operative Banks. The committee observed “The duty of these banks should be to try to do for small traders, small merchants and middle class population what commercial banks are doing for big traders”. Loans for domestic and household expenditure formed the bulk of advances.

7. The Mehta-Bansali Committee (1937-1939) Reports

There was no distinction between Urban Co-operative Credit Societies and the Urban Co-operative Banks up until the publication of the Mehta-Bansali Committee Report in 1937. In Bombay Province, the Urban Co-operative Credit Societies on attaining a working capital of Rs. 50,000/- were called the Urban Co-operative Banks. But this criterion was not uniformly adopted by all states.
During the period of World War - II (1939-1945), the demand for funds by small traders was high and the Urban Co-operative Banks played a vital role. It gave a stimulation to the development of Urban Co-operative Banks.

8. **Co-operative Planning Committee (1946)**

This committee was appointed under the Chairmanship of Shri. R. G. Saraiya, a prominent figure in the co-operative movement. This committee accepted the importance of the Urban Co-operative Banks and pointed out the benefits of small institutions. It also pointed out that there were, in urban areas, a large number of persons of small means who, in the absence of institutional credit, were forced to secure financial assistance at usurious rates of interest from private money-lenders. The joint stock banks found it difficult to develop the business of small borrowers because of the high cost of servicing loans. The committee therefore came to the conclusion that the Urban Co-operative Banks were the most suitable institutions to meet the credit needs of this class of people as they were in a better position to established personal and close relations with them.

9. **Golden Jubilee Year, 1954**

The Golden Jubilee Year of 1954 is yet another landmark in the history of urban banking. By then, the number of urban banks in India was 716, with a membership of 6.74 lakhs. They had, amongst themselves, mobilized deposits to the tune of Rs. 24 crores. Their outstanding loans and advances were Rs. 20 crores while in Bombay state, the number of societies was 200, with a membership of 3.75 lakhs. They had amongst themselves mobilized deposits of the order of Rs. 16.22 crores. Their outstanding loans and advances amounted to Rs. 11.35 crores.

These figures were impressive and it could be said that, by and large, the Urban Co-operative Banks rendered Yeoman service to middle-class fixed income groups in urban areas by inculcating banking habits and meeting their credit requirements and financing for small trade and business.
10. Conference of Urban Banks in 1957

It was unfortunate that in spite of suggestions and recommendations made by various committees the Urban Co-operative Banks remained a neglected sector. The Reserve Bank of India did not publish statistics of Urban Banks separately. It was also not known whether the Registrar of Societies arranged for the inspection of Urban Banks at regular intervals. In view of all these things, the Bombay State Co-operative Banks Association organized the first conference of Urban Banks in 1957 which emphasized the need for improving the working of Urban Banks and also requested the Reserve Bank of India to undertake a survey of Urban Banks. In response to this a survey of Urban Banks in India was undertaken by the Reserve Bank of India on a sample basis in 1958-59. The survey observed that with the growth of planning and increase in the tempo of economic development, steps had been taken for development of various types of activities in the field of co-operation.


With the re-organization of States in 1956 and, thereby Maharashtra state in 1960, it became necessary to replace the Bombay Co-operative Societies Act, 1925. Accordingly the Maharashtra Co-operative Societies Act was passed in 1961. This Act of 1961 provides for fast and orderly development of co-operative activities. This Act also strengthened the administrative control of the Registrar of Co-operative Societies.

12. Varde Committee Report, 1963

A study group on credit co-operative in the non-agricultural sector was formed under the Chairmanship of Shri V. P. Varde. The information and its analysis pointed out the need for establishment of new urban banks, extending their membership, making the urban banks profitable and economically viable, need for diversification of loan port-folio of banks and for ensuring more and liberal financial assistance to the small industrialists, artisans and cottage industries.

The remarkable development relating to Urban Co-operative Banks in recent years has been the extension of certain provisions of Banking Regulation Act, 1947 to Co-operative Banks from 1st March 1966. Earlier the Banking Regulation Act, 1949, which came into force on 16th March, 1949, had specifically excluded Co-operative Banks including Urban Co-operative Banks from the purview of the Act, as the Co-operative Banks were registered under the Co-operative Societies Act of the respective states. With the span of time, the operations of Co-operative Banks increased substantially and it was considered anomalous to leave out Co-operative Banking institutions from the purview of the statutory control of the Reserve Bank of India. Moreover, there were strong demands, particularly after the introduction of the Deposit Insurance Scheme to commercial bank by Deposit Insurance and Credit Guarantee Corporator of the Reserve Bank of India in 1962. Consequently, the Banking Regulation Act of 1949 (as applicable to co-operative societies) was made applicable to Co-operative Banks viz., Apex, Central Co-operative and Urban Banks with effect from 1st March, 1966.

The Co-operative Banks with funds comprising paid-up share capital and a reserve of Rupees One Lakh and above were brought within the purview of the Banking Regulation Act. In effect, therefore, the State Co-operative Banks of various states, all District Central Co-operative Banks and 1091 Primary Co-operative Banks in the country and 84 Urban Banks in Maharashtra State came under the statutory control of the Reserve Bank of India. So far as the banking activities were concerned, the whole administrative aspect such as constitution, supersession, liquidation etc. remained within the purview of the Registrar of Co-operative Societies, as before. In fact, the Urban Co-operative Banks are required to function under the Acts viz. Banking Regulation Act and Co-operative Societies Act.

With this, the Reserve Bank of India acquired control over the functioning of primary Urban Co-operative Banks in matters such as maintenance of cash reserve and liquidity ratio of assets, regulation of loans and advances, opening of new places of business and publication of financial statements. Further, every Urban Co-operative Bank existing as on 1st March,
1966 or new Urban Co-operative Bank was required to apply to the Reserve Bank of India, for license to carry on the business. The statutory powers for inspection of the Urban Co-operative Banks are also vested with the Reserve Bank of India, while powers for incorporation, management and winding up continued to remain with the Registrar under State Co-operative Societies Acts concerned.


This working group was setup in 1967 under the Chairmanship of the Deputy Governor of the Reserve Bank of India, Shri. P. B. Damry for suggesting ways and means of effecting necessary changes in the organization and activities of the Urban Co-operative Banks. The recommendation of this working group provided a new dimension to the role and functions of the Urban Co-operative Banks in the country. It also suggested that the Urban Co-operative Bank was the only suitable co-operative financing agency to finance to Small Scale Industrial Units. It also recommended for speedy organization of the Urban Co-operative Banks in areas with concentration of cottage and Small Scale Industries, expansion of areas of exemption of some of the existing the Urban Co-operative Banks and permission to them to open branches anywhere in the district or state where there were good prospects of business with industrial units and which were not served by local Urban Co-operative Banks.

It also recommended refinance facility from the Reserve Bank of India to the Urban Co-operative Banks against productive loans for Small Scale and Cottage Industries, extension of the protection of the credit guarantee scheme to the Urban Co-operative Banks and grant of loans from National Agricultural Credit (long term operations) Fund of the Reserve Bank of India to state government for enabling them to contribute to the share capital of the Urban Co-operative Banks.

Considering the past experience and difficulties faced by the Urban Co-operative Banks, it was decided to hold a seminar of Chief Executives of the Urban Co-operative Banks and the Reserve Bank of India, accordingly a seminar was held at Pune in 1971. In this seminar the problems of the Urban Co-operative Banks were discussed in detail and suggestions were made to solve those problems.

In 1972 the government appointed the Banking Inquiry Commission. This commission recommended development of the Urban Co-operative Banks which resulted in strengthening the position of these banks in India.

On 19th Feb., 1977, a National Federation of the Urban Co-operative Banks and Credit Societies was established at Delhi. This was considered to be an important step for development of the Urban Co-operative Banks. The main objective of the formation of the Federation was to promote the Urban Co-operative Banks in India, provide a forum for discussion of problems of the Urban Co-operative Banks, to establish liaison with the government and to exchange information on matters of common interest.

16. Report of the committee on problems of the Urban Co-operative Banks in Maharashtra - Joglekar Committee

The Urban Co-operative Banks in Maharashtra have made remarkable progress and considering the potential of the Urban Co-operative Banks as one of the most suitable agencies for catering to the credit needs of cottage and Small Scale Industries and entrepreneurs of small means, the Government of Maharashtra appointed a committee under the Chairmanship of Shri V. M. Joglekar, former M.D. of the Maharashtra State Co-operative Bank Ltd., Bombay, to go into the problems of Urban Co-operative Banks in the state and to suggest solutions so that the resources at the command of the Urban Co-operative Banks were utilized for financing socially desirable business activities, particularly in the context of the 20-point programme. The committee submitted its report to the Government on 2nd July, 1976. The valuable material contained in the report was expected
to be of great help to the Urban Co-operative Banks in the state.

This committee recommended that the Urban Co-operative Banks should make positive efforts to broadbase their membership. It also recommended for managerial subsidy from the government and purchase by the government of shares in newly established Urban Co-operative Banks. It further recommended that in places with a population between 10,000 and 12,000, Urban Credit Societies should be established, lending policies of the Urban Co-operative Banks must promote socially desirable business activities etc. All together 132 recommendations were made by the Shri. V. M. Joglekar Committee.


A significant growth of the Urban Co-operative Banks in the country created a need for reviewing the role of these banks in the banking system and ensuring their future growth on sound lines. There were also certain problems regarding registration and licensing of new banks from the point of their viability. In view of this the Governor of the Reserve Bank of India constituted a committee in September 1977 under the Chairmanship of Shri K. Madhava Das, Executive Director of the Reserve Bank of India to study various aspects of the working of the Urban Co-operative Banks.

The recommendations made in the committee were accepted by the Reserve Bank of India. This could be said as an important milestone in the development of the Urban Co-operative Banks in India. The committee submitted its report in September 1978.

The Madhava Das Committee made many recommendation which were not restricted to the problems of the Urban Co-operative Banks and as such since the implementation of its recommendations the Urban Co-operative Banks have strengthened their financial position.


As functions of the Urban Co-operative Banks, are extended to various states of India, it was very difficult for such Urban Co-operative Banks to observe the rules of various states in which they are functioning. In view of this difficulty the central government enacted a separate Act for such Urban Co-operative Banks or Societies which are functioning in
different states. This Act is called the Multi-States Co-operative Societies Act.


With growth, volume and variety of business, a need was keenly felt for a book of guidelines for reference by the Primary Co-operative Banks. The committee on the Urban Co-operative Bank i.e. Madhava Das committee had also recommended that the Reserve Bank of India should publish a manual exclusively for the Urban Co-operative Banks containing guidelines on different aspects of its working. Accordingly, in 1984, the Reserve Bank of India published a comprehensive manual of general guidelines for running of a Primary Co-operative Bank. The manual attempts to cover as many important aspects a possible pertaining to the working of Primary Co-operative Banks viz., management, raising of reserves, management of funds, investments, loans and advances, customer services etc. Part I of the manual deals with the operational guidelines while Part II contains a list of records / registers to be maintained.


The Finance Minister of India appointed a committee under the chairmanship of Mr. M. Narasimham for study of the financial system of the banking industry In India. The committee submitted a summary of the report to union Finance Minister Dr. Manmohan Singh on 8th November, 1991. The Committee’s approach to the issue of financial sector reform was to ensure that the financial services industry operates on the basis of operational flexibility and functional autonomy with a view to enhancing efficiency, productivity and profitability. The committee made various recommendations and suggestions. The Reserve Bank of India accepted many recommendations made by the committee. These recommendations were also made applicable to Urban Co-operative Banks.

The committee recommends for free entry in to the financial system and suggested that the Reserve Bank of India should now permit the establishment of new banks in the private sector, provided that these private banks confirm to the minimum start-up capital and other requirements. The committee also proposes that government should make a positive
declaration that there would be no further nationalization of banks. The committee also recommended that there should not be any difference in the treatment of public sector banks and private/co-operative sector banks and all restrictions in this regard should be removed.

The basic Committee on Banking Regulations and Supervisory Practice appointed by the Bank of International Settlements (BIS) has prescribed certain capital adequacy standards to be followed by banks. The Narasimham Committee believes that it is necessary that banks in India also confirm to these standings in a phased manner.

The Ghosh Committee on the Final Accounts of the banks had made certain recommendations in regard to valuation of investments in the banks’ portfolios. The Narasimham Committee endorsed the recommendations of the Ghosh Committee in this matter. The committee believes that a proper system of income recognition and provisioning is fundamental to the preservation of the strength and stability of the banking system. Accordingly, the Reserve Bank of India compelled all banks including the Urban Co-operative Banks to classify all their advances under the various health codes.

The Committee is of the opinion that for the purpose of provisioning, the assets of the banks should be classified in four categories. Accordingly, the Reserve Bank of India issued directives to all banks including the Urban Co-operative Banks to classify their assets in the following four categories with effect from financial year ended on 31st March, 1993.

1. Standard Assets
2. Sub-standard Assets
3. Doubtful Assets
4. Loss Assets

The Reserve Bank of India prescribed clear and objective definition for these categories.

The Governor of Reserve Bank of India constituted a committee in September 1991 to review the policy relating to the licencing of new primary Urban Co-operative Banks and other related aspects and to make suitable recommendations in this regard. The Committee was constituted under the chairmanship of Shri S. S. Marathe, Director, Central Board, Reserve Bank of India. The main terms of references of the committee were to review the present licensing policy of the Reserve Bank of India for new primary Urban Co-operative Banks to examine whether different criteria needed to be laid down for organization of banks in states which were advanced in Urban Co-operative Banking as compared to states where the facilities have not yet been developed, to consider whether Primary Credit Societies which have attained viability norms should be recognized as Urban Co-operative Banks and to examine whether the viability norms presently prescribed, particularly in regard to capital adequacy, need upward revision. The Marathe Committee made various recommendations for registration and licensing of new Urban Co-operative Banks. One District - One Bank approach may be given up. The existing policy regarding Mahila Banks should continue. A few districts / selected centres in less developed state may be identified where nearby areas outside the district or even outside the state may be permitted to organize to form new Urban Co-operative Banks in less developed areas / states.
The Marathe Committee also made various recommendations regarding inclusion of primary Credit Societies in the list of primary Urban Co-operative Banks. The primary Credit Societies which attain the revised standard of viability for Urban Co-operative Banks before 30th June, 1993 may be considered for inclusion in the list of Primary Urban Co-operative Banks. The committee also made many recommendation on viability of Urban Co-operative Banks, licensing of existing Urban Co-operative Banks, area of operation of Urban Co-operative Banks, rehabilitation of weak Urban Co-operative Banks and Branch Licencing Policy for Urban Co-operative Banks. It recommended that while branch expansion may be permitted for sustaining growth of existing banks, it should not be allowed to become an instrument for curbing emerging co-operative initiative.