# THE

# VILLAGE SOCIETIES' HANDBOOK

BY

F. R. HEMINGWAY, I.C.S.

*(Registrar of Co-operative Societies, Madras Presidency)*

WITH A PREFACE BY

H.E. LORD WILLINGDON

MADRAS

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# PREFACE BY HIS EXCELLENCY LORD WILLINGDON.

Co-operation in its very general sense is particularly at this present time a paramount necessity amongst all races, classes and communities in India, if we are to secure the sound, solid and harmonious progress which must be the ideal of all those who have the well-being of this country at heart.

But the benefits of a special form of co-operation with reference to a particular and very numerous body of people who live amongst us, are so well set out in this admirable volume written by the Registrar of Co-operative Societies, Mr. Hemingway, that I warmly commend a perusal of its pages to those who are interested in the health, betterment and welfare of the wage-earners of this Presidency. While I am glad to be able to testify to the interest which some employers take in this city for the comfort of their workers, there is much which can be done both here and throughout the mufassal to remedy the lot of the wage-earning classes and small cultivator. The ordinary worker is generally deeply in debt to the money-lender, and has no feeling of liberty in his life. It is through the principles of co-operation that we hope to improve his life and give him that sense of free citizenship which should be the possession of our humblest citizen.

The Government of Madras are so impressed with the importance of this matter that they have decided largely to increase the scope of the co-operative department in order that the opportunities of taking advantage of co-operation in its various forms may be available in all parts of the Presidency. But we hope that alongside this effort will grow in every district an increasing desire on the part of all those who wish to help forward this great undertaking voluntarily to work for the uplift of their fellowmen.

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*What is co-operation?—Unity is strength.*—Every one remembers the story of the old man lying on his death-bed who wished to teach his children the value of unity. He told them to get a bundle of sticks and asked them one after another to try and break the bundle. This, of course, they were unable to do. He then instructed them to untie the bundle and break each of the sticks separately. By this simple device, he demonstrated the principle that unity is strength. In accordance with that principle co-operators have discovered that, if they join together for the purpose of improving their economic position, they are far stronger united than they would be if h of them acted separately; and thus co-operators find that a society nposed of comparatively weak and poor men can give its members many the advantages ordinarily obtainable only by the rich and the strong. operators have generally undertaken the duty of getting fairplay and sonable opportunities for the poor and the weak and have therefore right- commanded the good wishes of all generous-minded men.

*Different forms of co-operation.*—Co-operation has been employed to ure many different advantages for co-operators. For instance, if a nber of people join together into a society in order to borrow jointly the ney required by the members and to lend it through the society to the mbers, it is found that they can obtain their money more cheaply and on more reasonable terms than they would be able to do had they each of them borrowed separately. Similarly, when a number of people buy jointly the articles required by each of them and distribute them afterwards among themselves, it is generally found that they can buy more cheaply and obtain articles of better quality with fairer measure than they would obtain if they made their purchases separately. Similarly also, when people join together to sell their produce or anything else that they have got to sell, they can obtain better prices for it than if each man sold his own produce separately. Similarly also, people have found it profitable to join together in a society to purchase expensive machinery or agricultural implements and to own them jointly and to lease them out to the individual members of the society for moderate fees, whereas the individual members would none of them have been able to purchase these articles by themselves. And lastly, people have found it profitable to establish co-operative factories both in order to manufacture their own domestic and other requirements and also to prepare their own produce for market without the intervention of the manufacturer.

*Co-operative credit societies.*—In India, the main direction in which co-operation has worked, has been towards getting for the ryots in the villages and the poorer people in the towns, reasonable terms of credit. And for this purpose, many thousands of co-operative credit societies have been organised in the towns and villages. Every one knows how exorbitant are the extortions of the Indian sowcar; and it is clear to everybody that, if a ryot can be enabled to obtain a loan on reasonable terms without having to go to the sowcar, it will be for him an incalculable blessing.

*Unlimited liability.*—This book is concerned with co-operative credit societies in the villages and these are generally what are called unlimited liability societies. They are based on the principle first discovered by Raiffeisen, the German Philanthropist, that when a number of people form a co-operative society and pledge their whole worldly property as security for the debts of the society, the credit of the society is much stronger than that of the individual members taken apart. And the experience of many years has shown that it is perfectly true that moderate loans to such co-operative societies of even poor men, provided they have real earning capacity and honesty of purpose, are generally speaking absolutely safe. The security in such cases lies chiefly, as is pointed out by the Imperial Committee on Co-operation in " the use of loans for genuine productive purposes, the honesty and thrift of the members, the watchfulness they exercise over each other, the moral influence they bring to bear upon dishonest or unthrifty co-members and the feeling of solidarity which is usually awakened by association for a common purpose." The societies borrow money on this security from their members or from outside and lend it out on reasonable terms to their members. They also endeavour to promote the habit of thrift among their members and to induce them to place their savings in the society as share capital or as deposits.



*Its dangers.—Its necessity in village societies.*—All village co-operators ought clearly to understand the meaning of 'unlimited liability'. It means that each member is liable to the extent of the whole of his property for the common debts of the society. This of course sounds rather a serious matter. But, in the first place, it is necessary to incur this liability; and, in the second place, the dangers can with care be adequately provided against. It is necessary because the outside public will not lend without proper security; and because the stronger the security the cheaper can the money be obtained. Unlimited liability would not be necessary if the members could subscribe a large share capital. But this is not possible in village societies. Nor indeed would the security be so strong even were large share capital available. The public knows very well that, if all the members are liable to the loss of the whole of their property supposing anything goes wrong with the society, they will take special care to deal carefully with the money they receive and to see that any loans they give to their members are duly repaid. For this reason unlimited liability provides the best security for a village society.

*Safeguards against its dangers.*—Nor is unlimited liability at all dangerous if only the members of the village society thoroughly realise these dangers, since, if a man realises a danger, he will take especial care to see that it does not become a reality. And in the first place, a village society only extends to a limited area in which all the inhabitants are well known to all the others. It is possible therefore for a society to limit admission to honest, hard-working men who can be relied upon to keep their word and not to deceive the society. It is clear that in a society of this kind it is easy for members to look after each other's conduct and to see that no member fails in his duty. Moreover the money borrowed by the society is only lent to members whom the society can trust and is only lent for useful purposes. If a member uses money for a useful purpose, he will necessarily be placed in a position, by the use of that money, to repay it again; and if he is a good man, he will invariably do so. Furthermore, societies find it necessary as an additional safeguard to insist on members giving sureties for their loans or giving the mortgage of their immovable property. They also insist on punctual repayment at the time most convenient to the members and do not allow loans to become overdue and to hang on indefinitely. Furthermore, under the law it is necessary for each society to set apart every year one-half of the profits of the society towards a reserve fund; and many village societies gradually accumulate large funds of this kind. The reserve fund is intended to meet any unforeseen losses of the society; and the greater the reserve fund accumulated, the less is the danger of any member being held responsible for a debt due not from him but from the society. Furthermore, in the case of a default by a member the law prescribes that the society may have a prior claim on certain classes of property belonging to the member. By these means, village co-operators find it possible to run societies on unlimited liability without any real risk. And indeed, though there are over 5,000 such societies in this Presidency, in no case have the members of a society been asked to meet out of their property the debts due by the society and not due specifically and individually by themselves.

*Area of a village society.*—It is generally found desirable that a society should not take its members from an area exceeding that of an ordinary village. The reasons for this will be obvious from what has been said above. The essential part of a co-operative society with unlimited liability is that the members should have an intimate knowledge of each other and should be able to keep a constant watch over each other's behaviour; and it is not likely that people will have the necessary intimate knowledge of people living in another village. Indeed, when a village is very large it may even be necessary to have more than one society in the village, if the members are very numerous, since it would be difficult for the panchayat and the other members to supervise adequately the conduct of all. Experience seems to show that it is difficult to manage a village society successfully if the members exceed about 100. And when a society finds that its membership is growing beyond that figure, it should consider whether it is still able to deal effectively with all the individual members or whether it would not be desirable to split up the society into two; and if it is found necessary to split up a society it will probably be most convenient to split it up on the lines of some local division, whether of hamlets or streets or otherwise.

*Selection of members.*—In selecting the members for admission to a society the chief consideration should be the character of the men selected. Societies are liable to fail if the members are not honest and hard-working men who can be relied on to do their duty to the society and to their fellow members. It is not necessary that the members should be persons of property. It is no doubt desirable that some persons of property should be included in the society since it is largely to the property owned by all the members of the society that the public and the banks will look when they decide whether they will lend money to the society and if so, how much. And it is reasonable that the banks and the public should demand security of this sort, because they are not personally acquainted with the members of the society and cannot therefore know that the members are hard-working men and of good character and are therefore safe persons to whom to lend money. But this is not the case within such a society itself, within which the character and circumstances of each man are thoroughly known to all. A man should not be refused admission merely because he is poor. If it is known that he is a hard-working man who can earn his living and is a man of good character, he will under no circumstances deceive the society and his fellow-members.* All the members must of course be residents of the village or villages included in the area of operations. Persons possessing landed property in those villages but not residing there should not be admitted as members, since the bond of unity between the members lies in the fact that they live together and know one another intimately There is no objection to admitting ladies to societies provided they possess property of their own or work for their own living. Minors and all persons who are not able to contract should not be admitted. It is possible that the richer men in the village may not desire the assistance of the society in order to obtain loans; but such men may perhaps be willing to join the society in order to strengthen the position of the society, to assist it in the management of its affairs and to give confidence to the public. Such men may also desire to deposit money with the society and in that case, no doubt, will be anxious to become members in order to take a part in the management and to keep an eye on the working of the society. Of course no man can be a member of more than one society with unlimited liability; and therefore no society should admit as a member a man already belonging to another such society.



Each member has to pay an entrance fee and to take one or more shares in the society and no member is allowed to exercise the privileges of membership until the necessary payment has been made on this account. Members are not allowed to withdraw from a society at will; but, if they so desire, may withdraw after a fixed minimum period which is ordinarily fixed at five years; and according to the law even after they have left the society they are responsible for its debts for two years longer. This is a reasonable precaution since a society may have obtained a loan on the ground that such a man was a member. It need hardly be said that when a member dies his membership ceases, but his estate is liable for the debts of the society for one year longer.

*The general body.*—The ultimate responsibility for the entire management of the society rests with the general body of members; and each member of the society is a member of the general body. It is true that the detailed management of the society must necessarily be entrusted to a small panchayat, since it is impossible for a large general body to attend to every detail of the society's work. The panchayat is, however, only the agent of the general body, and must obey all instructions issued to it by the general body. And indeed, since every member of the society is liable in common

* The subject of the admission of poor men into societies will be found discussed more in detail in Appendix I on page 64.

with others for all the debts of the society, it is obviously the duty of the members and of the general body to see, as far as possible, that the business of the society is being properly managed. Each member should do his best to understand the fundamental principles of co-operation, and should in particular carefully learn the "ten points of co-operation".* Each member must feel that the society is his own society and that he must always be loyal to it and to its interests and that he must on no account do anything which will cause loss to it. Each member should keep a careful watch over the acts of his brother members and should report to the panchayat or to the general body the actions of any member which will put the society in danger. Each member should attend all the meetings of the general body and place at its disposal any knowledge he may have which will be useful to the society. Whenever the conduct of any member is detrimental to the interests of the society each member must be prepared to support the panchayat and the general body without fear or favour in demanding the expulsion of such a member.

*Its special powers.*—The general body cannot and ought not to delegate to the panchayat or to anybody else the powers especially reserved to them in the by-laws which are as follows:—

(1) the election and removal of panchayatdars;

(2) the consideration of the annual report due to the Registrar of Co-operative Societies;

(3) the consideration of the Registrar's annual audit order;

(4) the amendment or repeal of any existing by-law or the enactment of a new by-law;

(5) the expulsion of a member;

(6) the consideration of any complaint which any individual member may prefer against the panchayat;

(7) the consideration of the returns that may be prescribed by the Local Government;

(8) the grant of certain kinds of loans to the members of the panchayat and to their relations and dependants;

(9) the fixing of the maximum liability to be incurred by the society during each year with reference to the revised property statements of its members;

(10) the election of delegates to the local union or central bank; and

(11) the affiliation of the society to, or its disaffiliation from, a local union or a central bank.

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* Vide Chapter XI, page 63.

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It need hardly be emphasised how very important is the selection of proper panchayatdars, since the entire management of the details of the society's work is in their hands. They must be men of good sense and good character who can be trusted to deal honestly with the money of the society and deal fairly without fear or favour in granting loans to members. It must be remembered that if through mistakes of the panchayat a society suffers loss, the members are themselves responsible for the loss.

Again, it is the duty of the general body of members to keep itself informed of the progress of the society's work, and for this reason it is laid down in the by-laws that the general body shall consider the report prepared by the panchayat of the working of the society to be sent to the Registrar and the returns that have been prescribed by Government to be forwarded to the Registrar. Again, it is obvious that no by-laws ought to be altered without the approval of the general body since the amendment of the by-laws is an alteration of the constitution of the whole society. It must be remembered, however, that an amendment cannot come into force until it has been approved and registered by the Registrar since it is the duty of the Registrar to see that the amendment conforms to the Act and to the rules and is in accordance with the principles of co-operation. And, indeed, societies are glad to take the assistance of the Registrar in framing amendments since he is generally able from his wider experience to advise them whether a particular amendment will be beneficial to the society or not.

It is but right and proper that the general body, and the general body alone, should have the power of expelling an undesirable member and that the general body alone should be entitled to adjudicate on all complaints against the panchayat, to select the delegates who are going to represent the society in other co-operative organisations, to decide whether or not the society shall affiliate itself to any such organisation and to decide the maximum amount that the society as such is prepared to borrow. It has been found desirable also that the general body should in certain classes of cases decide what loans should be given to members of the panchayat. This provision is of value no less to the members of the panchayat than to the society itself, since it prevents any unfair suspicion of the panchayatdars favouring themselves in the matter of loans to the detriment of the members *. It used also to be the practice in some societies that at least once a year a complete list of all outstanding loans should be read out in the presence of the general body. It would be perhaps a good thing if this custom was revived and more generally used, since it is

* In practice it is usual to confine this restriction to 'long-term loans'—vide page 16.

calculated to keep the members in touch with the operations of the society and the way in which the panchayat has been carrying out its duties.

*Its meetings.*—The general body must meet at least once a year in order to consider the audit order and the returns and reports which have to be sent annually to the Registrar. It is advisable that the general body should meet more frequently than once a year; and it must of course meet whenever there is urgent business to transact. The meetings of the general body should be convened in accordance with the resolutions of the panchayat; and the panchayats are bound to convene a meeting whenever 15 or more members want one to be convened; and of course a meeting should always be convened whenever the local union or the Registrar desires to address the general body. It is the regular practice of co-operative societies, and a very good one, that every member should have one vote and only one vote.

*The panchayat and its duties.*—As remarked above, it is impossible for a large general body to attend to each detail of the management of a society and the general body therefore delegates most of its powers to a small body elected by them and called a panchayat. The panchayat will hold office for a fixed period, usually for one year or two years, but can be replaced by a new panchayat whenever the general body wishes to do so. It is a mistake to make the period for which a panchayat holds office too long. It is desirable that there should be reasonably frequent opportunities for the general body of selecting new panchayatdars, so that all good men in the society may have an opportunity of serving in the panchayat at one time or another. Furthermore, even though the panchayats are selected frequently, it is always competent to the general body to select any old panchayatdar who enjoys the confidence of the members.

It must be remembered that the panchayat is bound to follow in the exercise of its duties any instructions issued to it by the general body. The duties of the panchayat are as follows. They are contained in the by-laws, but for the sake of convenience the chief of them are reproduced here in a comprehensive form:—

(1) to admit members and allot shares to them (by-law No. 6);

(2) to raise local deposits or to borrow money from the central bank (by-law No. 17). It is a very important duty of the panchayat to encourage members and other people of the village to place deposits in the society;

(3) to decide what members shall have loans and what shall be the period or periods of repayment and to recover the loans from the members at the proper time (by-law No. 39). A proper discharge of this important duty is the main test of a good panchayat;

(4) to summon general body meetings when necessary (by-law No. 32);



(5) to arrange for the maintenance of proper accounts of the transactions of the society (by-law No. 26);

(6) to correspond with the Registrar and with other persons about the business of the society (by-law No. 27);

(7) to act as the agent for the members in arranging for the joint purchase of their requirements or the joint sale of their produce (by-law No. 54 (i); and

(8) to do all other duties that are necessary to carry out the objects of the society in accordance with its by-laws.

It is particularly important that the panchayat should act as a joint body and should not permit or encourage one member, whether it be the president or the secretary or anybody else, to do the work instead of the panchayat. They should make a regular scrutiny from time to time of the security of all the outstanding loans and of the manner in which they are being used. They should particularly attend to all cases of default as well as to all cases of complaints by members; and they should consider themselves responsible for the punctual collection of all outstanding loans. They should meet regularly and at least once a month; but, if they are to do their work properly, it will probably be necessary that they should meet much more often. In order to avoid the frequent issuing of notices for meetings, they will probably find it convenient to have a fixed day or days at which they will meet, such as every Sunday, every New Moon day, every Full Moon day and so on. They should always remember that they are the trustees of the general body, have assumed a great responsibility, have a solemn duty to perform and must perform their duty without fear or favour.

*Officers of the society.*—The panchayat will have to elect the president, the secretary and sometimes an assistant secretary. The president will have a general control over all the affairs of the society and will preside at the meetings of the general body and the panchayat and will be generally recognised as the spokesman of the society. The secretary will carry out the orders of the president and the panchayat, will keep the accounts of the society and will grant receipts for money received by the society. The assistant secretary will help the secretary in his work. The president ought to be ex-officio the treasurer and to have the custody of all properties of the society. It is a mistake to entrust the secretary with the property of the society since it is his business to maintain the accounts.

The services of the panchayat in the village society are ordinarily gratuitous. This is reasonable, since a society does not make large profits and cannot therefore afford to pay for the services of its members. Moreover, the work is not very exacting and it is generally found that the panchayat members are happy to perform this public service without any remuneration. It is not intended that the panchayatdars should lose money by working for the panchayat and the by-laws provide that a society should meet the actual expenditure incurred by panchayatdars in the service of the society. It is desirable, however, that these charges should be kept as low as possible so that the society's reserve may rapidly increase. Some societies are able and are willing to make small payments to the secretaries for scriptory work. Many secretaries work without remuneration; but still it is recognised that the work of the secretary is more laborious than the work of any other of the panchayatdars; and, provided the payment is not beyond the reasonable powers of the society, there is no objection to the secretary or any other of the panchayatdars receiving remuneration for writing up the accounts of the society.

# CHAPTER II.

## The Funds of the Society.

Funds—Entrance fees—Share capital—Deposits—Borrowing from central banks—Terms of loans from central banks—Maximum borrowing power.

*Funds.*—Any bank or co-operative credit society has necessarily two main functions to perform. The first is to borrow money and the second is to lend it. It is the first of these functions, viz., the question as to how a credit society finds the money to assist its members that this chapter will deal.

*Entrance fees.*—First of all, it has been found necessary to insist that each member when joining the society should pay an entrance fee. This is reasonable, because admission to membership should ordinarily be regarded as a privilege and the member should not object to making a small payment for the benefit of the society and in recognition of his admission. It is also found absolutely necessary when organizing a society that a fund of some sort should be raised to meet the preliminary expenses of the organisation and especially for the purchase of the necessary account books, which are, comparatively speaking, expensive. And it has been found that the most convenient, as well as the most reasonable, way of meeting this expenditure is to charge each member a small entrance fee on his obtaining admission to the society.

*Share capital.*—The main security of a village society is, as mentioned above, the unlimited liability. In other societies the security generally depends upon the share capital. This does not mean, however, that there is no use for share capital in unlimited liability societies. And, indeed, village societies find their share capital extremely useful. In the first place, since



the money is not obtained at any fixed rate of interest, it enables the societies to lend it at a profit and thus to increase their profits and their reserve funds and, through increasing their reserve fund, to reduce the dangers of unlimited liability. And in the second place, it is found that members feel a stronger attachment to a society in which they have some of their own money invested as share capital. This increases their feeling of responsibility and loyalty. Moreover, the aim of co-operation is not only to enable the members to borrow but also to enable them to save money; and to subscribe to the share capital of the society is a convenient way of saving. It is also desirable that the members should not look only to the society to lend money to them but should also consider it their duty to help the society by advancing money to it. For all these reasons, village societies demand small payments of share capital from their members and each member is required to take at least one share. The value of a share in this Presidency is ordinarily Rs. 10, which is paid in ten annual instalments. As the payment of one rupee per annum means only a payment of one anna and four pies per mensem this need not be considered as a serious hardship. But in accordance with the Tamil proverb 'பலதுளி பெருவெள்ளம்' societies have been enabled by these small payments to collect considerable sums of share capital which have been of great use to the society. Moreover, it is useful for a society to have a share capital of its own for another reason. As will be explained later on, most societies desire to be shareholders in a central bank, and they can only take shares in a central bank out of their own share capital. In the North Arcot district the societies own no less than Rs. 1,06,000 of the share capital of the Vellore Central Bank, or more than three-fifths of the total paid-up share capital of the central bank. This result could not have been achieved if the societies had not themselves accumulated substantial share capital. It will be observed that share capital withdrawable at a notice of six months cannot be withdrawn till after the expiry of a period to be fixed in the by-laws (generally 5 years) and then is only entitled to a dividend out of profits not exceeding $6\frac{1}{4}$ per cent. In a good many societies, however, the members prefer that no dividend should be paid on share capital and that the profits instead should go to increase the reserve fund.

*Deposits.*—It is obvious that the amounts raised from entrance fees and share capital will not be sufficient to meet the demands of members in an ordinary village society. There are two other ways in which money can be raised, namely, by deposits and by borrowings. The distinction between a deposit and a loan is that a deposit is money offered to the society on terms fixed by the society and a loan is money taken by a society on terms fixed by the creditor.

The by-laws describe in detail the nature of deposits and there is no need to add anything to that description. One thing, however, it is necessary to say, and that is that deposits should as a rule only be taken by rural societies from people residing in the neighbourhood. It is, generally speaking, not desirable that deposits should be taken from persons living at a distance who know nothing of the working of the society; and the acceptance of large deposits from such people has on several occasions placed both the society and the depositor in a difficult position. Such deposits should only be taken by very experienced panchayats who are able to ensure through loans from the bank or otherwise that they will never fail to repay the deposits at the proper time. Moreover, members should be specially encouraged to deposit in order that they may feel that they are helping the society and may also acquire the habit of making savings of their own. It should be remembered that only in the beginning saving is difficult. The Kanarese have a proverb " Hattu māduvudu ninninda matté béléyuvudu tannindā ", 'If you will make ten I will make the rest'. If a member can once acquire the habit of saving, he will not find it difficult to continue saving regularly. The rates of interest should not be too high and societies ought to endeavour to obtain their money at 6 or 7 per cent. Preference may however be given to members' deposits for long-terms, but the interest should never exceed $8\frac{1}{2}$ per cent at which rate money can be obtained from the central bank.

*Borrowing from central banks.*—Experience seems to show that an ordinary village society cannot expect to raise by way of local deposits sufficient money to meet the needs of its members, and it is usual for societies to borrow the remainder of their requirements from a central bank. Most societies are affiliated to one central bank or another and generally borrow from it and from it alone. The central bank lends money at $8\frac{1}{2}$ per cent. and lends it for any period up to 10 or 11 years for which it is required. The practice has generally been that such loans are either for 1 year or for 10 years and these are respectively called short-term and long-term loans. The by-laws give a sufficient description of long and short-term loans and these will be referred to in a subsequent page. Societies do not always lend out their money to their members for the same period as it is lent out to them by the central banks. Thus frequently their short-term loans to their members are only for a few months and their long-term loans are often for a period of less than 10 years. This arrangement, which has been dictated by experience, is in practice convenient both to the society and to the bank. It gives the society considerable latitude in the use of its money and enables it to be regular in its payments to the central bank irrespective of particular overdues from particular individual members; since a default by one member can be met by a repayment of other members who have received their money for, comparatively speaking, short periods and who have therefore to make comparatively high annual payments. Thus, if a society has received a loan for ten years and has distributed it to its members in loans for five years, the society should receive every year one-fifth of the total and will have to pay only one-tenth. Thus, even if there is a considerable default on the part of some of the members owing to failure of crop or some other unforeseen causes, the society will still receive repayment of sufficient money to meet its obligations to the central bank. And this is a matter of very considerable importance, since the mainstay of the movement lies in the ability of the central banks to recover their dues in the proper time and therefore to meet their own obligations to their depositors and other creditors. And it may be added that societies are further assisted by the advance payments made by members who find they can extinguish their debt to the society at an earlier date than they expected. Indeed, these two factors afford the explanation of what may often seem a little curious, namely, that even when the overdues by members to societies are comparatively speaking high, the overdues from societies to banks remain at a low figure. In a later page will be found a reference to the practice with regard to the use of surplus collections over and above what is required to pay the dues of the central banks. Practice varies; and it will interrupt the thread of the narrative to introduce the subject here.



*Terms of loans from central banks.*—Loans from the central banks are secured by a pro-note executed by the panchayat on behalf of the society. The pro-note is one payable on demand, even in the case of long-term loans. It is necessary for legal reasons that the money should be payable on demand, since otherwise it is impossible to pledge the pro-note and raise further money on it. And the banks find it necessary to pledge the pro-notes of a society when they obtain advances or cash credits from joint stock banks. There is, however, a perfectly clear understanding when the loan is given as to what the periods of repayment should be; and no bank would ask a society to make earlier or larger payments. The interest is generally demanded twice a year, whereas the society only requires its members to pay interest once a year in the case of long-term loans and at the conclusion of the loan in the case of a short-term loan. Societies, however, find little difficulty in making a six-monthly payment of interest since they can generally find the money from advance collections or from collection of short-term loans. When this is not possible, a deposit can be taken from one or more of the members to meet the call of the bank.

*Maximum borrowing power.*—Every society, as remarked above, fixes a limit in its by-laws beyond which it cannot increase its indebtedness. Two points have to be considered in fixing this limit. In the first place it should, if possible, be so high as to permit the society to borrow enough money to meet all the requirements of the members. In the second place it must not be too high, or, in other words, it must bear some proportion to the security which the society offers to the bank. The security lies chiefly in the unlimited liability of the members and hence it has been customary to fix the maximum borrowing power of the society with reference to the value of the total assets of the members. It has been the ordinary practice to fix the maximum at one-eighth of the total value of the assets; but it is probable that this maximum is in some cases much too low. The panchayat have no right to borrow more in the society's name than the maximum borrowing power prescribed in the by-laws. Indeed, if they did so, they would probably be personally liable for the excess amount borrowed.

## CHAPTER III.

### Loans to Members, Profits and Reserve Fund.

Loans to members—Rate of interest—Loans given at discretion of panchayat—Amount of loans—Purpose of loans—Period of loans—Long-term and short-term loans—The date of repayment—Forecast of members' and societies' requirements—Repayment—Reloaning—Security—Poor men as sureties—Net profits—Reserve fund.

*Loans to members.*—Apart from petty contingent expenditure, the whole of the money borrowed by a credit society is used in giving loans to members; and it should be noted that loans cannot be given to any one who is not a member of the society.

*Rate of interest.*—The money is generally lent to the member at $10\frac{15}{16}$ per cent. per annum or at $1\frac{3}{4}$ pies per rupee per mensem. It is necessary to fix so high a rate since the society borrows at $8\frac{1}{2}$ per cent. and it must have a margin between the borrowing and the lending rate to create profits out of which the Reserve fund can be strengthened. And indeed the rate, though not very low, cannot be considered excessive. And indeed it has to be remembered that the great advantage of the co-operative loan is not the low rate of interest, though this is not excessive, but lies in the fact that the terms of the loan are made as convenient as possible to the borrower instead of being made, like the loan of the sowcar, as convenient as possible to the creditor. The object of the co-operative loan is to improve the position of the borrower and to make him a richer man. The object of the sowcar's loan is merely to benefit the sowcar as much as possible, even at the cost of ruining the borrower. It is for these reasons that co-operators gladly accept loans from a society and not so much because the rate of interest is low.



Moreover, co-operators must remember that rates of interest have risen and are still rising all over the world. Co-operators cannot expect to get their money at the rates which were formerly possible. The banks have to pay more and more to their depositors and their expenses are also increasing. It is clear that the rates of loans to primary societies and of loans to members must also go up. These rates have risen recently. It is not unlikely they will have to rise still more, unless the banks and the societies are to be starved of money. And co-operators will be wise to be very suspicious when sowcars offer them money at rates lower than their societies can give. The sowcar is a man like other men, and like other men he has to pay high interest for his money. And if he offers to lend money to the villagers cheaper than the societies can, he is almost certainly trying to cheat them in some other way. Perhaps he wishes to get their crops at harvest and cheat them over the price and the measuring. Perhaps, like some of the mirasidars in some districts, he wishes to get a hold over his debtors and to make them work for him like slaves for miserable wages. But whatever his object may be, it cannot be a good object; and co-operators will wisely look at him with the utmost suspicion.

*Loans given at discretion of panchayat.*—The by-laws explicitly state that no member can claim a loan as a matter of right. And indeed it is necessary to lay this down in unmistakable terms, since it must clearly be left to the society and the panchayat to decide who is to receive money and how much and who is not. The by-law gives special discretion to the panchayat; and this discretion the panchayat can be trusted to use with reference to the urgency of the various needs of the members and the funds available at the time. As remarked above, there is no surer test of the good working of a society than the manner in which the duty of giving loans is performed by the panchayat.

*Amount of loans.*—It is usual to fix the maximum amount which any member can borrow. Of course it is the aim of societies to meet all the reasonable requirements of their members. But some of the members are rich men and require very large amounts; and, if the society was to lend all the money reasonably required by the rich members, it would be unable to find the money required more urgently by the poor. And, indeed, the richer men find little difficulty in securing reasonable accommodation outside the society. Until, therefore, the societies improve their position to such an extent that they can meet all the needs of the members however rich, it is necessary to fix a maximum which any member can borrow. This maximum is generally fixed at the reasonable requirements of an average man neither rich nor poor. Within this maximum and as far as the funds of the society permit each member should be given loans for any reasonable requirement, subject to the essential proviso that no man should be given a loan beyond what he is capable of repaying. Indeed, the proper maximum for the amount that each man should be allowed to borrow for desirable purposes is the maximum that he is able to repay; and up to this limit, provided the funds of the society permit and provided the loan does not exceed the maximum prescribed in the by-laws, every man should readily be permitted to borrow for any reasonable requirements.* Long-term loans to panchayatdars, as already mentioned above, should receive the sanction of the general body equally in the interests of the society as a whole and of the panchayatdars themselves. There is less possibility of objection to the grant of short term loans to panchayatdars, and as these are generally of an urgent nature, it is impossible to insist on the approval of the general body before such loans are granted.

*Purpose of loans.*—It has been stated above that loans should be given to meet the reasonable requirements of members; and it is necessary to consider what is a reasonable requirement. Obviously it would be wrong to lend money to a member for an immoral purpose. The loan is given to a member in order to benefit him, and it should only be given for the purpose of meeting expenditure which is either necessary or beneficial to him. In this also the co-operative loan differs from the sowcar's loans; since the sowcar does not care what the object of the loan is, provided there is a good security for the amount. The society, however, always insists that the borrower should state the purpose for which he wants to borrow and takes particular pains that the money should be used for that purpose and for that purpose only; and it is the bounden duty of every member to state truly the purpose for which he borrows money and to use it in that way. This is good for the member. It is also good for the society; since loans given and used for beneficial purposes not only make the borrower richer but make him also more capable to repay his debts to the society. The by-laws of the society generally prescribe the purposes for which money can be lent to the members.

*Period of loans.*—Since loans must be given to members only in proportion to their power to repay, it follows that the period for which loans are given will vary with the individual and with the purpose for which they are given. The by-laws recognise two main classes of loans, namely, long-term and short-term loans, and this is a convenient distinction. Short-term loans are those which can be paid within twelve months and long-term loans are those for which a longer period is required. Familiar instances of the former would

* The necessity of giving a member all the money he reasonably requires is dealt with in detail in Appendix ii on page 68.



be loans to pay kist, to buy food, to meet cultivation expenses, to hold up produce for market, or to purchase the raw materials of the artisan. Typical long-term loans would be those to pay off prior debts, to improve or buy land, to build houses and to buy carts or cattle. Circumstances naturally vary with the conditions of each loan and of each borrower; and some loans for so-called long-term purposes may be found to be repayable within twelve months. The panchayatdars will be in a position to judge each case properly. It is very unlikely, however, that it will ever be proper to give a loan for a so-called short-term purpose for a period of more than one year. The principle to be observed is that each man should meet his ordinary current expenditure out of his ordinary current income; and short-term loans are essentially for current expense. It is no benefit to give a man a loan for buying food and to permit him to pay for it by instalments in the following three years; for in the following years he has again to buy food and he will therefore have to pay not only for what he is consuming at the time but also for food that he consumed years ago.

*Long-term and Short-term loans.*—It is desirable that all the reasonable requirements of members should be met by societies; but, as remarked above, this is not always possible and the panchayat has frequently got to decide whether it will use its money for short-term or for long-term loans. The test which the panchayat should apply is the urgency of the members' need; and ordinarily it will be found that a short-term loan is of a more urgent nature than a long-term loan. This is not to say that no long-term loans are urgent. Indeed, loans for buying cattle or carts or for the purchase of land or for the repairing of houses may be most urgent. But it is clear that most short-term loans are also extremely urgent—a man must pay his kist, he must buy his food, he must cultivate his land, he must buy the raw materials of his profession, he must purchase cloths; and he cannot wait for any of these needs. Thus, if the society does not lend him the money, he is driven to go to the sowcar; and if he goes to the sowcar he will have to borrow at a higher rate of interest, since such loans will ordinarily be for small amounts and the sowcar's interest on small amounts is always exorbitant. Moreover, he will almost certainly be compelled by the terms of the loan to sell his produce to the sowcar at the time of the harvest and on very unfair terms, whereby he will be put to serious loss which is equally bad for him and for the society. It is for these reasons that co-operators generally prefer to give short-term rather than long-term loans if it is not possible to meet all the requirements of their members. There are also special dangers in the granting of long-term loans especially at the beginning of a society's existence. In the first place, the grant of a large number of long-term loans locks up the credit of a society for a number of years and it is not therefore able to borrow in the meantime enough to meet the ordinary current requirements of the members. The members are thus driven to the sowcar and begin to lose interest in the society. Societies sometimes in their early years take large loans for long terms for paying off their members' prior debts; but one of the results frequently is that before they have repaid this loan to the society the members have accumulated a new crop of prior debts to the sowcar which they will again some day have to ask the society to pay off. Furthermore, some societies have found that the giving of a large long-term loan to a member at the beginning of the life of a society has been rather demoralising. A large sum of money has descended into his hands without any particular effort of his own as though it has fallen from heaven. Until a man has been a co-operator for some time and has thoroughly learnt his duty to his society, he is apt to take too lightly the receipt of so large a sum of money and to take too little pains to repay it. There is an English proverb "Lightly come, lightly go," and this is frequently found true in young co-operative societies.

*The date of repayment.*—Whether a loan is given for a short term or for a long term, it is necessary to be extremely careful in fixing the precise date at which the repayment of the principal or of the instalment is to be demanded. The essential point to remember is that the date should be one on which the member will probably be able to repay with the least possible inconvenience to himself. Thus it would be a mistake to make a loan repayable at a time when the member has no produce to sell, since he would probably have to borrow elsewhere in order to meet the demands of the society. It would also be a mistake to ask him to repay immediately after harvest since prices are low at that time; and if he disposes of his produce then in order to pay the debts of the society, he will suffer a serious loss. It is better to fix a date a few months after harvest when the value of agricultural produce will have reached a decent level. But it is very important in any case that the convenience of the borrower should be most carefully considered. When the period for the repayment of a loan has been fixed with due regard to the convenience of the borrower, it is very important that the period should be strictly adhered to. No bank can be successful if it cannot be sure that it will receive its dues on the proper date. Moreover, no man is fit to do important business properly until he has learnt to fulfil his engagements and keep his promises. It is therefore good for the member and good for the society that the terms of repayment of loans should be strictly enforced. Of course there are a few exceptional cases where for unavoidable and unforeseen causes a man cannot repay at the proper time. For instance, a man who lives by coolie work and who breaks his leg cannot



earn; and if he cannot earn he cannot repay in the same way as if he was strong and healthy. In such cases the by-laws allow for extensions of time being given. But it is so important that this concession should not be abused and that members should be bound to keep their promises in all possible cases, that it has been generally recognised as desirable that extensions should only be given with the consent of the general body and the local union.

*Forecasts of members' and societies' requirements.*—Societies often find it difficult to get money precisely when they want it. And as their members' needs are often urgent, it is necessary for societies to take special pains to obtain money for urgent purposes at the precise moment when the amount is required; since, as already remarked, if the society does not give a loan, the member will have to go to the sowcar. Difficulties arise in two ways. In the first place, unless the central bank is warned beforehand of what the requirements of societies are going to be, they may find a difficulty in having the money ready precisely when the society wants it. In the second place, the formalities for getting a loan, as will be described later on, are apt to take rather a long time. It is desirable therefore to devise some means by which these formalities need not delay the receiving of the money and by which the banks shall know beforehand what the requirements of the societies are likely to be. Some banks and societies have adopted the following method. Each society calls for a meeting of its general body at the beginning of the year and ascertains roughly the number of loans and the probable amount of them which each member will require in the course of the year and the probable time at which such loans will be taken. The amounts so ascertained are totalled up and divided into short and long-term loans as the case may be. The panchayat then obtains the necessary sanction required by the by-laws or by the custom of the central bank and then executes a pro-note in favour of the central bank for the entire amount covered by the short-term loans, and intimates to the central bank the approximate periods at which the money will be required. The money is drawn in instalments as occasion arises and is lent out to members. The society pays interest to the central bank for the actual amount drawn and for the period for which it is used. For the long-term loans also a forecast of requirements is sent to the central bank. But the pro-note in this case is not executed at the beginning of the year but in the course of the year in plenty of time before the money is required. It is also a convenience for a central bank if societies send separately an application for long-term loans which are not urgent but which the members are prepared to receive at any time. The central bank will find it convenient to keep applications of this kind pending and to use them for an outlet of its surplus funds when it has more money than is required for urgent purposes. But, of course, the bank will make every effort to find the money for urgent loans whether long-term or short-term at the time when the money is required. This method has been found to work with success. Societies may fear that it will be difficult to forecast the needs of the members throughout the year. It may perhaps be difficult to forecast with absolute accuracy; but it is not in the least necessary to do so; and societies have found in practice that it is comparatively easy to forecast these requirements with sufficient accuracy for practical purposes. Thus every one knows that he will require a few rupees at the cultivation season and a few rupees a little later for the purchase of food as well as for the purchase of cloths at the important festivals and for the payment of kist. Every one knows also the date of the kist and of the festivals and everybody can approximately prophesy when the date of cultivation will be.

*Repayment.*—All members should bear in mind that it is their duty to pay their dues to the society at its office to such officer of the society as is authorized to receive money on its behalf. This is usually the secretary. It ought not to be necessary to go to collect money from members and still less to employ any paid man for the purpose. If a member defaults in paying his dues various methods will no doubt suggest themselves to the panchayat. Personal appeals to the member by panchayatdars will no doubt be of use. The sureties also should be reminded of their responsibility to see that the money is collected. And frequently a defaulting member can be induced to pay by summoning him to appear before a general body meeting. Of course, if all other measures fail, it will be necessary to institute proceedings as described in another chapter either under the arbitration rules or in the civil court.

*Reloaning.*—Practice varies a good deal as regards the methods by which societies deal with advance or excess collections from their members of money lent by a central bank for the purpose of such loans. It has already been explained that the loans given by societies to their members are often for shorter periods than the loans given by the central banks, and that, in addition to this, loans are frequently repaid by members in advance of the regular instalments fixed by the society for repayment. It is obvious that a society can do one of two things in dealing with such excess repayments, viz., it can either use the money for making additional loans to its members or can repay the money to the central bank. Practice varies considerably and no doubt will always vary with reference to the particular needs and qualifications of each society. The disadvantages of not repaying the money as a matter of course to the central bank are of several kinds. In the first place, money may not be required by other members for loans immediately. And it is unlikely that this will be so, since most people in a village want money at or about the same time and similarly receive their income at or about the same time. Thus it may happen that money, if not paid to the central bank, may have to lie in the office of the society unused for several weeks or months; and this would involve a serious loss to the society, since the society has to pay interest to the bank and is not meanwhile able to receive any interest from its members. Secondly, it has been found that the retention of large cash balances has unfortunately proved a temptation to some of the officers of societies; and cases have not been unknown where such sums have been diverted to the private use of the members of the panchayat. Thirdly, there is less scrutiny of loans given from such surplus collections than of loans given out of money received direct from the central bank. In the latter case the loans will be carefully scrutinised by the union, but in the former case the union will have little opportunity for such scrutiny. On the other hand, it is undesirable as a general rule to restrict unduly the discretion of the society by making a hard and fast rule that all collections should be remitted to the bank. The general body of the society and the local union will, generally speaking, be in a good position to decide what the practice should be.



It should be remembered, however, that the convenience of the central bank should be given every consideration in this matter. Legally, of course, they are only entitled to receive back the money according to the implied terms of the loan. But, considering how important it is that the banks should always be in a position to find money for their requirements, that they borrow their money for short periods by way of deposit and lend it for long periods by way of loans, they can reasonably claim that societies should be ready to make sacrifices in order to enable them to meet the requirements of their societies and the claims of their depositors. And in cases where a bank desires that societies to which it has lent money should repay to it all collections made out of that money, such requests ought not to be regarded by the societies as unreasonable.

It is the practice in a good many societies to restrict the use of advance repayments which they have not remitted to the bank to the issue of new short-term loans. This practice has its advantages. In the first place, the panchayat is less likely to make mistakes over short-term than over long-term loans; and in the second place a short-term loan does not lock the money up for any considerable time; and the society is therefore in a position to reconsider the question at comparatively short intervals.

*Security.*—Though co-operative societies are constituted for the benefit of their members and in giving loans to their members consider chiefly the convenience and the welfare of the members, they are still business institutions and must do their work in a business-like manner. It is a mistake to regard a co-operative society as a charitable institution which gives alms to the poor. It is a business institution which lends money which it intends to recover; and it should never lend money which it is not reasonably certain will be recovered. It is right therefore that societies should demand security for all loans given to members. The three methods recognized to provide security for loans in village societies are as follows:—Firstly, a loan may be given on the security of a deposit given by the borrower. Such cases are of comparatively rare occurrence and as a rule one or other of the other forms of security is used. The second is on the joint and several responsibility of the borrower and one or more members standing as sureties for him. This is particularly convenient and is also in harmony with the spirit of co-operation, since the essence of co-operation is that men should help each other and be responsible for each other's conduct. This form of security, however, is not very suitable for loans current for a long period. This is partly because the security depends on human character and no one can tell beforehand what will be a man's character after the lapse of several years. The circumstances of a man may also change in other ways. Furthermore, under the law, the security bond given by a surety is only in force for three years unless it is renewed in some way or other. And for all these reasons, it is desirable to restrict the use of sureties to loans of comparatively short periods. The third method of providing security is that the loan should be secured by the mortgage of immovable property wholly belonging to the borrower. Societies rightly refuse to take a mortgage of property already encumbered owing to the difficulties in proceeding against such property. Societies have also to see the nature of the right of the borrower to the property, and in case he is the joint owner with others to insist that the co-owners shall join in the execution of the bonds to the society. This form of security is used for most of the long-term loans in this Presidency. This is of course a security of an extremely good kind.

*Poor men as sureties.*—Societies are rightly anxious to see that their debts are repaid but they are sometimes over-cautious. It is a great mistake to refuse a loan to a member because he has not got any property. If he is an honest, hard-working man, capable of earning his living and unlikely to deceive the society, he should be given a loan for any reasonable purpose for which he may require it. Similarly also, societies need not insist that sureties should be men of property. It is sufficient if they are hard-working men of good character.* It has to be remembered that societies do not expect that they will have to proceed against the property of the surety in order to recover the debt. And indeed experience shows that it is of the rarest possible occurrence for societies to do anything of the kind. In all ordinary cases the real value of the surety lies in the fact that he is responsible for seeing that the principal debtor pays his debt at the proper time and can be expected to take the necessary trouble to see that he does pay. And, indeed, a poor man is more likely to take trouble to look after a debtor than a rich man, since, if the poor man is made to repay, it would be a great deal more serious matter for him than it would be for a rich man.



*Net profits.*—It is necessary that a society should lend at a higher rate than it borrows at since it has expenses to meet and it also has to create a reserve fund upon which it can fall back if there are unexpected losses. It is upon the difference between the borrowing rate and the lending rate that the profit is secured; and there are also other miscellaneous receipts such as entrance fees. After deducting the expenses from the gross receipts, the net profit is arrived at. One-half of the net profits will have to be carried to the reserve fund. The by-laws permit a dividend not exceeding $6\frac{1}{4}$ per cent. to be paid on the share capital. Such payments are not, however, always made even when they are permitted in the by-laws; since, as noted above, members often prefer to leave the money in the society to strengthen the reserve fund. The general practice in English societies is that the dividends payable to members are not withdrawn from the society but are added, not indeed to the reserve fund, but to the members' share capital or deposits in the society and are credited as such in the society's accounts. This practice might be useful in this presidency also.

*Reserve fund.*—It has already been stated that the object of a reserve fund is to reduce the danger to the members arising from the unlimited liability of the society. It would not be pleasant for a member to have to pay a portion of the debt of a society when no money was due from him. Such a contingency is not perhaps a very likely one in any case; but it is obviously desirable that the danger should be reduced as far as possible. For this purpose the reserve fund is a necessity. Moreover, the existence of a large reserve fund provides an additional security to the central bank. In short, the larger the reserve fund, the smaller is the danger of unlimited liability and the greater is the security for the central bank. It is therefore important for every society that its reserve fund should be built up rapidly. It is necessary that the reserve fund should be invested outside the society so that it may be available when it is wanted. If it is allowed to be kept in

* Vide appendix (i)

the society itself, it will be locked up in the loans of the society and will not be readily available. In this presidency the reserve funds of societies are always invested with the central bank from which the society takes loans. And, to infuse confidence in the creditors of the society, the by-laws prescribe that it shall not be drawn upon without the express approval of the Registrar. The reserve funds are treated as deposits withdrawable at ordinarily two years' notice; but it is understood that central banks will allow withdrawal at any time in case of emergency. Interest is generally paid at $5\frac{1}{2}$ or 6 per cent. Formal deposit receipts are not usually issued for these deposits but payments are always acknowledged by letter. As stated in the by-laws, the reserve funds of societies are indivisible and no member can claim any portion of them. When a society is liquidated and the reserve fund is not absorbed by losses, it is generally applied to some charitable purpose in accordance with the wishes of the general body.

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## CHAPTER IV.

### The Union and its Functions.

The duties of the co-operative department—Mutual supervision by societies—The local supervising union—Its size—Its duties—The Supervision fund—Duties of an affiliated society towards its union.

*The duties of the Co-operative Department.*—The public is keenly interested in the spread of co-operation and in the successful working of the societies. It is not merely that the public has indirectly contributed large sums to societies and has assisted them in other ways through the concessions granted under the Act. It has indeed to satisfy itself that these concessions are being earned, or in other words, that the societies are being properly run. But over and above this, it believes in co-operation as a great engine for the moral and material improvement of the people and is willing to spend public money in this work of spreading the benefits of co-operation throughout the country and in helping the societies in their work. Thus the work of the co-operative department and of the increasing number of private gentlemen who are willing to assist the department with their honorary services consists partly in spreading co-operation by creating new societies (organisation), partly in helping and advising societies (supervision); and partly in inspecting societies to see that they are working properly (audit). The latter two duties, though logically distinct, are in practice closely allied.

*Mutual supervision by societies.*—But apart from the activities of the department and of unofficial sympathizers with co-operation, a great and increasing amount of work under all these heads is done by co-operators themselves. It is the essence of any co-operative organisation that



co-operative society should look after its members and that the members should look after each other. It is equally a principle of co-operation that, just as the members of a society influence and improve the conduct of each other by mutual supervision, so also societies should influence and improve each other's working by accepting the mutual responsibility of supervising each other. Thus we find societies grouped together into 'unions' of various kinds for the purpose of mutual supervision and help. And when societies find themselves associated for these purposes it is a natural extension of their activity to attempt to spread among others the gospel to which their own members owe so much. We thus find a good deal of 'organisation' and a great deal of 'supervision' done by co-operators themselves; and of course supervision necessarily involves a considerable amount of audit also.

*The local Supervising Union—Its size.*—The most economical and the most effective form of mutual co-operative supervision so far found is the local supervising union. The members of the local union are societies, each society sending a delegate to represent it on the general body of the union. These delegates elect from among themselves a governing body, consisting generally of about seven members, and this body manages the affairs of the union. The union is ordinarily comprised of some 20 or 30 societies. It must not cover too large an area since otherwise the members of the various societies will not mutually be acquainted with each other, and mutual supervision will thereby be rendered difficult or impossible. Nor, on the other hand, must it be too small, since it is necessary for it to collect funds for the payment of its establishment. These funds depend, as noted below, upon the amount of borrowing done by the affiliated societies; and, if the affiliated societies are few, their contribution will not be sufficient for the maintenance of an efficient establishment.

*Its duties.*—The primary function of a union will be to supervise the societies affiliated to it. This duty it can carry out by obtaining reports from societies as to their working and by inspecting the societies either through the agency of one of its governing body members or through the agency of a paid supervisor. Each union employs a paid supervisor who is always a qualified man certified by the Registrar to be fit to do audit and inspection. And these supervisors not only inspect societies but also do no small portion of the audit of societies. Much good can be done by the inspections of the union supervisor controlled by the union governing body. But still more valuable are the visits and inspections of union governing body members themselves. Such men are ordinarily the best known and most respected of the co-operators in the locality and they naturally command great influence with the societies. Excellent results have been obtained by these inspections. Indeed where a society is in a very unsatisfactory condition the union governing body have sometimes found it extremely useful to visit the society in a body and to hold one of their own meetings in the village. This has often given very satisfactory results. The union is generally entrusted with the duty of scrutinising the application for loans sent by affiliated societies to the central banks; and indeed the central banks do not ordinarily give a loan unless it is recommended by the union. Similarly also all correspondence between societies and the departmental officers relating to the affairs of societies, such as matters connected with internal management, arbitration, etc., passes through the union. And both the banks and the departmental officers always consult the unions before taking any action about a society.

*The Supervision fund.*—The union pays for its supervisor and other expenses from a fund called 'the supervision fund' which is contributed partly by the affiliated societies and partly by the central bank. The central bank ordinarily contributes to this fund annas 4 out of every Rs. $8\frac{1}{2}$ of the interest collected from the societies on its account, and each society contributes 8 annas out of each Rs. $10\frac{15}{16}$ of interest collected from its members. This sum is generally found adequate for the expenses of a moderate-sized union. Each society also pays an affiliation fee of Rs. 5 which is also added to the funds of the union.

*Duties of an affiliated society towards its union.*—It will be clear from what has been said in the preceding paragraphs that the union is established solely for the benefit of the societies affiliated to it. It becomes therefore necessary for each society to obey the by-laws of the union and loyally to carry out its instructions. It should render all possible assistance to the members of the governing body and to the supervisors who come to the society for inspection. It should punctually pay its contribution to the supervision fund. In fact it should regard the union as its own union just as each of its own members regards the society as his society. Just as the members make the society, even so the societies constitute the union.

The internal management of a union will be described in detail in a subsequent chapter.

## CHAPTER V.

### Co-operative Central Banks.

The growth of central banks—Individual and society members—The Madras Cental Urban Bank—Relation of societies to a central bank—Societies' representation—Detailed administration—The duty of societies to the bank.

*The growth of Central Banks.*—The backbone of the co-operative movement in this Presidency lies in the co-operative 'central banks.' As already noted, it is impossible for the ordinary village society to attract local deposits



sufficient to meet all the requirements of the members; and indeed in this Presidency it is an unfortunate fact that local deposits form so far an insignificant part of the working capital of our village societies. From very early days therefore the need was felt for an agency which could attract deposits from the towns and employ them safely and profitably in financing the villages. Fortunately, and to the eternal credit of the pioneers in this field, gentlemen were found who, animated by a desire to spread co-operation in the villages, were prepared to find share capital and deposits for this at first novel enterprise. The Madras Central Urban Bank was first in the field and at first found money for societies in all parts of the Presidency. Other central banks gradually followed and there are at the time of writing no less than 29 such banks. Each of these banks has a recognized field of activity which at first tended (not unnaturally) to follow the boundaries of the revenue district. Latterly it has been recognised that there is no special co-operative virtue in a revenue district and that banks should be established wherever desirable on ground of co-operative finance. The division of societies under 'central banks' is not however invariably by area, though a local jurisdiction for a central bank is likely to be the rule. A number of societies for Christians in various parts of the Presidency prefer to be financed and looked after by a bank of their own, and these are affiliated to the Madras Christian Central Bank at Madras.

*Individual and society members.*—At first these banks consisted entirely of individual shareholders; but the principle was gradually recognised that the societies financed by them should be affiliated as shareholders and should have a voice in the management and a share in the profits. At present in nearly all our central banks the societies served by them are shareholders and have a fixed representative on the directorate. Their interests are further safeguarded by limiting the rate of dividend payable on the share capital, the bulk of which under present conditions is held by individual shareholders. The management remains however largely in the hands of the individual shareholders. The arrangement is a very fair one. It is true on the one hand that these banks can only prosper through the regular field of investment offered by the village societies and their essential soundness. It is equally true at present that the public would be unwilling to make deposits in these banks unless they had among their shareholders and directors the leading local gentlemen whose adherence is regarded by the public as a guarantee that these banks will be properly managed. It is an arrangement too that which as noted by Mr. Ewbank in his Manual of Co-operative Societies for the Bombay Presidency 'affords a suitable opening by which the leading gentlemen of a district, who could hardly be expected to join village societies and to share in the unlimited liability which most of them undertake, but can thus take their part in promoting and guiding the movement.'

*The Madras Central Urban Bank.*—Over and apart from the central banks stands the Madras Central Urban Bank. This bank was originally the only co-operative central bank in the Presidency. When other central banks arose it performed the two functions of (i) lending money to the new 'central banks' to supplement their own resources and (ii) lending direct to societies in areas not served by such banks. The latter function has gradually decreased with the organisation of new central banks; and it is reasonable to suppose that the time will soon come when the Madras Central Urban Bank will cease entirely to lend to primary societies and will lend only to central banks. The Madras Central Urban Bank admits central banks as shareholders and gives them a majority on the directorate. Its dividend also is limited to 9 per cent; but for historical reasons which it is not necessary to go into, it was found fair to allow the individuals a preference to a dividend of 9 per cent.

*Relation of Societies to a Central Bank.*—As already said, the present constitution of a central bank is a mixed one. Both individuals and societies are shareholders. It is generally recognized that the ideal to be aimed at is that the central bank should belong wholly to societies. In a truly co-operative bank, the lender himself should be the borrower so that the interest of the one should not clash with the interest of the other. This is true co-operation. It is not likely that this ideal will be realized in India for many years; but it is obviously necessary that societies should take shares in their central bank as rapidly as possible. Unless moreover societies become members of a central bank they can never learn much about the financial system of the co-operative movement as a whole. And it is desirable that all co-operators should be educated to learn where their money comes from and be brought into touch with the money market of the country. But the chief point is that if a central bank is to make any approach to true co-operation it must learn to consider primarily the welfare of the borrowing societies, and the societies must obtain an adequate voice in its management. And this can only be done with justice if societies take shares freely and rapidly.

*Societies' representation.*—Societies are represented on the management of the bank through delegates selected either separately by each local union or jointly by all the representatives of the shareholding societies. In the former case the representative of each local union working within the jurisdiction of the central bank is given a seat on the Board of Management



This representative is of course elected by the general body of the union, i.e., by the affiliated societies. Where representation is not regulated on the basis of the union, the delegates of all share holding societies ordinarily elect the required number of representatives at a special meeting called for the purpose. In this case also it is often laid down that one representative must be a member of a society in each union area.

*Detailed administration.*—Societies have no doubt at present no experience of the higher finance of the co-operative movement. It is therefore desirable that the detailed management of the bank should for some time to come be left in the hands of the representatives of individual shareholders. The actual administration can probably best therefore be entrusted to the hands of a small executive committee consisting chiefly of representatives of the individuals. The business experience of these men is an invaluable asset which the societies cannot at present, and for many years will be unable to, afford to lose. The societies have at present an effective voice in the general body and in many cases in the Board of Management also. They will naturally not desire to interfere in the details of administration; but will wish to have a voice in laying down the general lines of policy which are to guide the managing body in the treatment of societies.

*The duty of societies to the bank.*—As in the case of the unions, the societies must not consider that the bank is an institution separate from themselves in whose welfare they have no interest They are members of the bank and the bank is their bank; and they must look after its welfare in the same way as they expect the bank to look after theirs; and they must on no account do anything which will place the bank in danger or make it suffer in reputation. Each for all and all for each. That is true co-operation.

## CHAPTER VI.

### Some Points of Procedure in the Management of a Village Society.

Dealing with application for membership—How to hold a panchayat meeting—How to prepare a property statement—How to obtain a mark of a marksman—How to receive a deposit—How to deal with loan applications—How to get a loan from the bank—How to hold a general body meeting—Registration of documents—The amendment of a by-law—How to remit money.

A good deal has been said in a former chapter about the general principles which govern the administration of a village society. It is believed that co-operators will prefer that this handbook should also contain some description of the procedure generally followed in the detailed management of such societies. The following pages attempt to give such a description.

*Dealing with applications for membership.*—When a person wants to become a member of the society, he should go to the secretary and express his wish. The latter will thereupon direct him to pay the value of the shares he wishes to take and the entrance fees, enter in the share application register, the necessary particulars and get the signature of the person affixed thereto. If the society does not maintain this register, the secretary should instead simply direct the applicant to attend the next panchayat meeting. The value of the share, or shares received and the entrance fee should in any case be credited in the cash book as an advance. At the next meeting of the panchayat the secretary should submit the share application register or report all such applications for the orders of the panchayat. The panchayat should then proceed to consider the applications one by one and give their decision. The chief points to be considered are :—

(1) Whether the applicant is qualified by residence to become a member under by-law No. 5 of the society.

(2) Whether he understands the responsibilities and duties of a member.

(3) Whether he is a man of good character and has enough wealth to live on or the capacity to earn his living.

(4) The number of sares he should be given. In the case of a poor person, this last point has to be carefully considered as the maximum loan to be given to a man bears ordinarily some relation to the number of shares he takes.

If the panchayat decide to admit the person, they should record a resolution to that effect in the minute book. The following form of resolution would be suitable :

" Read application from Ramaswami, son of Govindaswami, residing in Polur for membership in the society.

Resolved that Ramaswami, son of Govindaswami, residing in Polur be permitted to become a member and take two shares".

If the panchayat decide not to admit a person, a resolution to that effect also be recorded. It may be in the following form :—

" Read application from Kannan for membership in the society.

REJECTED ".

When the applicant has been admitted, the secretary should send for him and make the necessary entries in the admission book and get his signature affixed thereto. He should then take up the cash book and make entries showing a refund of the advance and a credit of share capital and entrance fee. The entries will be these :

| | | RS. | A. | P. |
|---|---|---|---|---|
| Refund to Ramaswami the advance received towards share capital and entrance fee on 20th October 1910. | | 6 | 4 | 0 |
| Value of shares received from Ramaswami No. | .. | 5 | 0 | 0 |
| Value of entrance fee from the same .. | .. | 1 | 4 | 0 |



The receipt given for the advance of share capital and entrance fee should be recovered from the applicant and a fresh receipt given for the payment of share capital and entrance fee.

When an application is rejected, the advance received should be refunded.

When a member wants to increase his shares a similar procedure is to be adepted, and no member can increase his shares unless the panchayat has passed a resolution permitting the increase. After collecting the money a second entry should be made in the admission book and the signature of the member obtained.

*How to hold a panchayat meeting.*—As remarked elsewhere in some societies, the panchayat meetings are held by agreement on certain fixed days. Where there is no such agreement or if it is desired to hold a meeting on any day other than the fixed days so agreed upon it is necessary that the secretary should send round a notice calling for each meeting of the panchayat. All the members of the panchayat should be given notice. It is not enough if only as many panchayatdars as will be necessary for a quorum are invited. The proceedings of the panchayat should be fully recorded then and there in the minute book and they should be signed by all the panchayatdars present. Specimen forms of resolution are given elsewhere in this book.

*How to prepare a property statement.*—The form for the property statement register is given in another chapter of this book. The necessity for such a register in the case of an unlimited liability society is obvious. It should therefore be as faithful a record as possible. To minimise error it should, if possible, be prepared at a general body meeting or at least in the presence of as many members as possible. The advice and help of the village officers should be invited for the correct preparation of the statement. Every member should, in his own interest and in the interest of the society, give accurate information in regard to all the particulars required. The statement should be revised every year, i.e., once a year. It should be brought for the consideration of the general body and the case of each member should be considered. Any alteration that is necessary should be made ; and, if no alteration is considered necessary, that fact should be mentioned in the register itself. Three copies of the property statement of all the members as entered in the register should be prepared and signed by the panchayatdars. One copy should then be sent to (1) the Central Bank, (2) the Local Union and (3) the Assistant Registrar.

It will be found most convenient that periodical alterations found necessary during the course of the year should similarly be reported then and there. If this method is adopted there will be no necessity for societies, as is sometimes done, to be required by central banks to send copies of the property statements whenever they apply for their loans. A property statement register will be maintained in each of the offices of the Central Bank, the Local Union and the Assistant Registrar and necessary corrections can be made periodically as they are reported by societies. This will facilitate the disposal of loan applications.

*How to obtain a mark of a marksman.*—In all cases where a marksman has to make his mark in a record of society it should be attested by *at least* two witnesses who know the man. The attestation by one witness is not sufficient. It is also necessary that the mark should be the left thumb impression of the man. Messrs. V. Perumal Chetti & Sons of Madras keep a stock of the apparatus required for taking thumb impressions. Societies are advised to buy an apparatus for the purpose.

*How to receive a deposit.*—When a person tenders a deposit the fact should be taken to the notice of the panchayat. There should generally be no objection to small deposits being accepted from members, since a society can reasonably expect to be able to find a use for the money before long and is naturally desirous of encouraging deposits from members. But if the deposit is one from a non-member or is for a large sum, the panchayat should consider carefully whether the society is in need of the money. The panchayat should pass a resolution either rejecting the deposit or accepting it and defining its terms. The following forms of resolution are suitable:—

(1) Resolved that the deposit of Rs. 500 offered by Krishnan, son of Raman, residing in Samayapuram be accepted on the following terms:—

(*a*) Interest 8 per cent. payable half-yearly.
(*b*) Period two years.

(2) Resolved that the following members be permitted to make recurring deposits for the sums noted against their names:—

(*a*) General No. 21, Sengodan, 45 months' deposit, Rs. 20 a month.
(*b*) General No. 40, Somasundaram, 24 months' deposit, Rs. 5 a month."

When the persons bring in the money the secretary should credit it in the cash book and issue a receipt in the prescribed form. Then an entry should be made in the deposit ledger.

*How to deal with loan applications.*—When a member wants a loan he should either go to the secretary and furnish the particulars necessary for filling in the columns of the loan application register or he should appear at a panchayat meeting to give the particulars wanted. The following points should be considered by the panchayatdars before they come to a decision on a loan application:—

(1) Is the member really in need of the loan asked for?



(2) Is the whole of the loan necessary considering the purpose for which it is asked for?

(3) Is he capable of repaying the whole of the loan asked for? Is the purpose one that is authorized by the by-laws?

(4) Considering the purpose for which the loan is taken and also considering the repaying power of the borrower, what is the period for which the loan ought to be given? What are the most convenient times for payment of instalments?

(5) Is the security offered sufficient for the loan? If not, should the amount be reduced?

(6) Has the member been punctual in regard to the payment of his dues hitherto?

(7) Is the loan urgent? Can the applicant be reasonably expected to wait till a more convenient season?

When the panchayat come to a decision, they should record a resolution accordingly.

The following specimen forms of resolutions may be useful:—

"Resolved that a loan of Rs. 50 be sanctioned to No. 21, Kanniappa Konan, on the security of his nanja land, survey No. 120, extent 0·95, estimated value of Rs. 150 repayable in two equal annual instalments—instalments payable in the month of May each year—for buying a bull.

Resolved that a loan of Rs. 100 be given to Kulandai Kavandan, No. 42, for the purchase of food-grains repayable before the end of next May. Gopala Kavandan and Tulasi Ram accepted as sureties.

Read loan application from Govindaswami, No. 17. Loan refused as the purpose is one not authorized by the by-laws."

When a loan is sanctioned, the secretary should send for the member and get the required bonds executed and if necessary registered. When the loan is given on the mortgage of immovable property the bond must be registered. When the bond is a surety one, it need not necessarily be registered. It is however advisable that surety bonds should be registered when the borrower or his surety is a marksman. The loan should not be handed over before the bond is executed, registered and delivered to the society. When this is done, the secretary should debit the loan amount in the cash book and take the signature of the borrower in the cash book in token of the actual receipt of money and then, and not till then, make the payment. The secretary should thereafter make the entries in the loan ledger. The Registration department has given certain facilities for the registration of documents by co-operative societies. A description of this is given elsewhere in this chapter.

*Registration of documents.*—It is necessary that the document executed by a society to the central bank should be registered at the office of a Registrar of Assurances. The central bank is at a distance and does not know all the panchayatdars of a society. Some one must therefore certify to the genuineness of the bond executed. It has therefore to be registered before being sent to the central bank. Bonds executed by members in favour of the society are sometimes registered and sometimes not. The cases in which registration is necessary or desirable have already been described in this chapter.

The registration of documents by co-operative societies has been greatly facilitated by the Registration department permitting the presentation of such documents in duplicate. This is very advantageous to the societies as it saves a great deal of delay. The documents of primary societies are fortunately of a more or less stereotyped nature and it is possible to print the greater part of these in blank leaving only small portions to be filled up by hand; and Messrs. Perumal Chetti & Sons keep ready printed in blank stocks of the forms of document most largely used by our societies. A society wishing to adopt the system should obtain from the company a stock of the forms it proposes to use. Whenever it sends a document for registration, it should send a spare blank form along with the documents. The two forms should be presented to the registering officer. After making the necessary manuscript entries in the blank form and registering the document, the registering officer will return the document immediately. This is a great saving of time both to the Registration department and the societies. Societies would do well to adopt it.

*The amendment of a by-law.*—When the panchayat desire that a particular alteration should be made in the by-laws, they should consult the Assistant Registrar as to whether there is any legal objection to the proposed change. Assistant Registrars will no doubt also be able to give valuable advice to societies as to the probable result of such alterations. When there is no insuperable objection to the amendments, the panchayat should call for a meeting of the general body and explain to them the necessity for the proposed alterations. If they agree, a resolution should be passed amending the by-laws in the particular form desired. A specimen form of resolution is given below:—

> "Resolved that the following amendments be carried out in the by-laws:—
>
> Substitute the following for the third sentence of by-law No. 1:—
> 'The area of operations shall be confined to the villages of Somanur and Porur.'
>
> *For* 'Rs. 5,000 occurring in by-law No. 15', *read* 'Rs. 10,000.'"



The amendment should then be reported for registration to the Assistant Registrar through the union. It is only after the Assistant Registrar has communicated his certificate of registration that the by-laws as amended can legally be put into force.

*How to remit money.*—Societies find that they have to remit money from one place to another. A depositor requests that, when he cannot conveniently go to the society, the interest on his deposit or the principal may be sent to him at some other place or periodical interest and instalments of principal have to be sent to the central bank from which a loan has been taken. When money is remitted to a depositor, it should be sent at the cost of the depositor. But when money is taken from a central bank or remitted to it, the cost of transmission should in both cases be borne by the borrowing society. It is under this condition that a central bank lends money to a society.

Money may be remitted in any of the following ways:—

(1) by postal money order, or
(2) by insured post, or
(3) by sending through a trustworthy messenger, or
(4) by a cash order or a remittance transfer receipt, or
(5) through the agency of a local supervising union.

The first method is expensive and therefore cannot be always adopted. Moreover it is not very convenient since fraction of an anna will not be accepted by the post office. The money order commission charges will be—

| | |
|---|---|
| On any sum not exceeding Rs. 5 .. .. | 1 anna. |
| " exceeding Rs. 5 but not exceeding Rs. 10 .. .. .. | 2 annas. |
| " exceeding Rs. 10 but not exceeding Rs. 15 .. .. .. | 3 annas. |
| " exceeding Rs. 15 but not exceeding Rs. 25 .. .. .. | 4 annas. |

On any sum exceeding Rs. 25 up to Rs. 600, 4 annas for every complete sum of Rs. 25 and 4 annas for the remainder; provided that, if the remainder does not exceed Rs. 5, the charge for it shall be only 1 anna; if it does not exceed Rs. 10 the charge for it shall be only 2 annas; and if it does not exceed Rs. 15 the charge for it shall be only 3 annas.

The second method, insured post, is less expensive and is frequently adopted by societies. It will be necessary to secure currency notes for the purpose. An insured letter will always be registered. A registration fee of

*How to get a loan from the bank.*—When a loan is wanted from the central bank a panchayat meeting should be held. The secretary should place before the panchayatdars the list of loans sanctioned to, or required by, members and state the total amount required to meet them. The panchayat should then consider whether the society can meet these demands and, if so, whether the amount required or at least a portion of it can be secured locally. The balance will have to be borrowed from the bank. After fixing the amount to be borrowed from the central bank, they should see what portion of it is wanted for short-term purposes and at what time the money will be wanted in each case. Then they should pass a resolution asking for a loan from the central bank. The resolution may be in the following form :—

> " Resolved to borrow Rs. 2,000 as a short-term loan payable in one year from the Madras Central Urban Bank."

The secretary should then prepare a loan application in the prescribed form and forward it to the bank through the proper channel. It is the usual custom to send applications for loans through the local union to which the society is affiliated, and many banks require that the applications should also go through the Assistant Registrar. Indeed unless the society is a shareholder in the central bank from which it takes a loan it is legally necessary that the loan should be approved by the Assistant Registrar. In preparing the application form the secretary should take special care to give accurate information on the points asked. He should never fail to enter in the proper place a copy of the resolution of the panchayat. He must also when the loan applied for is a long-term one give for the information of the union a list of the members to whom the borrowed money is to be distributed after its receipt. In the case of short-term loans the unions do not ordinarily insist upon this. As remarked elsewhere all societies should send copies of the property statements every year to the central bank, the union and the Assistant Registrar. If this has not been done, a true copy of the property statement of all the members should accompany the loan application. Some central banks are satisfied to know the total amount applied for and do not require copies of the detailed loan applications of societies. In such cases the original applications do not go to the bank at all but are retained by the union, which reports to the bank only such particulars as the bank desires to know. Some banks prefer to scrutinize the applications in detail. Societies in the latter case send their application in duplicate—one for the use of the union and the other for the central bank. The loan application will be considered by the governing body of the union at their first meeting after its receipt. When their decision is favourable, the secretary of the union sends the application on to the central bank either direct or through the Assistant



Registrar. In the latter case, the Assistant Registrar passes on the application to the central bank with his opinion. If the loan asked for is sanctioned by the Board of Directors of the central bank, the bank secretary intimates the fact and sends a draft pro-note to the society. The panchayatdars —as many as are required by the by-laws—should then execute the bond and register it at the nearest sub-registry office. The registered pro-note should then be sent to the secretary of the central bank with clear instructions as to the manner in which the money is to be remitted. The methods by which this can be done are described elsewhere in this chapter and the society should adopt such of them as is most convenient to it at the time.

When the money is received from the central bank, it should at once be credited in the cash book and the necessary entry made in the ledger of " other borrowings ". The members for whom the money is borrowed should be sent for and be paid without delay. In order to minimise the delay and the loss of interest on the money borrowed, the society would do well to ask the borrowing members to execute the necessary bonds as soon as it is assured that the central bank will give the loan and the draft pro-note is received. If this can be done, the money borrowed may be issued to members on the very day of its receipt from the bank, so that there may be no loss of interest to the society.

*How to hold a general body meeting.*—Before a general body meeting can be held, it is necessary that the panchayat should pass a resolution authorizing the president to issue notice for convening such a meeting. In the notice convening the meeting the purpose for which it is called for should be specified and adequate notice should be given. The model by-laws prescribe a minimum notice of three days. The notice may be published by beat of tom-tom in the village or served by sending a separate notice to each member or by circulating a common notice in which the signatures of members are obtained or in any other manner prescribed by the general body. When the members assemble at the appointed time, if there is a quorum the business on hand should be proceeded with ; and if there is no quorum the meeting should be adjourned and a fresh meeting should be called by means of a fresh notice. The minutes of the proceedings should be recorded in the minute book of the society. The names of the president together with the names of the members present should be entered first. If the president is not present, it will be necessary to elect another member to preside. In that case the names of all the members present should be entered first and then the name of the member who was elected to preside should be given. The resolutions should then be recorded one by one. The president should sign the proceedings. In some societies all the members present sign the proceedings.

2 annas will therefore be levied in addition to the insurance fee and the postage. The insurance fee is 1 anna for every Rs. 50 or part of it.

The third method of remitting money through a trustworthy messenger has the disadvantage that it may not always be absolutely safe. This method is adopted when societies find it cheaper than the two previous methods and when they are absolutely confident that money can safely be sent that way. It is necessary to remark however that the officer of a society who adopts this method takes upon himself the full responsibility for the money till it is received by the person or the society for which it is intended.

The fourth is the method by which money is remitted through Government treasuries. This method is particularly convenient in getting money from, or remitting money to, the central bank or to other co-operative societies. Generally a remittance transfer receipt will only be issued by one district treasury upon another district treasury. But on the special recommendation of the Registrar, the Accountant-General has been good enough to authorize specified taluk treasuries also to receive money from societies and pass it on to any treasury in another district by means of remittance transfer receipt. When money is to be remitted from a sub-treasury to the district treasury, a mere cash order will do.

When a society wants to remit money through a Government treasury, it has to present a chalan in the following form to the nearest sub-treasury which has been authorized to receive money on behalf of societies :—

(1) Name in full of the applicant society.

(2) Amount for which a cash order or a remittance transfer receipt is required.

(3) Name and address in full of the society to which remittance is to be made.

(4) Name of the treasury at which payment is required.

(5) Signature of the officer of the society which remits the money.

(6) Date.

The treasury at which the chalan is presented will, on receipt of the money, issue to the applicant the necessary cash order or remittance transfer receipt. The cash order or the remittance transfer receipt so given should be sent by registered post to the central bank or other society to which the society has to remit the money with instructions to get the amount cashed at the treasury named. Under the rules now in existence, no remittance transfer receipt will be issued for less than Rs. 150.

The fifth method is an arrangement by which societies affiliated to a local supervising union remit money jointly to or get money jointly from a central bank. It is advantageous to the individual societies not only in



reducing the cost of remittance but also in minimising the trouble involved in sending or getting money. All that the individual society has to do is to see that the amount is credited in the accounts of a society authorised to receive it by the local supervising union. As the local supervising union has, by its constitution, no financial liabilities, it cannot undertake to handle money ; and it therefore arranges with a good primary credit society near its headquarters — generally the kasba society — to act as a banker for the affiliated societies for the purpose of receiving money from, or remitting money to, the central bank. The society so selected should have an ample margin between its actual borrowings and its maximum borrowing power, for the money received by it will be technically a deposit for which it will be liable. When this cannot be secured, the affiliated societies will have to regard the receiving society as a mere agent and recognise that they themselves will be liable for any loss that may occur. When this method of remittance is adopted, the procedure to be followed will be as follows :—

The primary society which wants to remit money to the central bank should send the money with a chalan in duplicate in the prescribed form to the kasba or other society which acts as a banker for the affiliated societies. On receipt of such money the kasba or other society which acts as a banker will grant a receipt in the form prescribed, and transmit one copy of the chalan, after acknowledging in it the receipt of money, to the local supervising union. The other copy should be retained by the kasba or other society for its record. Affiliated societies are ordinarily expected to send their monthly remittance before the 20th of each month, so that the joint remittance by the local union may reach the central bank before the close of the month. On or about the 21st of each month the local union will prepare a remittance list showing the manner in which the central bank should credit the amount sent. Four copies of the list should be prepared, of which one copy should be sent to the kasba or authorised society with instructions to remit the money through the Government treasury at the place to the central bank. Two copies should be sent to the central bank, of which one will be returned to the local union after the receipt of the money with an endorsement that the money covered by the chalan has been received by the central bank. The fourth copy will be retained by the union for its record. The central bank will issue separate receipts to each society for all items of money sent by it.

Some unions charge a small fee for undertaking to remit money on behalf of their affiliated societies in order to meet the postage and other charges. It seems however not unreasonable that the small cost involved should be met out of the supervision fund of the unions concerned and some unions prefer this course. But societies which fail to remit money on or before the date prescribed by the union, viz., ordinarily the 20th of each month, should send along with the remittance the cost of forwarding separately such remittance to the bank which will ordinarily be the postal insurance and other charges.

Similarly, the affiliated societies may, when sending to the central bank their pro-notes on account of loans to be received from it, authorise that bank to remit the money covered by their pro-notes to the kasba or other authorised society which acts as their banker. This society should without the least delay send information of the receipt of the money to the respective societies through the local union and disburse the amounts as soon as the representatives of the societies come. Receipts should be obtained from such representatives in duplicates, one of which should be retained by the disbursing society and the other sent to the central bank.

## CHAPTER VII.

### Co-operative Buying and Selling.

Joint purchase and sale—Importance generally recognized—Theory of co-operative trade—Advantages of co-operative stores—Difficulties of co-operative stores—Advantages of buying jointly on indent—Work done last year on indent—Method of trade on indent—Avoidance of loss—Possibilities of business on this line—Trading unions—Co-operative sale—Co-operative treatment of produce for market.

*Joint purchase and sale.*—The importance of co-operative buying and selling lies in the fact that if co-operators can arrange to buy jointly the articles they require and to sell jointly the articles they wish to sell they will thereby be enabled to take for themselves the profits which would otherwise go to the merchant. These profits are often large; and in European countries co-operators regularly make very great savings by joint purchase and sale. It is the earnest desire of all interested in Indian co-operation to develop joint purchase and sale among Indian co-operators and especially in the village co-operative societies. The difficulties are of course considerable; and such work as has been done by village societies is so far of an experimental kind. Perhaps an idea of what is being attempted in Madras can best be gathered from a circular which was addressed to village co-operators by the Registrar last year. This is reproduced below*. It suggests certain methods of work and describes the result of certain experiments. But the subject is still largely unexplored; and it is to be hoped that every one interested in co-operation in this Presidency will study the subject for himself and will endeavour to suggest and initiate experiments, whereby the best methods of co-operative trading in our towns and villages may gradually be discovered and elucidated.

* Vide page 41.



*"Joint Purchase and Sale."*

*"Importance generally recognised.*—There have been often resolutions passed at various co-operative conferences urging upon co-operators the great advantage of joint purchase and joint sale. The Registrar desires to bring the matter again before the minds of co-operators with reference to some experiments that have been made during the last co-operative year.

*Theory of co-operative trade.*—The theory of co-operative trade may be stated in a few words. The trade of the world is done, generally speaking, in large quantities. Nobody would think of exporting one cotton cloth from Manchester for sale in India or one measure of paddy from Nellore for sale in Madras. Such exports are made not by single cloths or in measures but by waggon loads and by thousands of bales. When they arrive at their destination, it is necessary for some one to split up these large quantities and sell them to the consuming public in small quantities. This is ordinarily done by merchants, middlemen and shopkeepers, all of whom add a little (or a lot) to the price in order to pay themselves for their trouble. Similarly it is the duty of some one or other to collect, from the various producers of any article required for export, the small quantities that each man has produced, to combine them together and to sell them to the large export merchants. This work also is usually done by merchants and middlemen. If for doing these two operations of collection and distribution, the middlemen concerned only charged a reasonable commission or fee, there would be no need for co-operation to intervene. But unfortunately it is generally found to be the case that the middlemen charge far too much and that the producer receives far too little and the consumer has to pay far too much. Hence co-operators all over the world have endeavoured to do, instead of getting the merchant to do it, both the distribution of imported articles and the collection of articles required for export. They hope by these means to give to the consumer and to the producer the profits at present taken by the merchants.

*Advantages of co-operative stores.*—The most important of these operations is the distribution of imports or, in other words, co-operative sale. The most well-known form of this trade is exemplified by the ordinary co-operative store such as we find in Triplicane, Madura, Coimbatore and in some of our other large towns. These stores keep open a regular shop or shops in which they store articles required by their members and sell to members in the ordinary way when they come to buy. The articles are purchased wholesale and they are cheap. They are also of good quality, since the larger merchants are generally speaking more honest than the smaller ones; and for the same reason there is no deceit about the weight or measure of the various consignments. Thus a well-managed store is able to sell good articles with fair weight and measure and at cheaper rates than can be had in the ordinary shops.

taken out of the pockets of the middlemen and placed into the pockets of their members no less a sum than 34 lakhs per annum; and such a *result, it* would seem, judging by our experience last year, is, with ordinary patience and enterprise, by no means impossible to obtain. *And if not impossible,* it is surely worth obtaining.

*Trading unions.*—The Registrar is inclined to think that it is through the trading unions that success is most likely to be *obtained.* The trading *unions* will be in a *position* to pay a better establishment, and command better management than an ordinary primary society *and will* therefore manage the business better. Such a union would be in a position to know beforehand what kind of articles would be required by its affiliated societies through *the various seasons* of the year and would be able by constant circulars and reminders to induce the primary societies to join together for joint purchase of *these articles.* And indeed the chief difficulty of developing this trade will lie in inducing the villagers to take the trouble to estimate their wants *beforehand and to join* in a co-operative purchase. Constant propaganda, circulars and reminders from the trading union will be the *most* effective weapon *to* overcome any indifference. The Registrar hopes that there will be a rapid *increase* in these trading unions and a rapid spread of the practice of co-operative *purchase.* These unions may again be joined together into a larger union and all may be ultimately combined into *one* or more great wholesale organisations *for* the Presidency.

*Co-operative sale.*—Co-operative sale was not so largely nor so successfully done by our societies as co-operative purchase. But here again, it would seem that the members of our *ordinary* credit societies may obtain great advantage by selling their produce *jointly* through their society. Some successful experiments by credit societies were made last year and in all, some half a lakh of rupees worth of produce was sold jointly by co-operative societies with an estimated profit of over Rs. 2,400.

It would seem that if our villagers can only get into touch with the great exporting merchants and if our trading unions could supply in large consignments of good quality free from adulteration all the articles required by those merchants, they would obtain remunerative prices. This is a subject on which the Registrar urges all rural *co-operators* most earnestly to reflect.

*Co-operative treatment of produce for market.*—A few societies have also conceived the idea of obtaining a further *profit for their members* not only by a joint sale of their produce but also by the co-operative treatment of the produce for market. Thus the *societies in the* Kallakurichi taluk have taken shares in a big agricultural society, similar to a trading union, through which it is proposed to gin *the cotton, decorticate* the groundnut and crush the sugarcane produced by the members of the affiliated societies, as well as



to sell the finished product to the exporting *merchants.* Steps are being taken in the same direction by some earnest co-operators at Tindivanam. It would appear that there is a great opportunity *for increasing* the *profits* of the ryot by means of *this kind* of co-operation and all co-operators will wish these societies the greatest success."

*Co-operators* may be interested to hear what has been done since the above was written. In the year 1919–20 there was a considerable *expansion* of *indent trade*—the total purchases by primary societies and trading unions *amounting* to over six lakhs. The profits were *estimated* at over Rs. 40,000. The fluctuation of prices rendered the trade difficult and mistakes were not unnaturally made. The mistakes most commonly made were (1) ordering more articles than the members actually required—this owing to careless preparation of indents and (2) ordering too many different kinds of articles instead of confining orders *to* articles which were universally wanted *and* therefore could be purchased in large quantities. Separate purchases by separate trading unions were found to be wasteful and expensive; and the need was felt for a wholesale purchasing agency not only in the district but also in Madras. The officers of the department and honorary *workers did* all in their power to fill this gap by supplying information to trading unions, bulking their orders, introducing them to markets, and even making purchases on their account. In time it is hoped that the volume of trade will so increase as to enable trading unions to pay for wholesale agencies of their own.

Indent trade by trading unions was developed to a greater extent in the North Arcot district than elsewhere. *The system of* finance adopted in that district may be of interest. Each society *desiring to do indent trade* takes a short-term loan or *trade advance from* the central bank for trading purposes. This it does not actually draw but leaves the money *in the* central bank with instructions that it may be drawn upon from time to time by the trading union. The trading union finances its purchases by drawing against the trade advances of the societies for which it makes the purchases. The money drawn is thus far a deposit of the society's funds in the trading union. The trading *union sends* the goods to the society by which they are at once sold either for cash or by giving short-term loans to the members. The trading union is thus *repaid,* the deposit returned to the central bank, and the trading advance recouped. The short-term loans given by the society to its members are financed by a new short-term *loan* from the central bank or the "trading advance" is reduced by that amount. The trading union only dealt with trade advances up to five times *its own* paid-up share capital. Any extra sums it required it had to borrow *elsewhere* on pledge of goods.

*Difficulties of Co-operative stores.*—These are obviously great advantages. But unfortunately a co-operative store of this kind is not very easy to work. Great skill is required to know what to purchase, when to purchase it and in what quantities to purchase it. A considerable establishment is required to conduct the business of the shop and this is expensive. There is danger of loss owing to wastage, the depredation of rats and other vermin, from unexpected fluctuation in prices and from the carelessness or even perhaps the dishonesty of the paid staff. And indeed it is to be admitted that with few exceptions our co-operative stores have not been a conspicuous success and some have failed disastrously. And it is only too clear that if such has been the experience in our towns it is useless to expect that co-operative shops of this nature will be successful in villages.

*Advantages of buying jointly on indent.*—There is, however, another way of getting most of the advantages of co-operative purchase without keeping a shop. Supposing for instance a number of men join together and estimate how much of any particular article they may require, add up the requirements of each, make a total and order jointly the total amount so required, they will obviously get it a good deal cheaper than if they bought it in the local bazaar at retail prices. They will also probably get better quality and fairer measure. Suppose, moreover, that these men are prepared to pay for the articles at once and each to take over his own share immediately, carry it home and store it in his own house, then there would be no danger of loss of the nature described above. This simple operation has often been done by members of co-operative societies in Ireland and Germany and no doubt in other places. It is not, of course, so convenient as a co-operative shop, since it is difficult for a man to estimate beforehand how much of any article he will require, and it is perhaps rather a nuisance to have to pay for a large consignment all at once and to have to keep it in one's own house. But experience seems to show that the advantages largely outweigh the disadvantages. And such experiments as we have made in this Presidency during the past year seem to bear out this belief.

*Work done last year on indent.*—Briefly, the members of some 200 rural societies last year undertook a co-operative trade of this kind. They bought articles worth Rs. 3,00,000 and the members profited by the transaction to the extent of Rs. 60,000 or about 20 per cent. viz., they had to pay 20 per cent. less for the articles purchased than they could have had to pay in the local bazaar. The method of the trade done was, roughly speaking, as follows:—

*Method of trade on indent.*—Each panchayat asked their members from time to time how much of a given article they desired to purchase. They were asked to pay cash if they could do so, and if they could not, they were



given short-term loans from the society to make the purchase; and the total requirements of all the members in the village were then totalled up and the total quantity required was ordered from the best available wholesale source of supply. The articles were distributed as soon as they were received and the transaction was finished, except for the fact that the society still had to collect in due course a few short-term loans given to the members for the purchase of the article. Some of the societies preferred to join together for this trade so as to be able to make even larger orders still, since it is the common experience that the larger the amount of things purchased at one time, the better the prices obtainable. Sometimes the societies asked the local supervising union to which they were affiliated to undertake the purchase. Sometimes the societies join a separate union, called a "trading union" organised with share capital and with the societies as members, to undertake the work. Perhaps, on the whole, it was the trading unions that were most successful. But, generally speaking, it is understood that all the societies which undertook this kind of work were satisfied with the results and mean to continue the experiment. The trade done consisted chiefly of Burma rice, salt, kerosene oil, manure, chillies, seed grains of various kinds and cotton seed.

*Avoidance of loss.*—It should be noticed that in doing these transactions, the primary societies and the supervising unions disclaim all responsibility for loss and acted as the agent for the members. The trading unions being based on share capital, in many cases, undertook the risk themselves; but in some cases, where the share capital was not sufficient, only undertook the business as agent. The matter is, of course, in an experimental stage and it will be for the future to show whether the primary societies can undertake all or any of the risk themselves.

*Possibilities of business on this line.*—It seems to the Registrar that there are almost infinite openings for this kind of trade. The attention of co-operators is invited to the following simple calculation. There are in the primary agricultural societies in this Presidency over a lakh and seventy thousand members and it is a fair calculation that taking the average of rich men and poor men, each member purchases for the use of his family and from outside the village Rs. 200 worth of articles every year; and it is not an unfair assumption that practically the whole of these purchases could with sufficient foresight be made co-operatively and, if bought co-operatively, the articles could be bought considerably cheaper than in the local bazaar. If we imagine that the whole of these purchases were made co-operatively and that the profit was not 20 per cent. (the average profit of last year's experiment) but was 10 per cent. the result would be that our societies would have representatives of the society and to the other parties or have them served on the parties concerned by any other suitable and effective method to appear before him on such date as he may fix at a specified place close to the town or village in which the society is situated. If any parties fail to appear after being duly summoned, the case may be decided against them in default. A suitable form of summons has been prescribed.

After noting the evidence very briefly, the arbitrator will draw up his award in the prescribed form. He may include therein an order assessing and awarding the costs of the arbitration. The reasons for the award should be recorded separately and not included in the award itself. The award to be passed in the case of debts due under mortgage bonds has to be a preliminary award giving the defaulter a reasonable time to pay up the dues. In the event of failure to comply with the award, a final award has to be passed. If a debtor admits the claim and asks to be allowed to pay by instalments, the arbitrator will have to consider whether in view of the past behaviour of the defaulter it will be wise to allow payment by instalments. He will be wise to consult the representatives of the society on this point. The terms of the award should be communicated to the defendants at once in the form prescribed and the fact that this has been done should be briefly noted by the arbitrator in the bottom of the award. The awards of arbitrators are exempted from the duty leviable under the Indian Stamp Act and may be written on plain unstamped paper. The entire record of the case should then be forwarded to the Assistant Registrar by post.

If the arbitrator or arbitrators appointed are unable to pass orders within the time specified by the Assistant Registrar, it is open to the Assistant Registrar to allow extension from time to time. If the arbitrator or arbitrators appointed do not decide the dispute within the time specified or within the extended time, the Assistant Registrar may decide the dispute himself or appoint another arbitrator or arbitrators.

The Assistant Registrar will keep the papers in his office and will then forward the original award after retaining a copy in his office to the president of the society with instructions that it should be executed forthwith or as soon as the panchayat thinks fit to do so. He will also send a copy of the order of appointment of the arbitrator to be filed along with the execution petition in the Civil Court.

*Execution of awards.*—If the defaulter still declines to pay, the president should prepare and present to the nearest Civil Court having jurisdiction an application for execution which should be drawn up in the prescribed form. This application should bear an eight-anna court-fee stamp, or if for an amount of less than Rs. 50, a one-anna stamp, and should be accompanied by



the original award. If for any reason the society wishes to keep the original award in its possession it should obtain from the Assistant Registrar and attach a certified copy of the award bearing an eight-anna court fee stamp, if the amount involved is Rs. 50 or less, and otherwise a court fee stamp of one rupee.

The application for execution should also be accompanied by process fees on the scale prescribed in the High Court circulars. The rules are summed up as follows:—

(*a*) If the award be for Rs. 50 or less—

(i) for notice on single defendant—annas 4;

(ii) for simultaneous notice on additional defendants residing in the same village—2 annas for each defendant.

(*b*) If the award is for sums between Rs. 50 and Rs. 500—

(i) for notice on a single defendant—annas 12;

(ii) for simultaneous notice on additional defendants in the same village—annas 6 for each defendant.

(*c*) In other cases—

(i) for notice on a single defendant—Rs. 1-8-0;

(ii) for simultaneous notice on additional defendants in the same village—annas 12.

(*d*) When the above processes have to be re-issued in case of non-service, half fees only are levied.

When an application for execution of an award is not successful in recovering the full amount, and there subsequently appears a chance of recovering the balance outstanding, the society must make a fresh application and pay all the fees again. The application for execution must be presented to the court by a duly authorized representative of the society or by a pleader retained for this purpose. If any due is written off finally as irrecoverable, the Assistant Registrar should be informed of the fact.

A claim made against the principal only under the arbitration rules is likely to bar the claim against the sureties after the award against the principal is converted into a decree in the civil court.

*Suits in civil courts.*—Societies will usually deal with defaulters under the Arbitration rules, but when for any reason these are inapplicable it may be necessary to recover money from persistent defaulters through the civil courts. The secretary or other members of the managing committee should be authorised by a special resolution of the managing committee to file a suit on behalf of the society. A suitable form of plaint as adapted from that prescribed as Appendix (A) of the Civil Procedure Code can be obtained from the Assistant Registrar.

Experiments seem to show that there is some hope of gradually establishing a simple form of retail shop in the villages. The most promising procedure seems to be that an officer of the village society should obtain from the trading union for retail sale a few articles readily saleable in the village and stock these in his own house. The little store will only be open for short periods when found convenient, no establishment will be kept, and no accounts will be maintained except a record of the total amount of goods received from the trading union and of the remittances sent to it and of the cash in hand. Check can be exercised by taking stock at any time, which will be a very simple operation.

Other experiments were made and continue to be made. It is to be hoped that the results of these will be published from time to time for the information of co-operators.

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## CHAPTER VIII.

### Legal Proceedings on Behalf of a Society.

Arbitration.—Applications for arbitration and appointment of arbitrators—Procedure of arbitrator—Execution of awards—Suits in Civil Courts.

*Arbitration.*—The rules issued by the Government under the Act provide for the settlement of disputes through arbitration by an Assistant Registrar or by an arbitrator or arbitrators nominated by him instead of the society having to go to the civil court. It is under these rules that the refusal to pay a debt due to a society by a member is held to be a dispute and can therefore be adjudicated by an arbitrator.

A society should not of course refer under these rules all cases of default wholesale as soon as loans become overdue. It is the duty of the managing committee first to adopt all other possible steps, to enquire into the reason for non-payment, and to give reasonable facilities for payment of the dues either by the principal or his sureties. When these measures are found ineffective, a society can refer the matter to an Assistant Registrar for action under the arbitration rules.

It is believed that co-operators will find it useful that this handbook should contain a brief description of the procedure in referring such disputes to arbitration; and the following pages attempt to give such a description. Forms have been devised for the various notices, applications and orders and these can be obtained from the Assistant Registrar. It has not been considered necessary to print them in this handbook.



*Applications for arbitration and appointment of arbitrators.*—The procedure to be adopted is as follows:—When a borrower persistently refuses to pay his dues, the panchayat should pass a formal resolution authorising the president or the secretary to refer the matter to the Assistant Registrar. If they desire that the matter should be settled by local arbitrators, they may at the same time by the issue of a notice in the prescribed form call upon the defaulter to nominate an arbitrator. If the arbitrator nominated by the borrower is acceptable to the panchayat, the president may request the Assistant Registrar to appoint the person nominated as the sole arbitrator of the dispute. If the person nominated by the borrower is not acceptable to the panchayat, they may nominate an arbitrator of their own and place the whole matter before the Assistant Registrar. The latter will then appoint a third arbitrator and ask the three arbitrators to enquire into the dispute and give a decision. If the panchayat cannot induce the borrower to nominate an arbitrator, the Assistant Registrar may give him a notice requiring him to do so. If he does not comply, the Assistant Registrar may either decide the dispute himself or appoint an arbitrator of his own and ask him to decide it.

Every application to refer a case of non-payment of debt or other dispute to arbitration should be made to the Assistant Registrar in writing by the president or the secretary of a society stating the nature of the claim the matter in difference and the name or names of arbitrators selected by each party. The application should also give the full names and addresses of the defaulter and his sureties. Where the principal or his sureties are dead, the full names and addresses of the heirs of such deceased persons should also be reported. The application has to be sent in the prescribed form.

Where the arbitrators appointed refuse to accept the office, die or neglect to act or become incapable of acting, the Assistant Registrar may call on the parties to make a fresh nomination within seven days of the issue of a notice and, in case of failure to comply with the notice, he may decide the subject matter himself or appoint another arbitrator. Every arbitrator thus appointed to fill such a vacancy will have the same powers as if his name had been inserted in the original order of reference. The Assistant Registrar will issue in the form prescribed the order of reference to an arbitrator appointed in the manner described above and will fix such ~~time as~~ he thinks reasonable for the making of the award and shall also specify such time in the order of reference.

*Procedure of arbitrator.*—The arbitrator on receiving from the Registrar his order of appointment, the papers relating to the dispute and the necessary form of summons, will issue the summonses by registered post to the

# CHAPTER IX.

## The Constitution and Management of a Local Union.

The general body and governing body--The general body--The governing body--Its meetings--Its duties--Affiliation of societies--Sanctioning loans to affiliated societies--Loans from central banks--Supervision by governing body--Supervision by supervisors--How to deal with inspection reports--Scale of union establishment--Miscellaneous duties.

A previous chapter describes the nature and object of the local union. This chapter deals at some length with its constitution, working and management.

*The general body and governing body.*—A union is a society of societies. Each society affiliated is a member and is represented by a delegate appointed by it. The delegates elected by all the societies affiliated form the general body. This body elect from among themselves a governing body to carry on the executive administration of the union.

*The general body.*—The union carries out its duties through the governing body and its paid establishment. But the ultimate control vests with the general body. They must reserve to themselves the following powers :—

(i) the election of the members of the governing body ;

(ii) the framing of the annual budget of estimated receipts and expenditure which is ordinarily submitted to the Registrar or to the District Council of Supervision (where one exists) for approval. This budget is not ordinarily varied except with the approval either of the Registrar or of the Council, or both as the case may be ;

(iii) the fixing of the scale and pay of the establishment, i.e., the supervisor, clerks, etc.;

(iv) the passing of the annual report to the Registrar ;

(v) the consideration of the Registrar's annual audit order ;

(vi) the amendment or the repeal of any existing by-law or the enactment of a new by-law ;

(vii) the consideration of complaints which any affiliated society may prefer against the governing body of the union.

Every delegate should make it a point to attend the general meetings. In the election of the governing body particular care ought to be taken. Each area covered by the union should, as far as possible, be represented, and the most competent of the men available should be selected. In framing the budget due consideration should be given to the needs of the union but any unnecessary expenditure should be avoided.



In order to maintain the interest of the members in the affairs of their societies and the union the meetings of the general body should be held fairly frequently and at least once every half-year. At such meetings there should be placed before the delegates for their information a short description of the work done by the governing body under the heads of—

(1) organisation of new societies,

(2) recommendation of loans to societies,

(3) inspection of societies and the results achieved as the result of such inspections, and

(4) rectification of bad societies.

The general body may also advisedly lay down the programme of work for the union for the next few months in the matter of starting new societies, obtaining further credit from financing banks, and developing the joint purchase and sale of goods or any other activity.

*The governing body.*—As already said the governing body is the executive of the union, and, subject to the control of the general body, they carry out the duties of the union. The general body elect them from among themselves or from members of affiliated societies ordinarily for a period of one year. They elect from among themselves a president, a secretary and a treasurer. The president exercises a general control over the affairs of the union. The secretary is the chief executive officer and the agent of the governing body and it is his duty to bring to their notice all matters requiring their consideration. All correspondence to and from the union office runs in his name, and he is responsible for carrying out the resolutions of the governing body.

*Its meetings.*— The by-laws clearly indicate the duties of the governing body and these cover the most important part of the work of a union. The governing body should therefore meet as often as possible. It is desirable that meetings should be held at least once a fortnight. Every member of the governing body should try to attend the meetings, and no member should be satisfied with leaving the management in the hands of a few of their members. It is often found convenient that the meetings of the governing body should be held on fixed days, such as the new moon and full moon days or the 15th and 30th of a calendar month. This is advantageous both to the members of the governing body and to the societies. The members of the governing body know in advance the date of a meeting and can more conveniently arrange to be present at them than they can at meetings convened on uncertain dates at short notice. The affiliated societies moreover can send their communications to the union—such as loan applications amendments to the by-laws—in time so that they may be disposed of at the periodical meetings. An affiliated society will thus be in a position to know when its communications will be dealt with by the unions. And this method of meeting on appointed days renders unnecessary the issue of notice every time a meeting is held.

*Its duties.*—The chief duties of the governing body are as follows :—

(1) to permit the affiliation and disaffiliation of societies,

(2) to permit societies to take loans other than deposits from individuals and to recommend loans to societies from the central bank,

(3) to assess the credit of societies annually,

(4) to control and supervise the societies affiliated to the union,

(5) to appoint the staff required by the union,

(6) to frame the budget of the union and submit it to the general body,

(7) to express an opinion on all matters referred to them by societies or the Registrar,

(8) to forward all correspondence emanating from societies to the Registrar with their recommendations or opinions and to communicate the replies of the Registrar thereto,

(9) to arrange, when specially required to do so, for the joint purchase of goods required by societies and for the joint sale of the produce of the members of such societies, and

(10) to maintain the necessary account books.

*Affiliation of societies.*—As regards the first, it should be the aim of the union to get all the societies working in the area of operations affiliated to it. Unless a society is very bad, i.e., so bad as to deserve immediate winding up, it should not be refused admission but given a chance for revival through the efforts of the union. A society once affiliated will not ordinarily be allowed to be disaffiliated unless it is dissolved or unless it is affiliated to another union. A society ordinarily may not be disaffiliated without the sanction of the Registrar.

*Sanctioning loans to affiliated societies.*—The by-laws of a rural primary society usually require the society to get the sanction of the union for taking a loan (as distinguished from a deposit) locally from an individual. The object of the by-law is to prevent primary societies from taking money on disadvantageous terms through ignorance or other causes. This power of the governing body will therefore have to be carefully exercised. Unless the terms of the local loan are as advantageous as those of a central bank loan, interest should not be paid at 8½ per cent. per annum. The central bank rate is 8½ per cent. and a loan from that bank has the following advantages :—

(1) The loan is very often for a period of ten or eleven years.



(2) The loan may be repaid at any time and in instalments or in one lump sum.

(3) Abatement of interest is given on part payment of Rs. 10 or multiples of Rs. 10.

(4) The central bank gives a rebate of ¼ per cent. to the supervision fund of the local union.

Indeed it is probable that unless the society is offered the loan at a lower rate of interest than 8 per cent, it is not desirable to accept it.

*Loans from central banks.*—In recommending loans from central banks to affiliated societies, the governing body have a very responsible duty to perform. Neglect on their part means danger of loss to the central bank, as the central bank is generally willing to act on the strength of the recommendation of the union. The chief points to be considered when a society asks for a loan are—

(1) Whether there is a genuine need for the loan asked for.

(2) Whether the loan is within the maximum borrowing power of the society considering its already existing indebtedness.

(3) Whether the society has revised the property statement for the year and sent copies of the statement to the union and other authorities concerned. If not, has it sent a copy with the loan application? No loan should ordinarily be recommended if this has not been done.

(4) Whether the whole loan should be treated as a short or long-term loan, or partly as one and partly as the other.

(5) Is the money urgently required, or may the loan be conveniently deferred to a later date if the central bank finds any difficulty in disbursing it at once?

(6) Whether the society proposes to give loans to its members for suitable purposes and in reasonable proportion to their repaying power.

(7) Whether the society has repaid all its dues to the central bank. Has the society been generally punctual or a defaulter? No loan should be taken by a society merely in order to repay an instalment due to the central bank nor except in special circumstances should a loan be given to a society when an instalment or interest on a previous loan is pending payment.

(8) Whether there are in the society a large number of overdue loans pending collection from members owing to the neglect of the panchayat or other cause. When a large number is pending no new loan should ordinarily be given to the society till its affairs improve.

(9) What does the latest inspection report of the union supervisor say about the working of the society? Has any member of the governing body recently visited the society and, if so, what is his opinion about the working of the society and about the merits of the present application?

The governing body must come to a conclusion after considering the above and other similar points and record their decision by a resolution in the minute book of the union. When a loan is recommended the secretary or other officer who is entrusted with such a duty should send a true copy of the resolution, with the loan application and other papers sent by the society, to the Assistant Registrar or to the central bank, as the case may be. Loan recommendations may be sent direct to the central bank in the case of all societies which have taken shares in the central bank, provided that the central bank has agreed to that procedure. A central bank can legally lend money to its member societies without the sanction of the Registrar but sanction will, under the law, be necessary when a loan is to be given to a society which is not a member of the bank. In doubtful cases the governing body may find it desirable to refer the loan application to their supervisor or one of their own members for enquiry and for fuller particulars. Ordinarily such an enquiry may not be necessary in the case of an application for a short-term loan. Short-term loans required by members are generally not large in amount, and are generally wanted for well-recognised and legitimate forms of expenditure. Moreover delay in providing for such needs may seriously handicap the work of a society and do serious injury to the members.

The extent to which a society may reasonably desire to borrow in a given year may conveniently be considered by the general body of the union at the annual general body meeting. The extent will depend upon the aggregate assets of the members of the society and their requirements. It must not of course exceed the 'maximum borrowing power'. The representative of each society affiliated to the union will ordinarily bring to the annual general meeting an estimate of the requirements of the society as adopted by its general body and as prepared in the manner suggested in Chapter III of this manual. The general body meeting will provide an admirable opportunity for discussing and, where necessary, amending these estimates. Resolutions will be passed approving these estimates as originally proposed or as amended; and these will guide the governing body in the ensuing months. It is not desirable however that the governing body should be too strictly fettered by these resolutions since it may be necessary in special cases to exceed the limit laid down. The forecast of requirements of societies is of course particularly useful to the central bank as it will enable the bank to find beforehand the necessary money required and to give it in proper time. The forecast should always be communicated to the bank.



*Supervision by governing body.*—The main object with which a union is started is to control and supervise the affiliated societies. The reputation of a union depends therefore upon the good working of the societies, and their good working depends upon the extent to which the union exercises its influence over them. The union carries out this important duty through the members of its governing body and through its paid establishment. Not infrequently each member of the governing body is entrusted with the care of two or three societies in his neighbourhood. It will be his duty to go to such societies, give them advice, watch their work and render them all the assistance they need. When the state of affairs of a particular society requires special attention, one or more members of the governing body are specially asked by a resolution of the governing body to visit the society and put it right; or a meeting of the governing body itself is arranged to take place at the village. At such visits the governing body members, owing to their local influence and business knowledge, are often able to bring round the society either immediately or gradually to its normal state.

*Supervision by supervisors.*—The ordinary routine supervision is done by one or more paid men called "supervisors". Ordinarily one supervisor is employed to look after some 20 societies. The duties and responsibilities of a supervisor are set forth in by-law 14 of the model union by-laws and this is reproduced below:—

"The examination of societies by a supervisor shall not be restricted to a mere arithmetical audit of books and balance sheets. The supervisor shall see that the administration of each society entrusted to him is carried on in strict conformity with co-operative principles, with its own by-laws and with the by-laws of the union. The supervisor shall assure himself that the members of the panchayat of each society work in a spirit of harmony and justice, that they fully understand the principles of co-operative societies and the correct method of working them, that the defects pointed out in previous inspection reports have been remedied, and that the orders passed from time to time by the Registrar and the Union have been carried out. The panchayat of each affiliated society shall give the supervisor every assistance in their power".

"It shall be an integral part of the duty of the supervisor to teach co-operative principles to the members of societies".

It stands to reason that as the executive management of a society is in the hands of the panchayat, the first business of the supervisor is to help and advise the panchayatdars. But his duty does not end there. One of the chief dangers in a co-operative society is that the ordinary members may leave its whole management entirely in the hands of the panchayat and may themselves take little or no interest in its affairs. This is of course contrary to the principles of Co-operation, and it is necessary that the supervisor, while taking the greatest care not to undermine the influence of the panchayat, should do his best to ensure that the general body of the members take an intelligent interest in the progress and welfare of the society. For this purpose it is essential that the supervisor should try and convene a general meeting of the members in every society visited by him, and he should in any case secure the presence at his inspection of as large a number of the members as is possible. Apart from any explanation that may be necessary of the by-laws or of the principles of co-operation, it will be his duty to read out to those present the entries in the cash-book for the period under inspection; to point out to them any defaults which have occurred in repaying the financing bank's dues and the penalties incurred thereby; to read out the list of defaults by members in repayment of loans obtained by them from the society; and, where necessary, to bring to prominent notice the risks to which the members in general are exposed if they fail to take an interest in the affairs of the society and are content to leave them too exclusively in the hands of the panchayat. A good deal of tact, persuasion and patience will be needed on the part of the supervisor in placing these risks before the assembled members so as to create in them a genuine interest in the society's affairs, without hurting the feelings of the panchayatdars. No doubt it is essential that serious faults due to neglect on the part of the panchyatdars should be brought to the notice of the general body; but unless they are of a very serious nature or the panchayatdars are obstinate in refusing to rectify them, the other members should not be encouraged to think disparagingly of the work of the panchayat. To induce a spirit of harmony amongst the members of the society should be the chief aim of a supervisor.

The visits of a supervisor to a society should be of sufficient duration; a single day's flying visit to a society generally does very little good. A stay of two or three days at a time will be much more valuable. To avoid disappointment and consequent waste of a supervisor's time, he should send previous intimation of his arrival to the society which he proposes to visit, so that the records may be kept ready for him. Besides meeting the members at general meetings, he should meet some at least of them individually at their residence, verify the accounts of the sums received by them as loans from the society, press them to repay the prescribed instalments in case they have committed default, and in general try to win their confidence, advise and, where necessary, instruct them.

The examination of a society's accounts and records should be attended to at each visit. Except in the case of a few big societies having a large number of transactions, the inspection of accounts ought not to take much of the



supervisor's time if his visits are well-regulated, and it is desirable that he should spend more time in personal intercourse with the members than in sitting down at the society's books. He should also see that references to societies which remain unanswered are replied to without delay and that the instructions issued to them by the Assistant Registrar, the central bank and the union are duly attended to. He should note whether the societies are acting up to their by-laws and bring to the notice of the union any instance of serious infringement.

To facilitate his work he should keep up to date the copy of the by-laws of societies maintained in the union office, noting the alterations sanctioned by the Registrar from time to time.

He should see that the resolutions in the minute books of the society are suitably worded and complete in themselves. All transactions on the side of both receipts and disbursements must be supported by resolutions of the panchayat or of the general meeting in cases in which such items have to be sanctioned by the latter. Items of a recurring nature, such as monthly payments of savings deposits or repayment of loans by members or payment of monthly salaries to the clerk or peon, do not require a resolution each time they are incurred, provided the charges have been duly sanctioned at the outset. He should see that all items under receipts and disbursements according to the cash-book are properly and correctly ledgered in the several subsidiary registers. He should prepare a statement of receipts and disbursements every time he visits a society and bring it up to the date of his inspection, noting the fact under his remarks in the audit order book, where one is maintained, or in the minute book. The remarks should be written in the vernacular and should mention all the defects noted by him together with instructions as to how to avoid or rectify them. He should note at the next visit how far the defects pointed out by him in previous inspections have been rectified.

The supervisor should prepare his inspection report in the vernacular or in English as may be ordered by the governing body of the union. The report should not be verbose but should note in narrative form the state of affairs in the society and the steps taken by him to improve it. He should prepare his report in triplicate by means of carbon paper. He should maintain an office copy and should send a copy each to the union and, where instructed to do so by the union, to the Assistant Registrar.

The supervisor is a servant of, and absolutely subordinate to, the union, and he must carry out promptly and loyally all orders issued by the governing body. He should submit to them a periodical diary (preferably every week or fortnight), in a narrative form, as to the work done by him. This should be placed before the governing body at its next meeting so that remarks as to the sufficiency and efficiency of the supervisor's work can be passed and communicated to him.

It will be found convenient—and many unions insist—that the supervisor should send each half-year inspection reports of each society in the union. It will be most convenient that the first half-yearly inspection should be closed by the 31st March of each year. For this purpose the supervisor should make a suitable stay in each village, rectify all defects in account-keeping and arrange for the collection of overdues and in very bad cases for the filing of suits in a civil court or under rule XII of the rules framed under the Act. The property statement should be thoroughly revised, and the liability register should be brought up to date, any delay in the repayment of instalments and interest by the societies to the financing banks should be noted and a copy of the property statement should be sent to the union. The unions ordinarily send a consolidated statement of all the societies together with the half-yearly reports to the Assistant Registrar for his information and with its own remarks.

A supervisor should draw up a programme showing the societies which he proposes to visit in the ensuing month. This programme should be submitted in duplicate for the approval of the governing body in the last week of the expiring month. As a rule, every society should be visited at least once every quarter. Indifferent and bad societies require more frequent visits. The union authorities will either approve of the supervisor's programme or make alterations in it. The programme as passed by the union should not be deviated from by the supervisor except under special circumstances or with the previous approval of the union authorities or in case of emergency at the request of the Assistant Registrar in charge of the section. A supervisor is expected to be on tour for at least 20 days in a month.

The duties of the supervisor are similar in many respects to those of a Government Inspector, and supervisors will probably find it beneficial to read the instructions intended for an Inspector in the departmental manual published separately. It is well, however, that both supervisors and inspectors should remember that no code of advice or instruction can be exhaustive, and that much will always depend on their own good sense and good feeling in dealing with the various circumstances that may arise in individual societies.

*How to deal with inspection reports.*—On receipt of an inspection report from the supervisor, it should be placed before the next meeting of the governing body of the union for such action as may be deemed suitable. It should be read at the meeting, and if it does not disclose any serious irregularities, and if the governing body is satisfied with the action taken by the supervisor in remedying defects, a resolution to that effect will ordinarily be passed thereon and the report will be recorded.



If, however, the governing body should consider it necessary to issue further instructions to the supervisor or to the societies, the action already taken by him not being adequate or satisfactory, it will no doubt resolve to issue such further orders to him. If the irregularities pointed out are of a grave character (as for instance, if the society continues to be obstinate in not rectifying omissions already pointed out, or if the society has committed default in remitting its dues to the financing banks, or if there are large overdue loans from members), the governing body of the union may resolve at its meeting to issue a warning in writing to the society, pointing out the omissions and exhorting it to take steps to rectify them. If the state of a society continues to be bad in spite of such a warning, the governing body may resolve to depute one or two of its own members to visit the society in order to convene panchayat or general meetings, speak to the members about the defects in the working of their society, ascertain by diligent inquiries on the spot the causes at the root of the trouble, suggest remedial measures for removing them and induce the members to adopt the same. In the case of societies having long outstanding overdue loans from members, the governing body may resolve to call for lists of defaulting borrowers in them and issue advisory instructions as to how to proceed in each case. It is the duty of the societies concerned to obey the orders so issued.

Unions ordinarily keep the Assistant Registrar informed of the action taken by them with regard to supervisor's reports; and this is manifestly a very convenient practice.

*Scale of union establishment.*—It has already been said that to carry out the duties of the union, it should maintain the necessary establishment. This should be adequate without being lavish. The men employed should be adequately paid with (at the same time) due reference to the funds at the disposal of the union. Ordinarily a union will require one or more supervisors; and, if funds permit, it is desirable it should also entertain a clerk. The supervisors are usually paid a monthly salary of Rs. 20 to Rs. 40. The commonest scale is Rs. 30—2—40, the increment being annual. In addition they are given either a fixed travelling allowance ranging from Rs. 7 to Rs. 10 a month, or travelling allowance according to the Civil Service Regulations. Supervisors are under the existing system selected by the governing body members from among men certified by the Registrar to be fit to hold such posts. The practice usually adopted is that the union selects the man and sends him to the Assistant Registrar for training.

*Miscellaneous duties.*—The union will find it a good plan to obtain every month from each society on a prescribed date (say on the 10th of each month) a statement showing the receipts and disbursements of the society under the various heads. This statement will show the final totals for the month in the monthly posting register maintained by the union under each item of receipt and disbursement. The statements received should be placed before the governing body at its meeting. Any remarks as regards, for instance, heavy cash balance or debts overdue to or from the societies may be made thereon and communicated by the secretary to the societies concerned for their information and guidance.

The governing body should of course keep a close watch over the indebtedness of the affiliated societies to the financing banks and send timely reminders to them to remit their dues under principal and interest.

The governing body should consider whether it will not be a convenience to the societies to undertake to receive the remittances to the bank from the societies and forward the consolidated collections to the bank in the manner prescribed in a former chapter, and also to undertake to get from the financing bank all the loans sanctioned by it to its affiliated societies and pass them on to the societies concerned. In some cases it may even be desirable that the union should depute its supervisor to be present when the societies disburse such amounts to the members. The union will in such cases require affiliated societies to intimate to it the date when the supervisor has to be present for the distribution of the money.

The governing body should see that the annual revision of the property statement in each society affiliated to the union is properly carried out. The supervisor should make careful inquiries and see if the figures returned by the panchayat are fairly correct. The union will not, as already noted, ordinarily recommend any loan to a society until the annual revision of the property statement is completed. The union should keep a consolidated register for all the affiliated societies with the headings of the property statement and into this register the totals of all the columns should be brought against each society. The union should also see that copies of the property statements are sent to the financing banks and the Assistant Registrar.

The union will desire to organise and start new societies within its area of operations. It is desirable to do most of this organising work not in isolated localities but in contiguity or close proximity to existing societies. A member of the governing body of the union may conveniently be deputed as an organiser, and on receipt of his report the governing body may pass its resolution and transmit the papers to the Assistant Registrar. On



receipt of orders from the Assistant Registrar registering the society, the union will ordinarily depute the member who organised the society or its supervisor to start the new society.

The union will probably find it a convenience to all concerned to arrange to obtain from the usual suppliers and keep in stock a supply of bound account books and other forms usually required by societies. These it can supply to its societies whenever required once in every month, the amount recovered from the societies under this head being remitted to the supplier. A regular account showing the receipt and issue of books and forms and the amount remitted therefor should be carefully maintained in the union office. The establishment of a depot of this kind for the necessary account books and forms will greatly minimise the delay and cost involved in obtaining them from the supplier every time a society wants them.

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## CHAPTER X.

### Privileges given by the Government to Co-operative Societies.

Exemption from payment of registration fees—Exemption from payment of stamp duty—Exemption from payment of income-tax—Remittances through Government treasuries—Public accounts in Post offices—Deposit of safes in Government treasuries—Free supply of survey maps and settlement registers—Free publication of audit orders in District gazettes—Share or interest not attachable by a civil court—Society entitled to enforce its claims in priority to other creditors—Society entitled to adjust towards its dues any amount available to the credit of a member or past member—Certified copies of documents admissible as evidence—Exclusive right to the use of the term "Co-operative"—Summary method of liquidation and arbitration.

1. All fees payable under the law of registration for the time being in force are remitted in respect of instruments executed by or on behalf of any registered co-operative society or by an officer or a member of such a society and relating to the business thereof. The Local Government may at any time withdraw such exemption in the case of any society.

2. A co-operative society is exempt from payment of the stamp duty with which, under any law for the time being in force, instruments executed by any officer or member of any such society and relating to the business of the society (other than cheques of individual members drawn against their current accounts with co-operative banks) are chargeable.

3. A co-operative society is exempt from the income-tax payable in respect of the profits of any such society or of the dividends or other payments received by the members of such society on account of profits.

4. Co-operative societies are authorised to send remittances to one another through Government Treasuries by means of remittance transfer receipts at par.

5. Co-operative societies are allowed the privilege of opening "public accounts" with post offices to lodge their surpluses. Head and Sub-Postmasters have been authorised to open public accounts on behalf of co-operative societies in anticipation of the sanction of the Postmaster-General in all cases in which the application to open the account is made or endorsed by the Registrar of Co-operative Societies. Public accounts have certain advantages over ordinary private accounts.

(a) The prohibition against deposits in the names of two or more persons jointly does not apply to public accounts.

(b) The annual limit of Rs. 500 and the maximum limit of Rs. 5,000 for deposits as well as the limit of Rs. 5,000 for calculation of interest do not apply to public accounts. But no public account may have at any time more than Rs. 10,000 at its credit, exclusive of interest for the current year, and no interest will be credited on any sum in excess of Rs. 10,000.

(c) The limitation imposed on the amount of withdrawals within a calendar month from the deposit at call at the credit of a public account is raised considerably.

6. A co-operative society is allowed the privilege of depositing its strong box for safe custody in Government treasuries on suitable conditions subject to the sanction of the Collector

7. Co-operative societies are supplied free of charge with survey maps and settlement registers of the village included within the limits of operations.

8. Government have been pleased to sanction the publication, free of charge, in the district gazette of such annual account and audit reports of co-operative societies as are forwarded to Collectors for the purpose by the Registrar of Co-operative Societies.

9. Subject to the provisions of section 20 of the Co-operative Societies Act, the share or interest of a member in the capital of a society shall not be liable to attachment or sale under any decree or order of a court of justice in respect of any debt or liability incurred by such member, and neither the Official Assignee nor a Receiver appointed under chapter 20 of the Code of Civil Procedure shall be entitled to or have any claim on such share or interest.

10. Subject to any prior claim of the Government in respect of land revenue or any money recoverable as land revenue or of a landlord in respect of rent or any money recoverable as rent, a society shall be entitled in priority to other creditors to enforce its claims—



(a) upon the crops or other agricultural produce of a member or past member, at any time within a year from the date when seed or manure was advanced or money for the purchase of seed or manure was lent to such member, or past member, in respect of the unpaid portion of such advance or loans;

(b) upon any cattle, agricultural or industrial implements or raw materials for manufacture supplied by the society or purchased in whole or in part with money lent by the society in respect of the outstanding liability on account of supply of loan.

11. A society shall have a charge upon the shares or interest in the capital and on the deposits of a member or past member and upon any dividend, bonus or profits payable to a member or past member in respect of any debt due from such member to the society, and may set off any sum credited or payable to a member or past member in or towards payment of any such debt.

12. Copies of accounts certified under rule VI are admissible as evidence in courts (section 26 of Act II of 1912).

13. Registered co-operative societies are given the exclusive right to the use of the term "Co-operative" (section 47 of Act II of 1912).

14. They are also given a special summary method of liquidation and special facilities for settling their disputes by arbitration in lieu of resorting to civil courts.

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## CHAPTER XI.

### The Ten Points of Co-operation.

1. Each for all and all for each. This is the grand rule of co-operation.

2. Since in a society each is responsible for the debts of all the others, we must admit as members only men known to us to be men of good character who will not deceive the society. We must not refuse to admit a good man merely because he is poor.

3. We must give loans only for good and useful purposes. We must fix the instalments so that the member can pay easily. The member must always pay according to the instalment. Then there can be no loss.

4. We must give members all loans they reasonably require. If members borrow outside at high rates they become weaker and not stronger.

5. We must never permit a poor member to sell his produce for a low price for want of a loan. That must be a law.

6. Each member must supervise the conduct of the other members. The panchayat must conduct the business of the society, but the panchayat is subordinate to the general body members.

7. We must not only borrow; we must also save and deposit in the society. It is only in the beginning that saving is hard.

8. If ten people buy jointly their agricultural and domestic requirements, they will buy them cheap. Therefore, we must always try to buy our requirements jointly. Joint sale also is often profitable.

9. The union supervises the societies just as members supervise other members.

10. Our society is a shareholder in the central bank, and if the bank is strong we are strong. Therefore if we benefit the bank we benefit ourselves.

## APPENDIX i.

### The admission of Poor Men to village Societies.

Classification of members according to property—Societies declining to admit poor members—Co-operative ideal to help the poor—Earning power as security—Poor men: good payers—Death of member not a great risk—Poor men: good sureties.

*Classification of members according to property.*—The Registrar invites the attention of co-operators to the statistics prepared for the first time this year showing the numbers among members of rural societies who are landholders, landless tenants and field labourers. The total number of members in rural societies in round figures is 171,000, of whom 127,000 live exclusively by agriculture; and these have been classified according to the latest reports as 13,000 non-cultivating landholders, 93,000 cultivating landholders, 17,000 tenants and 4,000 field labourers.

*Societies declining to admit poor members.*—These figures would seem to indicate that there is a considerable tendency among our rural societies to decline to admit, or at any rate to abstain from inviting to join, the poor people of the village, since the Registrar understands that in an ordinary village the proportion of the agricultural inhabitants who do not possess any land of their own to the actual landowners is a great deal higher than the proportion of landless agricultural members to land-owning agricultural members in rural societies. The Registrar does not pretend that these figures are absolutely accurate and no doubt they may be to some extent misleading, owing to the fact that a good many tenants, especially those cultivating wet lands, have as a matter of fact got a little dry land of their own; but it is difficult not to be gravely apprehensive that the above figures



do give a substantially true picture of the situation. Indeed the Registrar has discussed this question with the representatives of several hundreds of societies during the last few months and they have generally agreed that the picture suggested by these figures is substantially a true one.

*Co-operative ideal to help the poor.*—All co-operators would agree that if this is the case, we are running a serious risk of falling a long way below the co-operative ideal. The Registrar would remind co-operators that the essence of co-operation is that it enables the poor and the weak to obtain fair treatment and fair means of livelihood. And if our societies cannot help the poor and the poorest, there must be something wrong about their co-operation. It is of course true that co-operation cannot work miracles and cannot give a decent livelihood to anybody who is not trustworthy or who is absolutely incapable of earning a livelihood. And indeed the only class of poor men that co-operation can really help is the hardworking honest man. But any hardworking honest man, however poor, ought to be able to earn a decent livelihood by means of co-operation and ought to be a suitable member of a co-operative society.

*Earning power as security.*—It is sometimes argued that it is unsafe to lend money to a man who has little or no tangible property. The answer would appear to be that if the man has earning power and honesty, it does not matter whether he has property or not. If he has earning power, he can put himself in a position to repay by his bodily labour. It is often forgotten that if a man, without resorting to either theft or beggary, has succeeded in keeping himself and his family alive for a number of years, that fact alone is sufficient to prove that he has an earning power sufficient to enable him to pay back his dues to a co-operative society. The man may, it is true, have become indebted to the sowcar; but these debts are generally not overwhelming; nor, as a matter of fact, does their existence disprove the argument. Indeed, it rather supports it, since if a man has been able to keep his head above water in spite of the fact that he had to get all his money from the sowcar instead of from a co-operative society, it might fairly be asked, how much more easily would he not keep his head above water if he was a member of a co-operative society.

*Poor men—good payers.*—It might be taken, therefore, that an honest hardworking man is capable of repaying to a co-operative society any loan that he may reasonably require for his domestic or agricultural needs. It is, however, frequently argued that, if he is a poor man, it is not possible to trust him to repay; or in other words, that though he may have the power to pay, he will not have the honesty to do so. This would appear to be a bad argument though it is very frequently used. Indeed, if it was really impossible to trust to the honour and honesty of our village members to pay back their dues to their society, and if our societies only relied upon tangible security, there would be little difference between them and the ordinary sowcar's shop; and the outlook before us would indeed be black and discouraging. The Registrar does not believe that this is the case; and he would ask co-operators to consider whether it is really impossible to trust a a man of the same village who has lived there and has been known to them all his life, whose father and grandfather lived in that village with their fathers and grandmothers, and who has shown himself an honest hard-working fellow. It would seem to the Registrar to be opposed to the well-known facts of human nature to suppose that trust cannot be placed in such a man with absolute safety. Indeed it might be urged, and fairly so, that the argument from experience is opposed to such a supposition, since it is found in practice that in the majority of cases the poor men are very much better payers than the rich members of our co-operative societies. It is indeed a well-known fact that the arrear list of any rural co-operative society in an ordinary year contains the names of a majority of well-to-do people who are perfectly able to pay their dues if they had the will to do so, and that default by poor people, except for reasons over which they have no control is, comparatively speaking, rare. Nor is the reason far to seek. The well-to-do man has not the same reason to care whether he retains his credit with his co-operative society or whether he does not. If his co-operative society won't lend him money, he can easily get the money on fairly reasonable terms elsewhere, and he can afford therefore to snap his fingers at the society. This is not the case with a poor man, since, if he loses his credit with the society, he is driven into the arms of the rapacious sowcar.

*Death of member not a great risk.*—It might of course be urged—and indeed often is urged—that there remains the danger of a poor man without tangible security dying unexpectedly and therefore being unable to repay. This is of course an undoubted danger; but it is still a remote and limited one. Such cases are not likely to be frequent; but supposing such a man does die still owing money to the society, he has wives and children and perhaps brothers who might be relied on to endeavour to discharge a portion of the debt. It is possible also that some well-to-do friend or sympathiser may help the family; but if the worse comes to the worst, there is not likely to be any very large amount left uncollected in the end; and such small losses are precisely the sort of unforeseen losses to cover which, each society maintains a reserve fund. It would seem, therefore, that the risk of loss through the death of members is a risk which any society may reasonably be expected to take.



*Poor men—good sureties.*—The Registrar has also noticed in his recent tours that there is a considerable disinclination among village co-operators to accept one poor man of however good a character to act as surety for another poor man. This reluctance appears to be based on a fundamental misconception as to the main utility of a surety. It is the common experience of all co-operators that it is of the rarest possible occurrence that it is necessary to make a surety pay up the dues of a member for whom he has given security. But no one would maintain on that account that it was useless in the other case to insist on a surety being given. The fact would really appear to be that the main business of the surety is to keep an eye on the principal debtor, to remind him of his debt to the society and to see that he pays it when he is in a position to do so. All this trouble the surety takes off the shoulders of the panchayat and he does the work particularly well since his own property is in danger if he fails. Hence ordinarily he does not fail. But is a poor man less capable of doing this work in the case of a debt due to another poor man than a rich man would be? Surely the answer is in the negative. If we imagine a rich man worth several thousand rupees and a poor man worth some fifty rupees respectively standing surety for a debt of thirty rupees due by a field labourer, which of the two sureties will be the most anxious that the debtor should not default? Surely and obviously it will be the poor man. The loss of thirty rupees to the rich man would be nothing, while to the poor man the loss would be disastrous; and hence the poor man will be far readier than the rich man to take the utmost pains to see that no default occurs. Furthermore, it is reasonable to suppose that the poor man will naturally be more closely in touch than the rich man with the principal debtor, since both he and the principal debtor belong to the same social status and he will thus be in a better position to keep a watch on his movements. Again, there is one serious disadvantage about calling on a poor man to bring a well-to-do surety. It is far too often the case that the well-to-do surety expects the poor man for whom he is standing as a surety to be at his beck and call during the currency of the debt, to plough for him, work for him, run messages for him and to neglect his own profession just when it is most inconvenient to do so. All these evils would be avoided if the surety is a poor man of the same status as the debtor.

The Registrar earnestly hopes that all co-operators will give due weight to the above considerations and will endeavour by precept and by example to see that in future, in our village societies, poor men are not refused as members or as sureties merely because they are poor and that in India, as in every other country of the world, it shall be the poor man who shall be the chief object of the solicitude of co-operators.

plough to-morrow. His family is crying for food—he cannot wait for several weeks to buy it for them. The village headman comes to-day and the kist must be paid at once. It would seem, therefore, that if our societies are to meet all the urgent requirements of their members, means must be devised of getting money without delay from the central banks. Very urgent demands for trifling amounts may perhaps be met from the cash balances of the society; but village societies cannot, and ought not to, maintain large cash balances; and all serious demands must be met from the central bank. The Registrar is aware that most of the central banks are devoting very earnest consideration to this problem. The Madura-Ramnad Central Bank indeed gives cash credits to some of its affiliated societies which can be drawn upon at any time. In the case of the Vellore and Coimbatore banks and in some others, recourse is had to a different precedure which, so far, has given satisfactory results. Societies are invited to prepare beforehand at the beginning of the year a rough estimate of the amounts that will be required by their members from time to time for urgent purposes during the year, and of the times at which those sums will be required. The total of these requirements is then added up and an application is sent through the ordinary channels to the bank for a loan of the total amount so estimated. When the necessary sanctions have been obtained, a bond for the amount is executed. The full amount is not however drawn at any one time. The bank knows roughly at about what seasons each instalment of the money will be required and arranges to have the money ready accordingly. The society does not call for any instalment of the money until it actually wants it. But as soon as any of the money is required, it writes up to the bank and obtains the money by return post. This continues throughout the year so that the members get their money when they want it and without delay. Interest of course is only paid for the exact amount of the money used and for the exact period for which it is used. The above appears to be a fairly simple and yet efficient method of working which is commended to the consideration of societies and central banks.

(2) *Societies reluctant to give more than one loan at a time.*—The second reason why members do not always get the necessary accommodation from their societies is that some societies have a curious reluctance to give a man more than one loan at a time. Indeed cases are not unknown where a society, having already given a man a long-term loan to repay a prior debt, refuses him any other assistance so long as any of that debt remains unpaid. A little consideration must surely show that such a procedure is disastrous. To take the last specific instance, it is surely obvious that the member must still borrow for cultivation, to purchase food, to pay kist and so on, and, if



he cannot get the money from the society, he must go to the sowcar. Thus he painfully erects a new edifice of prior debts which he will no doubt some day ask the society again to pay for him. Thus he remains little better off than he was when he first joined the society. And the same argument applies to all cases where a society refuses to advance money to a member, which it is absolutely necessary for the member to have, merely on the ground that he already owes them money. If the society does not lend, the sowcar will. The sowcar's terms will be much more severe than the terms of the society. This sowcar will take special pains to exact payment of his dues and the result will be that the unfortunate member will be in a much less favourable position for paying the debt that he has already borrowed from the society, than he would have been had the society lent him the second debt also. Of course, when a man becomes hopelessly involved, the society can help him no more. But until that point is reached, it is necessary that societies should find for all their members all the accommodation that they reasonably require. If they do not do so, they injure the member and injure themselves.

(3) *Lethargy of panchayats.*—There is one other reason which is responsible to some extent for societies not giving sufficient loans to their members, and that is the disinclination of the secretaries and panchayats to take the necessary amount of trouble. It is, however, of such tremendous importance that members should be kept out of the hands of the sowcar that the Registrar believes that panchayats, when they recognise its importance, will have the self-sacrifice and sense of public duty to make it a rule that never, for want of trouble on their part, shall a member be unable to obtain a loan which he may reasonably expect to be given.

## APPENDIX ii.

### Adequate Loans to Members.

*Figures showing proportion of loan to members.*—Fewer loans than members—Needs of an ordinary member—Needs met by village sowcar—Reasons why societies do not meet members' needs :—(1) Slow procedure of financing banks—(2) Societies reluctant to give more than one loan at a time—(3) Lethargy of panchayats.

*Figures showing proportion of loans to members.*—The Registrar invites the attention of co-operators to the figures which show respectively for the last six years the total number of loans given in rural societies as compared with the total number of members in those societies. The figures are as follows :—

Loans granted by agricultural societies in lakhs of rupees.

| Year. | Number of members. | Working capital. | Total loans. | | Loans for reducing prior debts. | | Loans for productive purposes. | | Loans for non-productive purposes. | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Number. | Amount. | Number. | Amount. | Number. | Amount. | Number. | Amount. |
| | | LAKHS. | | LAKHS. | | LAKHS. | | LAKHS. | | LAKHS. |
| 1918-19 .. | 170,782 | 122·96 | 77,878 | 66 10 | 18,338 | 24·25 | 57,616 | 40·70 | 1,924 | 1·15 |
| 1917-18 .. | 136,054 | 97·99 | 58,864 | 49 69 | .. | 18·86 | .. | 29·77 | .. | 1·06 |
| 1916-17 .. | 118,939 | 88·08 | 49,277 | 45·38 | .. | 18·55 | .. | 25·99 | .. | ·83 |
| 1915-16 .. | 100,761 | 74·95 | 38,773 | 33·81 | .. | 13·93 | .. | 19·08 | .. | ·79 |
| 1914-15 .. | 90,688 | 64·53 | 32,298 | 26·44 | .. | 10·74 | .. | 15·[illegible]4 | .. | ·65 |
| 1913-14 .. | 77,733 | 55·80 | 29,304 | 26·33 | .. | 11·57 | .. | 14·08 | .. | ·69 |

*Fewer loans than members—Needs of an ordinary member.*—From the above it will be seen that for the series of years, the number of loans is never equal to the number of members and indeed is usually about one-half or one-third that number. But it must surely be obvious to any one acquainted with the condition of rural life that the majority of the members of the rural co-operative societies need to borrow not once but several times during the course of the year. It is of course the case that in most societies there are a few members of such a substantial position that they do not need to borrow at all or only borrow very occasionally. But these must be regarded as the exception rather than the rule. On the other hand, the ordinary member generally wants a loan at the cultivation season, by which time most of his cash in hand will have been spent ; a few weeks later, he will probably run out of his stock of food and will again want money ; later still, the festivals come on at which he and his family must have decent clothing and for this also he wants money ; then the kist arrives and this must be paid at once ; sometimes his crop has not been harvested and he must of necessity borrow, and even if his crops have just been harvested, that is not the proper time to sell as the prices are unduly low, and he ought to be willing and able to borrow money to pay the kist so that he can sell his produce when the prices have attained a decent level a month or two later. It is not pretended that the above is an accurate or exhaustive picture, but most people with whom the Registrar has discussed this question—and he has discussed it with many hundred co-operators—agree that the picture given above is at any rate a substantially true one.



*Needs met by village sowcar.*—It is clear from the figures given above that all these various needs are not met by our co-operative societies. It is equally clear that they must have been met from somewhere or other. Members must cultivate, they must feed their families, they must pay their kist, and indeed it is almost equally necessary that they should buy new cloths for the great festivals. If the society does not give them the money for this purpose, who does? The answer must surely be the village sowcar. And can our societies contemplate with equanimity the fact that their members are regularly obtaining finances from the village sowcar? Surely it is the case that when the ordinary ryot obtains a loan from the village sowcar, it is almost invariably part of the arrangement that the money should be paid at harvest time, when prices are at their lowest ; sometimes even that they should be paid in grain on the threshing floor ; sometimes that the sowcar himself should measure all the produce (a source of, it is understood, frequent loss) ; and sometimes that the price at which the produce is estimated should be one fixed beforehand and below even the market rate at the time of harvest. It is difficult to estimate the amount of loss which such a system inflicts upon the co-operator. The Registrar has listened to estimates of the loss made by many hundreds of co-operators. It is generally estimated at about Rs. 20 an acre, sometimes at a smaller figure, and sometimes at a much larger one. Surely all co-operators must desire that members of our co-operative societies should not be exposed to such a loss.

*Reasons why societies do not meet members' needs. (1) Slow procedure of financing banks.*—The reasons why our societies do not meet the regular recurring urgent need of their members would appear to be two-fold. The first and most obvious is the fact that hitherto our financing banks have found it difficult to meet the obligations of societies for loans with sufficient promptitude. It is well-known that the formalities for obtaining a loan occupy several weeks, and it is clear that if a need is urgent, a man cannot wait several weeks for his money. It is raining to-day—the ryot must