PART I
A HISTORICAL REVIEW
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Institutional Agencies Supplying Urban Credit: (i) Loan Offices, Nidhis and Chit funds -- (ii) Commercial Banks: Advent of commercial banks in India -- Limitations of Joint-Stock Banks to supply credit to urban population.


Introduction

Finance supremacy: In a money economy, undertaking of any activity -- economic, social, political, religious, cultural
or educational — requires finance which may be defined as the provision of money at the time it is wanted.¹ It is the process of conversion of accumulated funds to productive use and is, undoubtedly, the life-blood of a business enterprise. The ambitious plans of a businessman would never materialise unless adequate money is available to him. Thus, "finance may be said to be the circulatory system of the economic body, making possible the needed cooperation between the many units of activity. In an organism composed of a myriad of separate enterprises, each working for its own end but simultaneously making a contribution to the system as a whole, some force is necessary to bring about direction and coordination. Something must direct the flow of economic activity and facilitate its smooth operation. Finance is the agent that produces this result."²

Types of finance: A business enterprise managed either by a sole proprietor³ or a partnership firm⁴ or a corporate body⁵

1. A-41:p.3.
3. A sole proprietorship is a form of business organisation owned by a single person who assumes all the risks and receives whatever profits are made or losses are incurred in its operation.*
4. When two or more persons (not exceeding ten in the case of banking activity and not exceeding twenty in the case of the rest of the business activities) associate to (contd. ... p.3)
5. A corporate body is a creation of the law, that is empowered to own property and contract debts. It is an artificial (contd. ... p.3)

* A-26:pp.9-10.
needs funds for (i) the purchase of land, (ii) the construction of factory and office buildings, (iii) the purchase of plant, machinery and other equipments, (iv) the construction of internal roads, railway sidings, (v) the purchase of raw materials, components and spare parts, (vi) the payment of wages to workers and salaries to the executives and ministerial staff and other employees, and (vii) carrying on its day-to-day activities.

The quantity of funds required by a business unit depends on such factors as nature of business, size of business unit, age of business unit, cost and time involved in the manufacturing process, turnover of circulating capital, velocity of turnover, terms of purchase and sale and business cycles.

Capital formation and investment: How much wealthy or resourceful the individuals, their associations or the corporate enterprises might be, they require funds, at one stage or the other, from outside sources either to expand their business activities or to continue them; because capital creation is a very time-consuming process. It involves putting to productive use that part of the current income which is not used for current consumption. The process of capital formation is divided into three stages: (i) the creation of savings by individuals, business houses or public authorities, (ii) mobilisation and canalisation of savings, (i.e., conversion of

4. (continued from p.2)
conduct a business enterprise, a partnership is said to exist. It may operate under different degrees of formality of agreement: an oral or informal understanding, a (contd. ... p.4)

5. being, invisible, intangible, and existing only in contemplation of law.*

* A-26:p.10.
savings into funds which are available for investment in agriculture, industry and trade), and (iii) the acquisition of capital goods out of such funds. Therefore, the drive for capital formation requires actions to increase, mobilise and appropriately channel the domestic resources available for economic development.

**Non-institutional Agencies Supplying Urban Credit**

**Money-lenders:** Before the evolution of the financial institutional agencies in India and elsewhere, the individuals and/or their groups used to bank entirely upon money-lenders and such other private agencies for getting funds they needed, from time to time, for various purposes. Insofar as India was concerned, money-lending operations were as old as the Vedic times.6

Indian money-lenders may, broadly be classified into professional and non-professional money-lenders. The latter are those persons who occasionally utilise their surplus funds in money-lending business.

Their methods of business vary from place to place and from money-lender to money-lender. Generally, they used to give small loans for varying periods to all classes of their customers for all sorts of purposes, on personal security and even without any agreement. But, when the amounts were

4. (continued from p.3) written partnership agreement, or formal articles of agreement filed with the proper State agency.*


large or the transactions represented the renewal of old loans, they insisted on requiring promissory notes. A section of the money-lenders did not hesitate to grant loans even to persons, with whom they might not have any personal contact and acquaintance. In such cases, they charged exorbitant rates of interest to cover the risks involved. Money-lenders-cum-traders used to sell goods on credit to their clients at a price covering an usurious rate of interest.

The landlord or agriculturist money-lenders were more greedy and exacting than the professional money-lenders. They used to lend seed on the security of future crops or money on that land, and eagerly waited for the chance of seizing the both.

The money-lending agency was none-too-satisfactory as the money-lenders adopted such objectionable practices including (i) demanding interest in advance, (ii) requiring presents for opening a loan-account, (iii) obtaining thumb impressions of the debtors on blank paper with the object of inserting any arbitrary writing and/or figure thereon later, if the debtors did not pay interest regularly, (iv) entering in bonds amounts much larger than those actually lent, (v) manipulating the accounts, (vi) taking conditional sale deeds as an insurance against the possibility of the evasion of payments by the debtors, (vii) exacting free service from the debtors who were thus virtually reduced to the position of the serfs, and (viii) adopting dishonest practices in the grant of and
the collection of loans in cash or kind. This was not enough. If the money-lenders had munims, they had to be paid commissions to obtain loans in case the security offered was unsatisfactory. Some of the money-lenders compelled the borrowers to sign promissory notes in which the latter undertook to repay to the former the loans in any of the several dist.s, and if they defaulted, the money-lenders sued them, obtained uncontested decrees in distant places, and then executed them at the places they lived. One of their most undesirable malpractices was that they used to charge high rates of interest ranging from 75 to 360 per cent. Thus, the borrowers were so much exploited by the money-lenders that they desired to find out alternative sources from where they could get funds on easy and clean terms.

Institutional Agencies Supplying Urban Credit

(i) 'Loan Offices', 'Nidhis', and 'Chit Funds': These were the indigenous types of institutional agencies that came into existence to provide credit to the borrowers.

The first Loan Office was established in 1865. The loan offices, mostly found in Bengal, were registered under the Indian Companies Act and their main business was to lend money to the Zamindars and their tenant-cultivators against mortgage of land, pledge of ornaments, or personal security,

for unproductive purposes. They rarely financed trade or industry. 9

Nidhis were started as mutual loan societies from the middle of the last century. 10 They were semi-banking institutions registered under the Indian Companies Act, receiving deposits in monthly instalments either in the usual form or in the form of withdrawable share capital. They acted as credit agencies especially in those areas where no real alternative existed. 11

Chit Funds were loose organisations of a small number of persons to promote savings and to lend money to their members. 12 There were two types of chit funds — prize chits and auction chits. In the former case, a fixed price was drawn by lot and in the latter the person who offered to pay the highest amount in advance got the loan. 13

Loan Offices in Bengal, and Nidhis and Chit Funds in Madras occupied an intermediate position between the indigenous bankers and the modern joint-stock banks. 14 All these

14. Joint-stock banks (usually known as commercial banks) may be defined as any company which accepts for the (contd.... p.8)
institutions were merely financing bodies disconcerned with the objects of loans or indebtedness of their members. Also, their coverage was so limited that the vast majority of the borrowing community remained untouched.

Commercial Banks: While the aforesaid indigenous organisations in India were in their infancy, England enjoyed the proud privilege of not only originating modern commercial banking but also developing it in a big way. Banking in the modern sense of the term can be said to have been originated in England with the foundation of the Bank of England in 1694. Thus, the commercial banks started originally in England and then spread in all the countries of the world including India.

Advent of commercial banks in India: The modern type of banking was originated in India after the establishment of the British Rule here. The credit of starting the first

14. (continued from p. 7)

purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise. Indian joint-stock banks mainly accept deposits and lend money, and perform other agency services such as the payment of subscriptions, premia, etc., and collection of cheques, bills, etc., on behalf of their customers. They also perform the general utility services such as issuing credit instruments, accepting bills of exchange, acting as a referee as to the respectability and financial standing of the customers, accepting valuables for safe custody, etc.*


bank of this type went to the Province of Madras. It was a Govt. institution managed by its officers belonging to the Council. The next attempt was made in Bombay, in 1724, by the Govt., and a second bank was started there in the said year. Later on, several private banks were established in Madras along with one more Govt. bank. These were originally the banks of deposit and discount, though, later on, they began to issue notes, too. In Bengal, the first banks of this type were those started by Calcutta Agency Houses. Alexander & Company along with several others was responsible for starting the Bank of Hindustan in 1770. The Bengal Bank and the General Bank of India came into existence some time in 1786, the former being, of course, not connected with any agency house, the latter was the first joint-stock bank with limited liability in the whole of the British Empire. These banks financed internal trade, performed ordinary banking business and issued notes.

The Bank of Bengal, the first Presidency bank, was established, in 1806, as the Bank of Calcutta, with the object of rendering service to the public without incurring any great risk and without causing any kind of inconvenience, and helping the East India Company's Govt. in its financial embarrassment if and when required. The Bank of Bombay

and the Bank of Madras were established in 1840 and 1843 respectively with a contribution of some part of the capital by the Govt. of the respective Provinces. These three Presidency banks were given the monopoly of Govt. banking.

With the failure of the banks started earlier by agency houses, and after 1833, independent commercial banks based on unlimited liability were established in this country. In 1860, the principle of limited liability was first applied statutorily to the joint-stock banks in India. This together with the increased prosperity, led to the establishment of a number of new banks during 1864-65. The period between 1865 and 1905 was a period of quiescence and very few banks were established during these 40 years.

In 1920, with the amalgamation of three Presidency Banks -- a new giant commercial bank --, called the Imperial Bank of India, was formed. This Bank performed the functions of a Central Bank also till the RBI, a pure Central Bank, was established in April, 1935. With many ups and downs, our commercial banking progressed satisfactorily till 1947 in which year India witnessed two major political events: (i) the dawn of Independence and (ii) the partition of the country into India and Pakistan. Both these events had a profound

impact on our commercial banking. The enactment of the Banking Regulation Act, 1949; the beginning of launching of the series of the Five-Year Plans in 1951; the nationalisation of the Imperial Bank of India in 1955 and the formation of the State Bank of India -- the biggest commercial bank --, and the nationalisation of the first ranking 14 commercial banks in July, 1969, were the major factors that influenced our commercial banking.

Limitations of Joint-Stock Banks to supply credit to urban population: The Joint-Stock Banks, with the sole object of earning the maximum profits with the minimum efforts and costs, restricted their lending operations mainly to big clientele in industrial and commercial houses in towns and trade centres. Therefore, they were not found useful in meeting the financial requirements of the numerous persons of small means, like salary-earners, small traders, artisans, craftsmen, street-hawkers and middle class urban people. While the salary-earners required financial accommodation for expenditure on marriages and other ceremonials, sudden sickness in the family, education of children, household purposes, repayment of debts and so on; the small traders, the artisans, the craftsmen, the street-hawkers needed financial assistance for their petty business in addition. This class was thus completely neglected by the commercial banks, and left to the mercies of the exploiting money-lenders.23

It was, therefore, for such class of persons that the organisation of cooperative credit in urban areas was vitally important and its need was badly felt.

Evolution of Urban Coop. Credit Organisations in the World

Though Robert Owen and Rochdale Pioneers of England were regarded as the 'Brahma' of originating the concept of modern cooperation; P.C. Plockboy, a Dutchman living in England, published in 1659 a pamphlet setting out a scheme for the formation of economic associations of agriculturists, artisans, seamen and professional men, containing the germs of many coop. ideas such as the combination of self-help and mutual aid, a voluntary democratic and equalitarian association for economic purposes, direct relations between producers and consumers, and the elimination of the middleman and equitable distribution of profits among the members. But, this had little practical effect.\(^{24}\) The Rochdale Co-operative Society -- a Consumers' Society -- founded by the twenty-eight workers in 1844, was the beginning of the modern cooperative movement in the world.\(^{25}\)

The term 'credit union' was first used in Belgium by Francis Haeck to describe his coop. credit society founded by him in 1848 by conceiving the ideas of Robert Owen and the Rochdale Pioneers. Haeck's society became very successful


as an investment unit but lost its coop. character and fell into the hands of the rich and the good cause failed. 26

Contemporarily, Germany took the lead in combating usury by starting credit associations under the inspiration of two men — Herr F.W. Raiffeisen and Herr Schulze — the former in the main for the poor peasants and the latter for the artisans and the small tradesmen. While Raiffeisen devised an organisation suited to the needs of the peasants residing in rural areas, Schulze started an association specifically suited to the economic needs of the persons living in urban areas. In 1850, he founded his first loan society in Delitzsch. This was followed by a second society in the neighbouring village Elienburg. It was only after 1852 that the institution came to be a self-supporting one, having its own resources. Thus, the Bank started by him came to be known as a 'Peoples Bank'. 27

The idea of urban credit or 'people's' bank spread to other European countries particularly in France, Switzerland and Belgium and was developed with outstanding success in Northern Italy by Luzzatti. The U.S.A. was the pioneer in the provision of coop. credit to the industrial workers. The movement was so strong that it was said that not a single Credit Union failed. The movement had also spread to other

countries, especially Canada and the West Indies. 28

Advent of the Non-Agricultural Credit Organisations in India

Early efforts: Non-agricultural credit coops are designed to serve the credit needs of the urban middle class. They mobilise funds and meet the financial requirements of the needy. The inspiration to organise these societies in India was derived from the success of similar institutions in Germany in the latter half of the Nineteenth Century. 29

Long before the advent of the coop. legislation in India, an institution named 'Anyonya Sahayakari Mandal' -- a mutual aid society -- was founded on February 9, 1889 at Baroda by a group of persons led by Late Shri Vithal Laxman Kavathekar who was actuated with the same ideals of thrift and self-help. They realised that the needy members of the lower middle class were left to the mercy of the greedy money-lenders, and the urge to endeavour to relieve them from this situation made them conceive of concerted coop. action.

The founder members of this unique organisation consisted of 23 Maharashtrians who agreed to contribute a sum of Rs.90/- as their initial subscription. As there was no legislation

for starting such an organisation on the basis of shares, the members continued the system of raising funds by way of monthly subscription till 1912 in which year the society was registered under the Cooperative Societies Act of 1912. To encourage thrift by effecting compulsory saving and to facilitate borrowing by the needy members were the major objects of the Mandali in the early part of its life. In pursuance of these objectives, the Mandali started giving loans to its members against their own compulsory savings, on hypothecation of gold and silver ornaments, and on personal security. The salutary rule of "safety first" was followed. Similarly, the generally accepted ratio between deposits and advances was duly maintained. In later years, the Society expanded its activities in analogous spheres. It started giving (i) loans on the security of the first mortgage of immovable property, and (ii) long term loans at a relatively low rate of interest, for constructing or purchasing new houses. The inspiring and able guidance of Late Shri Kavathekar, and the sympathetic and helpful attitude of the Late Shrimant Sayajirao Gaekwad greatly helped the early growth of this pioneering institution which developed into a sizable coop. enterprise much earlier than the scheme of coop. movement was sponsored by the Central and the Provincial Govt.s.

Thus, the Anyonya Sahayakari Mandali enjoyed the proud

privilege of being the premier and pioneering institution in the Cooperative Field not only in Gujarat but also in the whole of India. However, stray instances of (i) forming a Cooperative Society in the Punjab in 1891, and another Cooperative Society in 1895, and (ii) of introducing agricultural banks in Mysore in 1894 strictly on coop. principles could be found prior to the launching of the coop. movement statutorily in India.31

Central Coop. Legislation: It was the Govt. of Madras that took lead to appoint, in 1892, Mr. Fredrick Nicholson to study the theory and the practice of agricultural and other land banks in Europe. Mr. Nicholson submitted his exhaustive report, in two volumes, advocating the introduction of coop. credit societies on Raiffeissen lines in India. On the basis of the studies made by Sir Fredrick Nicholson in Madras and Mr. Dupernex in the United Provinces, and the recommendations made by the Famine Commission that met in May, 1901, for starting the mutual credit associations as an aid to the farmers, Lord Curzon's Govt. appointed a Committee under Sir Edward Law, in 1901, to make proposals regarding the coop. movement. The recommendations of this Committee proved the basis of the Bill, which was passed into Law on March 25, 1904, as the Cooperative Credit Societies Act.32

This legislation that followed broadly the English Friendly Societies Act, was quite simple and elastic, leaving a wide discretion to the Provincial Govt.s to frame suitable rules for the control and the development of the coop. movement in their own areas. It was further characterised by (i) encouragement of thrift, self-help and co-operation among agriculturists, artisans and persons of limited means, (ii) classification of coop. societies as rural and urban, (iii) restriction on the area of operation of coop. societies, (iv) grant of preference to the urban societies to choose nature of the liabilities of their members, (v) compulsion to the rural societies to accept only unlimited liabilities, (vi) grant of (a) legal personalities to coop. societies and (b) authority to them to raise funds from members and non-members and to advance loans to members only on personal or real security, (vii) restriction on payment of dividend before carrying one-quarter of profits as reserve fund in the case of urban societies, (viii) placement of strict limitation on the interest of any one member in the share capital of a coop. society, (ix) compulsion to coop. societies for annual official audit, (x) grant of exemption from fees payable under the Stamp, Registration and Income Tax Acts, and (xi) appointment of Provincial Registrars under the Act for its implementation. 33

Development Stages of Urban Cooperative Banking Movement in Gujarat

Thus, with the coming into operation of the Cooperative Societies Act, 1904, on March 25, 1904, a new era in the economic life of our country began. In the pages that follow an attempt has been made to review in suitable period-brackets the development of the urban coop. banking activity in Gujarat region.

An Exploratory Period (1903-4 to 1911-12)

This stage was no more than an experimental one, as was clearly expressed by Sir D. Ibbetson while moving the Bill in Parliament in 1903: "The fact is that the whole business is of the nature of an experiment upon which we are entering with very scanty knowledge and very little experience and in which we shall have to feel our way cautiously and gain experience as we advance. We have, it is true, European results to guide us and European models to imitate. But it by no means follows that what succeeds in Europe will also succeed in India."\(^{34}\)

Though the Cooperative Credit Societies Act of 1904 contemplated the organisation of both the rural and the urban credit societies, stress was laid on the promotion of the rural credit societies. The Govt. itself emphatically stated, "Local officers should be instructed that rural societies are

\(^{34}\) G-2: p.10.
to be their first care.” However, the urban credit movement did also receive due attention from the very beginning. The enlightened honorary organisers played a prominent role in organising the urban societies and shaping the development of the movement in its earlier stage in the former Bombay State that included Gujarat region there.

Observations: During the period under review, a few enterprising citizens of Jambusar, Dist. Broach, organised the present-day Jambusar Peoples' Cooperative Bank Ltd., in 1909. This was the first and pioneering urban coop. credit society that came into existence in the British Territory of Gujarat region under the Cooperative Credit Societies Act of 1904. From among the Native States it was the then Baroda State which initiated, pioneered and passed the "Cooperative Credit Societies Act" in 1905 on the lines of the Cooperative Credit Societies Act of 1904 and the Anyonya Sahayakari Mandali, Baroda that was founded in 1889 was registered under the Cooperative Societies Act of 1912 on October 23, 1912.

An Evolutionary Period (1912-13 to 1918-19)

This period was marked by such events as (i) the passing of the Cooperative Societies Act, 1912, repealing the Act of 1904, (ii) the appointment of the Maclagan Committee on

35. Ibid.
Cooperation, (iii) penetration of the cooperative legislation in the princely States of Junagadh and Bhavnagar and (iv) the expansion of the urban coop. banking in Gujarat region as discussed below:

Cooperative Societies Act (1912): The Act of 1904 was proved defective in many respects. Its most serious defect was that it gave no legal protection to non-credit societies and the federal bodies like central agencies, banks and unions which were gradually being set up to finance and supervise the primary credit societies.

With a view to removing the short-comings of the Act, the Govt. of India, after re-examining the whole question, passed in 1912, the Cooperative Societies Act (II of 1912), repealing the Cooperative Credit Societies Act of 1904. In the new Act, while the simplicity and the elasticity of the earlier Act were maintained, the registration of non-credit societies and central/federal bodies besides credit were allowed and the distinction between the urban and the rural societies was removed. The Act provided a more scientific classification of the societies, based on the nature of the liability of the members, whether limited or unlimited. The other major changes made in the new Act included (a) recognition of the right of investors to reasonable profits, (b) provision for setting aside of 25 per cent of net profit to build up reserve

funds and of sums also for educational and charitable purposes, (c) provision for freeing a member's share capital from attachment for his external debt, (d) restriction of the use of the world 'cooperation' unless when the concern was registered under the Act, and (e) grant of the prior claim of the society to enforce the recovery of its certain dues. 39 The Act gave a new stimulus to the movement which not only expanded numerically but also entered into a new phase of reorganisation. 40

**Maclagan Committee on Cooperation (1914):** The Govt. of India appointed, on October 8, 1914, a Committee on Cooperation, under the Chairmanship of Sir E.D. Maclagan. It conducted a comprehensive survey of the Indian coop. movement for the first time and made numerous recommendations for its revitalisation. Insofar as the urban coop. banking was concerned though the Committee was very critical about the working of the then middle class urban banks, it observed that (i) the urban credit societies might serve a useful purpose in training the upper and the middle urban classes to understand ordinary banking principles, and (ii) where joint-stock banking facilities were absent, they might fulfil a useful purpose and advocated the encouragement of their formation. 41

Penetration of the coop. legislation in the then Native States: While the then Junagadh State passed its Act, in 1916, on the pattern of the All India "Cooperative Societies Act of 1912", the Bhavnagar State Cooperative Societies Act was made effective from May 8, 1918 in the Bhavnagar State. However, no urban coop. bank was organised in any of these States.

Observations: During the period under review (a) two new banks that were established, in 1919, in the then British Territory of Broach Dist. were: (i) Ankleshwar Nagrik Sahakari Bank Ltd., Ankleshwar, and (ii) Broach Urban Cooperative Bank Ltd., Broach, and (b) one bank, that was established on January 1, 1916, in the then native State of Baroda, was the Vaso Cooperative Bank Ltd.

Interwar Period (1919-20 to 1938-39)

The most striking events that occurred during the period under study were (i) the introduction of Montford Reforms in 1919, (ii) the introduction of the scheme for the development of UCBs., (iii) the beginning of the era of the Provincial legislations on cooperation, (iv) the formation of the urban bank supervising union, (v) the appointments of (a) the Indian Central Banking Enquiry Committee and (b) the Bombay Provincial

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42. I-2.

43. K-10: p.3; I-3.

Banking Enquiry Committee in 1929, (vi) the setting in of the world-wide great depression of 1930, (vii) the organisation of Conferences of UCBs, (viii) the establishment of the RBI in 1935, (ix) the further penetration of the coop. legislation, which had their impacts on the developing coop. urban banking movement in our country including Gujarat region.

Montford Reforms (1919): As recommended by the Committee on Cooperation in India, Govt. of India introduced the Montford Reforms in 1919 and made 'Cooperation' a transferred subject under the Provincial Govt.s, in terms of the Govt. of India Act, 1919 and placed it in charge of a Minister.\textsuperscript{45} This change enabled the Provincial Govt.s to have their own legislations on cooperation.

Scheme for development of UCBs (1922): The Deptt. of Cooperation, Bombay Presidency had formulated, in 1922, a scheme for having a full-fledged peoples' bank in every taluka town and was very keen on its implementation. Further, the Deptt., with the approval of the Govt., had taken special steps towards encouraging banking activities among central and urban banks, such as the opening of current accounts and the use of cheques, drafts, hundis and other instruments of credit. The banks were even allowed to utilise for this purpose the facility of free remittances through Govt.

\textsuperscript{45} A-40: pp.24-25.
treasuries, though this was discontinued later on. 46

It was hoped that with the proper development of urban coop. banking, the various units would come into touch with one another and with mutual settlement of terms, they would be able to work in coordination and harmony and would assist greatly the development of inland trade and industries. 47

Provincial Legislations on Cooperation (1925): It was the Govt. of Bombay that gave a lead in framing and passing the first provincial legislation on cooperation, viz., the Bombay Cooperative Societies Act, 1925, in November, 1925. 48

The Govt. extended the scope of the Act by making special provision for formation and working of coop. societies not only for thrift and self-help, but also for mutual aid, among agriculturists, artisans, persons of limited means, and even among all persons with common economic needs with the object of bringing about, better living, better business and better methods of production. 49 Other Provincial Govt.s followed suit.

Formation of the urban bank supervising union (1926): In 1926, the UCBs of Gujarat formed themselves into a supervising union for the purpose of inspecting the accounts of its

constituent banks and helping them in the development of their business. It was gratifying to note that the Bombay Provincial Banking Enquiry Committee had recommended the formation of similar unions for the UCBs in the other divisions of the Bombay Presidency, to be useful not only for the supervision of the existing banks, but also for the guidance of the newly formed banks.\(^\text{50}\)

**Banking Enquiry Committees (1929):** The period witnessed the appointments of two Banking Enquiry Committees: (i) The Indian Central Banking Enquiry Committee, and (ii) the Bombay Provincial Banking Enquiry Committee. The former was appointed by the Govt. of India in July, 1929. While dealing with the UCBs, it observed that the duty of the UCBs should be to try to do for the small trader, the small merchant and the middle class population what the commercial banks were doing for the big trader and the big merchant.\(^\text{51}\) The latter was appointed by the Govt. of Bombay in 1929. It, while emphasising the role of urban coop. banking in India, pointed out, "cooperative urban banking has a greater significance and use in India than in western countries ... In the taluka and bazar towns, the Imperial or joint stock banks are almost out of the field, and the only form of organised banking that can be established in such places is cooperative banking."\(^\text{52}\) The Committee suggested that urban banks in the linguistic

\(^{50}\) A-29: p. 112.

\(^{51}\) B-5: p.5.

\(^{52}\) H-2: p. 164.
divisions of the Province should be federated into the divisional unions of the kind already organised in Gujarat, and that each union should have a competent officer to work under it who can go round to supervise and advise the constituent banks and societies. 53

The World-wide Great Depression (1930): Though, the great depression of the thirties gave a big jolt to coop. activity, stalled further progress of the movement, brought about catastrophic fall in the prices of agricultural goods and land, threatened the very existence of some societies and violently disturbed the economic stability of others, made extremely difficult the recoveries of loans resulting in very heavy accumulation of overdues and freezing of the assets of the coop.s, and in serious contraction of coop. credit, 54 the growth of urban credit movement in India was steady and was not affected by the ups and downs of the economy as was the case with agricultural coop. credit movement. In fact, the non-agricultural credit societies remained largely unaffected partly due to the fact that the fall in money incomes in urban areas was not as severe as in rural areas and partly because of the higher standard of managerial efficiency of the UCBs. 55 The Survey Report of the urban banks stated that

53. Ibid.: p. 165.
"During the economic depression of the thirties, the urban 
cooperative credit movement was not much affected as compared 
with the sharp set-back suffered by the agricultural credit 
movement. This may be due to the fact that during the depres­sion the fall in urban incomes was not so steep as the fall 
in rural incomes."  

Conferences of UCBs (1930): Two conferences: (a) The Second 
Gujarat Urban Banks' Cooperative Conference at Broach, on 
September 14, 1930; and (b) the Urban Banks and Societies' 
Cooperative Conference at Godhra on October 7, 1930, were 
held. Both of them adopted a number of resolutions emphasising 
the need for the growth of urban coop. movement in the areas.

Establishment of the RBI (1935): The Royal Commission on 
Indian Currency and Finance recommended, as early as in 
1926, for the establishment of the RBI. It was, however, in 
1934 that the RBI Act was passed and the Bank came into 
existence on April 1, 1935.  

The UCBs expected a more realistic attitude from the 
RBI which has been the purveyor of credit. But they found 
by experience that RBI's approach was equally mechanical 
because the RBI, soon after its inauguration, withdrew the 
remittance facilities which the coop.s had been enjoying 
since 1911. However, these facilities were restored in

1941 so as to remove the discrimination between the commercial and the coop. banks; but towards the end of 1952 the UCBs were again denied the facility on the ground that they could not be construed as branches of the State Cooperative Bank.

Further penetration of the coop. legislation (1937): The Porbandar State was the fourth Princely State that adopted, by a notification dated 30-1-1937, the Bombay Cooperative Societies Act of 1925 for its territory. However, no UCB could come into existence during the period.

Observations: During the two decades of the inter-war period, 18 new UCBs — 13 in the British Territory areas and 5 in the Princely States areas as shown in Table 1.1 were established.

Thus, as against 52 UCBs in the then Bombay Presidency, 23 UCBs existed in the Gujarat region.

While, during the first decade two banks each in 1923, 1924, 1925, 1927 and 1929 and one bank in 1928, during the second decade one bank each in 1932, 1934 and 1935 and two banks each in 1936 and 1937 were formed.

Thus, by the end of June, 1939, Ahmedabad, Amod, Ankleshwar, Broach, Bulsar, Dohad, Godhra(2), Hansot, Jambusar, Kalol, Mehamdabad, Pardi, Rander, Surat and Uttarsanda — all in the

59. K-10: p.3.
### Table 1.1

<table>
<thead>
<tr>
<th>British Territory</th>
<th>Princely States</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of UCBs</td>
<td>Total No.</td>
</tr>
<tr>
<td>estab.</td>
<td>on</td>
</tr>
<tr>
<td>Dist.</td>
<td>banks as</td>
</tr>
<tr>
<td>shed</td>
<td>30-6-39</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>1</td>
</tr>
<tr>
<td>Broach</td>
<td>2</td>
</tr>
<tr>
<td>Bulsar</td>
<td>2</td>
</tr>
<tr>
<td>Kaira</td>
<td>2</td>
</tr>
<tr>
<td>Panch Mahals</td>
<td>4</td>
</tr>
<tr>
<td>Surat</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13</strong></td>
</tr>
</tbody>
</table>

British Territory -- and Baroda(3), Sojitra, Vaso, Gandevi and Dehgam -- all in the Baroda State were covered by the Urban Coop. banking movement.

**Second World War and Immediate Postwar Period (1939-40 to 1946-47)**

This period was marked by such events as (i) the outbreak of the Second World War, (ii) the change in the nomenclature of UCBs, (iii) the establishment of the Bombay

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61. B-1, B-15, B-17, B-21, B-32 to B-35, B-37 to B-39, B-56, B-59, B-65, B-66, B-77 to B-79, B-82, B-97, B-98, B-105 and B-106.
Cooperative Banks' Association, (iv) the appointment of the Planning Committee in 1946, and (v) the expansion of urban coop. banking in the Gujarat region.

**Outbreak of the Second World War (1939):** With the outbreak of the Second World War in September, 1939, the coop. movement experienced a new stimulus on account of the advent of the peculiar war time conditions. The inflationary trends that placed more money in the hands of the people and led to the growing confidence in the coop. banking structure, the resources of the UCBs recorded such a phenomenal rise that by the end of the war most of the UCBs were confronted with the problem of the investment of their surplus funds in remunerative assets.62 Another development that took place during the war-period was that, despite the advice of the Bombay Cooperative Banks' Association that the coop. banks should not undertake trading activities, a number of UCBs were permitted to amend their bye-laws with a view to enabling them to undertake the distribution work of controlled or rationed commodities.63 This was a major departure of the UCBs from their main banking activities.

**Change in the nomenclature of UCBs (1939):** Prior to 1938 there was no difference between the UCBs and the other non-agricultural credit societies in India except that of the sizes of their working capital. In the Bombay Presidency, the urban

62. Ibid.: pp. 65 and 166.
63. Ibid.: p. 175.
coop. credit institutions whose working capital exceeded Rs. 50,000 were styled as UCBs. There was also no clear distinction between a banking company and other joint stock concerns doing the business of lending money. The Indian Companies Act as amended in 1936 defined for the first time, following the insertion of Section 277-F, a 'banking company' as "a company which carries on as its principal business the accepting of deposits of money on current account or otherwise subject to withdrawal by cheque, draft or order." In pursuance of one of the recommendations made by the Mehta-Bhansali Committee, this nomenclature underwent a change in 1939, when the Govt. of Bombay laid down that only those urban coop. credit societies which actually undertook the business of banking as defined in Section 277-F of the Indian Companies Act, 1913 (which is now Section 5(i)(b) of the Banking Companies Act, 1949), and which had a paid-up share capital of not less than Rs. 20,000 should be allowed to be classified as full-fledged urban banks. This change that was made effective in 1940-41 enlarged the scope of the urban coop. banking.

Establishment of the Bombay Cooperative Banks' Association (1939): To implement one of the recommendations made by the

Mehta-Bhansali Committee which was appointed by the Govt. of Bombay on December 6, 1937, this Association was organised, as a coordinating agency for the central and the urban banks, in 1939, with such objects as (a) to coordinate the work of the central and the urban banks; (b) to promote uniformity in the banking practices; (c) to arrange for the inspection of member-banks; (d) to keep in touch with the Agricultural Credit Deptt. of the RBI, the money market, the securities market, and to issue periodical bulletins to member-banks; and (e) to look into all important matters such as borrowing and lending rates of the banks; mutual arrangement regarding loan exchange business, maintenance of adequate fluid resources, training of the staff of member-banks in consultation with the Bombay Provincial Cooperative Institute. The Association had played an important role in bringing about unity and cohesion among the coop. banks.  

Planning Committee (1946): The Planning Committee which was appointed, in accordance with the recommendation made under Resolution No. III by the 14th Conference of Registrars of Cooperative Societies (1944), by the Govt. of India on January 18, 1945, brought out the importance of the UCBs and regarded them as the most suitable agency for serving the credit needs of a numerous persons of small means like traders, merchants, artisans, factory workers, street-hawkers.


motor and truck drivers who used to resort to money-lenders and similar agencies for small loans and obtain them at high rates of interest, the ex-servicemen like technicians, and skilled workmen like carpenters, blacksmiths and mechanics, who require credit for setting up their own business in small workshops. In regard to the nature of business of the UCBs the Committee recommended that urban banks receiving deposits on current account should (a) have a paid up share capital of at least Rs. 20,000, (b) maintain fluid resources, (c) carry to the reserve fund one-third of its annual net profit till it equalled the paid up capital and thereafter one-fourth, and (d) invest the reserve fund outside the business in gilt-edged securities or deposit it in banks approved by the Registrar of Cooperative Societies.

Observations: The urban coop. banking movement witnessed a spontaneous growth in terms of the formation of new banks and the rise in membership, owned funds, borrowed funds, working capital and profit-earning capacity. While between 1939-40 and 1945-46, 7 banks (4 in the British Territory and 3 in the Baroda State) were formed, as many as 6 banks were organised -- 4 in the British Territory and 2 in the Baroda State during 1946-47. Table 1.2 shows their year-and area-wise data.

This recommendation was endorsed by the Fifteenth Conference of Registrars in 1947.
Table 1.2

| Year | British Territory | Princely States | | | |
|------|-------------------|-----------------|---|---;
|      | Dist. | No. of banks | Prant | No. of banks |
| 1940 | - | - | Baroda | 2 |
| 1943 | - | - | Mehsana | 1 |
| 1944 | Kaira | 1 | Mehsana | 1 |
|      | Panch Mahals | 1 | - | - |
| 1946 | Panch Mahals | 1 | - | - |
| 1947 | A'bad | 1 | Baroda | 2 |
|      | Panch Mahals | 2 | - | - |
|      | Surat | 1 | - | - |
| Total | | 7 | | 6 |

With the new formation of as many as 13 UCBs during 1939-40 to 1946-47, the number of banks rose to 36 by June, 1947 -- 24 in the British Territory area and 12 in the Baroda State area as is shown in Table 1.3.

Since statistics relating to the UCBs in India have not been available (in published form) prior to 1948-49, an attempt has been made here to present data of selected UCBs to ascertain their growth trends in different directions.

An analysis of data (given in Table 1.4) in regard to UCBs having share capital and reserves of Rs. 1 lakh and above as at June 30, 1947, reveals that (i) the figure 7

71. 3-4, B-24, B-55, B-76, B-81, B-83, B-87, B-103, B-112, B-114, B-115, B-118 and B-125.

Table 1.373

<table>
<thead>
<tr>
<th>British Territory</th>
<th>Princely States Baroda</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dist.</td>
<td>No. of banks</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>2</td>
</tr>
<tr>
<td>Broach</td>
<td>5</td>
</tr>
<tr>
<td>Bulsar</td>
<td>2</td>
</tr>
<tr>
<td>Kaira</td>
<td>3</td>
</tr>
<tr>
<td>Panch Mahals</td>
<td>8</td>
</tr>
<tr>
<td>Surat</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
</tr>
</tbody>
</table>

included (i) out of total banks 71.4 per cent banks were located in British Territory and the rest of them in the Baroda State Territory; (ii) as against an average membership of 1660 per UCB in the British Territory, the average membership of an UCB in the Baroda State was much high; (iii) the financial position of the banks of the British Territory was stronger than that of the banks situated in the Baroda State Territory; (iv) none of the banks had incurred any loss and (v) all the UCBs were financially sound.

73. B-1, B-4, B-15, B-17, B-21, B-24, B-32 to B-35, B-37 to B-39, B-55, B-56, B-59, B-65, B-66, B-76 to B-79, B-81 to B-83, B-87, B-97, B-98, B-103, B-105, B-106, B-112, B-114, B-115, B-118 and B-125.
<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>British Territory</th>
<th>Baroda State</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>No. of urban banks</td>
<td>5.0</td>
<td>2.0</td>
<td>7.0</td>
</tr>
<tr>
<td>2.</td>
<td>Membership (in 'ooo')</td>
<td>8.3</td>
<td>8.0</td>
<td>16.3</td>
</tr>
<tr>
<td>3.</td>
<td>Owned Funds</td>
<td>14.0</td>
<td>5.0</td>
<td>19.0</td>
</tr>
<tr>
<td>4.</td>
<td>Working Capital</td>
<td>131.0</td>
<td>34.0</td>
<td>165.0</td>
</tr>
<tr>
<td>5.</td>
<td>Borrowed Funds</td>
<td>117.0</td>
<td>29.0</td>
<td>146.0</td>
</tr>
<tr>
<td>6.</td>
<td>Advances Outstanding</td>
<td>55.0</td>
<td>15.0</td>
<td>70.0</td>
</tr>
<tr>
<td>7.</td>
<td>Profit</td>
<td>1.4</td>
<td>0.4</td>
<td>1.8</td>
</tr>
<tr>
<td>8.</td>
<td>Loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

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74. B-1, B-15, B-17, B-38, B-77, B-98 and B-101; E-1: pp. 74-89.