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RURAL SOCIETIES—THEIR CONDITION—A SCHEME OF REORGANISATION.

(A Review of the Annual Reports, 1924—25, Bengal, U. P., C. P., Burma, and Bombay.)

MR. K. G. SIVASWAMY.

Publicity—the bedrock of Co-operation.

Co-operators in the Madras Presidency should consider themselves extremely fortunate that the provincial reports of other provinces do not indicate a shyness as in their own province to analyse the growing defects in the movement, give them due publicity and boldly face the issues which have arisen in the wake of expansion of the movement. Report after report in Madras tries to explain away the heavy overdues and loss societies by a reference to calculation of profits, period of the loan and seasonal conditions. Glowing reports are doubtless due to an attitude of mind which results in giving a false sense of security to the public, as will be evident from a recent speech made at a farewell function in July last by Rao Bahadur M. K. Venkatachariar who said that, in the infancy of the movement, publicity of defects would retard its growth. The strength of a cause lies in the exposition of its vitally weak spots which alone will pave the way for their rectification. The strength of co-operation lies in publicity which is enjoined on the Department under Section 17 of the Act dealing with the annual audit of accounts. The earlier this vital principle is recognised, the quicker will be the reconciliation of official and non-official views as well as the sound progress of the movement in the years to come.

Dangers of Mortgage Credit

Conditions here are not different from those in other provinces except in the Punjab where non-official effort has far less scope for work, and according to the U. P. report "the movement is run mostly by the official agency." Hasty organisation and defective supervision are mentioned as the causes for the increasing of bad societies in the provinces of U. P. and C. P. The Bengal report makes a specific reference to the fact that all our ills are due to want of Co-operative character in the issue of loans. Do we insist that every loan should be paid out of its proceeds? Is it not common knowledge that loans are given and used irrespective of the useful purposes on which alone they should be spent? Here is what the Bengal report writes on this subject. "To bring to a credit based on mutual liabilities and responsibilities the aid of material and mortgage security is to undermine the very foundation on which it rests and I have not the slightest doubt that in several areas, failure on the part of the local management to give adequate attention to the co-operative education of members and the reduction of overdues is due to a false sense of security engendered by a free use of mortgage security. It is a well-known saying in banking circles *that banking is an easy business provided one distinguishes between mortgage and personal security*."

The C. P. report makes a reference to the fixation of instalments without any relation to the purpose for which a loan is to be used, and another common evil noted in the same report is given below. "The grant of large loans to a single society is unobjectionable provided the needs of other members are fully met and the member taking a large loan is punctual in repayment. If these conditions are not fulfilled, the absorption of a large proportion of the funds of societies by a few members is open to the gravest criticism both from a financial and co-operative point of view."

Dangers of a low rate of interest.

The Burma report reinforces the argument in the Bengal report about the evils of cheap credit to persons accustomed to borrow at high rates of interest. It dilates on the evils of a low rate of interest to persons who pay more for their loans in the village. It mentions three results as arising out of the lower rate. "(1) The most obvious of these is the inevitable discouragement of local deposits. (2) The stimulus given to indiscriminate borrowing in excess of what is justified by the debtor's financial circumstances is yet another of the evil results. (3) It must be remembered that a rate of interest appreciably lower than the market rate tends to discourage the repayment of the principal sum concerned. In lean years, specially when they are successive, the cultivator incurs more onerous debts from the outside moneylender and when it comes to repayment, the society debt is postponed to these because it is less burdensome."

Fictitious Repayments.

The Burma report mentions also the evil of book adjustments of which a scathing indictment was made in the retrenchment committee report of South Kanara. We give the following interesting extract from the report. "The Bank now insists on societies waiting some time after repayment before drawing a fresh loan. Before this precaution was introduced, even what appeared to be cash repayments might in reality be very far from genuine. A thousand rupee note borrowed from a Chetty for the afternoon can pay the dues of all the societies in a new union, and later be returned intact to its owner, provided the Bank is willing to pay it back over the counter to each society which tenders it in turn for repayment. . . These artificial repayments are to my mind worse than no repayment at all. To say that the society, if it has not got the cash, has at least the credit wherewith to obtain it, is to debauch the meaning of the latter word. Last year, an officer brought it to notice that certain societies had year by year obtained an increasing cash credit from the District Bank on the strength of repayments made from the proceeds of temporary loans from outside moneylenders. The process would apparently continue till either the Bank or the moneylender failed to come up to the society's expectations: after that, the deluge. In such a case, it is obvious that the so-called credits enjoyed with the Bank and the moneylender are really supporting each other in mid air."

The Vice of Travelling Allowance.

Another defect which has a bearing on our rural conditions here and is prominently noticed in the Burma report is that relating to wasteful expenses of management in rural societies. We make no apologies to quote the extract on this question. "In Siam, journeys undertaken on society's business are assigned to each member in turn according to a roster. If a member fails when his time comes, it might be expected that the society would make the necessary arrangements at his expense but the Siamese are still more ingenious and proceed to collect the cost of the journey from the remaining members: it thus becomes everybody's business to see that A does not shirk when it comes to his turn. (The report goes on to say that this procedure was not accepted by co-operators in Burma.) Some of the more unscrupulous office-bearers will hire a cart without the slightest justification. I have seen a rupee which I do not imagine ever to have been paid charged in the books of a society for the conveyance of the chairman from his house at one end of the village to a meeting held at the other about half a mile away. *Is this passion for travelling allowance a vice derived ultimately through Burman officials from our Western civilisation?*"

Necessity for Elastic Repayments.

The Bengal report traces the overdues to the absence of knowledge among the members of village societies to apply for extension of loans which is inseparable from agricultural finance. But it is only when a member is loyal to the society and realises his duties to be punctual, he will also learn to utilise the privilege of applying for extensions. Unpunctuality in repayment and failure to apply for extension, both have their roots in apathy and indifference and until the member is trained in the civics of co-operation, punctuality of repayments and application for extension will be alike inoperative.

Cautious Registration.

The one remedy for the present state of things lies in cautious registration according to the Burma report. It says, "Societies which cannot undertake to start work with their own capital, if need be, and to keep their own accounts, are refused admission to the movement. But even if it passes these not very formidable tests, a new society is, from the Registrar's point of view, always a speculation. He cannot attempt to assess the moral worth of the members which is the most important feature of the case, but it is something to bar the door to the mor obviously unfit societies that apply for registration."

Dissolution of bad Societies.

The U. P. report emphasises the importance of dissolving bad societies not merely because they are bad but because they are centres of discontent speading by example an anti-co-operative propaganda

against the movement. It says "there is indeed a great need for realising the importance of placing the healthy societies beyond further possibilities of catching contagion from the rotten element."

The Reorganisation Scheme.

A scheme of reorganising bad societies is given in the C. P. report and it is fortunate that the non-official institutions in this presidency have begun to take note of signs of decay and push on the work of reconstitution. It seems in that province long-term loans have not been repaid punctually in many societies. The classification of the agricultural credit societies for the year ending June 1925 showed that 197 were good, 2677 fair, *1027 bad and uncooperative and 118 financially dangerous.* The scheme of reorganisation is being pushed on vigorously and it consists of the following programme of action. Bad members wilfully neglecting to pay the overdues are first to be weeded out by taking awards against them. Specific mention is made that the bank official entrusted with these enquiries *should make the society take the necessary action in his presence.* Renewals will have to be granted and instalments refixed in reasonable cases. Assurance should be given that extensions will be granted in years of scarcity. A promise should be made about the grant of fresh loans if the revised instalments are paid punctually. The scheme suggests that, in fixing the instalments, due regard should be paid to the possibility of fresh advances. The following extract on the point is worth quoting. "It is not suggested that all societies whose instalments have been refixed should be refinanced at once. It may be safe to wait and see if they are punctual in the payment of one or two kists but in any case it would be advisable to allow some margin for fresh financing so that if any new loans are advanced, the instalments of such loans may be repaid out of annual income." Along with this work, the scheme lays special emphasis on the education of the members about the conditions which make a co-operative society successful. The scheme concludes that where societies cannot be reorganised, they should be liquidated. Certain general conditions are laid down for deciding when a society should be ended and these are "its past history, the willingness of its members to remain in the movement, the reputation they bear for honesty and reliability, and the extent of their indebtedness to the society and outside moneylenders."

The Agencies for Reorganisation.

The scheme has also outlined the agencies that should undertake the work.

(1) The paid staff of the bank will make the preliminary investigations for revising the instalments,

(2) The Directors will thereafter visit the societies, and help in fixing the instalments, deciding whether it would be sufficient to weed out bad members or the whole society should be liquidated, and addressing the members on the principles of co-operation.

(3) Whole time organisers should be appointed by District Banks wherever found necessary.

(4) A training class will be held for the paid staff of the Banks, Government auditors, and honorary workers in the theory and practice of co-operation with special reference to the work of reorganisation.

(5) With a view to create emulation among the societies to undertake the work of weeding out bad members, enlisting new members, and reorganising its work, the interest rates in the case of 360 societies which have built up reserve funds were lowered from 15 per cent to 9 to 12 per cent. We quote below the extract on the subject as it is sure to provoke thought among the co-operators here on the subject of reducing the rate of interest in societies which have built up a sufficient reserve. "There are indications that the absence of any tangible benefits from the reserve fund has in the past operated adversely to the success of the movement. One bank which has recently introduced the scheme for some societies has begun to receive enquiries as to the existence and amount of reserve funds from other societies which apparently had previously regarded contributions to reserve rather in the nature of a tax payable to Government." The latest C.P. report says "that the scheme for the utilisation of the reserve funds of societies towards cheapening the rates of interest to members has been advertised widely and has aroused considerable interest among members."

Short Term Finance.

While the C. P. report gives much valuable information for reviving bad societies, particularly those which have issued long term loans without reference to repaying capacity on the security of mortgages, the Bombay report is useful in pointing the way towards the training of societies in short term finance. Bombay lays special emphasis in educating the societies in the preparation of normal credit statements. The Inspectors of the Bombay Provincial Bank pay particular attention to this matter. The maximum credit for each member is fixed by the society and a forecast of short term loans required by the members for each period is prepared on the basis of this statement. The Bank sanctions the total credit required and the amount is drawn by the society as occasion requires.

The second point emphasised in the report is the grant of the fullest amount of credit for each member according to requirements. There is no individual limit for loans as in Madras. Short term finance, requiring as it does, brisk work by the Panchayet and the habit of punctual repayments by the members, close attention is paid to the conduct of rural training classes and the education of Panchayatdars. The scheme of supervising unions and the recruitment of a trained staff for an intense supervision over the societies is being pushed through with vigour. Lastly, with a view to increase the saving capacity of the member, the systems of compulsory and savings deposits are given every inducement. The passage in the report on this subject gives the main reason why deposits should be increased in rural societies and is given below. "By learning to deposit his surplus specially at harvest time, in his own society, and drawing sums therefrom gradually according to his needs, the agriculturist would be considerably benefited economically." This is a practical method of decreasing the unproductive debts of some of the ryots who are compelled to borrow in years of scarcity for the purchase of provisions and thus add imperceptibly to the burden of debt on their lands.

Quarterly payment of Interest.

One phase of rural conditions which cannot be considered normal for all the tracts as a whole is adverted to in the Assam report. In areas where different crops are raised throughout the year, supplementary occupations are followed as dairying and vegetable gardening specially in the neighbourhood of towns, the fixation of periodical payments of interest by members of rural societies may be fitting and proper. But such a procedure cannot be applicable to all tracts. Anyway we quote the Assam report on the subject and co-operators may consider over the practicability of the procedure in their respective areas. "One unique feature in the agricultural credit societies of Assam is that they realise interest from members quarterly instead of once in a year. To a casual observer, this may appear to be unsound involving hardship on the cultivators whose earnings are rather seasonal. This aspect received my careful attention and I am convinced that the practice is beneficial to the members in as much as it impels the cultivators to make better efforts for earning throughout the year," (we are unable to understand when by dire poverty the ryot is giving his best to make the largest possible income, how the fixing of periodical dates for interest payment will create additional occupations) "by resorting to by-pursuits and helps them to keep their burden as light as possible."

THE TRIPLICANE URBAN CO-OPERATIVE SOCIETY LTD.

Splitting into two or more Societies.

MR. G. SRINIVASARAGHAVACHARIAR,

(Retired Deputy Collector, Madura.)

The institution, apparently feeling that all is not well with it, has issued a questionnaire on the subject of improving its Distributive and Credit departments. It is anxious to know if its administration is top-heavy. Anybody having any casual acquaintance with the working of co-operative institutions must be able to say at once that the administration of a society, such as the Triplicane Co-operative Society, with distributive and credit departments.combined into one and with over 20 branches not in close touch either with each other or with the Head-quarter society, with members numbering by hundreds and represented on the Board of Management of the headquarter society by a single director, who is not necessarily a member of the branch Panchayat which is after all a mere advisory body, cannot but be top-heavy. That the combination of distributive and credit functions in one institution is opposed both to the principle and policy of the Co-operative movement, and that the department was obliged to make a departure in the case of Triplicane and Madura Co-operative societies for want of provision in the old (Co-operative credit societies) Act for registering a purely distributive society, will be seen from the note of the Registrar of Co-operative Societies, printed in pages 258 to 263 of the Madras Bulletin of Co-operation-Volume XVII No. 5. The only ground on which supply and credit can be combined in an institution is that there is not on either side enough work or workers to justify a separate organisation. This plea cannot however be urged on behalf of the Triplicane society. Further, the administration of a store society by itself is a complicated affair and it should be more so when banking functions with chit fund transactions are combined thereto and when both the office staff and the Directorate can have no special knowledge of either function. There is further, the more serious objection to this combination *viz.*, that an institution holding large deposits from members and non-members should not risk them in a store business. To what extent this combination of functions affected the growth and efficiency of the similarly registered sister institution *viz.* The Madura Urban Co-operative Society and Stores Ltd., will be seen from the facts and figures quoted by the Registrar in his note referred to *supra*. That a similar result has occurred in the case of the Triplicane Society can be inferred from the volume of complaint one hears against it off and on and from the fact that the aggregate annual purchases per member—assuming that purchases are made by members only,—amount to Rs. 250 on an average and the average loan and deposit transactions per member work out only to Rs. 25 and 12—figures which must be regarded as very insignificant having regard to the urban and commercial character of the city and the general earning capacity of its population. It is hoped that the decentralization committee appointed by the General Body members of the Triplicane Society to examine the question of improvement of the institution, will take note of the above facts and advise the General Body suitably. There must of course be a certain section of the public who, either out of mere nervousness or sentiment, would like to have the existing order of things continued however much facts may warrant a change. For the information of these people, I may say that the Madura Urban Co-operative Society and Stores Ltd., since its splitting into two societies, have so improved both in point of business and efficiency that each of them now bids fair as ideal co-operative concerns. As recommended by the Registrar for the Madura Urban Co-operative Society, not only the Credit department should be separated from the Distributive and registered as an independent institution, but the several distributive branches also—at any rate such of those as can afford to stand upon their own legs—should be constituted into so many independent units. The Headquarter Stores society will then, besides serving as a stores institution for Triplicane, act as a wholesale, the other newly constituted stores societies being affiliated to it for purposes of wholesale supply. If these proposals should find acceptance, the only other point remaining for solution will be how to distribute the Reserve Fund to the credit of the present combined institution between the two Departments in the first instance and again among the several newly registered stores. This is not at all a difficult matter. The sum total of the net profits of the credit department which have gone into the Reserve Fund under the bye-laws of the existing society can, by referring to annual administration reports or audit orders, be easily separated off and will form the Reserve fund of the separated credit institution at Triplicane. The Reserve Fund remaining can then be easily divided amongst the newly registered stores in proportion to the sum total of sales of each of the branches since their starting. As regards other matters raised in the questionnaire, they can well be left to be considered after a decision on the preliminary matters dealt with above has been reached.

REGISTRAR'S CIRCULARS.

VI

SUBJECT:—*Distribution of the resources of financing banks between long and short term loans—Bankers' Conference of May 1926—Resolution—Attention invited.* (*No. A 2116/26 dated 24th July 1926.*)

The question of the grant of long term loans to members of co-operative societies has for long been engaging the attention of the Registrar. In connexion with that question, a considerable amount of statistical information had to be collected and examined and expert opinion had to be consulted before arriving at a decision. The following subjects were considered by the Bankers' Conference held in the Registrar's office on 29th March 1924:—

"Subject No. 1.—What should be the basis upon which the distribution of the resources of financing banks between long and short term loans should be made?

Is it not desirable that a working basis should be adopted by each Central Bank with reference to its resources?

Does the present method of distribution adopted by financing banks ensure (1) the best utilization of their resources, and (2) financial safety?

Subject No. 2—Can the maximum period for long term loans given by Central Banks to primary societies be extended to ten years?"

After considerable discussion, these questions were postponed to the next conference for further consideration in the light of additional statistics which were called for. They again came up for consideration at the conference of the Registrar with the representatives of Central Banks on the 9th March 1925; and this conference referred the questions to a sub-committee of four members for examination and report to the next Bankers' Conference.

The sub-committee met at the Registrar's office on the 22nd March 1926, and all the members except one were present. The committee considered the notes submitted by certain members, and after prolonged discussion came to the conclusion that long term loans might safely be given up to a maximum period of ten years subject to certain conditions. The suggestions and recommendations of the committee were finally considered at the Co-operative Bankers' Conference held under the auspices of the Madras Central Urban Bank, Ltd., on Saturday the 8th May 1926. The Registrar invites the attention of all Central Banks to the resolution on subject No. 6 passed at that conference. It will be seen that the conference has accepted the recommendation of the sub-committee. The committee was of opinion that, while all Central Banks including the Madras Central Urban Bank can lend for long terms amounts equal to their owned capital and the reserve funds of other societies invested in them, they should not lend for long term (in addition to the above) more than a definite proportion of the sum held by them in the shape of fixed deposits for periods of not less than one year. The proportion suggested is 50 per cent in the case of District Central Banks and 75 per cent in the case of the Madras Central Urban Bank. It

was also decided that subject to these limitations long term loans might safely be given up to a maximum period of 10 years and that District Central Banks could lend the money which they borrow from the Madras Central Urban Bank for periods not exceeding the periods for which the money is lent to them by the Madras Central Urban Bank. These suggestions are made on the assumption that there will be no reloaning, by primary societies, of collections made towards long term loans. Such reloaning of collections should therefore be strictly prohibited. The Registrar commends the resolution of the conference to the Madras Central Urban Bank and to all District Central Banks. They may suitably amend their by-laws wherever necessary to enable them to give effect to the resolution.

3. By-law 14 of the by-laws of the Madras Central Urban Bank provides for the grant of loans for a period of 12 years. That bank has a large amount of surplus money which it has not been able to utilize within the movement in this Presidency. Central Banks may take long term loans from the Madras Central Urban Bank and utilize the money in issuing long term loans to primary societies. This will enable primary societies to meet to some extent the genuine demands of their members for long term loans and will also help to absorb the large surpluses now available with the Madras Central Urban Bank. All applications for loans from the Madras Central Urban Bank should of course be made through the Registrar.

VII

SUBJECT:—*Audit and issue of audit certificates in time.* (*No. A. 2974 of 1926 dated 28th August 1926.*)

The scheme for the separation of the subordinate staff into audit and administrative branches has been working for the last two years. The staff available for administrative work is very limited, the number of Inspectors now available for the purpose being 27 for the whole Presidency. Most of the administrative work has to be done through non-official bodies. It may be that many of them are not properly equipped to do the work. So long as the work is done by others, these bodies or some of them may not care to equip themselves for the responsibility. As the Government staff for administrative work is limited, it becomes essential that these non-official bodies should understand and accept their responsibilities. Deputy and Assistant Registrars should therefore try to do all administrative work through these bodies except in cases of an exceptional nature. Enquiries under section 35 however should invariably be done by a departmental subordinate and in cases of misappropriation or fraud, departmental officers should take the necessary action. The collection of moneys due to societies is the primary duty of the panchayat, and where they are indifferent, local unions should make them do their duty. Where local unions fail, district federations should wake up the local unions and the societies concerned. If departmental officers have to attend to collection work, they should do so by stimulating panchayats of societies, local unions and district federations.

2. Audit is the most important work of Assistant Registrars and they should pay special attention to it. The staff set apart for audit should not ordinarily be disturbed for any other work. An Inspector is expected to do the audit of about 10 to 12 societies a month, and he can finish the audit of about 60 to 70 societies a year, paying two visits to each society in the year. At this rate, the audit of all societies entrusted to an inspector can be finished before the end of December of every year. The Registrar would impress upon Deputy and Assistant Registrars the necessity for not disturbing the Inspectors engaged in audit for any other work. The audit of each society must be done on the spot, the Inspector concerned staying sufficiently long in the village (2 days will ordinarily be sufficient for an average society). The audit should be thorough and all the questions framed in the audit notes form should be fully answered. The genuineness of loans outstanding should be tested. For this purpose, the list of outstanding loans should be read at a general body meeting held during the stay of the Inspector. If this is not possible, the list should be read before as many members as can be gathered. In addition to this, each borrower should be asked to state whether the loans outstanding against him in the books of the society are correct. It may not be possible to question in this way all the borrowers at one time or visit. But efforts should be made to verify as many loans as possible. In any case, all suspicious loans should be enquired into. The auditing Inspector should endeavour to verify all the outstanding loans during his two visits within the year. He should make a note of the borrowers and of the loans verified in this way and this note should form part of his inspection report. When there is change of Inspectors in the course of a year, an office copy of this note should be handled over to his successor when he is transferred, so that his successor may pursue the enquiry and finish the verification.

The verification of bonds is another important duty of the auditing Inspector. He should never pass a loan unless it is supported by a properly executed bond. If a bond is not forthcoming in any case, he should not be satisfied with a mere note to that effect in his inspection report. He should pursue the matter and find out why the bond is not forthcoming. He should note specially whether a particular individual or a particular set of individuals attest the bonds, time after time.

3. The audit certificates of societies should be issued then and there as audit reports are received from Inspectors. They should not be accumulated in Assistant Registrars' offices till the whole audit is finished by Inspectors. Where the work is heavy, the Registrar proposes to give one or two temporary clerks for this work for a period of three to six months. The Registrar will shortly address Government on this matter. As the main duty of an Assistant Registrar is audit, he should give special attention to this matter and see that the issue of audit certificates is finished in time. The whole work should be done before the 31st December of each year.

4. It should be possible for an auditing Inspector to get the defects noticed by him in the course of his audit rectified on the spot, but there may be defects which cannot be rectified before he leaves the village. The Assistant Registrar should take steps on receipt of audit reports to get the defects rectified which have not been rectified at the Inspector's visit. He should write to the societies, local unions and where necessary to district federations concerned. The matter should be pursued and should not be lost sight of. If an auditor mentions in his report that a voucher is not forthcoming for a particular payment, it is not sufficient to send a communication to the society concerned that a voucher should be obtained and filed. A report should be obtained from the local union that the voucher has been obtained. If for want of particulars or authority, an item is placed under 'suspense' by an Inspector in the balance sheet, the matter should be pursued till it is ascertained what this item is and how it is disposed of. Auditors should pay particular attention to items shown under suspense. They should not be satisfied by repeating the items in the balance sheet prepared by them merely because those items found a place in the previous balance sheet and the account of the year showed no transactions regarding them. When auditors fail in their duty in regard to this matter, Assistant Registrars should take up the matter and pursue it till the items are clear. Similar procedure should be adopted in regard to all important defects noticed. Copies or extracts of relevant portions of the audit reports of Inspectors and of their audit certificates should be given to societies, local unions and central banks concerned. The Registrar proposes to address Government to sanction temporary clerks to all heavy Assistant Registrars' sections to get through this work in time.

VIII

SUBJECT :—*Model by-law—recurring deposits—amending of—(No. C. 996—26, dated 1st September)*

A perusal of the existing model bylaw 16 B of primary societies governing recurring deposits will show that there is no provision for payment of any interest if the deposit is withdrawn or the account is closed before maturity. The 4th sentence of the bylaw above referred to says

" Should a recurring depositor be in arrears to the extent of a sum equivalent to or more than four monthly instalments, his deposit account shall at once be closed and he shall be paid back the amount actually paid by him; it being open to the society to credit the whole or part of such amount towards any money due from the depositor to the society."

According to the above sentence, if a person who has undertaken to subscribe for say 132 months and has actually subscribed for 128 months defaults for the last four months consecutively, he will be given only the actual amount paid by him. This however seems rather hard. It is really a matter for consideration whether some interest should not be paid if the deposit is withdrawn or if the account is closed before maturity. The Registrar sees no objection to the bylaw providing for discretion being given to directors to give or refuse interest under certain conditions. It is therefore suggested that the following may be substituted for the existing model bylaw 16 B of primary societies.

"A recurring deposit is a deposit made by a person who undertakes to pay to the society every month a fixed amount of one rupee or a multiple or a sub-multiple thereof for a period of 12, 24, 45, 84 or 132 months. A depositor paying one rupee per mensem for a period of 12, 24, 45, 84 or 132 months shall before the close of the 14th, 26th, 47th, 86th and 134th month receive a sum of Rs. 12-6-8, Rs 25-8-0, Rs. 50-0-0, Rs. 102-8-0, or Rs. 180-8-0, respectively, as the case may be, out of which the sum of Rs. 12, 24, 45, 84 or 132 shall be debited in the accounts as repayment of principal and the balance as interest thereon. Every recurring depositor shall pay his monthly deposit before the end of the calendar month to which it relates, failing which he shall be charged a fine of two pies per rupee per month or fraction thereof on every rupee overdue. Should a recurring depositor be in arrears to the extent of a sum equivalent to or more than four monthly instalments, his deposit account shall at once be closed. *It shall however be competent to the Board of Directors if they think fit to reopen the account provided the prescribed fine due up to date is paid, or to pay back the amount actually paid by the depositor together with interest on the amount of deposits actually made calculated at a rate not exceeding ⅞ of the original rate provided the deposit rate amount was held by the society for a period of at least one year.* It shall be open to the society to credit the whole or part of the amount due to him towards any money due from the depositor to the society. It shall be competent to a recurring depositor with the consent of the Panchayat, to alter the nature of his recurring deposit to any of the categories of such deposits prescribed in this bylaw."

All Co-operative Unions and Federations are requested to move such of their affiliated societies as have provision in their bylaws for receiving recurring deposits to consider the advisability of adopting the above amendment. All Central Banks are also requested to consider the above suggestion.

IX.

SUBJECT :—*Extensions of periods of loans—Procedure to be adopted.* (*No. A. 1237 1926, dated 16th September 1926.*)

As it seems desirable to indicate the procedure to be adopted in the matter of giving extensions of periods of loans by primary societies to their members and by Central Banks to their affiliated societies, the following instructions are issued.

2. Model by-law 47 (unlimited liability primary society) indicates how the period of repayment of a loan should be fixed. It says that the instalments of repayment shall be fixed strictly in proportion to the repaying capacity of the borrower and that dates of payment of those instalments shall be fixed so as to coincide as far as possible with the selling time of the agricultural produce or with the time when the borrower is likely to be able to pay. If the instalments are fixed carefully in the abovesaid manner, the need for extending the period so fixed should not as a general rule arise. Exceptional cases do of course occur in which the income expected is not actually realized or is not realized in full. In such cases, extensions of the original periods fixed may be necessary. The same by-law (model No. 47 above referred to) also indicates how extensions of periods should be granted. It says that extension of time should be given only for satisfactory reasons to be recorded in writing and with the approval of the general body of the society and of the local union to which the society is affiliated. It is difficult to lay down any hard and fast rules as to the reasons which may be accepted as satisfactory. What is satisfactory in the case of one borrower may not be satisfactory in the case of another. Generally speaking, complete or almost complete failure of crop may be accepted as a satisfactory reason. But a borrower may sometimes be in a position to pay the instalment due by him even when his crops partially fail. The point to be borne in mind, in considering the question of extension, is whether the borrower could have paid his dues as originally fixed if he had acted prudently in regard to the income which he actually realized during the period. If a borrower has acted improvidently, no extension should be granted. In other words, the case of each individual will have to be decided on its merits with reference to all the circumstances relating to it. This means that the panchayat should make an enquiry into each individual case of extension.

3. By-law 47 already referred to requires that the panchayat should record in writing the reasons for giving an extension of time in each individual case and it will greatly facilitate business if the borrowers put in written applications. Where this is not possible, the applications may be made orally and secretaries of societies should note them in a separate register kept for the purpose. Where it is found inconvenient to maintain even this register, the parties should appear before the panchayat at the time of their meeting and give reasons for their request for extension of time. The panchayat should record their reasons in the minute book of the society in the form of resolutions granting or rejecting the request of the borrowers. These resolutions should then be considered at a general body meeting and copies of the resolutions of the panchayat and of the orders thereon of the general body should be submitted to the local union concerned. When the local union gives its approval to the grant of extensions, the extensions should be given effect to and noted in the loan ledger, after obtaining an extension from the Central Bank wherever necessary. Where necessary the consent of the sureties should be obtained and filed along with loan bonds.

4. Where the instalments of repayment fixed in respect of a loan are found to be in excess of the repaying capacity of the borrower, the remedy does not lie in giving an extension of time for the amount not paid. Probably a revision of the instalments will be necessary, but this should not be resorted to without careful enquiry and without express permission of the local union.

5. Where the grant of extensions of time or revision of instalments in the manner indicated above involves the grant of an extension of time by the Central Bank in regard to a loan or loans taken from that bank, the primary society concerned should not sanction the extensions finally until it obtains the required extension of time from the Central Bank. After considering the cases of all individuals who apply for an extension of time in the manner indicated above

and recording resolutions that extension will be granted if the bank agrees to a similar extension for the amount of the loan involved in the above extensions, an application should be made to the Central Bank. If the Bank grants the request of the society, the panchayat should meet again and record a formal general resolution confirming the sanction of the extensions as decided before or modifying it to the extent necessitated by the orders of the Central Bank. For every extension of time asked for from the Central Bank, an equal or greater amount should be covered by extensions granted or proposed to be granted by the primary society. It may, however, so happen that a primary society will have to ask for an extension of time in regard to a loan not covered by similar extensions of time given or proposed to be given to individual members of the primary society. This will happen when a number of borrowers wilfully default in payment of their dues and when the society does not propose to give them an extension of time and when it does not want to penalise good members on account of the wilful default of a few—please see paragraph 5 of the Registrar's Circular No. A. 2265 of 1925, dated 28th July 1925. But before applying for an extension of time for an amount covered by such defaults, the primary society should have taken all possible steps to recover the amount. When it has failed to collect the arrears by persuasion, it should have taken action under rule XIV or filed suits in the Civil Court. For the amount covered by references under Rule XIV or Civil Suits, the Central Bank may give an extension of time provided the management of the society is honest and efficient. There is no reason why a society should be refused a further loan if it has taken all possible steps to collect arrears and applied for extension of time in respect of the amount of such arrears.

6. In the matter of giving extension of time for loans the Central Bank should be guided by the general reputation of the society asking for extension of time, the manner in which it has previously met its obligations and by the special reasons urged for the extension of time in question. No society need become dormant simply on account of a few bad members.

X.

SUBJECT :—*Provincial and Central Banks—proportion of liabilities to owned capital—enhancement.* (*No. C. 225 of 26 dated 4th October 1926.*)

REF :—*G. O. No. 1381 (Development dated 22—9—1926.*

In supersession of previous orders on the subject, Government have passed orders directing that in the case of the Provincial bank (Madras Central Urban Bank) and Central banks, the liabilities should not exceed 12 and 10 times their owned capital (paid up share capital *plus* Reserve fund) respectively.

XI.

No. A 2111 of 1926, dated 27th October 1926.

For sometime past several financing banks in the Presidency and more particularly the Madras Central Urban Bank have been unable to invest all

their funds within the movement. This is to some extent due to rapid flow of deposits into the movement owing to the steadily increasing confidence of the depositors in the soundness of the movement. It is also partly due to the comparatively high rate of interest offered by certain Central Banks. Even though the flow may be somewhat rapid, it cannot be said that the village societies have taken advantage of the situation. There is cry for money in the villages and there is plenty of it in the financing banks but the ryots do not get it. Why is this? There are various causes. Some of these are enumerated below :—

(1) In some cases, the enthusiasm of the promoters wanes as soon as the first loan is received and disbursed to members and they do not apply for further loans.

(2) There is an impression on the part of some that a second loan should not be given to a member while the first loan is outstanding against him and consequently no loan is asked for from the financing bank by the society.

(3) The panchayatdars of some societies do not want to take upon themselves more responsibility when they find that members do not pay of their own accord the moneys due by them on the due dates fixed.

(4) In one or two instances, the influential President or Secretary would not do any work himself nor would he allow others to work the society.

(5) In many societies a large number of members do not borrow not because they are not in need of money but for other reasons. Some are unwilling to give up their old money-lenders as the societies are unable to have their prior debts transferred or cannot accommodate to the extent desired by them.

(6) Sometimes loans are not given just at the time when members want and consequently they are forced to borrow locally. Having borrowed locally, they do not want to take loans from societies to pay off the debts thus contracted.

(7) All the deserving persons living in a village have not joined the societies because the extent of help offered by them is not sufficient for their needs.

(8) The facilities given by societies are not sufficient in some cases to enable the panchayatdars to take all the money required by them and consequently they resort to *benami* and other questionable transactions. Unable to repay the large amounts which they have obtained in this way within the time which the by-laws would permit, they become defaulters. Being themselves defaulters, they do not ask others to pay their dues with the result that the society becomes a defaulter to the Central Bank. Consequently when non-defaulter members ask for loans, the panchayatdars do not approach the Central Bank for a loan.

(9) Some societies do not ask for loans when they are in default of payment of even a small instalment of principal consequent upon the default of a few of their members, thinking that Central Banks will not give fresh loans

when their names are on the defaulters' list. They do not know that if the panchayatdars of societies take all possible steps in regard to defaulters, the banks will be willing to give further loans to them.

(10) The period of repayment is not fixed with reference to the repaying capacity of the borrowers partly owing to the short period for which a Central Bank is willing to lend its money to a village society and partly owing to inadequate investigation with the result that there are a large number of defaulters in many societies. Such societies are not given fresh loans either for new or for old members.

If all or most of the causes which stand in the way of ryots getting the money which they want for all their legitimate requirements are removed, the ryots will be greatly benefited by the confidence created in the minds of of depositors of the soundness of the co-operative movement as is evidenced by the deposits flowing into the movement at present.

2. Systematic attempts should be made to remove the evil and make the benefit reach the needy ryot. It behoves all co-operators, official and non-official, to give their earnest attention to this matter and utilise the idle money lying with financing banks to the best advantage. Area after area should be taken up and the societies overhauled.

3. The most suitable agency to arrange for this work to be done is the District Federation but the actual work should be done by local unions with or without outside help. The District Central Bank should lend its support to the District Federation. The authorities of the District Central Bank and those of the District Federation should meet at a conference and arrange the programme of work. The Local Assistant Registrar will attend this conference and render all help. The lines on which each local union should proceed should be prescribed. The District Federation should see that the local union carries out the programme with the help given. The District Federation should depute its staff, if any, to assist the local union. A temporary staff should be employed wherever necessary. If funds of District Federations would not permit the entertainment of the temporary staff, District Central Banks should help them with funds. Where there is no District Federation, Central Banks may entertain the staff and ask it to assist the local union. The Registrar will be prepared to lend the services of inspectors if so required. The local Assistant Registrar will, if he can spare, depute one or two Inspectors to assist the local union. The work should be divided among the workers thus selected. The whole staff should concentrate its attention on one union (or possibly two) at a time. When the work in a union is finished, another union should be taken up. In this way, the whole district area should be covered. The staff should work on the lines indicated in the paragraph below.

4. The local union should take up the case of each society affiliated to it and find out what is wanting in it and apply the necessary remedy.

If a society is good and gives loans to its members and collects the monies on the due dates and pays off its creditors in time, it should be encouraged to do

more such good work. Villagers who have not joined the society should be persuaded to become members, and if they are in need of loans for legitimate purposes, they should be given. If the reason for comparatively big ryots not joining the society is the small amount of loan given to an individual member, it should be considered whether the borrowing limit can be raised and, if so, steps should be taken to amend the by-laws of the society. If the society has not already adopted the system of giving loans on the pledge of produce, it should be encouraged to do so. If a large number of members have not borrowed from the society, the reasons should be ascertained and suitable remedies applied.

If the panchayatdars of a society are indifferent and do not take any interest in the working of the society, they should either be persuaded to work the society on right lines or they should be asked to resign their places and a new set of panchayatdars should be elected.

If the panchayatdars have taken loans in the names of others because of the inadequate individual borrowing limit, and if the work of the society would permit the raising of the borrowing limit, the *benami* loans should be regularised. If the *benami* transactions are due to other reasons, the loans should be recovered.

Where the panchayatdars have borrowed heavily, *i. e.*, beyond their repaying capacity and consequently have become defaulters, they should be replaced by another set of panchayatdars who will take action against all the defaulters.

Where the panchayatdars won't borrow money because they themselves are not in need of money, they should be persuaded to obtain money or make room for others to work the society.

Where there are genuine cases of overdues, steps should be taken to give an extension of time after obtaining similar extension of time from the Central Bank.

Where the instalments fixed do not suit the convenience of a borrower and are beyond his repaying capacity, no purpose will be served by giving an extension of time for the payment of the particular instalment. A revision of the original term will be necessary. As the Madras Central Urban Bank is now prepared to give long term loans for 12 years, Central Banks may arrange to give adequate time to primary societies so as to enable them to revise the original periods of loans with reference to the actual capacity of the members. This work will have to be very carefully done after detailed investigation and should not be done as a matter of course with a view to reduce overdues. The attention of societies should, in this connection, be drawn to the Registrar's Circular No. A. 2265/1925, dated the 28th July 1925, wherein is indicated the method of giving extensions of time and of revising the original periods of loans.

Where the default is due to the unwillingness of the borrowers to pay, action should be taken under rule XIV of the rules framed under the Co-operative Societies Act or in the Civil Court. There can be no objection to obtain an extension of time from the Central Bank for the amount covered by such references or civil suits.

Where the bad working of a society is due to mismanagement and fraud on the part of the panchayat, they should be removed from office. And when the men are so removed, the society, if possible, should be revived and a loan given to the needy members.

If there are villages—there are many—which are fit to have societies but have not got them now, in the area of operations of a local union, it should be ascertained whether the ryots want to have societies and if so, societies should be organised for them. No society should, however, be thrust on the people, but should be organised on sound lines—on the lines indicated in paragraphs 29 and 30 of the Maclagan Committee's report. Copies of these overhauling reports should be given to the Central Banks concerned.

5. If, on the above lines, local unions overhaul existing societies and form new societies in union areas, the Joint Registrar in charge is perfectly sure that not only the whole of the surplus funds in the Central Banks will be utilised but also the societies will become really useful to the ryots on a more extended scale. The bad societies will be set right and the overdues reduced. When local unions do reconstruction work on these lines, Central Banks should give all the facilities which the local unions and the societies which are affiliated to them want. They should not feel nervous in regard to giving fresh loans to societies which have taken all possible steps on the lines indicated in the Registrar's Circular No. A. 2265 of 1925, dated the 28th July 1925 and on the lines mentioned above.

CIRCULAR OF THE DEPUTY REGISTRAR,

Madras, dated 13th September, 1926.

In the inspection of the Union accounts, I have noted the following defects generally prevalent. They are communicated to all unions in the hope that such defects will not be allowed to recur again. They are :—

(a) Budget has not been sanctioned by the General body.

(b) Budget items have been exceeded in expenditure without reappropriation or sanction of the federation.

(c) While claims are put forward for travelling allowances by Governing body members, details of the journeys made are not given in such bills, but a lump sum is taken as the entire expenditure for the journeys. This is objectionable.

(d) Vouchers in support of expenditures are not invariably obtained and filed.

(e) Cash books are written at long intervals and at one sitting.

(f) When Supervisors proceed outside the jurisdiction, they are given travelling allowance for those days. But proportionate fixed travelling allowance for such days is not deducted.

(g) Stamped receipts and stamped acquittances are not obtained for expenditures over Rs. 20 in all cases.

SURVEY OF HOME INDUSTRIES.

(Govt. of Madras, Development Department.)

G. O. No. 1432, Development, dated 1st October, 1926.

In connexion with the development of industries, the policy of Government has been—(1) to start pioneer factories with a view to ascertaining the commercial possibilty of manufacturing articles not produced in the presidency, and

(2) to grant State Aid under the provisions of the Madras State Aid to Industries Act to private enterprise for starting new industries.

In view of the facilities provided in this Act, their policy in starting pioneer factories has, however, been recently modified. The experimental work of the Department of Industries will not ordinarily go beyond the laboratory test and pioneer manufacture will be mainly left to private enterprise in the future.

2. It is now becoming clear that the prospects of the department's efforts in helping the initiation of large industrial undertakings in this presidency involving large capital, the use of complicated machinery and competition in the world markets and requiring highly specialised knowledge are not very bright for the 'present and that, for some time to come at least, the attention of the department must be directed mainly towards the organization and development of small industries, preferably on co-operative lines. Particular stress must be laid, in the immediate future on the importance of cottage or rural industries with special reference to those industries which are suitable as subsidiary occupations for the agriculturists who constitute the great majority of the population and are compelled to be out of employ for some months in the year. "The Indian agriculturist is the foundation upon which the whole economic prosperity of India rests" and the Department of Industries should, like other allied departments, "aim at making an improvement in his standard of life" its important concern. "The revival and extension of rural industries on an economic footing is a desideratum of any policy which contemplates the extension of arable farming." Measures taken for the improvement of agriculture will therefore be incomplete without a close and co-ordinated effort at organizing and resuscitating rural industries. It is therefore essential that early attention should be paid to the improvement and development of home industries. The Government consider that the Industries Department should now firmly address itself to the task of improving the condition of the rural population by increasing its choice of occupation and means of livelihood. A survey of cottage industries in the presidency, existing and potential, should first be made and the task of developing and organizing them or introducing new industries should then be taken on hand. This work needs close co-operation between the Industries, Agricultural and Co-operative Departments on the one hand and the district officials and the non-officials in the mufassal on the other. The Director of Industries is requested to start the survey immediately and submit the results of such a survey with his detailed recommendations in consultation with the Registrar of Co-operative Societies and the Director of Agriculture. The survey should be started with the existing staff; if this proves inadequate, it is open to the Director later to apply for additional staff.

CO-OPERATION IN SCHOOLS.

Copy of letter No. Dis. 3560/26 dated 9th September 1926, from the Ag. Director of Public Instruction, Madras, to the Registrar of Co-operative Societies, Madras.

With reference to your letter No. B. 1298-25 dated 2-2-1926 regarding the teaching of co-operation in Elementary, Secondary and Training Schools, I have the honour to inform you that at present the following is actually being done for the teaching of co-operation in schools ;—

In Training Schools: The teaching of co-operation is already a part of the curriculum.

In Elementary and Secondary Schools: Lessons on co-operation have been included in a certain number of readers used in those institutions. Further, Co-operative Societies are working in 8 Colleges, 36 Secondary Schools and 7 Training Schools for masters. I may state in this connection that I should be glad to see the work of Co-operative Societies in schools and colleges extended.

THE XIV MADRAS PROVINCIAL CO-OPERATIVE CONFERENCE.

Action taken upon the Resolutions.

Copy of Registrar's letter No. 1441 of 1926, Dated 3rd October, 1926, to the Madras Provincial Co-operative Union.

I have the honour to offer the following remarks on the resolutions noted below :—

Resolution III (a) The request contained in this clause will be borne in mind, when appointments are made by direct recruitment.

(b) A similar resolution was passed in the Madura-Ramnad District Union representatives Co-operative Conference. I forwarded a copy of the resolution to the Director of Agriculture and I enclose a copy of his reply 700—26 dated 3—6—26 for your information.

(c) I have communicated a copy of this clause to the Director of Agriculture for consideration.

Resolution VII (a) I invite your attention to para 95 of the Maclagan Committee's recommendation, in regard to the qualifications of the auditor. While every endeavour is being and will be made to raise the standard of qualifications of auditing Inspectors, the proposal in the resolution is hardly practicable. Every Inspector has to pass the Government Technical Examination in Book-keeping and no Inspector is allowed to audit societies independently until he has undergone a course of practical instruction.

(b) In the case of Central Banks, only audited figures are adopted in the administration report and though in the case of primary societies unaudited figures are adopted for the administration report, these figures automatically correct themselves, as the audited closing balances of the previous year are adopted as the opening balances of the subsequent year. It may also be stated

that unaudited figures are sufficiently accurate for administration report purposes. If audited figures are to be adopted, it will mean either a hurried or inadequate audit or enormous delay in issuing the administration report.

(c) Under the reorganisation scheme, Deputy Registrars are responsible for the audit of Central Banks. Before closing the accounts, they verify the assets and liabilities and value the securities properly.

(d) The system of test audit has already been revived and is now being done.

(e) This is the ideal kept in view. But there are serious practical difficulties in the way on account of the enormous amount of scriptory work involved. The audit certificate and the appended statements by themselves give a very clean and complete account of the financial position and working of the society and copies of these are always furnished to Central Banks and local unions.

(f) Every endeavour is made to issue audit certificates with as little delay as possible. Where delay occurs, it is generally due to the fact, that auditing Inspectors have had to be diverted to assist societies and Unions in the work of preparing annual statements and in the work of collection.

Resolution XIV. There are at present only 27 administrative Inspectors in all for the Province. Each district must have at least one such Inspector and the number cannot at present be further reduced.

Resolution XVI. A suitable minimum sum has been indicated for the income of a union. When this amount is not available, no union will be split up. It is not possible to lay down hard and fast rules. Each case has to be decided on its own merits. There are at present 19 District Federations.

Resolution XVII. I have submitted a copy of this resolution to Government.

Resolution XVIII. Urban banks should depend mainly on local deposits and there is no need to grant special facilities to non-member depositors. The case of central banks where share capital is no longer allotted or is allowed only sparingly to individuals, is totally different and no case can be made out for the extension of the concession to urban banks on their analogy. I regret therefore I cannot support the resolution.

Resolution XIX. Instructions have been issued to Assistant Registrars that they may approve of the grant of remuneration to officebearers of unlimited liability societies not exceeding in the aggregate 25 per cent of the net profits. The question of altering rule IX (c) so as to give the power now vested by that rule in the Registrar to District Federations of Unions where they exist will be considered.

Resolution XXII. As a general rule, the suggestions contained in the resolution are followed but there may be a few exceptional cases, which require exceptional treatment. I am however drawing the attention of Deputy Registrars and Assistant Registrars to the resolutions and am asking them that wherever possible the course suggested should be adopted.

Resolution XXVI. I am submitting a copy of this resolution to Government.

As regards the other resolutions, replies to such of them as require them will be sent in due course.

Copy of letter No. 700/26 dated 3rd June 1926 from the Director of Agriculture, Madras, to the Registrar o Co-operative Societies, Madras.

Co-operative literature—inclusion in the B. Sc (Ag) Syllabuses.

Your letter No. B. 1154-26 dated the 19th May 1926.

The University has included in the syllabuses for the B. Sc Degree in Agriculture "Co-operative production and marketing of agricultural produce" and "Agricultural Economics". Please see University calender for 1925-26 page 716.

THE CENTRAL BANKS' CONFERENCE.

Circulars to Central Banks

19th October, 1926.

I

The present situation in the administration of co-operative credit may be summed up in two words "Overdues" and "Surpluses." In their recent Conferences held on 8th May and 2nd instant, the Central Banks have passed resolutions as to how these two problems should be tackled. "Overdues" being an indication of unsatisfactory and even bad management, the Conference at its session of the 8th May 1926 resolved that Central Banks should at once institute a thorough investigation into the condition of rural Societies. The resolution chalked out the lines of investigation and even favoured the idea of the Central Banks appointing a special staff to get through the investigation, working in conjunction with Unions. The Central Banks with the help of information already available with them either in their ledgers and accounts or reports furnished to them by Unions or Departmental authorities, are, it is supposed, in a position to pick up bad Societies which call for immediate attention and at once undertake the investigation in regard to them. A few banks have already moved in the matter. For the work being done systematically and with a view to avoid needless duplication of work, it is necessary that Central Banks should know the results of the inquiries last made by the auditor (in compliance with Section 17 of the Act and the standing instructions laid down on the subject in para 91 of the Maclagan Committee's report and p. 121 of Hemingway's Manual, old edition) in the course of his audit in regard to the examination of overdue debts and valuation of assets and liabilities. The audit report covering, as it should, points (*a*) and (*b*) in the resolution referred to, the proposed investigation will be greatly facilitated by copies of audit reports being furnished to the Central Banks. Resolutions 6 (1), (2) and (3) passed by the Conference at its recent session asking for copies of audit reports and interim inspection reports have been communicated to the Registrar with the request that they be complied with. It now remains for every Central Bank to start the investigation if it has not already done so, to extend it to all Societies in its jurisdiction as copies of audit reports are received and to complete it as expeditiously as possible. The matter requires constant attention and has to be pushed through vigorously so that a thorough overhauling of the existing Rural Societies may be completed as early as possible.

2. The investigation in question entails in the first instance an amount of preliminary work such as the collection of requisite information from the accounts of the Bank and reports furnished to it and a scrutiny of the audit reports (also interim inspection reports) which will be furnished to it by the Registrar as received from time to time. This done, references may have to be made for further information when the reports received are found to be defective and requisitions addressed to Societies, Unions and District Federations (wherever these latter exist and are in working order) for doing the needful. The departmental authorities also may have to be addressed with a view to action being taken under Section 35 of the Act. Once these institutions and authorities are addressed, receipt of replies will have to be watched. The rehabilitation (wherever possible) being the object in view, the part to be played in the investigation is not the mere reporting of the existing conditions but the immediate taking of such action as will set matters right. This thing may be prominently borne in mind.

3. A discussion of the main outlines of the proposed investigation may not be considered out of place here.

First: The investigation should comprise and include

(i) A careful examination of the overdue debts of individual members in primary rural societies and of society members in Central Banks:

(ii) A valuation of assets in both classes of societies;

(iii) The grant of extensions and, wherever necessary, even revision of instalments to individual members in primary societies;

(iv) The discrimination by Central Banks of good societies from bad and indifferent ones;

(v) The grant by Central Banks of extensions to good societies and also the grant to such societies of any further loans that they may be in need of and apply for;

(vi) The taking of steps for the revival of bad and indifferent societies;

(vii) The provision for absorption of surplus money in the movement in these manners and otherwise, by effecting improvement in the working of rural societies; and

(viii) The taking of steps for the winding up of bad and indifferent societies which after due trial shew themselves to be incapable of improvement.

Secondly: Each Central Bank may collect an amount of valuable information from its own records, more or less on the lines indicated on pages 5, 6 and 7 of an article contributed to the last Provincial Co-operative Conference by Mr. T. Srinivasa Rao under the heading "Overdues and Surpluses" and printed in the supplementary notes and papers, (*Extract appended*), *Thirdly* :—Each Central Bank will have to scrutinize the audit and inspection reports received from the departmental authorities, take note of points for action and issue the necessary instructions.

Fourthly: Suitable registers will have to be opened and maintained in order to regulate (i) that no matter calling for action escapes notice; (ii) that societies, unions, district federations etc., are addressed promptly; (iii) that replies are obtained without delay and (iv) the rehabilitation of the Society is achieved in a reasonable length of time. To use the official parlance, "currents" will have to be opened one in respect of each communication issuing from the bank to which a reply is due.

Fifthly : As regards the action to be taken in Societies, the Union and the Central Bank, in the course of the investigation and rehabilitation, reference may advantageously be made to the programme of action sketched out at length on pp. 8-15 of Mr. Srinivasa Rao's article already referred to (*Extract appended*).

Sixthly : For obvious reasons, Central Banks cannot undertake the investigation in regard to all Societies in its jurisdiction. At the same time, it has to be remembered that what can be got from Societies and Unions and even some District Federations is limited by various considerations such as the qualifications, capacity and even willingness of the human material available, the financial and other facilities forthcoming in the Union and the District Federation and the competency of the Union or the Federation Supervisor. Societies and Unions or even Federations will have to be told that they need not undertake more than what they feel competent to undertake for *actual and immediate fulfilment*. For the work which then is left unprovided for, the services of the Government auditing staff (on which the work of examination of overdue debts and valuation of assets and liabilities devolves under the Statute) may be utilised to the extent available, as to which the local officers will, it is hoped, give information. For such further human material as may still be wanted for completing the investigation, the Central Bank should be prepared to employ the required hands.

Except under an arrangement more or less of this kind the proposed investigation will neither be thorough, nor cover all Societies, nor be carried in any reasonable length of time.

Seventhly: Attention is invited to the prominent characteristics of the programme set forth on pp. 15 to 17 of Mr. Srinivasa Rao's article already referred to (*Extract appended*).

4. When once Central Banks begin to tackle with the situation in this manner, it will be impossible for the primary society and the union to keep quiet. Co-operation and conjoint action which should in the usual course of things be forthcoming voluntarily, will be brought into play though under pressure which cannot be resisted. And, in due course, time will arrive when unions will reach the requisite standard of efficiency and Central Banks may not have much occasion to intervene but content themselves by a perusal of the statutory audit reports and reports from Unions that all is well with the Societies in their jurisdiction.

5. Separate circular letters will be addressed to you in regard to utilization of surpluses and employment of staff.

6. If the Central Bank requires any assistance as to what should be done, the Apex Bank will be glad to depute an experienced member of its office staff or some one else to put you in the way.

APPENDIX

RESUSCITATION OF SOCIETIES—A PROGRAMME OF ACTION.

[*Extract from Mr. T. Srinivasa Rao's article on the subject*]

Initial survey of the present situation on the basis of the registers and records in the Central Bank.

Each Central bank should now prepare a review depicting the present position of primary societies within its jurisdiction. Its ledgers and other records contain a good deal of information, which when properly scanned and analysed, will furnish an amount of valuable information. Particulars under the following heads may be gathered :

(*a*) The percentages of overdues from societies to the Central bank may be compared for a series of years, both under principal and interest ;

(*b*) Similarly, with reference to the information available in the published presidency administration reports, members' overdues to societies may be compared, under principal as well as interest, for a series of years ;

(*c*) Compile similar particulars for the presidency and compare the district figures therewith ;

(*d*) The compilation and comparison under the above heads may be done unionwar ;

(*e*) A statement may be prepared showing, unionwar, the present overdues to the Central bank, judged by the duration of their pendency. In other words, the number of societies in each union which are in arrears of 1, 2, 3, or more annual instalments may be ascertained. This classification may follow the longest pending overdue loan in each society out of the several loans outstanding ;

(*f*) Another statement, also unionwar, may be prepared showing the overdue amounts due from each group of societies in the classification in item (*e*) above ;

(*g*) Prepare unionwar a statement showing the interest overdue under arrear and current ;

(*h*) Prepare a statement showing the number of societies in each union which have not applied for any loan for a number of years, 1, 2, 3, 4, 5, and so on;

(*i*) Next prepare a statement, unionwar, showing the number of societies with net divisible profit at the end of the last year, the number which worked at a loss on that date, and the number which have not built up any reserve since their registration;

(*j*) Also prepare a statement showing, unionwar, societies which worked (1) with book profit (2) at net loss and (3) also showing the interest awaiting collection from members of societies;

(*k*) Make a study of all inspection reports received from the department or the unions during a period of about twelve months and draw up a precis thereof for each union;

(*l*) Summarize the action taken on these reports by the Central Bank Board of Management or the Executive Committee, as well as of the results achieved;

(*m*) If enquiry under section 35 of the Act into the conditions of bad and indifferent societies has been asked for by the Union or the Central Bank, make out a statement showing particulars as to when such applications were made and the stage or stages at which those applications now stand.

(*n*) Find out if, to the knowledge of the Central bank, there already exists any programme as regards the work of consolidating weak and indifferent societies and, if so, note the progress achieved so far.

When information under these heads has been gathered, the Executive of the Central bank will at once realise how the affairs of its constituent societies stand at present, the extent to which the information due to it has been, or has not been, furnished and what steps it should in consequence take to provide itself with the requisite information.

The information due has to come from the Union or the Assistant Registrar. It is a question if it comes with any regularity from either. Some reports may be received in respect of societies which apply for loans from either or both these authorities, at least along with loan applications. The case, however, is different in regard to societies which do not apply for any loan for a considerable length of time. Such societies altogether escape notice. If, however, the annual audit reports are furnished in respect of every society, its position from year to year will be coming under the review of the Central bank at least once every year.

When once the Central bank attempts in the manner indicated above to review the position of societies financed by it, it will get to know in what directions, and to what extent, it should from time to time ask for and get the necessary information. A review on these lines and the subsequent action thereupon will lead to the improvement of good societies and the pulling up of bad and indifferent ones.

Such a review, as the one indicated in the concluding portion of stage O in the programme of action set forth below, when it becomes an annual feature in the working of the Central bank, will tend to be an annual reminder to societies to wake up and work. It will be a source of encouragement to good societies to further improve and a means of warning to bad and indifferent societies to pull up their working.

It will indeed be an excellent thing if each Union will do all this. Constituted as they now are, and due to a variety of reasons, most unions are not in a position to do so. Wherever unions can and will do so, they and the Central bank will supplement each other and both of them acting towards the same end, the attainment of the desired result will be doubly assured. Central banks, however, can ill afford not to undertake this work any longer.

A Programme of Action in Societies, the Union and the Central Bank.

Let me now present a programme which will answer to the description already given and which while tackling the question of overdues, will, at the same time, as far as the societies found to be "GOOD" are capable of doing so, enable the absorption of the surplus money in the movement.

Recognizing as we do that the present exceedingly heavy overdues from members to societies are the result of initial carelessness, and in cases even recklessness, in grant of loans, unfavourable seasons, indifference to collection work on the part of the panchayat and in cases even mismanagement and dishonesty on its part, and also to lack of efficient and effective supervision, matters have now reached a stage, if we may say so, of desperation. The aggregate amount overdue by individual members will be found in several cases to be too heavy for payment in a single year. Grant of extensions to individual members and postponement and even revision of instalments are imperatively called for.

STAGE A.

For this purpose an individual examination of members' overdues in societies should at once be undertaken. Each case should be closely examined and the cause ascertained. Whether the "overdue" is attributable to the member's past neglect or not, his capacity for repayment in future requires to be found out, and the future instalments revised accordingly, the past neglect, whosesoever it be, being condoned. Careless and indifferent examination will not do, for, that will only tend to a repetition of the past history and to perpetuate the present situation. The member's income and expenditure should be ascertained and taken into account, also his other debts, if any. His actual, real capacity, to repay to the society must be determined in this way and his future instalments revised conformably thereto.

STAGE B.

In doing this, it should be remembered that there are in reality members who are able to repay their overdues, in full, either immediately or at the ensuing harvest, and in respect of them the procedure described under head A is not called for.

STAGE C.

In the examination indicated in A, the following points require to be borne in mind—

(i) The selection of borrowers with a view to grant of extensions and revision of instalments should be restricted to *Genuine* loans, loans being deemed to be genuine only when they are admitted by the borrowers, only when the outstanding balances as per the accounts are accepted as correct, and also only when they are found to rest on *adequate* security, real or personal.

(ii) Other loans should be excluded, that is—

(1) Benami or fictitious loans, or loans not sanctioned by competent authority ;

(2) Loans in which the outstanding balance is disputed as being more than is actually due ;

(3) Loans standing on insufficient security, whether real or personal ;

(4) Loans in which sureties are dead and have not been replaced by suitable substitutes ;

(5) Loans not supported by proper and duly completed documents, or any document ;

(6) Loans exceeding the individual maximum borrowing power.

STAGE C-1.

In the individual examination of members' overdues (stage A) and the selection of borrrowers with a view to grant of extensions and revision of instalments (Stage C), loans secured on land mortgages will naturally be distinguished from other loans, as generally it is that class of loans which calls for extensions and revision of instalments. For other reasons as well, it will be of advantage to distinguish those loans. A separate statement of mortgage loans may be prepared, in a special form to be prescribed for the purpose, embodying such information as will enable and facilitate the grant of extensions and revision of instalments.

STAGE D.

Then as regards *C* (ii)—inquire into cases coming within sub-divisions (1), (2) and (3) thereunder, find out the truth, and as far as possible bring them into order. Also bring into order cases in sub-divisions (4), (5), and (6).

If this course be not possible, at once take steps to recover the loan or loans concerned.

STAGE E.

As regards members falling under *C* (i), suitably revise instalments, after obtaining an application from each member in a suitable form to be prescribed for the purpose.

STAGE F.

This done, a clear picture of the society's position, not only in regard to the overdues but also in regard to the valuation of assets, would have been drawn.

It may here be noted that the inquiry involved in stages A to F is nothing more than what is due to be done year after year in the course of primary audit, known in our province as supervision, as well as during statutory audit, which (vide section 17 of the Act) includes an examination of overdue debts and a valuation of assets.

STAGE G.

Who is to do all these, is the next question that arises.

There are five agencies available to participate in this work, namely, (1) the village society panchayat, (2) the union governing body (several members thereof and the union supervisor), (3) the honorary assistant registrar, (4) the departmental supervisory staff and (5) the auditing staff.

The task is tedious, difficult and onerous, as we have to tackle the accumulations of a number of years and there is no escaping it.

THE CENTRAL BANK TO LEAD.

One or two directors of the Central Bank should visit each union, and, in consulation with the authorities thereof, at a general meeting to be specially convened for the purpose, help them in the determination of the portion of the work which the first mentioned three agencies (all non-official) feel competent to undertake for *actual and immediate fulfilment.* In doing so they will have to take into account, the qualifications, capacity and even willingness of the human material available, the financial and other facilities forthcoming in the union, and the competency of the union supervisor.

For the work which then is left unprovided for, the help of the Government supervisory and auditing staff should be sought.

I have here included the auditing staff also, because much of this work devolves upon it under the Statute and has to be done by it.

If further human material be still wanted, the Central Bank should not hesitate to employ such staff of its own as may be necessary.

STAGE H.

This done, the position will resolve itself into—

(1) Individual cases, with amounts, in respect to which extensions and and revisions will have to be granted ;

(2) Individual cases, with amounts, in which collection should *at once* be made because borrowers are able to repay ;

(3) Individual cases, with amounts, in which collections should be deferred till next harvest ;

(4) Individual cases, with amounts, in which there is no hope of recovery except by proceeding against the mortgage security or the defaulter and his sureties, the member being too heavily involved and his repaying capacity being too little to redeem him from debt at all or within any reasonable length of time.

STAGE I.

Then—

(1) Take action immediately in H (2) and (4);

(2) Grant extensions and revisions in H (1);

(3) Collect in H (1) as well as H (3) what under the revised instalments is payable this year at harvests or shortly thereafter;

(4) Remit all collections in payment of the Central bank's overdues and the current year's dues; and

(5) If still the society be found to be in arrears of loan to the Central bank, then apply to it for extension for payment of the society's overdues.

STAGE J.

In all this—

(1) It should be prominently borne in mind that the society panchayat's responsibility for collection by its own efforts should never be minimised.

(2) Even at the outset, the society panchayat and the union governing body should be distinctly told that others undertake because the society panchayat and the union authorities cannot cope.

(3 The society should be asked, by means of resolutions—

(a) To state from which members it expects to collect without recourse to coercive process;

(b) To mention the names of the members from whom it considers itself to be helpless to collect except by resorting to coercive process;

(4) In regard to (3) (b), take steps immediately in the Civil Court or before the Assistant Registrar and in the Revenue department. In the latter case, if necessary, the union and the Central bank should even be prepared to meet the cost of any special staff which the Revenue department may find it necessary to employ for executing the Assistant Registrar's decrees;

(5) In regard to (3) (a), the union and the Central bank should see that the undertaking is fulfilled.

STAGE K.

In the Central bank—

On receipt of applications for extensions, the directors should proceed to discriminate between good and bad societies by applying the following tests enumerated in the recent circular of the Registrar—

(1) The management of the society should be honest;

(2) The management should be efficient;

(3) Such defaults as may still occur in the society in spite of honest and efficient management must be the result of circumstances over which neither the panchayat nor the general body can exercise any control, such as adverse season, or special calamity due to floods etc;

(4) The panchayatdars of the society should have taken every step they possibly can for the recovery of the members' dues;

(5) They should have acted similarly in the matter of repayment of the Central bank loan; and

(6) The society's affairs should not present any indication of financial insecurity.

It will now be seen that the Central bank cannot possibly discriminate good societies from the rest except on report of the results of inquiry under several headings A to J above. The latest annual audit reports also will be required for the purpose. The Central bank should apply for and get full copies thereof.

Having thus discriminated, the Central bank should proceed to grant good societies not only extensions but also such further loans as they may apply for.

These steps will bring to the forefront the remaining societies, which are either indifferent or bad and call for attention from the union and the departmental staff. The Central bank should report them to those authorities and keep itself informed from time to time of the progress of events in respect to them.

STAGE L.

Those authorities will have—

(1) To try to reconstitute the panchayat and improve the working of the society;

(2) If reconstitution be possible and is effected, give the new panchayat time to rectify and improve; and

(3) If reconstitution be impossible, takes steps to wind up the society.

It should be noted that the delay in cancellation of bad societies and the absence of continual and close watch over indifferent societies (of which hopes of revival are not abandoned) have a very bad effect not only on those societies but on other societies in the neighbourhood as well.

STAGE M.

These two duties may in many cases have to be undertaken by the Assistant Registrar. If however any unions can do these, well and good.

STAGE N.

The result of these arrangements will reflect on the Central bank which should keep watch over progress and draw attention of the authorities concerned, when fulfilments fall short of the undertakings.

STAGE O.

Individual directors in Central banks who are admittedly wanted for inspiring and maintaining the confidence of depositors have cast upon them the duty of seeing that the Board of Management takes steps for recovering what has been advanced.

The procedure sketched out above is essential to enable recovery being duly made. It makes due provision for all reasonable requirements of members of village societies, consistently with the soundness and efficiency of management of the Central bank. The Central bank's responsibility does not cease with the recovery of the loans advanced: it extends to keeping watch over the progress of events in every society financed by it, so long as it continues to be indebted to it.

The futility of the Central bank standing aloof from supervision in our Presidency has been pertinently commented upon by the Bombay Co-operative Quarterly in one of its recent numbers in the following terms:

"The Union system has long been in existence in Madras and there is a huge staff of departmental officers to guide and even control these Unions. May it not be that the Co-operative department in Madras has erred grievously in vigorously excluding Central financing agencies from any direct share in the work of supervision? When nearly 80 per cent of the funds of the agricultural credit societies are derived from Central banks, it stands to reason that the institution primarily affected by any slackness in recovery work will be the Central bank; and yet our ardent Co-operators anxious to imitate the West, whereas in Germany the percentage of local and borrowed capital would be the reverse of those found in Madras, deliberately aim at the elimination of the valuable influence which the financially responsible agency may exercise."

These remarks have been approvingly quoted by our Provincial Co-operative bank, namely, the Madras Central Urban Bank, in a recent review of the position as regards overdues.

The futility in question, namely, of the Central Bank standing aloof from supervision, has been acknowledged in such an advanced district as South Kanara, where collections are far better than our district and several other districts. It has been realized by experience in Coimbatore. It is being realized in certain other districts as well *e. g.*, Madura, Ramnad, Tanjore. Readers of the Co-operative bulletin must have observed this ere now.

Accordingly, with reference to the auditor's annual reports of audit of societies financed by it and such other reports as it may get from the Government staff or the Unions, the Central bank should take stock of the situation at the end of each year, issue an annual review, and then follow it up by monthly or quarterly reviews. Except by doing these things, the requisite progress cannot be ensured or attained.

STAGE P.

If necessary, the Central bank should depute some of its directors or a paid staff to visit Unions and infuse spirit in them.

Improvement can be expected only as the result of an elaborate arrangement or less of this kind in which some one can at once be held responsible for what is left undone or badly done.

PROMINENT CHARACTERISTICS OF THE PROGRAMME.

(1) More than anything else, the programme chalked out above will replace the present state of undefined responsibility (in practical application, I mean) for work as between the Union, the Central Bank and the Government staff.

(2) Each institution (the village society, the union and the Central bank) will be made cognizant of the full extent of its responsibility.

(3) The village society and the union will be made to undertake for immediate and actual fulfilment only that much of their duties as they, of their own accord, feel competent to do.

(4) A superior institution, to wit, the Central bank, will see by means of periodical reviews and otherwise that this undertaking is fulfilled or that genuine attempts are being made.

(5) Help by Government supervising staff will be accorded only in response to a written requisition and only to the extent actually desired.

(6) This does not, however, meddle with the auditing duty devolving upon the Government staff under the Statute.

(7) In this way, the several institutions will become more and more self-reliant and more and more efficient.

(8) The Government supervising staff will be setting an object lesson to unions and societies in the doing of the thing entrusted to it.

(9) Further, as time advances, this will result in the Government staff being enabled to do its auditing work more thoroughly and efficiently, in that it will be doing less and less of the supervisory work.

(10) Above all, the execution of this programme will result in the removal of the reproach levelled against the movement by such a veteran co-operator as Rao Bahadur A. Vedachala Aiyar which runs in the following terms:—

'The existing arrangements for the supervision of societies and education of co-operators is such that *no one is directly responsible* for the efficient working of rural societies.......If anything goes wrong in village societies, the co-operator can excuse himself by saying that he has not been educated to conduct his society in a business-like way. The local Union will say that it did its best with the finance placed at its disposal and with the staff which it can afford to maintain. The District Bank will say that it has been sympathetic towards rural societies as it has set free a reasonable amount of its profits for supervision and for propaganda work. The Department will certainly say that it did its best to help the people to manage their own affairs and they are miserably lacking in the power of absorbing their instructions and advice".

CONCLUSION.

In proposing this programme of action, let me not be misunderstood as advocating anything inconsistent with the growth and development of the sense of responsiblity attaching to unions in regard to supervision. All that I advocate only tends towards emphasizing that responsibility. The movement as a whole ought to maintain a certain standard of efficiency, and when this is not reached, we cannot afford to stand on formalities. The motor force must be supplied by some one, force which will set the others in motion. Even in this, it is not suggested that the Central bank should arrogate to itself more than what it is itself responsible for. In this way, co-operation and conjoint action which should in the usual course of things be forthcoming voluntarily, will be brought into play though under compulsion which cannot be resisted. When once the financing bank moves and keeps incessant watch over the progress of events, it will be impossible for the primary society or the union to keep quiet. What is once done under compulsion will, in due course, become the normal feature.

And, in due course, time will arrive when unions will reach the requisite standard of efficiency and the Central bank may not have much occasion to interfere but content itself by a perusal of the Government auditor's annual audit reports and reports from the union that all is well with the societies financed by it.

II

Sub: Utilization of the heavy surpluses in financing banks.

This subject has been a source of no small anxiety to financing banks especially the Apex Bank in which the situation is becoming critical, and growing worse month by month. At the present moment the Apex Bank has a surplus of about 50 lakhs and the position has grown worse even subsequent to the close of the last co-operative year. According to the latest information available in this office the Central Banks between themselves hold an aggregate surplus of about 32 lakhs. It is of paramount importance that means should be devised and that urgently for the utilization of these vast sums within the movement.

2. As you are aware the Central Banks' Conference considered over the matter and passed a resolution to the effect that it is desirable that fresh societies should be opened for the utilization of the heavy surpluses. In passing this resolution the Conference did not overlook the facts that the present condition of several rural societies is unsatisfactory and that efficient and effective supervision over their working is wanting. An investigation into their condition has already been resolved upon and facilities for speedy completion of the investigation have been devised by the Conference at its session held on 2nd instant, as to which the Central Banks are separately addressed. It is inconceivable, especially in view of the ever increasing surpluses, to think of not undertaking organization of fresh Societies pending the rehabilitation of existing ones. The two have to proceed side by side, care of course being taken that, as regards investigation into condition of existing Societies and their rehabilitation, the work is pushed on as thoroughly and speedily as possible and, as regards the formation of fresh Societies, the business is transacted so as to avoid the dangers of faulty organization which accounts for many ills relating to existing Societies.

2. The Registrar has been addressed to accord help, as a temporary measure, in the organization of fresh Societies and in stimulating applications for fresh

loans from deserving Societies. This help, when forthcoming, may relieve the tension to an extent but Central Banks cannot rest content with that. They will also have to take the work in hand in all earnestness. The work of rehabilitation if vigorously pushed through is bound to stimulate applications for fresh loans from deserving Societies. As to the formation of fresh Societies it is suggested to your Board of Management or the Executive Committee that they may, in consultation with Unions, choose suitable villages within the jurisdiction of the latter, as well as those *in close vicinity* of one another which either by themselves or with the addition of Societies which may be formed in the near future may be grouped into a Supervising Union. There is hardly any time to lose over this work. Central Banks are requested to formulate proposals as early as possible.

3. Central Banks have no agency except Unions through which to carry on this work. It is suggested that, in addition to the services of Unions and Honorary Assistant Registrars which may be utilized wherever available, special organisers may be employed by the Central Banks on payment. Proposals are about to be placed before the Executive Committee of the Apex Bank for the grant of a bonus of one-half per cent on all loans taken before 31st December and of one-fourth per cent. on loans taken before 31st March next, the bonus being payable irrespective of the use of money in grant of further loans to existing Societies or initial loans to new Societies. The bonus payable by the Central Bank to each individual organiser employed by it should not exceed the above mentioned rates on sums absorbed through his agency.

These special arrangements, it must be noted, will in no way interfere with the usual course of business, namely, that organization proposals will have to be accepted by the Union, the Central Bank, and the Deputy Registrar or Assistant Registrar, and applications for the initial and further loans will be subject to the usual scrutiny and recommendation by the Union and the Central Bank and where local usage requires it the scrutiny and recommendation of the local departmental officer. This condition will also stimulate the special organiser to see that each loan application is taken speedily through its several stages.

With a view to the speedy transaction of business the organiser will have to get into touch with the Union and the Central Bank and the local departmental officers. The organiser will have to meet all expenses incurred by him out of the bonus payable as mentioned above. To facilitate the prompt despatch of work in advance of a reasonable sum may if necessary be even paid to the organiser, if the Central Bank Executive thinks fit to do so, provided the organiser undertakes to refund such portion of the advance as may not be covered by the bonus earned and the Central Bank-Executive is satisfied with the undertaking.

4. The decision of the Executive Committee of the Apex Bank on these proposals will be communicated as early as possible.

5. In view of the great urgency of the matter it is requested that the same may be dealt with, with all possible expedition and the reply of the Central Bank sent not later than 1st week of November 1926.

III

I beg to invite your attention to my circular letter No. 1 of this date and to observe that the investigation therein referred to is so comprehensive and extensive that the work entailed thereby will be of a magnitude which can hardly be got through with the help of the staff already available in Central Banks generally. An administrative section with the necessary clerical and field staff will have to be organised in each Central Bank. It may not be possible to regulate the work and run the administrative section unless there be a full time Secretary. The Conference of the 2nd October, as you are aware, has passed resolutions—No. 6 (4) and (5) in both these respects, to the effect that an administrative section should be formed and a full time Secretary appointed in each bank. It now remains for the Central Banks to give effect to the resolutions as early as possible.

2. The action taken may kindly be reported at an early date.

IV

Adverting to paragraph 3 of circular letter No. 1 of date on the subject of resolutions of the Central Banks' Conference I beg to draw your attention to the immense work called for in my letters of date regarding the detailed scrutiny of audit notes and of the agency to utilize surpluses and state that the Apex Bank considers that the appointment of a full time Secretary in each Central Bank, who will not be on the Board of Management, is a matter of cardinal importance. The Central Banks will of course have to see that the Secretary appointed possesses the requisite qualifications and capacity. Each Secretary should be appointed on probation for a period of one year. Without a responsible officer of this standing no Central Bank ought to feel that its transactions are safe. The Apex Bank does not.

2. The bye-laws on the subject of the office of Secretary in most Central Banks may require amendment.

3. It is requested that the matter may be placed before the Board of Management and the General Meeting of your bank and their decision intimated to this Bank at a very early date.

V

Sub: Rate of interest on investments in Central Banks by Local Bodies and Municipalities—Current Accounts and Fixed Deposits.

Please see my letters Nos. 2 and 4 of date about the utilization of surplus funds and staff. It is clear that owing to lack of supervision there is a danger of our loans going bad and immediate transitional steps are urgently necessary. The Central Banks have to help themselves. Considerable expenditure is called for for staff. Funds are necessary. The banks will get some added resources by the loaning out of surpluses to Co-operative Societies.

2. Another and an important method of finding money is by reducing the rate of interest on deposits of Local Bodies (both local boards and Municipalities). As much as over a crore of Rupees are now invested in Central Banks by Local Bodies. The amounts will go on increasing with general transactions and the continual levy of the Railway Cess.

3. It must be remembered that these deposits do not earn any interest when invested elsewhere. In view of their special nature I would commend to the attention of Central Banks that the rate of interest should be reduced to one per cent per annum as speedily as forthwith. Even this means a large income to the local body. To satisfy the local body you may give an assurance that the bulk of it if not all the additional income will be spent on supervision of the loans—a matter in which even the local body is vitally interested.

4. The suggestion conveyed in this letter will be of great magnitude in adding to your resources and evolving proposals to meet the critical situation of to-day; and I rely on your Directors as men of position in the district to persuade the local bodies to agree thereto.

NOTES AND NEWS.

We invite the attention of our readers to a number of circulars appearing in this issue, issued by the Registrar and the Working Committee of the Central Banks' Conference on a variety of important subjects.

Central Banks' Conference Circulars.

While commenting in the last issue on the import of the several resolutions passed by the Conference of Central Banks at its session of the 2nd October, we observed that the real push had to come from the Central organisation. We are glad to find that the working committee has already issued several circulars to Central Banks containing instructions in the matter of the rehabilitation of existing societies, the utilization of the heavy surpluses in financing banks, the formation of an Administrative section and the appointment of a full time Secretary in each Central Bank, and as to how Central Banks can help themselves in finding added resources for meeting the cost of the additional staff required for carrying out the programmes undertaken. We have no doubt that the Central Banks will heartily co-operate in the execution of the programmes and that the working committee will keep a watchful eye on the progress and regulate the same from time to time.

We reserve our comment in respect of the Registrar's Circulars to a future issue.

* * *

The Bengal Presidency Division Co-operative Conference.

The October number of the Bengal Co-operative Journal gives a report of the Presidency Division Co-operative Conference. From the contents of the resolutions passed therein, one is tempted to infer that even matters relating to the prospects and facilities for the Co-operative Department are considered at such Conferences. The Conference has asked the Government for the restoration of the steam launch to the Co-operative Department, increase in the salary of auditors, and making their posts permanent. It is regrettable that there runs through the whole set of resolutions a feeling of helplessness and dependence on the Co-operative Department for everything. Two resolutions, recommending to Government the investiture of certification powers on the Registrar to recover the dues of refractory members and make awards enforceable with the aid of the same powers, indicate the tendency of rural societies to shirk collection work while willing to lend to members, an attitude of mind which, if not nipped in the early stages, is fraught with untold dangers to the movement.

We are unable to understand as to how the whole problem of village reconstruction can be brought on the co-operative basis. Certain administrative measures in every village as silt clearnce, sanitation, prevention of encroachments etc., can be handled successfully only with certain powers delegated by the Government. The method of voluntary association which is the basic principle of co-operation fails in such measures as the society has no legal power to coerce the unwilling. The point has been so clearly brought home to us by the Registrar-General of Panchayats, Rao Bahadur N. Gopalasami Iyengar, as the President of the Trichy Dt. Co-operative Conference on the 9th October, that we would only request our readers to go through that portion of his address which deals with the subject. Anyhow, the Bengal Conference has recommended the formation of village reconstruction co-operative societies at suitable centres in every district. We await further results of this new scheme.

We would like to make one or two remarks about the other resolutions passed at the conference. A resolution was brought forward urging on central banks and the Provincial Banks the formation of a Development Fund by setting apart 10 per cent of their annual profits for the development of primary education among the members of co-operative societies etc. We feel unable to understand why these banks should take upon themselves the primary duty of the State, of affording free and compulsory education to its citizens. It is one thing to promote adult education for the organisation of agriculture on the co-operative basis but it is entirely another thing to teach the 3 R's with the aid of co-operative funds. The resolution was fortunately lost.

There is a similar tendency in recent times on the part of Co-operators of a certain line of thinking who propose setting apart a portion of the profits of financing banks for purposes which, however desirable in themselves, do not come quite within the purview of the objects for which such banks are established. Without committing ourselves to the propriety or impropriety of any principle that may be involved in such proposals, we may at once point out that it is of first and foremost importance to strengthen the banks with an adequate amount of reserve. And it is only when banks are quite strong that at some later time at least they can afford to consider such proposals. What with the present overdues which are steadily on the increase for some years and what with the vast surpluses which could not be absorbed within the movement and have in consequence to be invested outside even at unremunerative rates of interest, the necessity for the building up of a strong reserve, not necessarily limited to the statutory minimum, is, at the present time, greater than ever. Until the conditions of work in rura societies, on whose soundness the whole fabric of co-operative finance and edifice rests, considerably improve, and until all possible, preventible causes of loss are avoided, co-operators will do well to withhold proposals of the kind in question and augment the reserves of financing banks.

Another resolution asking for increased staff in central banks was lost also owing to the opposition of some of their directors. "The President of the Conference who was the Registrar himself here referred to the complaints made by certain members of village societies in the Rajshahi Division about the inadequacy of their Central Bank staff which on enquiry was found to be true." Perhaps as in our own province, Central Banks in Bengal have been habituated to depend too much on the department in all matters affecting the improvement of societies and thus lost touch with them; and as a result, even the words of the Registrar that they should improve their efficiency, did not carry much weight with them.

It is regrettable that two important resolutions, one demanding monthly salaries for secretaries of village societies, and the other urging the definition of the liability of a surety, namely, that he should be proceeded against only if all measures have been taken to recover the amount from the primary borrower, should have failed at the Conference.

In the midst of these resolutions, some helpless, and some ill-considered, it is certainly cheerful to come across some which formulate a programme of action for execution by the societies themselves. The Conference has recommended the training for co-operative workers, organisation of stores societies in village areas and sale societies for the disposal of agricultural produce. It has also recommended the grant of cash credit and long term loans to approved village societies. If the Executive of the Conference will take action on these resolutions and pursue them round the year, we are certain that some sense of responsibility would have been instilled in Central Banks and the management and finance of rural societies also improved.

Two other resolutions passed by the Conference are quoted below as they have an All-India importance and have a bearing on the conditions in our own Province,

1. "This Conference recommends that the Govetnment of India be approached to issue necessary instructions to the Imperial Bank of India to discount co-operative papers and also to grant loans against hypothecation of merchandise goods to co-operative sale and supply societies on the same lines as European firms are financed by it."

2. "In view of the uncertainties, the risks and the difficulties of a private lender of money, specially by a ryot borrower to his landlord creditor, this Conference urges on Government the desirability and urgency of enacting legislation for deposit in court of money due on simple and instalment bonds on the lines of Sec 83 of the Transfer of Property Act."

One important resolution unanimously adopted at the Conference we have taken to the last for consideration as it relates to the same problem in this Presidency. The Conference has requested the Government to contribute to the cost of maintaining the supervising establishment. This question is being solved by some of the Central Banks in this Presidency by an increased contribution to the funds of Local Unions. This is no doubt a better solution than subsidy from the State which will only cramp the free growth of non-official bodies and convert the supervising staff into a branch of the Department subordinate to the inspecting staff of Government. The Coimbatore Bank has recently resolved to pay a rebate of 8 annas on the interest realised from societies and has thus doubled its contribution. The Trichy Bank also has increased its rebate from 4 to 6 annas. With similar increased financial assistance from other central banks, it may be expected that the supervising staff will improve in quality in this Presidency.

Closely bound up with this question of contribution for supervision is that of sufficient margin in rural societies to meet all its expenses. The Trichy Dt. Bank has reduced its rate of interest to rural societies from 8 to 7½% on condition that the interest rate is reduced to the borrower to Rs. 9-6-0. The capacity of rural societies to pay for their management, to contribute to supervision and to build a reserve fund, depends on the existence of an adequate margin without which there can be no efficiency of adminstration. It has been laid down by competent authorities, that proper supervision would at least require a contribution of 1% on the working capital. It has also to be noted in this connection that district federations, newly brought into being, make a monetary demand on local unions for their existence. The earlier this anomaly of taking resourceless unions for institutions at the top is eliminated, the better would it be for the smooth working of the

movement. It is a question whether the District Federations should not be largely financed by the Government for the simple reason that when those institutions come into full working order, the cost to Government on its own staff will get considerably reduced. This apart, the question arises whether out of the existing margin, rural societies in most unions are in a position, without prejudice to other legitimate calls thereon, to raise their contribution to the Supervision Fund from the existing rate of 8 annas per cent of the working capital, so as to enable the unions, with the increased contribution from the Central Bank, to carry on their work of supervision in an adequate and efficient manner—and yet be in a position to build up Reserve in the manner contemplated bylaw (Rule IX of the Rules under the Co-operative Societies' Act). A situation in which these conditions cannot all be fulfilled is only dangerous to the Central Bank, for the strength of Central Banks is closely bound up with that of the rural society which again depends on a sufficient reserve. One is tempted to ask under these conditions whether it is not a suicidal policy to reduce the rate of interest to rural societies, irrespective of the facts whether or not it is able to bear the reduction. It is probably owing to the poor margin that some societies in Trichy try to make it up by levying a penal interest of 3 pies in the rupee on overdue loans. The value of transactions in an average rural society is not so large as to bring down the local interest rate in the village. This latter naturally rules high with the result that the cheap credit available in the society tempts reckless borrowing and non-repayment of the loan, as the member does not feel the pressure to repay it owing to the low rate of interest. If, as it ought to be, the object of the society is not merely to lend out at cheap rate and meet a present need but to release the borrower from the clutches of the money lender at least in some far off time, the building up of an indivisible common fund is an absolute essential of every society. And any procedure which delays it only tightens the grip of the money lender. It might be said that in certain tracts, interest rate for the middle classes is nine per cent. That is only an additional reason to show that the rate should be varied according to tracts. And in such areas what is lost in the margin should be made up by largeness of transactions. In this Presidency, the movement has spread more in dry tracts than in wet areas. The interest rate is naturally high there, as such areas cannot hope for a steady supply of rains and the price of the produce raised is subject to large fluctuations. Banking business is more difficult to be carried on in these tracts; and as the ryot population requires more long-term loans, this will demand a detailed scrutiny of their assets and income. Further, long-term loans necessitate the raising of long-term deposits by Central Banks at high rates of interest. Hence, rates of interest should be fixed with regard to the margin required for supervision, administration and propaganda, the sufficiency of reserve fund in the society, the nature of the tract and the purpose of the loan.

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To Our Readers.

Of late several complaints of non-receipt or receipt of a smaller number, or receipt after lapse of considerable time, of the English and Tamil editions of the Bulletin are being received. The complaints are receiving our attention and we are endeavouring to avoid room for any sort of complaint in future. From this issue onwards, the monthly issues will be posted not later than the end of the month to which they relate. All complaints of non-receipt, late receipt etc. should be sent so as to reach the Office of the Madras Provincial Co-operative Union, Ltd. Royapettah, Madras, not later than the 15th of the following month and should specify the ledger number which will be found printed on the wrapper. Complaints received after that date will not receive attention.