CHAPTER VIII

THE URBAN CREDIT MOVEMENT

Non-agricultural credit societies are mostly found in urban areas, such societies in rural areas are very few in number doing inconsiderable business. This may be accounted for the small assets and uncertain income of the members of such societies in rural areas and their low educational standard.

The non-agricultural credit societies usually include Urban or People's Banks, Employees' Societies, Communal Societies, Depressed Class and Mill-workers' Credit Societies. In 1949-50 there were 7,534 such societies in India with a membership of 20.66 lakhs. These institutions are well developed in Bombay, Madras, West Bengal, Mysore, Punjab, Delhi, Jammu and Kashmir, Travancore-Cochin and Hyderabad.

The non-agricultural credit societies numbering 7,534 with a working capital of Rs.51.60 crores formed 4.35 per cent and 22.22 per cent of the total number of societies and total working capital of all the societies in the country in 1949-50. As contrasted with other credit societies primary or central, these societies have a large amount of owned
Capital and formed 31.6 per cent of their working capital in 1949-50. Deposits (63 per cent) and other borrowings (5.4 per cent) which amounted to Rs. 35.36 crores represented 68.4 per cent of the working capital indicating the confidence reposed by the public in these credit institutions. Overdues were of the order of Rs. 3.5 crores approximating to 10 per cent of the total outstanding which stood at Rs. 34.82 crores. Fresh advances during the year were Rs. 32.7 crores, the management cost was Rs. 1.13 crores or 2.2 per cent of their working capital. They received goods valued at Rs. 5.7 crores and marketed worth Rs. 5.8 crores. Unfortunately the rates of interest charged by them and the dividends they paid were comparatively high varying from State to State. The borrowing and lending interest rates were comparatively low in Madras, Bombay West Bengal, Punjab, Mysore, Hyderabad, Madhya Bharat Travancore-Cochin, Ajmer, Bhopal, Delhi and Coorg than in other States. In Madras, Pepsu, Jammu and Kashmir, Ajmer and Coorg dividends paid were 5 per cent and above.

Among these societies the urban or people's banks form the most important group. In the early stages of the movement, in the absence of central co-operative banks they financed whenever and wherever possible the rural credit societies supplementing the resources of the latter. The urban banks are usually organised to supply credit in their area of operation to men of limited means such as the salaritai,
artisan, petty traders and shopkeepers, small producers
and industrialists who stand in need of credit not
only for their raw materials and implements but to maintain
themselves till they market their finished goods and for
their social, medical and other contingent expenditure. All
these people have, in the absence of urban banks, to resort
to the moneylenders, the Multani or the Pathan who extracts
usurious rates of interest as his village counterpart
does from agriculturists. These banks advance funds to the
primary societies to finance their activities in the absence
of a central bank in their area of operation and also directly
advance loans to agriculturists without encroaching upon the
business of the rural credit societies.

Urban banking which is highly developed in Bombay,
Madras, Mysore and West Bengal occupies an important position
in the general credit structure of those States. Usually the
area of operation of such a bank is restricted to a town
save in those cases where membership and volume of business
are large to handle. In such cases, the town is divided
into certain wards for every urban bank to draw its business
and for its general working. Instead of having a separate
urban bank in the same town it is better to have branches
of the same bank with advisory committees attached to it to
look after its every branch and for its general conduct of
the affairs. A separate bank in the same town usually leads
to overlapping finance, creates difficulty in the demarcation
of areas and undesirable competition for securing deposits.
or business. "A single urban bank in a centre is conducive to financial strength and stability and offers facilities of large transactions, tapping of cheap money, appointment of competent paid staff, adequate provision of modern banking facilities, availability of sufficient margins for building up strong reserves and a financial standing and regulation in the money market."

All residing in the area of operation can become members if they are already not members of any other credit society. A distinction is sometimes made in defining an urban bank, a bank having a paid up share-capital of less than Rs. 20,000 being ranked as an urban credit society.

The liability of these urban credit societies is limited to the value of share or a multiple thereof held by the members. Due to commercial spirit, greater distance, less acquaintance and lack of intimate contact among the members, the liability of such societies is limited.

The Urban credit institutions have from the beginning made a sound progress and emerged out successfully even from the dangers of the worldwide economic depression due to efficient management, large resources and commercial activities. Since the second World War, these credit institutions have made so remarkable a progress that the urban credit movement easily outdistances the rural credit movement in business and every other field of co-operative development.

The urban banks do not depend to any great extent

on extraneous financial agency for their working capital and are generally self-sufficient for their normal credit requirements. As compared to rural credit co-operatives they have greater share-capital, reserves, owned capital and the limited liability draws financially sound membership. Where they take to financing the non-credit activities such as the financing of goods produced by small industries, handlooms, raw materials like yarn etc., and take to the distribution of essential consumer goods on behalf of the Government in large towns in Bombay, Madras, West Bengal, Mysore, and Hyderabad they have to seek financial accommodation from the co-operatives or commercial banks. They have been able to draw large amount of deposits despite reduced interest rates on such deposits as in Bombay, indicating the increasing confidence of the public in the stability of these institutions.

Besides financing the small producer, consumer and trader these banks have been successful especially in Bombay and Madras to inculcate among their members the habit of thrift, saving and investment. In Madras various deposit schemes, such as savings deposits, recurring deposits, provident fund deposits, introduction of thrift certificates of small denominations and "Day Deposit Schemes" have been attempted to draw deposits from the members. Urban banks are suitable agencies to tap saving from municipal and semi-urban areas with Government assistance in the nature of financial help, loans, subsidies etc. for a period of five years towards establishment

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charges, building strong rooms for keeping jewels and other valuables etc. These banks undertake all types of commercial business - accept fixed, savings, current and recurring deposits to cultivate the habit of thrift among members and non-members, offer banking facilities such as the issue of drafts and the collection of cheques, hundies, drafts, bills, dividend warrants and insurance premia and receive payments on behalf of local and semi-public bodies.

The central co-operative banks are always hesitant to finance the credit needs of the urban banks due to the latter's commercial activities and limited liability save in those cases where they are efficiently conducted or invest their surplus funds in the former. The short term lending, quick turnover of capital, high finance, reliance more on real security, limited liability and commercial business all these features explain why in urban banks "the cooperative safeguards are not generally so well developed." 2

These banks advance funds or offer cash credit facilities against collateral security in the form of Government securities, eligible paper, agricultural and industrial produce, merchandise, raw materials, insurance policies, etc. Before advancing funds the banks satisfy that the demand for loans is genuine, adequate security is taken, that the funds advanced are for productive purposes and are within the capacity of the borrower for repayment without forcing him to go to other financing agency for to repay the bank and that the loan will

1 Reserve Bank of India: Review of the Co-operative Movement in India, 1948-52, op cit, p. 44
increase his standard of life by thrift. The bank also requires surety to ensure control and supervision over the borrower, as guarantee for his honesty and capacity as well as for the proper utilisation of the loan. The borrowing limit for every member is fixed usually at 8 to 10 times the share-capital held by him. To enable the agriculturists and non-agriculturists from rural and nearby areas and to secure petty loans against valuables and jewellery, these banks and societies have been permitted to admit such persons as their nominal members in Bombay. For further security the bank should appoint a whole-time competent surveyor for valuation of immovable properties offered as securities for loans and for periodical revaluation of such properties.

The Madras Committee on Cooperation recommended that where there are industrial societies, urban banks should through a proper survey and study of crafts, arts or industries encourage such of them as can stand on their feet with the necessary financial help. In Bombay some of the advanced urban banks provide non-banking services such as Provident Fund, medical and educational facilities, maintenance of libraries, installation of safe deposit vaults and act as wholesale agents for distribution of controlled and rationed articles.

For its own safety it is necessary for an urban bank to keep adequate fluid resources to meet its financial needs and deposit withdrawals. It should invest a certain portion

of its surplus funds in central banks as a cover against
cash-credit facilities it allows to its borrowing members.
Where these banks do not undertake non-credit activities and
consequently have a plethora of funds they should as a
matter of safety, invest such funds in Government securities
or in central and State cooperative banks which may give less
interest than if invested in its own business but offer greater
security and create confidence among the public. It should so
distribute its assets that cash, cheques in course of collection
and balances with other banks, investments in Government
securities, treasury bills and in easily withdrawable securities
in State and central cooperative banks form about 45 per cent
of its total funds and the rest it may invest in advances to
its borrowers and industries. With the previous sanction of
the Registrar, large urban banks may be permitted to keep
accounts with commercial banks for purposes of discounting,
clearing and remittance facilities.

Repayments are on the whole satisfactory in most
of the States, though recently overdues have been slightly
on the increase in Madhya Pradesh, Mysore and Bombay urban
banks. Repayments and recoveries have been reported quite
satisfactory in Delhi, Punjab, West Bengal and urban banks in
these States have to invest their surplus funds in low-yielding
Government securities which they should invest in financing
agriculture in neighbouring areas thereby supplementing the
financial resources of the primary agricultural credit
societies in those areas. Some of the urban banks in the Punjab
West Bengal, and Delhi undertake distribution of essential and rationed goods.

Most of the urban banks charge unjustifiably high interest rates in their good for high profits and pay fat dividends due to their commercial leanings in business. They would do well if they reduce the rate of interest and thereby help the small men in urban areas for whom they are organised.

The proposal of some of the well developed urban banks to allow them to be converted into joint-stock banks to escape the competition they face from the latter is unjustifiable, since they have strengthened their position by concessions and privileges granted to them to serve the persons in the low-income groups in the urban and semi-urban areas.

It is necessary to have the well qualified paid staff for the efficient conduct and continuity of policy of urban banks. Those urban banks which have a large business to cope with may entrust their working to sub-committees appointed for specific purposes from among the members of the managing committee or the Board of Directors as a sort of division of labour. A Supervising Council as in big urban banks in Bombay may be appointed to check and correct the irregularities in the working of these banks. Lack of leadership and enthusiastic public co-operative workers on the directorate of these banks has been a common complaint in most of the States save in Bombay. Electioneering malpractices on caste and community basis for membership on the directorate are common in South India.

Audit of these banks which is the statutory duty of the Registrar is carried on once a year. Some of these banks have continual audit system under which quarterly audit is undertaken and termed as local audit. The urban banks will do well to appoint a full-time qualified auditor to introduce internal audit system and for their day to day audit work. Where local audit is conducted, test audit by the Registrar or a panel of professional auditors approved by the Registrar is taken annually, the cost of such audit being borne by the urban banks.

As in Bombay, urban banks in every state should have their Association to discuss common problems and to find out solutions by mutual discussion, experience etc. The discussions may relate to important matters such as borrowing and lending rates of banks, mutual agreements regarding inland exchange business, maintenance of fluid resources, training of the staff of member banks with the Central Co-operative Training Institute, etc. Urban banks are paying handsome dividends on the share capital due to their maintaining wide margin between their borrowing and lending rates which suggests their too much of commercial spirit not in the interests of those for whom they are organised. They have to credit $\frac{1}{2}$ of their net profits to the reserve fund. Some of the cautious urban banks build up investment, depreciation and dividend equalisation funds, bad and doubtful debts funds, interest due funds etc. In most States dividends are not permitted to be declared

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beyond a fixed maximum. In Bombay a certain proportion of the net profits after crediting 25 per cent to the reserve funds is distributed to punctual repayers as bonus and to directors as allowance, a practice worth imitation for other States.

The Provision for propaganda and education as well as for common good purposes, charity funds, etc., is urgently called for, since urban banks in most of the States save some advanced banks in Bombay, Madras, Mysore, West Bengal and United Provinces do not contribute for such purposes.

The Urban banks stand good future prospects since a great majority of the Indian towns are not within the ambit of the commercial banking service. They may very well undertake business in such areas and also provide banking facilities to nearby rural areas to unite rural economic forces with those of the towns. To popularise their service, they should have more cooperative spirit in their dealings and outlook and should reduce to a minimum their commercial banking business. This may mean less earnings for them but greater prestige and service to men of limited means. They already enjoy special concessions, privileges and other forms of State assistance which they should not misuse. They should by inculcating the habit of thrift among the members check the universal tendency to borrow up to the maximum limit. They should reduce their lending interest rates by declaring less dividends. Provision for education, training and other social amenities, common good purposes funds and adequate special and reserve funds for any unforeseen contingency are other factors that will contribute
to their prosperity and prestige in the public. To conclude, the best hope of the small craftsman, the artisan, the consumer trader and the salariat lies in the healthy development of urban banks promoted on non-communal and non-occupational lines.

**Employee Societies:**

The salary-earners' or employees' societies mostly organised on occupational basis among members working in the same firm, office or establishment are usually of two types; one for Government servants working in Government offices, railways, posts and telegraphs and semi-government public bodies like part-trusts, municipalities, local boards etc. and the other for the employees in factories, mills and other industrial and commercial firms. These societies are mainly organised in urban areas to meet the financial requirements by cheap and easy credit of middle class salary earners for their domestic needs and to meet their educational, marriage, medical and other socio-religious obligations so that they may not fall a prey to the usurious moneylenders and be overburdened with debts. They promote thrift by attracting small deposits from their members' meagre savings in the form of daily, weekly or monthly collections. Some of these societies in Bombay and Madras have taken up joint purchase and distribution of food stuffs and other essential goods for their members by opening fair price shops. Sometimes they undertake mutual benefit schemes and issue fidelity bonds in favour of members guaranteeing loss incurred by them while discharging duties in service. The success or failure of these societies mostly depends on the
interest taken by the officers or employees in the management of such societies. Textile Mills Management at important centres in Bombay State donate liberally, provide rent-free or cheap premises, run small consumers' stores, fair price shops for rationed foodstuffs, restaurants and retail shops and collect dues from wages of the employees. Well-managed societies also contribute to the maintenance of schools, libraries, medical facilities and recreation centres to promote welfare activities. West Bengal lends all other States in the country in salary-earners' societies in number, membership and working capital. Among other States Madras, Bombay and to a lesser extent Delhi, Bihar, U.P., Hyderabad and the Punjab have made some progress.

These societies restrict their area of operation to the employees of a particular office, mill, factory or whatever establishment it may be. This has the advantage of mutual acquaintance, better knowledge of the economic position of the members and better facilities for recovery of dues at the source. The liability is limited. Share-capital and owned funds are usually sufficient to meet their needs. They have not to borrow from outside source save in times when they take to non-credit activities for the benefit of the members.

In order to check persistent tendency among the members especially Government office employees to borrow beyond their repaying capacity, limitation is placed to the maximum borrowing power of a member in relation to his monthly pay and
deposits in the society. Such a limitation on borrowing by the society is also provided for in the by-laws of co-operative societies. With the assistance of the high officers in the establishments or offices in which the members serve, their dues to the society are collected from their salary or wages and repayments therefore, are usually satisfactory in most of the societies in many States. Recently, however, with the rising cost of living and higher price level and unduly liberal extensions in repayments overdues are on the increase especially in Madhya Pradesh and the Punjab.

Security and sureties are demanded according to circumstances depending upon the amount, purposes and period of loans. The society should safeguard itself against "multiple financing" of the member, misapplication of the loans and malpractices of the officers, paid staff or those who are at the helm of affairs. To ensure steady repayment of its funds, a society may after meeting expenses, dividends etc., give rebate or bonus to those who promptly repay the instalments due to the society in proportion to the interest paid and levy a penal rate on those who fail to pay regularly. It may ensure its repayments by persuading the borrowers to get insured with the co-operative insurance society where one exists or, otherwise, to contribute to a Provident Fund Scheme. Such a link will not only secure the society's funds but will effect thrift, saving and investment for the member and serve as an insurance against unforeseen contingencies. From among the
defaul ters, Government employees are the greatest in number as it is a common complaint that such defaul ters are either condoned, overlooked or not strictly dealt with for recovery of due debts with the result that they go on borrowing continuously not only from one credit society but from a number of credit societies and other private sources. Such practices are highly injurious to the interests of the society and the borrowers and should be strictly checked by a ceiling on the borrowing limit. The interest rates charged by these societies as at present are very high and also the dividends paid on share capital which if lowered will benefit more in the form of reduced interest rates on borrowings to those who have limited means to pull on their lives.

The management of these societies is usually entrusted to men of high calibre and intellect since such persons with experience in business, trade and finance are available in urban areas. They are generally well paid and competent to take up the work. Wherever the benevolent officers and employees take keen interest in the management and general supervision of the working of these societies however, lack of interest on the part of high officials and employees and dishonest staff misappropriating funds impoverish those who are already living hand to mouth. The management is in many cases democratic only in name; really, the officer or the employer controls the management since the members are subordinates and are afraid of disfavour in case they disagree and regimentation is the consequence. Officers in some societies
do not allow discussion on society-problems on basis of equality, enforce discipline and check strikes by their pressure. Sometimes, they serve their own ends. The departmental staff or regional auditors approved by the Registrar usually audit these societies.

It must be noted that these societies are organised more as instruments for the promotion of thrift and savings than as agents for the supply of cheap or easy credit. Compulsory thrift deposit system in one form or the other introduced in some societies in Delhi, Madras and West Bengal draw considerable funds, such funds being deducted from the pay bills of the employees and kept with the societies until members serve their relations with the societies or are adjusted to the loan accounts of the members. In Travancore-Cochin and Coorg thrift is encouraged by the acceptance of recurring, thrift and mutual aid deposits. In Bombay urban banks and such societies have helped the Government by serving it as a feeder for the Co-operative Investment Trust through the introduction of home savings and savings accounts and offering special rates on deposits. These societies purchase for themselves National Savings Certificates and sell such certificates as authorised agents with the permission of the Government. The Cooperative Department has by such efforts effected savings amounting to Rs. 4 crores between 1946-47 and 1949-50 through the agency
of cooperative institutions in rural and urban areas.

Mill-Hands' Societies:

In some States mill-hands or factory workers' societies are separately organised to meet at lower interest rates the credit needs of factory workers and to supply their domestic requirements by undertaking joint purchase, by opening fair price shops, canteens, restaurants and consumers' stores. Such societies are prominent in Bombay and a few are established in Baroda, M.P., Mysore, Madhya Bharat, Travancore-Cochin, Orissa and Ajmer. Out of 276 such societies in India, 215 are in Bombay State. Their main function however, is to promote the habit of thrift, savings and investment by deducting compulsory deposits from the pay bills of their members with the cooperation of employers and officers who also contribute in the form of low-rent housing facilities, education and medical facilities and provision of recreation. Their main source of capital are deposits and borrowings.

At Ahmedabad in Bombay State besides factory workers' societies there is a Majoor Sahakari Bank Limited, established since 1947 with a mixed membership consisting of factory workers' societies and individual workers employed in the mills in the city. The bank has achieved remarkable success during the short span of its life in membership, working capital and loan operations. It has 25,000 mill

2 Personal Visit to the Bank.
labourers as its members. The Textile Labour Association, Ahmedabad which is the helping body to the bank propagates among the labourers to deposit their savings and have their transactions with the bank. The Bank advances a maximum loan of Rs. 500 at 6½ per cent on two personal sureties to its member if he is a permanent mill-employee. It also advances funds against immovable property and undertakes all types of banking business. The member-borrowers of the bank have to insure themselves through the bank with the Bombay State Cooperative Insurance Society Limited, Bombay. It is likely to get a financial assistance from the State under the Government of India's Industrial Labour Housing Scheme.

At Baroda in the same State, the textile mills' labourers' cooperative societies have introduced thrift scheme under which every member is required to pay two annas per rupee from dearness allowance and 4 annas to 3 rupees per month as compulsory savings according to the wages of the workers. The permanent labourers are to join the scheme compulsorily while it is optional for temporary hands to join it.

On the whole, however, these societies are not working satisfactorily due to the general illiteracy and ignorance of members in business methods and in many societies indebtedness of the members, is on the increase instead of on the decline due to provision of cheap and easy credit without adequate safeguards and lack of supervision and control.

over the untrained and inexperienced management. The rising cost of living and price level have a baneful effect on repayments and overdue mounts high. Unless they are generously assisted by the supply of necessary competent management staff, subsidies to their management expenses, loans at a low rate of interest and facilities for recovery of dues from members from their wages, the welfare of those workers will not be promoted.

Some of the salary earners' societies are organised on the basis of kinship, community, caste or creed. Such societies are found more in number in Mysore, Madras and Travancore-Cochin. Bombay has also a few. Their general financial working and business management are on the lines of other salary-earners' societies. There are such societies of Shavcara, Meddias, Khatriyas, Brahmins, Shimpia, Muslims etc., in Bombay State and some of them are working satisfactorily. As long as there is harmony of interests, relations and good-will, the working will be smooth promoting the economic position and the social status of the members.

But the society is also many a time a source of weakness due to internal dissensions, favouritism for relatives and such other malpractices. Prof. H.L. Kaji remarked about these societies, "where sentiment comes in from the door, efficiency and safety fly away through the window; the ability to save is not properly assured, the nobler, but the unbusinesslike, desire to help takes possession; overdues mount high; procrastination in the matter of recoveries and
references to the Registrar for arbitration creates great troubles; and ruin appears on the horizon."

Among other types of urban credit societies mention may be made of the Depressed Class Societies, especially of sweepers, menials, scheduled castes—Harijans and aborigines. Such societies are usually based on unlimited liability. Their mortality is very high due to members' abject poverty, illiteracy, ignorance of business transactions and chronic indebtedness. Those societies have made progress where there was provided supervision over their working and management staff by Cooperative Department. Government grants had been generous and dues collected from their wages at the source with the assistance of officers. Successful societies have benefited their members by providing them cheap finance, education and medical facilities; instructing them in budgeting the family expenditure and income, better living habits; introducing social reforms and removing vices such as drinks and unnecessary social expenses. The members have received credit at cheap rates and are saved from the grip of the moneylenders. Sweepers' societies have been successful in Bombay and Baroda in redeeming their members' debts due to moneylenders and in developing in them honesty and self-respect. With financial accommodation from the public bodies, the Government and banks, sweepers' societies in Baroda have enabled their members to repay their past debts and inculcated among them the habit of thrift.

1 H.L. Kaji: "Urban Co-operative Credit" in Co-operation in India, 1932 (Edited by H.L. Kaji), op cit, p.101.
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