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Madras Journal of
Co-operation

XXV

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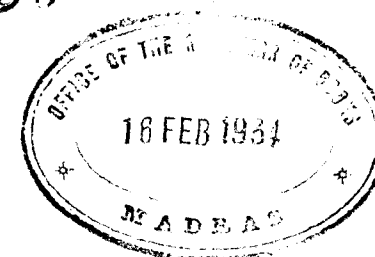
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CONTENTS.

	PAGE No.
1. EDITORIAL NOTES ...	439
2. ARTICLES—	
(1) SOME SUGGESTIONS FOR IMPROVING THE WORKING OF CO-OPERATIVE SOCIETIES IN THE PROVINCE—By Rao Bahadur A. Vedachala Aiyer, Avl. ...	447
(2) CO-OPERATION AND SOCIAL WELFARE—By Mr. V. Srinivasan, M.A. ...	454
(3) RURAL RECONSTRUCTION—By Mr. M. P. Nachimuthu, B.A. ...	458
(4) SURPLUSES IN FINANCING BANKS—By Mr. K. L. Bhandari ...	462
3. THE 3RD MADRAS URBAN BANKS' CONFERENCE—	
(a) WELCOME ADDRESS—By Mr. P. S. Sundaram Ayyar, Chairman of the Reception Committee.	464
(b) OPENING SPEECH—By Rao Bahadur K. Deivasikhamani Mudaliar, Avl., ...	471
(c) PRESIDENTIAL ADDRESS—By Prof. K. L. Khaji, M.A., B.Sc., I.E.S., J.P. ...	477
(d) RESOLUTIONS PASSED ...	495
4. DISTRICT NEWS ...	497
5. REGISTRAR'S CIRCULARS ...	500
6. SUPPLEMENTS—	
CO-OPERATIVE CREDIT—ITS ACHIEVEMENTS, POTENTIALITIES AND LIMITATIONS—By Mr. V. Ramadas Pantulu ...	



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Editorial Notes

The Third Madras Urban Banks' Conference held at Periyakulam.

I

The Urban Banks of this Province have been feeling for some time past that in the general conference their special problems do not get as much attention as they think should be given and hence attempts have been made in recent times to have a special provincial conference for Urban Banks only. The first conference was held some years back at Erode and it was mainly confined to Urban Banks in Tamil Districts; the second conference held at Tiruvannamalai was much more representative and it was then resolved to have a conference practically of all limited liability societies having a working capital of Rs. 20,000 and more and this conference which should have been, as originally settled, held at Vizianagaram was allowed to be held at Periyakulam in Madura District. It was held there during the last Christmas.

II

At this stage we may perhaps discuss two important points raised by the Registrar who opened the Conference and whose speech on that occasion is printed elsewhere. The present Registrar has been connected with the movement from its very inception and therefore can speak on the movement so far as our province is

concerned with an amount of authority which very few officials or non-officials connected with the movement can command. In his speech he shows how in the earlier days conferences were more spectacular and educative and later on they have been becoming more and more business-like. He suggested that instead of a separate conference for discussing the problems connected with the Urban Banks, it is far better to have an Urban Banks' section of the Provincial Co-operative Conference.

Proceedings of the Round Table and the Indian Science Conferences have made this process familiar to us. According to this plan there will be a plenary session presided over by a man of high eminence in Co-operative field who would take a survey of the situation as a whole and then the conference would break up into a number of sections each dealing with its own special problems. Under this arrangement Stores, House Building Societies, Rural Societies, Supervising Unions, etc., can each have its own section and discuss problems peculiar to itself. There may be another concluding session at which all delegates will be assembled and the various resolutions passed at sectional meetings may be taken as adopted by the conference as a whole. This procedure recommended by the Registrar is well worth the consideration of co-operative authorities as it will stop before it becomes too late this fissiparous tendency within the movement.

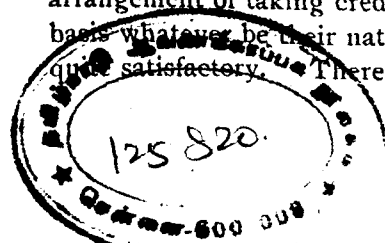
It may not be out of place if we add that Educational Conferences which meet in London once a year during Christmas in the University College, London, follow the same procedure and the All-India Educational Conference which also meets from time to time in different provincial head-quarters of India has adopted the same procedure, namely, a full session at the beginning and at the end and sectional conferences dealing with special problems. We hope the leaders of the co-operative movement—officials and non-officials—will bestow their full attention on this problem and evolve a satisfactory mode of holding the conference, where no section will have cause to complain that its problems were neglected.

Another point raised by the Registrar was equally important and referred to what constitutes an Urban Bank. The present arrangement of taking credit societies organised on limited liability basis whatever be their nature and function as Urban Banks is not quite satisfactory. There are some agricultural societies on limited

liability basis and if our information is correct, there are some societies confined to employees of a particular office or to members of a particular profession or community organised on unlimited liability basis. An Urban Bank, to fulfil its legitimate function as an Urban Bank has to be really a peoples' Bank catering to the economic needs of the people of a particular urban area and if we confine our attention to such institutions only, their number would be as the Registrar pointed out, very much less than the number that were allowed to attend the conference. Perhaps if the first suggestion of the Registrar be carried out this classification will become more easy and we may have a section devoted to deal with the problems of peoples' Banks and another section to deal with the employees and salaried officers' Societies.

III

The Chairman of the Reception Committee had in his mind a flourishing peoples' Bank with plenty of human and material resources at its disposal as a typical one and hence his address chalks out certain lines of future advancement of these Urban Banks which may not be applicable to all limited liability societies that are now brought under that term as it is loosely used. He pleaded for introducing exchange business and transmitting of money which commercial banks are now doing and also for the lending of money on the pledge of gold. If he had opportunities of reading the Registrar's speech before hand he would not have complained so much about this last item. The Registrar has pointed out that the department is willing to allow Urban Banks this new line of business provided they adopt certain rules which safety and good business principles require, and wherever banks have come forward to work accepting these rules permission has been given. The next plea of the Chairman for allowing rich Urban Banks to finance other co-operative societies within a limited area may not, we are afraid, meet with the approval of Central Banks. All Co-operators, however, would agree with him that Urban Banks should do more propaganda by the starting and running of good and efficient libraries and making co-operative literature available to the masses. His suggestion that defaulting members should be deprived of their right of vote at the general body meeting when office-bearers are chosen is well worth careful consideration, as the present defective arrangement is a cause for introducing many an undesirable and demoralising element in the management of a society. But there



can be two opinions about his other suggestions that depositing non-borrowing members should be given a certain number of seats on the Directorate. On the whole the speech was based upon the personal experience of the speaker and many of the points suggested deserve full consideration by all workers interested in the progress of Urban Co-operative Societies.

IV

Even in our preliminary remarks we have dealt with the two important statements of the Registrar, *ie.*, about the need for a separate conference for Urban Banks and what an Urban Bank is. We are glad to be assured by him that Urban Banks generally are working satisfactorily and their progress in membership, share-capital subscribed and paid, in the deposits by members as well as by non-members is quite satisfactory. The Registrar's suggestion that when a particular society becomes unwieldy in size, it should be allowed to have sub-societies instead of, as is being done at present, being split up into two or more societies or being allowed to have its branches started in different areas within its original jurisdiction is a somewhat controversial matter and deserves to be discussed at fuller length at a later conference. There is some force in his remarks that if a big society be split up the power and prestige decrease to a certain extent and each separate unit may not be able to command the same amount of money facilities which the undivided big society was able to command. The best course appears to us to be that each society should be allowed, consistent with safety, to perform its own experiment of tackling the problem of either starting branches or splitting the main society or having sub-societies and it is not possible for us to dogmatise on the matter as the data at our disposal are not quite adequate.

We are sorry that the Registrar was rather harsh upon employees' societies. He thinks that many of the members continue to borrow and never get out of their indebtedness. He seems to be genuinely sorry that such people were given co-operative societies at all. Their chronic indebtedness may be due to two causes—either their extravagant habits or their being under-paid and every case must be judged upon its own merits. Evidently the Registrar seems to believe in the old dogma that credit for the producer leads to prosperity whereas credit to the consumer leads to ruin. This fine epigrammatic statement, as we have often pointed out, embodies only a partial truth and should not be taken as being

applicable at all times and under all conditions. Moreover, when such a statement is made, the term producer is taken in a very limited sense. The agriculturist produces one kind of wealth but many an Urban worker produces other forms of social utilities which are as much necessary as food and clothing for Society at large and hence it is wrong to shut out a doctor for example or a teacher from the ambit of co-operation as not being a producer but only a consumer of wealth. What is necessary in the case of employees' societies is to encourage thrift amongst them by instituting Provident Fund deposits and if particular individuals continue to suffer from chronic indebtedness their cases ought to be examined by a Panchayat of Co-operators and a way suggested out of the difficulty. Co-operation is intended to rescue the poor industrial and intellectual worker of Urban areas from the clutches of Marwaris as much as it is intended to rescue heavily indebted agriculturist from the same unfriendly agency. In both these cases the repaying capacity is to be taken into consideration and all efforts should be made to rescue the indebted party from the clutches of usurers.

It is of some historical interest to know that one of the earliest societies to be started—the rural society at Kilacheri enacted in the very first year of its working a rule that no loans shall be granted to members except for productive purposes and that loans granted for productive purpose if mis-applied shall be cancelled and immediately recovered. But the term productive purpose was intended to include “payment of Sarcar Kist, the purchase of food and other necessities of life and even payment of prior debts” according to the report of the first Registrar.

The Registrar's plea for employing trained hands only as officers of Banks will be endorsed by every one; so also, we hope his plea for keeping co-operation out of local party-politics. The speech was, as might be expected, practical and to the point.

V

There is much to be said in favour of the policy of occasionally bringing a distinguished outsider to preside over our Provincial Conferences. He brings a certain amount of freshness to bear upon our problems which being too near to us do not appear to us in their proper perspective. He also brings his wide experience in other spheres and his knowledge of similar institutions in other provinces to bear upon

our own problems. We find these general observations very well illustrated in the case of Professor Kaji, who presided over the Third Madras Urban Banks' Conference and whose address is printed elsewhere in this number.*

Mr. Kaji's address from beginning to end was purely urban, viewing all problems from the urban point of view and absolutely free from any rural bias. He began by lodging a protest against the ordinary interpretation of Co-operation as being almost synonymous with rural co-operation and said that the poor in urban areas need it as much as their fellow poor in rural areas. He bewailed the wrong policy adopted by the state in starting rural credit societies first and the learned Professor was of opinion that if relatively greater stress had been laid upon urban areas and urban co-operation, the experiment would have been much more successful on account of the existence of a large number of educated men in these areas.

Along with the Registrar who opened the Conference Mr. Kaji also felt the need for clarifying our conception as to what we really mean by an Urban Bank. He divided all the limited liability societies which are brought together under this all inclusive category into three or four main classes-societies intended for the consumer which ought to encourage thrift, societies intended for factory hands and salaried employees which also should care more for thrift and may occasionally lend small sums taking into consideration the repaying capacity of the borrower, societies for small artisan or those intended for industrial purposes and lastly the real Peoples' Banks intended for doing all kinds of banking business. He seems to think that most of these sub-sections may in course of time have their own independent district and Provincial organisations for financing them. He pleaded for the use of the first and second classes of people mentioned above for the formation of Investment Trusts which subject is at present engaging the attention of Urban Co-operators in Bombay. He also pleaded for the formation of separate industrial Banks for financing smaller urban workmen and he would have independent district and provincial organisations for financing Peoples' Banks, so that, we take it, that according to his scheme there will be a Provincial Bank for financing rural societies, another for financing industrial societies, a third for urban societies, a fourth specialising in investment of the small savings of the

*See page 477 of this number.

thrifty employees and the fifth the Land Mortgage Bank specialising in Long-Term-Credit. This multiplicity of organisations may be somewhat bewildering but they would perhaps help the development of particular types and at any rate will solve our problem of unemployment to a certain extent!

The learned Professor laid stress upon the need for getting employees in Urban Banks efficiently trained so that it may not be necessary to have another organisation for supervising them. He was for allowing Urban Banks to have divisional unions for their supervision if that is necessary at all. Efficient staff combined with equally efficient audit would, in his opinion, be sufficient and constant supervision as in the case of rural societies may not be necessary. Mr. Kaji was of opinion that Expansion which has been unfortunately held up so far as the Rural Credit Societies are concerned might well be allowed to go on unchecked in promising urban areas as conditions therein are entirely different and as there are still large sections of urban population not brought within the co-operative movement.

We are particularly thankful to him for putting an eloquent and effective plea on behalf of insurance. Himself being the President of the Bombay Co-operative Insurance Society, he knows the social significance of Insurance and the section of his address dealing with this subject deserves to be carefully studied and acted upon not only by the middle class people who stand to gain by Insurance, but also by the financing Banks who also, in his opinion, are likely to be benefitted if Insurance spreads wide among the masses. This aspect, that is, how financing Banks should take it up as their duty to encourage Insurance has not been properly understood in this Province; if so understood all the existing Urban Banks would become automatically agents of our Co-operative Insurance Society. The promoters of the South India Co-operative Insurance Society had that as one of their fundamental conceptions, and it is somewhat discouraging to note that Co-operative Institutions in this Province have not taken up the task of diffusing the benefits of insurance amongst their clientele with that degree of enthusiasm which the promoters of Co-operative Insurance hoped they would have.

On the whole the address was, as might be expected of a learned Professor of his standing and wide experience, very suggestive and inspiring and we congratulate the Co-operators of Periyakulam on

their being able to secure such an eminent Co-operator to preside over their deliberations; our hearty felicitations to the Learned President also.

VI.

The resolutions of the Conference were not after all either many or of a far-reaching character. In the light of the President's observations they passed a resolution to have separate District Banks of their own and until such time as they get this to have certain seats reserved in the Management of the District Banks for the representatives of the Urban Banks. The most important resolution is the one constituting a working committee which will, between one session of the Conference and another, carry on the work and see that the resolutions are duly communicated to the persons concerned and are acted upon. On the whole the Periyakulam Conference should be pronounced to be a success.

Mr. Vedachala Aiyar on the Present Situation.

Rao Bahadur A. Vedachala Iyer's article on the present phase of Co-operative movement in the Province and the way out of the impasse will be read with that amount of interest and special attention which his age and unique experience of the movement entitle his opinions to command. This subject is engrossing more and more the attention of all workers in the field-officials and non-officials and the Provincial Co-operative Union is going to consider this question at its next Executive Committee meeting to be held this month. There is a reference to a particular scheme by the present Registrar which meets with the approval of Mr. Vedachala Iyer, though we are not told what exactly the scheme is. If we are correctly informed the scheme is being put into practice in selected areas in the Province and their results are watched with great interest and the scheme will, perhaps, be published later with modification necessitated by experience gathered. But the problem is so vast and important that Mr. Vedachala Iyer has done a service by setting all serious-minded people thinking about it and by giving sound and concrete suggestions for improving the present situation. We hope that at the Registrar's Conference to be held at Delhi one of Mr. Iyer's suggestion namely to limit the meaning of unlimited liability as contributory liability of a fixed character, will be considered in all its implications by co-operators of this Province at

their meetings. On this point of contributory liability it would be of some interest to our readers to know that the very first Registrar in Madras in his very first report makes the following observations:—

“I am of opinion that though it may take some time before the members of any rural society will agree to recognise their joint and several responsibility for all the debts incurred by the society to the full extent of their property, it would be possible to make them responsible subject to a maximum amount beyond which the liability shall not extend in the case of any member.”

The other important proposals of Mr. Vedachala Iyer are that co-operative credit as administered by rural societies should be confined to short-term and intermediate credit only and that there should be a paid clerk in charge of each society.

Regarding financing Banks he makes the suggestion that individuals who have in recent times been kept out should again be given a prominent position in the direction of affairs and the method of raising credit by Central Banks should not be fundamentally different from that by which commercial Banks are raising their own. Finally he recommends the calling together a business conference in which these questions will be discussed by workers and a plan evolved which may be put into practice at a very early date.

Not only in this Province but all over India the situation has become critical. While there is superfluity of funds with the financing Banks, it is not able to reach the masses because of the general economic depression and the phenomenal fall in agricultural produce which have considerably curtailed the repaying capacity of the average member. While over-dues are mounting business transactions are shrinking and if this continues profits would naturally grow less. The situation demands that immediate steps should be taken and the remedy is not to be applied piece-meal in this or in that institution but in accordance with a self-contained and carefully evolved plan it must be applied to all sections of the movement.

Mr. V. Ramadas Pantulu's Address at the Economic Conference.

Mr. V. Ramadas Pantulu's address on Co-operative Credit, its achievements, potentialities and limitations is printed as supplement to this number. It reads more like an address to laymen rather than to specialists. It might be heresy to look upon the specialists in

Economists who were assembled as delegates of the All-India Economic Conference at Annamalai Nagar as laymen so far as co-operation is concerned; but the fact is that most of those great Professors and economic Pundits busy themselves with bigger problems and look upon co-operation as a negligible minor problem connected with Rural Economics. Mr. Ramadas therefore did well in explaining lucidly the fundamentals to the learned assembly. Though money-lender has not been supplanted in many rural areas, the movement has had the good effect of lowering the rate of interest at which money is made now available to the agriculturist. He enumerated the past mistakes of the movement, the most important of which was the attempt to wipe off prior debt without realising the limitations of co-operative finance which should be made available only for short-term and intermediate loans. He made a point against the Government that they have not given effect to the recommendations of the Bankers' Conference empowering the district banks to lend freely on the pledge of produce which would be the first step towards co-operative marketing of crops. The Government seems to have thought this to be the function of the commercial banks only. It passes our understanding as to how the government could have drawn the subtle line of distinction between the sphere of commercial banks and that of co-operative banks on this important matter. The difference between these two classes of Banks is, in our opinion, certainly not in the sphere of activities but in the motive of action and to a certain extent perhaps in the method of management. The Commercial Banks mostly finance traders and middlemen who store the produce for profiteering and rarely the small primary producers; so in fact the Co-operative Banks do not compete with the Commercial Banks in this respect at all. Mr. Pantulu's observation on Land Mortgage Banks would be read with great interest because the problems connected with it are coming more and more to the front. Only a few provinces have started the Land Mortgage Banks while others are watching with great interest the success of the experiment and hence we should see that the foundation is well and truly laid. The two basic facts affecting the working of the Land Mortgage Banks are the tenure of land and legislation against alienation of land which two items vary from province to province and therefore Mr. Pantulu was not for an All-India Legislation on the matter, but advocated that each Province should have the liberty to deal with the problems according to its own requirements and

conditions. He put in an eloquent plea for making the period of payment longer as contrasted with reducing the rate of interest and the table of statistics inserted in his speech is an irrefutable argument on the matter. In Madras the Co-operative Land Mortgage Bank has issued debentures for 20 years and Mr. Pantulu pleaded for at least 30 years as the period of repayment. We hope the authorities of the Land Mortgage Bank will give this matter their special attention.

He also drew pointed attention to the fact that too much importance has been attached to unlimited liability a point which Rao Bahadur A. Vedachala Iyer has also brought out in his article. In theory it may be alright but taking the village life as it is depleted of proper human material, it is too much to expect ideal conditions to prevail and we must face facts as they are. He also points out how agricultural paper has not become negotiable in the open market and hence even the connection of Co-operative Banks with the Reserve Bank will not bring about the full benefits. He pleaded eloquently for a radical change in the agricultural policy of the state which alone would enable us to tackle the problem satisfactorily. Till then co-operation on account of its various limitations will be only a palliative and not a cure. The workers in the field of co-operation will do well therefore, to realise the limitations the movement as pointed out by Mr. V. Ramadas Pantulu and confine their activity to the narrow field in which alone it has got a chance of success.

Our Losses.

We are sorry that the Co-operative Movement has recently lost two stalwart workers, Mr. W. V. B. Ramalingam Pantulu of Berhampore and Mr. V. Sivaprakasa Mudaliar of Madras. Mr. Ramalingam was for a very long time the President of the Ganjam District Co-operative Bank at Berhampore and took an abiding interest in all forms of Co-operation in the District. He was responsible for popularising Co-operative Insurance in Ganjam. He was a self-made man. Mr. Mudaliar was long connected with Chintadripet Bank in the City and played a prominent part in the affairs of the Madras District Bank. He was the Corporation Councillor for the division and was a public worker of great zeal. May their souls rest in Peace!

The Late Mr. A. Rangaswami Iyengar.

Public life in India has sustained a serious loss in the untimely death of Mr. A. Rangaswami Iyengar, Editor of the Hindu, Madras. He was an authority upon Indian Constitution and Indian Economics and did his best to further the cause of the Motherland in all the fields he was working. As the Secretary of the Indian National Congress, as a Member of the Legislative Assembly where he was the right-hand man of the late Pandit Motilal Nehru, leader of the Swarajist Party and as a Member of the Round Table Conference where he acted as the adviser of Mahatma Gandhi in Financial and Political matters, he did his duty well by the land he loved. His services to the cause of Indian peasant in connection with the legislation on Currency and Exchange in the historic days of the Swarajist Party's activities in the Legislative Assembly in 1927-28, and his contribution to the framing of the Reserve Bank Bill deserve special mention. He was a champion of the ryots and kept up the agitation for the reduction of land revenue and in this and in other ways he did his best to ameliorate the conditions of the poor in this country. We may add that Mr. Rangaswami Iyengar was also connected with the Co-operative Movement. In the offices of the 'Hindu' and 'Swadesamitran' he organised Employees' Co-operative Society for the benefit of the employees and was connected with other societies also. Our sympathies go to the members of the bereaved family.

Stricken Behar.

The province of Behar has been subjected to terrible losses in men and money by an unprecedentedly severe earthquake and our heartfelt sympathies are with our suffering brethren over there. The task of reconstruction would be a colossal one and we hope that the co-operative movement would be utilised to its fullest extent in the delicate and difficult task of setting the Province once more on its legs.

Error Regretted.

We are sorry that an error has crept in the last number of our Journal. The article headed "RESERVE BANK" which appeared in our last number was not by Fr. Carty, S. J., but by Mr. S. R. Subramaniam, B.A., B. Com., Secretary, Trichinopoly District Urban Bank, Ltd., Trichinopoly and it was read at a meeting over which Fr. Carty presided. The error is regretted.

Some suggestions for improving the working of Co-operative Societies in the Province.

BY RAO BAHADUR A. VEDACHALA AIYER, AVL.

There seems to be some fears entertained by some share-holders of Central Banks and the depositors in them about the financial soundness of the working of Co-operative Central Banks, as they are naturally alarmed at the rapid growth to a high percentage of overdues in rural primaries and of the losses expected from mismanaged co-operative organizations due to misappropriations and bogus loans, besides the factor that a number of rural primaries have not been able to keep up to their engagements to the Central Banks under the principal dues. Some Central Banks are or will soon be in a position to find it difficult to keep up to their obligations to the depositors or the Provincial Central Bank if the stream of fresh deposits get dried up. Some Central Banks do not find outlets for their money for want of good primaries undertaking the consumption of money in a business like way. Even the Central Banks, many of them will sooner or later not be in a position to declare dividend at 9 per cent as before if the collections by way of interest alone in the primaries are credited towards the interest dues in the Central Banks. As it is, some members' holdings are sold up in primaries and the sums collected as principal and interest are credited towards the interest dues of primaries to the Central Banks instead of to the principal and interest. If we exclude the principal collections involved in such cases from the interest collections of Central Banks, the real divisible dividend after setting apart for bad debt fund in Central Banks, can be seen to be very much below the present figures returned. In some cases there will be no dividend to distribute.

There can be no doubt that the financial position is one about which anxiety has to be felt by all concerned. There is stagnation of transactions and no new income can be expected for some time. When Mr. Ramadas and the Registrar of Co-operative Societies, in a conference of co-operators advised that individual share-holders and depositors need not get alarmed at the present state of things, they could not have meant more than that ultimately there will not be loss to be borne by the share-holders and the depositors. There is

said to be a large accumulation of reserve funds of primaries and of Central Banks and during the last 2 or 3 years, a bad debt fund is being created by Central Banks out of the profits of each year. Every attempt is said to be made by the co-operative machinery, official and non-official to recover the dues of members to primaries by legal action in certain cases. Such a step is expected to determine the losses hitherto incurred and to be incurred. It does not however appear that this overhauling is *properly* made by efficient and responsible men and is done everywhere. Assuming that this is accurately ascertained and if the loss represents a figure which will be covered by reserve funds and the special reserve of bad debt fund, the apprehensions might be allayed. But losses of members' dues which have to be written off have to be made good only by profits earned in the future by extended transactions and the stagnation in the work of primaries can be removed by arranging for transactions connected with the financing of *agricultural industry*.

To secure extended transactions and the removal of stagnation, it is desirable for co-operators, bankers, and the departmental officers to visualize the difficulties. The present position of a very large number of primaries is that all persons against whom arbitration decrees have been obtained have been removed from membership and those who have cleared their loans are anxious or have already arranged to get out of the rural societies for fear of unlimited liability and because they would become responsible for all losses by whomsoever caused. The rural co-operators have got disheartened and the rural people who have not joined the movement are nervous to get in owing to the uncertain financial position of the rural society.

Personally I think it would be foolish to expect new men to join the institutions until the actual state of affairs is made public. It is not practicable to secure new men of status to join the society as by their advent, they will be dragged into unlimited liability and become responsible for past losses. I believe many men of substance who, in the present money famine, wish to secure credit facilities for agricultural operations feel unwilling to join the societies at this juncture and they are not far wrong in their views as the financial position of each society is not accurately determined by wiping out the losses out of share capital of the primaries and their reserve funds and also from the bad debt fund of the Central Banks and by the actual determination of outstandings well secured with security. The

public must get convinced that they can join such institutions and become responsible only for future transactions. Where such a certificate could not be issued, we must liquidate the society and start afresh.

It is an urgent problem for co-operators, official and non-official, to solve and it is by the solution of this problem that the movement can be pulled up from the present situation and can be expected to progress on healthy lines. The stagnation of large deposit balances with Central Banks will sooner or later affect the financial aspect of the whole movement if it has not affected it already.

Thus it is clear that the reconstruction of the existing organizations in a suitable manner so as to absorb extended transactions with guarantees of future good working of the societies in a business-like way must be begun in every District without any delay by the conjoint efforts of the official and non-official staff and by non-official institutions and that any policy of drift will surely land the movement in disaster both under finance and administration. I have been writing about this in the 'HINDU' during the last 4 years.

I tabulate below my suggestions as regards the working of primaries, Local unions and District Banks. I am not particularly wedded to these. Co-operators should think out this problem *deeply* and act *without delay*.

Primaries.

(1) Unlimited liability in rural societies is compulsory by Statute. But there is no use of having unlimited liability without any definite ascertainment of real security available under such an arrangement. The entire property of each is liable in theory for the entire losses, but there is freedom for any one to deal with his property as he pleases. To raise credit on such an uncertain basis is useless and not acceptable by outside banks and would not enforce responsibility. I would have unlimited liability but the limit for which each member will be liable under the unlimited liability should be definitely fixed as contributory liability and should really be proved to be available. To explain myself, members who have immovable property will pledge unencumbered immovable property and be allowed credit up to 40 per cent of the value carefully ascertained and fixed by the society. Such members will pay share capital

at 1/20th of the credit to be realised. Members who have no property will pay share capital at 1/5th of the credit to be realised. Such share capital will be returned after 7 years.

The credit to be allowed to the institutions will be 40 per cent of the value of property to be pledged plus 5 times the paid-up share capital. Supposing the share capital is Rs. 500 the credit value will be Rs. 2,500 plus 40 per cent of the value of the immovable property valued at 20,000 will be 8,000. This will be a normal credit power in a normal village. These proposals can be modified as it suits each tract of country.

The alterations proposed can be acted upon even under the existing by-laws provided the by-law about unlimited liability is altered to one of contributory liability of a fixed character to be specifically described.

The property statement now prepared lacks in depicting actual facts and is not a useful and accurate factor in determining the credit of a society. This sort of statement can easily be dispensed with or simplified.

(2) Credit allowable to each member can be fixed once a year with reference to the repaying power of each.

(3) Short term loans for agricultural industry recurring each year will be limited to one year as regards members but the society is bound to return it in two years to the Central Banks to enable primaries to get adequate time for collection.

(4) Mid short-term loans for 5 or 6 years and ordinary short-term loans for over Rs. 100 should ordinarily be given on the security of immovable property unencumbered and proved to be such by an encumbrance certificate, valued by two Panchayetdars, and certified in writing by them with data about the fixation of value. Repaying capacity also to be certified by two Panchayetdars in writing giving data for their opinion.

(5) No collection should be reloaned. They should be remitted to the Central Bank in tact.

(6) Distribution of loans to members in primaries must be made out by the Panchayetdars and such a list may be scrutinised by local unions and transmitted to the Central Banks for sanction of loan. Such distribution should be adhered to and full explanation

recorded in writing by the Panchayetdars whenever there has been alteration. Supervisor should scrutinize and find out if the scheme of distribution has been adhered to, and were altered, whether such loans are on proper security and proper explanation are forthcoming for changes.

(7) A clerk on a maximum of Rs. 2 per mensum for transactions below Rs. 2,000 should be entertained in each primary society and for higher transactions, the society can fix its scale. If there is not sufficient margin, raise the rate of interest to members on the ground of meeting establishment charges.

(8) Extension of time can only be granted when similar extension has been secured for meeting the obligations to the Central Bank.

(9) The loans sanctioned by primaries must be made at meetings or by circulation to all the Panchayetdars. The facts noted below should however be in mind.

Share capital of primaries invested in central banks and retained in primaries are covered by loans obtained by central banks and when such loans have become overdue, there is very little value for such share capital in the direction of raising credit on its security to the extent of 8 times or 10 times the paid-up share capital invested in central banks which is at present allowed to central banks.

Reserve funds of primaries though kept outside the primaries are invested in the central banks and are again lent to the primaries. This item is not available separately but is only available to reduce the dues to the central banks.

The co-operative paper of primaries which the central banks offered as collateral security to the Imperial Bank for its overdraft loan to the central banks between 1914 to 1925 was given its value on the strength of the property statements of primaries. Later on the Imperial Bank declined to grant overdraft loan on such security and to the extent of the paid-up share capital in central banks, apparently because such basis of credit disclosed in the property statement was not wholly reliable and because the share capital paid into central banks by primaries came out of loans from central banks to primaries. Hence it is very necessary to alter the basis of credit in primaries.

The practice of share capital of primaries being invested in Central Bank was devised firstly because the central bank should be worked as a co-operative co-partnership concern, secondly because the borrowing institution should have a voice in the working of the central banks, thirdly the central bank's responsibility can be felt to arrange for the good working of primaries. The individual shareholders and the societies should run the concern in a *co-operative co-partnership spirit*. This is the view with which central banks were floated and intended to be worked till a stage is reached when outside share capital can be bought off.

Local Unions.

(1) Each union whatever may be its area of operations should have transactions up-to 50,000 to 1,00,000.

(2) Every union should have a clerk on Rs. 20 to 25 to do the managerial work.

(3) Each union must have an efficient supervisor, well-trained, on a suitable salary who will be a real guide, philosopher and friend of the movement and who will look up to his prospects by the enlargement of operations in credit and other directions.

Note.—I do not care whether the ultimate control over unions and their staff is enforced by a District Federation or the Central Bank or an adhoc committee appointed by both these institutions.

Central Banks.

(1) These banks could not afford at the present stage to avoid individual shareholders. On the other hand more share capital should be secured from them to serve as an effective basis of credit. It would even get share capital up-to 1/5 of the credit power required to give long-term and short-term loans in rural primaries.

(2) I would not put much value on the share capital invested by primary societies as a large proportion of such amount comes out of borrowed money from central banks.

(3) The attempt to work the Central Banks with large credit power up-to 10 or 12 times the paid-up share capital and reserve so as to secure a dividend of 9 per cent on the paid-up share capital should gradually be abandoned as it is financially unsound and must ultimately be given up.

(4) Ordinary credit raising power which commercial banks have from the Imperial Bank should alone be expected from the co-operative central banks if the central banks wish to connect themselves with the Imperial or Reserve Bank of India.

These suggestions are not made as an exhaustive list to be considered by co-operators and banks but I feel that the whole financial machinery as well as the administration in the co-operative movement requires careful and immediate overhauling and readjustment besides intensive working at the resurrection of the existing rural primary institutions.

I should expect the Provincial Union or the Tamil Nadu Federation or both to convene a business conference of representatives of District Banks, District Federations and Local Unions to meet and lay out a line of policy to be pursued by all the institutions in the Presidency with suitable variations in each district to suit local conditions.

I would appeal to District Co-operative Central Banks to take up these questions in each district and regulate the work. The Departmental Officers will, I am confident, give the required assistance and advice in the matter.

As regards the existing primary rural societies which require to be ended or mended, I understand, the Registrar is issuing a scheme for adoption by the Central Banks for a searching examination of all outstanding loans in primary societies. I have had an opportunity of studying the scheme of the Registrar which I believe will get published. I feel that the Registrar's scheme is well thought out and is issued in time and will bring about considerable good to the movement.

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Co-operation and Social Welfare

BY

MR. V. SRINIVASAN, M.A.

"We are nothing in ourselves, we are nothing by ourselves, but we are strong indeed when we are united in co-operation for the common end in an honest endeavour so far as in us lies to further the work of centuries".

(ZAKRIS TIPELIUS).

One cannot but be impressed with the recent enlargement in the co-operative belt. We read of the formation of a cocoanut planters' Union in Fiji and a banana growers' Association in Jamaica; we read too of a Milk Plan for Norway, of the marketing programme of the Reichsverband and of the Mexican Ministry of National Economy opening a State department for co-operation. All these show how much the co-operative movement has caught the imagination of the world. Sir Horace Plunkett is dead but his ideas remain.

The secret of this universal appeal lies in that the movement is capable of organising economic life on lines which avoid conflict and this has blossomed into a free masonry among the multitudes who have found in co-operation a solvent of economic nationalism. This explains why several nations have taken to the movement.

The movement would not have been the success it is had it not developed on lines which best conduced to the well-being of society. To-day more than at any time of its history the movement stands justified more or less by its being in a position to cater to the material wants and needs of a diversified society informed by a communistic ideal and otherwise blossoming forth into very productive efforts in the sphere of education, libraries, halls and social gatherings. And these "things which we are now labouring to provide through patronising philanthropic help, under co-operation spring up by themselves with no one to have to say 'thank you' to".¹

1. H. W. Wolff: Rural Reconstruction, pp. 99-100.

Insufficiency of the Credit Ideal.

Greater and greater emphasis is being laid on the non-credit side of the movement. In our country itself the narrow ideal kept up in the early years of the movement has given place to the vision held up by Mr. Strathie in his thoughtful address under the auspices of the Madras University which indicates the possible line of development in the future. This reorientation has been largely due to the recognition in our country of the very remarkable results achieved by the movement in the matter of ameliorating social conditions in other countries. Increased productivity, assistance in marketing and inculcation of habits of thrift, educating people in a supremely desirable way—these stand to the credit of the movement and with these have gone on in recent times a tremendous augmentation of the resources of co-operators in the West. In England, co-operators own some of the largest flour mills as well as many of the large factories in the country; they operate tea plantations and work large farms as well, growing their own fruit for the jam factories they own and the C.W.S. recently acquired several collieries besides extensive tracts on the other side of the Atlantic to provide wheat for its flour mills and milk for its dairies. The mills provide flour for the wheat stores which pass the flour on to the retail stores and the retail stores supply the consumers who own them so that indirectly it is the customers of the retail stores who own the wholesale stores, the flour mills, the wheat fields in Canada and all the other productive extensive.² The movement might have touched only a fringe of the capitalist citadel but its record has wrought a welcome change in our perspective and the movement has already ceased to be decried as a mere fad.

The truth is we have travelled far, very far, from the restricted ideal of credit which has ceased to loom large in co-operative ideology. Addressing the Missouri Bankers Association in 1925, the Hon. Myron T. Herrick U. S. Ambassador in Paris observed with considerable truth that the trouble with the so-called credit union is the mistaken notion that funds should be used only for loans to members. Speaking from his own knowledge of conditions in North Carolina where the resources of the rural credit unions were all utilised for such purposes as purchases of fertilisers in car load lots of coal, Mr. Herrick

² T. A. Ryan: Social Reconstruction, p. 167.

considered the credit name itself a misnomer.³ It comes to this therefore that co-operation is not all credit alone and much work is not to be seen in that sphere in the Ireland and Denmark where the co-operators have been exerting themselves in works other than making individual loans. And a discerning observer has it that industrial co-operation in Britain is seen to derive its importance more from the part it can play as a social influence rather than as an industrial system.⁴

In common with many other institutions of civilised society, the co-operative movement has interested itself in the housing problem and co-operative efforts in that sphere formed the subject of a series of articles in this Journal last year.⁵ Defective working class accommodation had not infrequently proved a fruitful source of industrial unrest and the building societies have shown what could be done under co-operative auspices towards the securing of decent housing conditions which constitute the *sine quo non* of contented social life. The shortage which became phenomenal during the war and after the Armistice was a feature almost universal and the problem was acute enough even in India, particularly in the cities. The valuable work turned out in the sphere of housing by the co-operative societies of the country can never be overpraised and the proposal to erect model huts for Adi Dravidas in Elur and the Salem District Co-operative Bank's laudable project of a Chuttram are indicative of an interest in this aspect of the co-operative movement which would increase with the progress of propaganda on behalf of the Harijans. Some good work has been done even in Native States like Mysore and Travancore has a co-operative Home in the Capital, the first of its kind in the country.

The Consumers' side of the Co-operative Movement.

Besides endeavouring to ensure satisfactory housing conditions, co-operative organisations in the West have been purveying to their members articles of food, a line of development which has not taken root in India thanks to the peculiar conditions of the country. Not stopping with credit work, some of the credit unions of the U.S.A., do the work of housing groceries for their members. The advantage in

³ See Roy F. Bergongren Co-operative Banking, pp. 63, 64, 320.

⁴ Ernest Aves : Co-operative Industry, p. 134.

⁵ *vide* issue for May, June, August, November and December 1932.

purchasing on the part of societies lies in the strengthened bargaining power that the members acquire by combining and success in work is generally assured by the possibility of obtaining goods of guaranteed quality, an additional advantage being cheap transport on account of large consignments obtained. Half of France's supply of groceries is said to be in the hands of co-operatives and in Germany co-operation has depended on the trade in provisions.

Sir Henry Rew writing on this subject⁶ draws attention to the tendency of English societies to supply its members a number of different commodities while on the continent of Europe the practice has been for societies to specialise by restricting the operation to one class of commodity.

The Co-operative kitchens and common eating houses of Europe play a great part in the social life of that continent, the Finnish Osmola being regarded as one of the largest eating houses in the country. The influence of such institutions on the people have been very salutary and has inspired welcome reforms. Wise Belgium for instance under Vandervelde's influence banned alcohol from her cafes and of the other beneficent results that have accrued, mention should be made of the cheapening of food. K. F. S. investigations in Sweden (1926) have proved co-operative bread to be cheaper than private bread; a committee of enquiry into food prices in England arrived at the same conclusion regarding co-operative effect on food and the societies of France have been able to "neutralise to the poor county-folk the evils of protection which enrich their wealthier neighbours". The social effects of the co-operative eating has been hardly less pronounced. "At the least a common meal makes for a common intercourse and intercourse is the first step towards practical fellowship." (Ernest Aves).⁷

(To be continued).

⁶ Sir H. Rew : Rural Economics, p. 102.

⁷ Co-operative Industry, p. 101.

Rural Reconstruction.

BY

(MR. M. P. NACHIMUTHU, B.A., CHENNIMALAI)

Necessity and Importance.

India, the ancient land of ours, a vast sub-continent as large as the whole of Europe minus Russia containing one fifth of the entire population of the whole world is primarily an agricultural land. Nearly 90 per cent. of the inhabitants of India reside in rural parts containing 7 lakhs of villages and 72 per cent of the population either live directly on land or depend on it. The prevalence of illiteracy among the masses, the ignorance of the ryots in the choice of crops, in the purchasing of fertilising manures, seeds and implements, the abundance of endless sub-division and fragmentation throughout the length and breadth of the country, litigation and feuds during the major part of their lives, the absence of subsidiary cottage industries, the lack of full knowledge about cleanliness and upbringing of livestock and want of enlightenment about the co-operative societies lead to the necessity of the very important problem of Rural Reconstruction.

Attempts should be made to lay the foundations of a new rural civilisation, in which increased material prosperity should ensure a fuller and happier life for all, who labour, freed from the tyranny of the feudal tenure; in which education will be universal and not confined to a few castes, in which the existence of the village will not be a drab and joyless affair, but will have incorporated into itself the innocent and beneficial amenities of a scientific age, in which the village folk will not feel isolated but will participate in the larger commercial, political, intellectual and social life of the nation.

It may be useful first to understand the full implications of the Rural Reconstruction. The word rural obviously refers to something more than agriculture. Comparatively backward as is the condition of our agriculture it is not that alone that needs to be developed but the whole of our rural life in its economic, administrative and social spheres; for agriculture is not the whole of country life.

Agriculture : Its Importance.

Land is everywhere the ultimate source of all strength; it employs by far the largest number; it not merely helps the satisfaction of the elementary want of food but is the provider of many raw materials for industries. A country strong in its agriculture is still believed to be the breeding ground of a nation both physically and morally healthy. Mussolini, the Fascist leader of Italy, has rightly said "Agriculture is the backbone of the economic system of society . . . People who abandoned the earth are doomed to decadence . . . The nations that are solid, the nations that are strong, are those that rely on the earth . . . , "

The betterment of rural life in some form or other is the goal of all reformers. The improvement of agricultural practice appears to be the most essential preliminary to any advance. In no agricultural country in the west is the population depending on land so great as in the old settled provinces of India. We find indeed parallels only in China and Japan. The quantity and quality of food available per person are miserably low. It has been estimated by Dubey that "64.6 per cent of the population lives always on insufficient food getting only 73 per cent of the minimum requirements for maintaining efficiency".

The most striking feature of our agriculture is the phenomenally low yield per acre as well as per person in spite of the large numbers engaged in cultivation. We are neither like the new countries in the West (United States of America and Canada) which have to their credit a much higher yield per cultivator, nor like the old countries in the East (China and Japan) which have a much higher yield per acre. And we are much lower in the scale of productive efficiency than Western European countries with their higher yield both per acre and per capita. The only means of supplying better and more food per person, in the absence of easily reclaimable land, is to increase the yield and improve the quality of crops on existing land. Intensification of cultivation on the most improved lines, consistent with economy should be the first task.

There are broadly speaking three lines of intensification, by improved implements, manure and methods. The scope for the introduction of mainly labour-saving machinery on land is limited in a country teeming with labourers to provide work and subsistence

for whom is the greatest problem. But there are machines and implements which are not merely labour-saving but labour-improving and are very useful, where thoroughness and speed of cultivation or of preparation of produce are essential. There are again machines and implements, which displace or minimise the work of cattle, to support, which is becoming increasingly difficult on account of the shrinkage of pastures and expansion of food crop land.

The raising of fodder crops in rotation with the food crops as in Italy and hand-feeding on much larger scale as in Denmark should be resorted to. It is also necessary to consolidate the subdivided and fragmented holdings by mutual exchange or barter up to an economic standard.

In India the ryot is blamed for not taking up to the modern scientific methods of cultivation. But it is not that he is unwilling to change his traditional methods in favour of new ones of proved efficiency. It is not his fault. He has not enough capital to invest in costly machines. In this connection mention may be made of the help that had been rendered to the agriculturists by way of loans like the Thakkavi Loans etc. The loans advanced to the ryots by the state have not been of great advantage to them and between the years 1901 and 1903 it is estimated that the state had issued by way of loans six crores of rupees, which is a mere drop in the ocean.

The most obvious obstacle to the adoption of these teachings is the unparalleled illiteracy of the agriculturists in this country.

Rural Education.

Illiteracy presents itself as a great thorn in the way of the advancement of the rural areas. In the words of the Royal Commission "Illiteracy presents the most formidable single obstacle to rural development in the widest sense.....we are persuaded that the only hope of substantial progress lies in mobilisation of all the available forces both public and private in a determined attack upon illiteracy."

It is a deplorable fact to note that only 7% of the population of India know to read and write when compared with the literates of other countries.

RURAL RECONSTRUCTION

Countries.	LITERATES.	Per 1000	
		Males.	Females.
1. Britania	...	932	912
2. America	...	955	930
3. France	...	965	940
4. Germany	...	990	980
5. Denmark	...	996	995
6. Japan	...	985	996
7. India	...	50	12

A great responsibility lies on the state and local bodies of not merely helping the children of the agriculturists to receive a sound elementary education but of taking equally effective steps to see that they do not later on lapse into illiteracy either by premature withdrawal from school or by lack of constant touch with good reading matter and the lack of proper environment at home.

The commission strongly advocated adult and female education not only to prevent such wastage but to promote the speedy adoption of agricultural, sanitary and other improvements in the village.

"Without adult education many of the improvements in agriculture must be postponed until a new generation has sprung up fitted by early tuition to reap the advantages we seek to place within their reach. Such a development would antedate by at least a generation that great advance in literacy, which is essential to progress in all directions. Its influence is enlarging the scope of the cultivators' horizon and increasing his willingness to adopt agricultural improvements and his capacity to watch over his own interests in buying and selling commodities and produce would be immense." As Sir Philip Harty has observed "the adult education in India should concern itself not so much with the mere removal of illiteracy as with the inculcation of useful knowledge that will enable the people of India, so largely a village-dwelling people to increase the fertility of the soil and combat the various disabilities under which they suffered."

In this connection it is important to state that the inauguration of libraries and free reading rooms for the "dumb driven cattle" (the peasants of India) to come in contact with the news of the rest of the world, the starting of primary schools and the opening of night schools both for the young and the aged to give light in the matter of education will be of ample help to the ryots of this country.

(To be Continued.)

Co-operative Movement.

SURPLUSES IN FINANCING BANKS—PLEA FOR REDUCTION, BY BRINGING DOWN LENDING RATE OF INTEREST.

BY MR. K. L. BHANDARI.

The report of the Madras Provincial Co-operative Bank for the year ended 30th June 1933 and published recently in the Journal discloses that out of Rs. 208 lakhs of deposits, the District Co-operative Banks were able to absorb only 10 lakhs. The Provincial Bank is intended primarily to finance only Societies through the several District Banks. It can be therefore assumed that District Banks too have got surpluses and do not need to go in for Provincial Bank loans. The result is that all surplus goes towards investment in Government securities, and others of that kind which bring in only a very small return of income.

There is a good deal of agitation for attracting young and unemployed men to the "Back to the land" principle. The townsmen's extra money which ought therefore to go towards the enrichment of the Village economics is now diverted to gilt edged securities. Consequently, land values have fallen, villages are going into disrepair and decay.

The District Banks are now doing the duty of middlemen to borrowing societies as regards finance obtainable from the Provincial Bank. The District Banks are later creations than societies. Means of communication and organised and well equipped postal system are so convenient that the Provincial Bank can deal directly with the societies. Their huge finances can be easily assimilated by the societies on the recommendations of the army of officials of the Department. Auditors are in close touch with, and are quite competent to judge of the solvency, financial soundness and efficiency of societies. There is a plea put forth for reduction of unions. Though it cannot be said that the policy is altogether a wise one, it can be said with certainty that time has come for reducing the number of District Banks. There will be nothing substantially gained by merely reducing the strength of the Board of management thereof, as is now contemplated by the department.

The Provincial Bank may not get more than 3 per cent on its investments outside the movement. It seems to me that it can lend at 4 per cent to well-managed societies directly, who in turn can make the money available to their members at 6 per cent. Where however it is advisable to retain a District Bank, the District Bank ought to get finance from the Provincial Bank at $4\frac{1}{2}$ per cent and pass it over to societies for being utilised at 6 per cent. The share money invested by societies in the District Bank has to be transferred to the Provincial Bank by adjustment in cases where District Banks are to be scrapped. I am confident that the above arrangement will be beneficial towards Village economy, enhance land values, lead to the revival of several dormant and idle societies, enliven the movement generally; the question of who should supervise the societies, viz., whether it should be the union or the administrative section of the District Bank, will assume lesser importance, in view of the responsibility proposed to be exercised by the Department. The Department will not grudge to take it up in view of the cost defrayed by the agriculturists, tax-payers generally. In fact, the Department was doing this work as pointed out by that veteran co-operator, Rao Bahadur A. Vedachela Aiyar, before the District Banks came to be organised.

The object of the movement is ultimately to make easy, cheap and facile credit available to the agriculturist.

Is not the above one of the means to do so?

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WELCOME ADDRESS.

BY

Mr. P. S. SUNDARA AYYAR,

(CHAIRMAN OF THE RECEPTION COMMITTEE).

Mr. Deivasikhamani Mudaliar, Prof. Kaji, and Brother Co-operators,

It is with feelings of pleasure and pride that I extend to you a hearty welcome on behalf of the Reception Committee of this Conference and the other co-operators of this place to this little town of Periyakulam, a place far into the interior and away from all Railway communications. The pleasure is all the greater, when I am enabled to extend this welcome after an apparently stormy weather which pervaded this place for sometime past.

The organisation of a sectional conference for all the Limited Liability Societies was first put into the field by the veteran co-operator Mr. E. S. Ganapathy Ayyar of Erode, who has devoted his time and energy to all matters co-operative, with a special partiality for the Urban Bank movement. In spite of the scathing criticism against sectional conferences, he was able to demonstrate to his critics that the special nature of the constitution and working of the Urban Banks, required a special conference devoted solely to Urban Bank problems and put it to a practical test. It found a ready response and the first was held at Erode in October, 1929. It was originally confined to the Tamil Nad and Malayalam area. After a lull of about 3 years, the Tiruvaanamalai co-operators took up the function and the second was held to consider, among other matters the burning question of the arrangements for the Audit of Urban Banks on a thorough basis. The special feature about this Conference was that the Urban Banks of the Andhra Province also were taken into the fold, so that all Urban Banks in the Presidency of Madras have an opportunity to muster and discuss problems of importance touching the Urban Bank movement in general and all public opinion in the province came to be focussed in one common platform. The 3rd Conference was invited by the co-operators of Vizianagaram, who, when approached by the co-operators of this place, gracefully

agreed to the proposal to have the Conference here. This accounts for our meeting here to-day. It appeared, though for a time only, that we might not assemble here at all, but leave it to the co-operators of either Vizianagaram or other urban area to have the pleasure. But with your co-operation and fellow-feeling and the firm stand taken by the Working Committee, this Reception Committee have been enabled to tide over the apparent storm and have the pleasure, thus enhanced, to welcome you to our midst to-day.

Working of Urban Banks.

The working of Urban Banks is quite different from that of Unlimited Liability Societies. The latter are mostly composed of agriculturists whose repaying capacity depends on the yield of crops every season. The Urban Banks, unlike rural societies, are mostly composed of all sorts of people from a day labourer to the roaring merchant. The loans advanced by the Urban Banks are mostly for productive purposes, repayable at very short periods, unlike those of unlimited liability rural societies, where the majority of the loans are for discharge of prior debts and for agricultural purposes only. Thus it will appear that from the very nature and working of the Urban Banks, they have to adopt special methods of working suitable to the life and position of their members and their needs. It will be evident that the Urban Banks are utilised by local industries and business concerns and the development of local resources. Thus the Urban Banks are the firm support and pioneer of everything national, including industries, agriculture, finance and fellow-feeling.

It is the business of the Urban Banks to help commercial activities by undertaking exchange work on behalf of its members and thus facilitate transmission of moneys to the respective places. The Banks should be enabled to issue letters of Credit or circular notes to help its members for the purpose. It is a duty cast on the Urban Banks to help their members to practice habits of thrift and economy and to this end, they should open as many varieties of deposits as may be suitable to the conditions in life and the saving capacity of their members. It must be able to provide sufficient cash-credit accommodation to its members on sufficient securities tenable for short periods for business or other productive purposes.

One other effective method which the Urban Bank can adopt to relieve its members is the grant of loans on the pledge of gold, silver,

jewels and finished products. Owing to lack of any provision or any enabling clause in this behalf, other money-lenders are exploiting the members by advancing loans on the security of such articles. The borrower feels that he can have the loan to serve his emergencies, though the terms of repayment may be exorbitant. This deprives the society of a chance of extending its business, and makes its members run serious risks of forfeiture for the slightest default. No doubt this method involves a serious responsibility on the part of the Board, but it is no ground for refusing such relief so long as the Co-operative Movement stands wedded to the uplift and relief of its members.

Deposits.

The Urban Banks as a whole are now groaning under surplus. This seems to be a common feature where business-men and labourers abound. The Urban Banks should find a safe outlet for these moneys for useful purposes, carefully avoiding the grant of long-term loans. The aim of the Urban Bank being, as already observed, a pioneer of national development, they should be permitted to grant loans to small local industrial concerns, not of a speculative character and thus give an impetus to all cottage and other indigenous industries in the area. It promotes not only the national advance on the lines already indicated but also increases the earning capacity of its members or small associations, and is a certain method of solving the unemployment problem and finding a way out for the safe and useful outlet for its surplus. The statute and the by-laws should be so modified as to enable Urban Banks to take up this phase of the activity also and lend to such corporate bodies.

Another solution for the surplus may be found in enabling all Urban Banks that can do so, to finance other co-operative institutions within a circumscribed area. The Urban Bank being in closer contact with the other institutions than the Central Banks, may be a fit and proper body to take up the business, on account of its more intimate knowledge both of the members of the institution and its working.

This will save so much time that would otherwise have to be taken up in the transmission of papers and other information between the rural society and the Central Bank and enable the borrower to have his loan in time to serve the purpose for which it was applied.

The Urban Bank is not a mere lending institution. It has to educate its area on all matters of daily life, such as education, sanitation and the like, and it is the body that can be looked to for propaganda in that direction. It will do well to open libraries, for the use of the public and arrange periodical lectures. This side of the Bank's activity can be affiliated to the Central Library Association and utilise it to the fullest extent. The Bank can also take part in the rural reconstruction work and should send some of its representatives after training, to educate the people how they can make their village self-contained and how *self-help is the best help*.

Management.

I have here to refer to the oft-quoted sentence "The co-operative movement has no place for place-hunters". But it gives sufficient scope for self-less service. Non-borrowing members should not be freely allowed to come in, nor the capitalists. I do not thereby say that habitual borrowers alone should man the Board. The one gives scope to the capitalist to dictate his terms to the borrowers and lord over the institution while the other may give room for mobocracy. The one is as dangerous as the other.

Depositing members should be allowed a certain scope for seeing that their deposits are safely lent to proper individuals. Limited Liability Societies working solely with the deposits as their working capital, it is only fair that a certain number of seats in the Management should be reserved for them. I may also refer to one aspect which deserves to be considered. Though it has been the subject of a Resolution in the First Urban Banks' Conference at Erode, it has not been put into practice as yet. A minimum share qualification should also be prescribed for a seat in the Directorate. It so happens that very often men who have no sense of responsibility, with one share, get into the Board. In view of the fact that members of Limited Liability Society have to contribute only to the extent of their share capital, members with one share getting into the management do all sorts of things as they have no substantial stake in the Bank. I therefore urge that the First Conference Resolution should be given effect to in all Urban Banks. I have to sound this note of warning on account of the frequent election troubles we are hearing very often.

Relations with Financing Bank.

I am not painting an imaginary picture when I say that Urban Banks do not get the treatment that they deserve or even the same treatment that Rural Societies get at the hands of the Financing Banks. The Central Banks being themselves Co-operative institutions are as much interested in the development of national resources as the Urban Banks and it therefore behoves them also to encourage such development. I do not thereby want the Central Banks to advance loans on insufficient security, but they should not set their faces against the Urban Banks and say "manage it yourself." In cases where the Central Banks fail to give the just consideration that the Urban Banks deserve, the Provincial Bank should come to the rescue.

Audit.

Audit may be said to be the essence of an Urban Bank's life. Till very recently, Audit was done free by the Government. Due to the expansion of the movement and growth in the volume of business, the Government found that it could not give efficient free audit and chose to tax the Urban Banks with a working Capital of Rs. 20,000 and upwards. Soon after the imposition of audit fees, Urban Banks of the said description took to audit in the direction they thought fit. Audit Unions and private chartered accountants were requisitioned by some institutions, while others chose to have their accounts audited by the department itself. The question came up for consideration before the II Urban Banks' Conference, Thiruvannamalai, and the majority view was in favour of non-official audit. The Government's disposal of that matter has not given satisfaction to all concerned, and it is therefore high time that we agitate the matter once again to make the Government agree to the Thiruvannamalai Conference Resolution in toto. Even in respect of non-official audit, there was a difference of opinion as to the nature of the agency, whether it was to be a Central Provincial organisation or one for a circumscribed area. Now that the co-operators have had the experiment of one year, it is time that they should express their views on the matter.

Enemies of the Movement.

With great reluctance I have to refer to two reactionary elements in the life of co-operative institutions. The first of these is party faction. Place hunting is the main reason. As I already referred to in an earlier portion of this address, the movement

requires only selfless workers prepared for sacrifice for public work and amelioration of the conditions of the needy. As the Premier Bank of Thiruvannamalai has tabled a resolution for discussion in this assembly, it is but right, that local party politics and personal prejudices should not be allowed to have a play in the administration of a co-operative institution. Then and then alone, can an Urban Bank accomplish the purpose for which it was founded. The other alarming feature is overdues. It is a menace that at any time threatens to overthrow the institution. The swelling of overdues is attributable, among other causes, to the indiscreet grant of loans to members without a proper understanding of the needs and the repaying capacity of a borrower, want of proper education to members and failure to inculcate in them habits of thrift and economy and grant of benami loans. As far as possible, these should be avoided. One difficulty arising out of such overdues is the paving of the way to mismanagement. So long as the statute gives every member of any co-operative society, whether in overdues or otherwise, an unbridled hand in the choice of the governing body, the pets of the defaulting members are returned and the result is, the pet so returned feels himself powerless to give preference to the interests of the institution entrusted to his care over that of his electors. Thus a vigilant watch and action against overdues has to be subordinated and the cancer of overdues is allowed to sap the vital fluid of the Bank. All co-operators and legislators have therefore to rise to the occasion and declare that defaulting members be debarred from having any hand in the election of management. It may appear that my proposition is a little inconsistent with the legislature and aims of a democratic life, but, what I desire is that democratic life should be a healthy one and not a diseased one. Friends, all or any of these enemies may at any time knock at your doors. It then behoves you to use the best of your vigilance and guard yourselves against such vicissitudes and exert to the utmost to steer clear of the storm and thus enable the masses and the classes alike to attain the economic Swaraj, the true Swaraj.

Now that the Registrar is in our midst, I fully hope that he will see that the powers vested in the department are exercised with discretion, and help us on to reach our goal.

It is a matter for congratulation that you have been able to secure Prof. H. L. Kaji Esq., as your President for this session. He

hails from a Presidency where the Urban Bank movement is, as far as I am able to gauge, a model for the other provinces to copy. I am confident that under his guidance, this Conference is sure to tackle the various problems of importance relating to the Urban Bank movement in the Presidency and give a decisive and definite lead for you to follow. I am also sure that the resolutions you are going to pass here, will certainly be given effect to by Mr. Deivasikhamani Mudaliar, our sympathetic Registrar, who has been kind enough to be present here to-day and open this Conference with his benedictory pronouncements.

I fear I have already been too long and tedious; and I do not like to stand between you and the President any longer. I am fully alive to the many shortcomings on the part of the Reception Committee to look to your comforts, especially at this season of the year. I request you to bear with us and show us the same co-operation that you have hitherto shown and take the will for the deed.

Once again, I have great pleasure in welcoming you all.

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THE THIRD MADRAS URBAN BANKS' CONFERENCE, PERIYAKULAM.

OPENING SPEECH.

BY

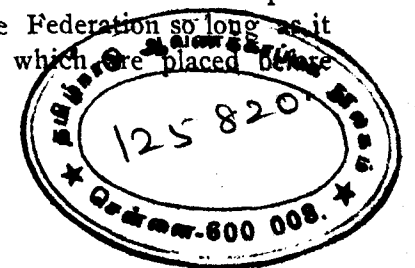
RAO BAHADUR K. DEIVASIKHAMANI MUDALIAR, AVL.,

Registrar of Co-operative Societies, Madras.

REPRESENTATIVES OF BANKS AND FRIENDS,

I thank the organisers of this Conference most sincerely for inviting me to open this third Madras Urban Banks' Conference. I think I have a claim to be here today as one who took part in the organization of the First Urban Bank in the presidency. Later, when I became an official I had my own share in the development of Urban Banks which were ushered into existence in the early stages of the Co-operative Movement. When I learnt that the Urban Banks would hold a Conference at Erode two years ago, I was wondering whether there was any need for such a separate conference. I knew that the Urban Banks had problems of their own but I doubted whether they should hold a separate Conference year after year for that purpose. My doubt is still there. I realise the utility of Conferences like these and if I say a word or two in regard to Conferences generally, I request I should not be misunderstood; for, I was responsible for the first Conference in the Presidency held at Conjeevaram in 1909. The idea was mine and I was in charge of all the arrangements. As an official of the Co-operative Department, I could not make myself known to people in those days. Conferences were required at that time to make the movement better known. Speeches were required and resolutions of a general nature had to be passed. Now the stage has come when Co-operators have to meet only for the purpose of finding solutions for their difficulties and laying down policies. In this respect a certain District in this Presidency has been adopting for some years the practice of holding what is called a "Business Conference" and I would commend that practice to Co-operators in other districts. A limited number of co-operators elected as delegates from different parts of the district assemble under the auspices of the Co-operative Central Bank (of the Federation so long as it existed) and discuss and settle problems which are placed before

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them for consideration. The subjects are all well discussed by people competent to take part in such discussions and decisions are arrived at. In regard to the Conference of Urban Banks, my own idea is that the representatives of Urban Banks might meet separately at the time of the Provincial Conference just as delegates of building-societies, store-societies, meet and discuss their difficulties. I would go further and say that, as suggested by Mr. Ramadas Pautulu in his presidential address last year, the several groups of co-operative institutions may form themselves into sectional conferences each having its own president deliberating over its own problems, and arriving at its own conclusions. The problems of each section will receive full attention and further there will be economy in expenditure. Societies need not attend once a general conference and again a sectional conference like this. The Provincial Conference may meet usual, with a distinguished Co-operator as President and as soon as his address is over, co-operators may divide themselves into sectional conferences. The Provincial Union can publish all the proceedings together. I would request the serious attention of all co-operators in the Presidency to the need for a change in this respect.

As one connected with the movement from its very inception I am in a position to tell you the story of the formation of the earliest Urban Banks. You know, Gentlemen, that South India is noted for its Nidhis and Mr. (now Sir.) Nicholson has given a full description of their working in his famous book. When the question of the formation of societies for Urban areas arose, the Registrar (Sir P. Rajagopalachariar) naturally turned to them for guidance. The first banks started in the first two years were modelled on these Nidhis. The principle upon which a Nidhi worked was mutual help. A group of persons joined together and paid a monthly subscription for a specified period. The total collected each month was given to one of the group as a loan. In actual working of the Nidhis, it was found that there was always one set of persons who joined them with a view to save money and another set to receive these savings as loans. The essential feature was to save money and use it for a useful purpose. There were a number of very successful Nidhis at the time in the Presidency. It was therefore thought that Banks modelled on Nidhis would suit Urban people better than any other type. The earlier Banks were, as I have already stated, purely modelled upon Nidhis. The value of a share was fixed at Rs. 50 payable in 45 monthly instalments of Re. 1 each and the subscriber was entitled to

receive Rs. 50 at the end of the period, the difference of Rs. 5 being the interest accrued on the monthly subscriptions. If a subscriber wanted a loan, he must take a share and pay its value month after month. The loan given would bear interest at $6\frac{1}{4}$ per cent and he must continue to pay interest month after month in addition to his subscription and at the end of the 45th month the matured share would be adjusted towards his loan. The Bank started at Tirumangalam, Berhampore, and Tanjore were purely of this type. In other banks started at about this time the share subscription was adopted as a recurring deposit and the loan was required to be repaid by means of such deposit. Although the bulk of the loans was expected to be repaid in this way, provision was also made in these banks for loans to be repaid in shorter periods. At a later stage it was definitely laid down that repayment of a loan by means of a recurring deposit should be given up and the borrower should pay directly towards his loan and the Bank should have an adequate share capital. The result of this was the rapid development of Urban Banks. Now we find that in Urban Banks all classes of people have joined, the salaried official, the petty merchant, the artisan, the vakil and the agriculturist and they may very well be called peoples' banks. Whatever may be the change in the constitution of these Banks, one factor remains constant in these banks. There were two sets of members—one set joining with a view to put their savings in it and another to receive such savings as loans for themselves. This accounts for the very heavy share capital which these banks have. Many of these banks do not borrow money more than twice or thrice their paid-up share capital. But for the dishonesty of men in one or two banks referred to by Mr. Strathie in his address last year, the Urban Banks are in a sound condition. I do not know exactly whether this conference represents Urban societies of all classes. I find that last year the Urban Banks' Conference passed a resolution stating that all non-agricultural credit societies with a working capital of over Rs. 20,000 may be treated as Urban Banks. I doubt whether this definition is correct. If representatives of all limited liability credit societies with a working capital of over Rs. 20,000 attend this conference; some of them will have their own problems which will not be common to the other societies, for instance, employee's societies, Weavers' societies. These societies have their own peculiar difficulties. I think that the term 'Urban Bank' should be applied only to peoples' banks, that is to say, banks which serve urban areas and in which all people join. If this test is applied there may not be more than 192 societies

in the presidency which come under this term. Of this, not more than 100 have a working capital of over Rs. 50,000.

On 30th June last there were 906 societies in urban areas working on the basis of limited liability. But this number comprises not only of Urban Banks strictly so-called but societies intended purely for Government servants, local board or municipal or railway employees. The membership of all urban credit societies on 30th June was about 2,22,000 and the share capital of the members exceeded Rs. 76 lakhs. The Reserve Fund was over Rs. 24 lakhs. The deposits of members were about Rs. 90 lakhs and of non-members about Rs. 87 lakhs, while the loans from co-operative Banks were about 17 lakhs. The total of share capital and deposits of members work out to 56 per cent of the working capitals of these urban credit societies. There is no doubt that this is a satisfactory position on which I would like to congratulate the urban credit societies.

The 56 per cent of the working capital represents in effect the total savings of members of these societies. From another point of view I find, on an average, every member of an urban credit society has been able to save Rs. 41 and put it as a deposit. This is, of course, exclusive of share capital of members which on an average comes to about Rs. 34 for every member. These are no mean achievements of urban co-operative credit societies, and I am glad that on the whole they have done something to promote habits of thrift and savings among the members who have been brought into the fold of urban credit movement. The deposits of non-members work out to 29 per cent and the loans taken from the Central Banks to about 5 per cent of the working capital of these societies.

I shall now refer to one or two questions which are engaging the attention of Urban Banks at present. During the present period of world-wide economic depression Urban Banks, like Central Banks, suffer from Surplus funds. They cannot invest all their funds in loans to their members in the ordinary way, that is, in the way in which loans can be given in a co-operative society. These Banks find that even in this period of depression people borrow money on the pledge of gold and they want to be permitted to lend money on gold. This question was considered at the last year's conference and the Banks adopted a resolution asking for permission to do so. The Registrar has permitted the banks which have asked for it. I must,

however, say that most of the Banks have not availed themselves of the concession. Apparently it was due to the difficulties inherent in giving loans on the pledge of gold. The safeguards which are necessary are, as was expected, beyond the capacity of some of these banks. A copy of the rules governing the grant of loans on the pledge of gold has been circulated to all the banks. If any of the rules is considered a hardship, I am prepared to consider its modification but I may be permitted to say that without such safeguards, an institution like an Urban Bank cannot undertake to lend money on valuables.

In regard to the scale of audit fees to be charged, the matter is under consideration of Government and I have recommended that the scale ought to be the same as the Provincial Bank wanted to have if it had undertaken the audit of the Urban Banks.

The last year's conference passed a resolution that Government should frame a rule under the provisions of the Co-operative Societies Act that subsequent alienees should be made parties to an arbitration reference though they are not members. The act provides only for settlement of disputes between members or between societies and their members. If non-members are to be impleaded as parties to a dispute the Act requires amendment. I am afraid that the number of cases in which non-members are involved are not many. If, however, a case can be made out for the amendment of the Act, the Government may consider it. But I doubt very much whether the Legislature will agree to extend the jurisdiction over non-members.

In regard to the size of Urban Banks I wish to say a word. When Urban Banks became unwieldy they lose their co-operative character. Something ought to be done to preserve the co-operative character without affecting the growth of the bank. In the past co-operators chose to split up unwieldy banks into two or more with the result that each of them became weaker financially. I always thought that after a bank has established its reputation and has secured all the funds it required locally its working should not be disturbed so as to affect its financial position. Whenever the matter came to me I suggested the formation of sub-societies. Each sub-society shall have a panchayat of its own elected from among the members living in its area and make recommendations in regard to the admission of members and grant of loans to them. The parent society will continue to receive deposits and distribute the amount

as loans to the members of the various sub-societies. The starting branches will not serve the purpose because the bank secretary does not have power to admit persons as members and give loans to them.

One other matter to which much attention has not been paid is the purpose for which a loan is given to a member of an Urban Bank. Though it may be difficult to verify the purpose in an urban area some check in regard to this is necessary. Ordinarily a co-operative society does not give a loan to any one except a producer. When a consumer asks for a loan, a careful enquiry is necessary and the amount to be given should be limited to his capacity to repay it within a reasonable period. The extent to which salaried persons, wage-earners are now indebted to societies in Urban Banks, in public servants societies, firm employees societies, Railway employees societies—makes me think that we committed a blunder in giving a society for these people. These people no doubt repay the amount borrowed in monthly instalments, but they are always indebted to it for the maximum permitted in the by-laws. This tendency must, I fear, be checked by all concerned.

There are one or two other matters on which I should like to offer advice. The business of some of these banks is growing and the necessity for an efficient staff is felt. I would, therefore, advise societies to put trained and efficient men in charge of banks. A society with a working capital, say, fifty thousand, should employ a man with banking and account qualifications. Although I do not wish that Urban Banks should embark on commercial business on any large scale they should encourage their members to cultivate the "cheque habit", that is to say, they should make them keep their money in banks and draw them by means of cheques whenever they want it.

Before I close, I should again, as I have done on other occasions, warn co-operators in general and Urban Banks in particular against the mixing up of "Co-operation", with party politics. Those of you in intimate touch with the working of Urban Banks should have known that political influences have invaded the movement, and I may add, disturbed the smooth working of the societies. Co-operative banking is business and it would be kept quite clear of politics. I appeal to you all to eschew from the movement political influences and work the societies in a true spirit of co-operation. I thank you once again for giving me the opportunity to be here to-day and associate myself with your deliberations.

With these words I declare the Conference open.

THE THIRD MADRAS URBAN BANKS' CONFERENCE.

(Held at Periyakulam on the 26th & 27th December, 1933.)

PRESIDENTIAL ADDRESS.

BY

PROF. H. L. KAJI, M.A., B. SC., I.E.S., J. P.

BROTHER CO-OPERATORS, LADIES AND GENTLEMEN,

I am very thankful to you for your kind words of welcome and for the honour that you have done me by electing me to preside over the deliberations of this, the Third Conference of the Co-operative Urban Banks of the Madras Presidency. I really believe I do not deserve the honour, not being directly connected with any Urban Bank in the Bombay Presidency or elsewhere, and therefore not being directly in touch with the problems that confront such banks. If however deep faith in the Co-operative Movement, dedication of some of the best years of my life to the furtherance, improvement and organisation of this movement in a part of this vast sub-continent of ours, and a long connection with the chief exponent of non-official co-operative opinion on our side, the Provincial Co-operative Institute, constitute some claim, I cannot quite deny the charge. Be it as it may, Periyakulam put in a trunk call to Bombay and as an humble servant of the Great Cause, I readily answered the call to duty, more with the desire to learn something at first hand of the progress and features of Co-operation in Madras than to presume to teach others who probably know much more than I do of Urban Co-operative Banking.

I have never been able to understand why Co-operation has in India become so closely identified with the organisation of rural credit as to become almost synonymous with it. To see in Co-operation nothing else but the rural credit society, is to my mind to mistake the part for the whole, is to regard the plaster as the boil, is to confound the method which has far wider significance and importance with only one purpose to which it came to be applied in the peculiar circumstances of our land, is to so get absorbed in the contemplation of one part as to miss all the rest. The co-operative method may have been imported to meet the credit needs of the agriculturists, but

that is no reason why the same method cannot be applied as vigorously to meet the credit and non-credit of the economic weaklings of society congregated in urban areas. And yet, in India and Madras likewise, in our very warm regards for the down-trodden agriculturist we have forgotten the equally down-trodden, the small man in towns be he the toiling clerk or the sweating mill hand, the struggling doctor or the budding barrister, the hard-working retailer or the hard-up artisan. The whole vigour of the Servants of the Cause—honorary or stipendiary, has ever been directed villagewards; a casual glance townwards has been considered to be enough; and at first sight, this seems natural enough to do. When the rural population is so preponderatingly large, switching on our efforts to the cure of rural ills, adjusting our set to the village wavelength is nothing wrong. But the Co-operative Movement to my mind being based upon a superior morality which subordinates the individual to common good, which eschews exploitation so that not only can others not exploit you but you also cannot exploit others, which adds to the very comforting "All for me" the very uncomfortable "I for all", requires nobler minds and higher souls than what one can hope to find among the indebted, listless, fatalistic, ignorant and illiterate population of the villages. The needs of the rural population were undoubtedly very great nay very grave, but their greater need was the preparation for receiving the Gospel of Co-operation. Without the manure of a vigorous campaign for literacy and adult education, and the irrigation of business-training and effective supervision, the seeds of the Gospel of Distributive Justice, of Self-help, Mutual aid and Thrift have fallen on an exhausted soil, and have produced weak seedlings and poor crops, and given us a low yield of an inferior quality. The new method should rather have been tried in urban areas where the quality of the population held out better hopes of success and these urban areas could have then stood as demonstration farms for the rural population to have taken a lesson from. I do not grudge the vast expenditure in time, money and energy on villages, their needs were great and their claims were irresistible. But if you look for the success of the Co-operative Method, the town is the more promising area and attention might as well have been directed to the problems and needs of its small man, the producer, the middle-man and the consumer. As it is, urban credit co-operation has been an unassisted growth and urban co-operative banking dwarfed and stunted by mistaken restrictions suggested by misapplied analogies with Rural Credit Societies. The two areas are so distinct, the two

populations affected are so dissimilar, that what might be an excellent stimulant for one might be an unnecessary and depressing narcotic to the other, what might safeguard one might needlessly handicap the other, what might be nutritious to the growth of one, might conceivably be deleterious to the development of the other. It is therefore in the fitness of things that the problems of urban banks are being discussed in a special conference and not as not infrequently happens disposed off in a resolution or two as a side show in the General Conference where naturally the most developed form of Co-operative effort in the country engrosses attention and distorts vision, since it is in such specialised conferences that the specialised knowledge and experience of those who have been running the institutions, guided and supplemented by leaders who have devoted themselves to their problems can be focussed and crystallised so as to act as a path finder for further progress and a reliable index to the "powers that be" to smooth and forward the march of such institutions to multiplication, development and success. I do not merely say this to justify separate specialised conferences as against general ones but rather to emphasise my view that though Co-operation has certain fundamentals, urban problems have to be viewed from a very different angle and that the urban movement should not be looked upon as a kind of extension of the rural one but a movement by itself which though resting upon the common basis of Co-operation need not necessarily adopt the implications of small and compact membership, mutual knowledge and so forth which become essentials for success in a rural society.

What is an Urban Co-operative Bank? It is or ought to be primarily a bank with the usual connotation which one attaches to that term, an institution carrying on its business of collecting the savings of one set of persons and of loaning out the funds so collected to another set of persons, the difference in the deposit and the loan rate giving it the profit. This business if the safety of the depositors and shareholders is to be consulted has to be done on businesslike principles and not on what are loosely termed "Co-operative" Principles. The former imply a large scale of operations, efficiency of management, a full time paid staff and a continuity of policy; while the latter have come to imply, honorary services or part-time and untrained staff, subject to the uncertainties of a democratic election, imbued with the strong conviction that co-operation means pity and a soft corner for the borrower, comfortably losing sight of the fact that the softness of the corner might spell a

hard knock for the depositor and the shareholder, whose hard-earned savings might thus be jeopardised by their inefficient handling. The term "Bank" came in for examination by the Central Banking Enquiry Committee and though they do not arrive at and recommend any clear cut definition of Banking, they do suggest the functions which a bank should perform and recommend that a bank should not be allowed to commence business until its paid-up capital is at least Rs. 50,000. In the case of Co-operative Banks, this requirement might be relaxed so as to apply the minimum limit not to the share capital but to the working capital as we do in Bombay where any urban co-operative credit society with a working capital of Rs. 50,000 and over is classed as a bank. But it appears that you, gentlemen, in Madras are content with the lower minimum limit of Rs. 20,000. The State of Indore is content with the limit of Rs. 5,000. The position in this respect is not uniform in other parts of India, co-operative banking not having well developed. A bank does imply large scale operations and the Bombay practice seems to me sounder, since the smaller the working capital, the more inefficient and ill-paid the staff and the more unsatisfactory or unprogressive the management. A co-operative Bank is more than an ordinary Bank in that it is run on Co-operative principles, meaning thereby that there shall be no profits as such but that the surplus, after all expenses including a fair rate of interest on the share capital have been met, has to be distributed among those who have helped to earn it, namely, the shareholders by their share capital, the depositors by their deposits, the borrowers by their borrowings and the staff by their management. It is co-operative further in this that loans are advanced not only on the security of tangible assets such as immoveable property but also on personal security, the tangible assets of a man of character backed up by two good sureties. And yet one is surprised to find the Townsend Committee coolly asserting that 'In fact the only apparent difference between these banks and joint stock banks is that borrowers from the former are compelled to purchase shares, in respect of which they have votes at General Meetings and receive dividends out of the profits.' But what is an Urban Co-operative Bank? The adjective-urban suggests that there are Rural Banks. There are rural credit institutions, but so small and so different from the banking institutions of the country that though we might wish them to develop into genuine village banks, we have to under the present circumstances regard them as societies or associations of persons rather than as organised

banks. The adjective urban not only thus unnecessarily misleads but also fosters a wrong undercurrent that the co-operative credit institutions are more or less similar, only one set working in rural areas, the other in urban ones. The fundamental dissimilarity of the co-operative Bank must be recognised without the qualifying term of "Urban" attached to it.

Urban co-operative credit institutions fall broadly into two classes, the Banks and the societies, the former being larger institutions, undertaking banking business of all kinds, the latter smaller bodies, intended to serve a small group of persons and being rather mere lending institutions or thrift societies. The problems of management in both these classes are naturally different. In the case of the urban societies, honorary services, at once the curse and the blessing of the Co-operative Movement in India, or part-time services are not objectionable; the training of the staff does not become imperative and close supervision becomes essential. The banks require on the other hand a very highly trained and competent staff. The need for a trained and efficient staff for urban banking institutions has been recognised by Registrars, Committees and all who have had occasion to study the problems of urban co-operative banking. Thus the Townsend Committee rightly though rather lamely state: It appears obvious that efficient and at any rate semi-expert management is an essential. A determined attempt must therefore be made to tackle this problem of the training of the bank staff, so that the progress of these institutions might be rapid and sound. India needs a development of its banking organisation and for smaller towns co-operative banking has a better chance than joint stock commercial banks, if only we see that our banks are managed with that efficiency which is associated usually with business concerns. In Bombay, co-operative banking has developed well enough, though the need for expert management and trained staff is obvious still. It is interesting to note that the Co-operative Banks of Gujarat in their recent Conference recognised the importance of this training and efficiency by including among the conditions on which Urban Banks should be allowed to undertake banking business on modern lines, one which lays down that the bank should engage the services of a Manager, who has practical experience in a bank or a banking firm, extending over a period of at least five years or who is a Commerce Graduate or who has passed the final examination of the Indian Institute of Bankers. In Bombay, we have some

arrangements though not yet very satisfactory for the training of the Bank staff at the Co-operative Schools; examinations are being held for the Bank Managers' Diploma, the Bank Inspectors' Certificate, and the Urban Banks Secretary's Certificate by the Central Education Board of the Institute. You in Madras have more than half a dozen of training institutes, but I wonder whether the time has not come when there should be for your province a Co-operative College, where higher instruction in the principles and practice of Co-operation could be imparted and where the managerial staff of important co-operative institutions could be trained up to the required level of efficiency. I do not suggest that the College should be open to all those who having the eligibility qualification desire to obtain a certificate, a diploma or a degree so as to give them another handle on their job-hunting expedition. The College should be a Training College, to which may be deputed every year a certain number of selected managers of co-operative institutions in the Presidency, including employees of the Co-operative Department. Co-operative Banks in urban areas have a very promising field for development and have a very important role to play in the extension and development of the banking organisation of the country and it is high time that we realised the need for effective training institutions so as to equip all such banks with not semi-expert but with fully expert managers and efficient staff. Co-operative education must be pushed on vigorously if we are to achieve the success that we hope for from the Co-operative Movement.

Urban co-operative banks or societies have been organised to meet the needs of the whole population of particular urban areas, when they operate as Peoples' Banks of more or less the Luzatti type or the needs of particular sections of the population of those areas. In the latter case, the groups come together under the co-operative fold for either depositing their savings in which case, they are Thrift Societies, or for obtaining facilities for borrowing. The Thrift Societies are thus a peculiar type, where the main considerations are naturally safe and profitable investment of the members' deposits. So far as I am aware at present such thrift societies are left to themselves to find out suitable methods and fields for profitable investment, and as they are small bodies, collecting small sums periodically from members, as they are generally managed by more or less honorary workers, the result is merely investment in the Central, or Provincial Banks as fixed deposits. This is not cleanly as it ought

to be. On the borrowing side, we have built up the financial structure of the Co-operative Movement, right up from the primary Society to the Provincial apex bank; on the investment side, we have been standing still, with merely the small primary thrift societies, which because of the small return, do not attract any large body of people as members. There are a large number of good and thrifty people who are able to save regularly small sums but who cannot find out safe and profitable investment for them and Central institutions, in the shape of Investment Trusts are a clear necessity. These Trusts, like Central District institutions, would bring together the smaller collections of the various primary thrift societies, and would through its competent, trained and efficient staff find avenues of investment, at once safe and remunerative, by spreading out their investments over a larger field and averaging the risks. Whether there should be a Provincial Investment Trust or not, I cannot say at present. But, I feel convinced that if by Co-operation, we do not want to understand the organisation of the credit needs of the people, or the creation of facilities of borrowing, if we accept that Co-operation is but a method of associated working, which permits several small men to do what one single big man could have done for his own economic betterment, it is absolutely necessary for us to organise the savings and the investment side of the Movement better and for the purpose bring into existence Co-operative Investment Trusts at District Head Quarters, or at any rate as a beginning in some important centres. Co-operative Urban Banks would have very little to do in this matter directly, it is true, and I may be pardoned for referring to it here. But when we are considering the problems of urban co-operative banking and when thrift societies are accepted as a part of the Urban Credit Movement, the question of a Co-operative Investment Trust is not, I submit, altogether irrelevant. It may be of some interest to note that a proposal to start a co-operative investment trust is already before the Registrar of Co-operative Societies, Bombay Presidency and that though following the advice of caution given by the Banking Enquiry Committee the proposal has not so far been sanctioned, Gujarat co-operators are persisting in their endeavours to promote such a trust and a resolution on the subject holds the place of honour as the first resolution at the Third Gujarat Urban Banks' Conference held a few days previously. The resolution states that such a trust working on the lines on which such trusts are working in England and America should be encouraged by the Department inasmuch as they would help to solve the problem of

large surplus funds in Urban Banks and the desire of a very large number of members of such Banks to invest their savings in a safe and more remunerative way.

The question of thrift puts me in my mind of the essential correlated subject of life insurance. It is obvious that if Co-operation is to lead to the promotion of thrift it should do much more than merely stop at half-hearted attempts, at starting small thrift societies. The investment trusts as a further development of the idea of thrift is one way but the other way is the active promotion and propagation of the essential advantages of insurance. In the villages it might be yet necessary to explain what insurance is and how it safeguards the economic position of a person and his family against the accident of early death. But to Urban Co-operators it is surely not necessary to point out how while thrift looks to the present, insurance looks to the future, how while thrift builds up slowly, insurance provides promptly, how while thrift attempts to provide for the winter of life, insurance provides for the winter even if it should come to-morrow, and how while thrift is prudence, insurance is foresight and prevision. The most thrifty might find himself and land his family in troubles, but insurance born of thrift comes to his rescue and safely lands him and his family from troubled waters to the shores of safety. I should think therefore that as we expect every co-operator to inculcate in himself and in others the habits of thrift we should likewise expect him to provide against old age and premature death by insuring himself. There are numerous life insurance offices now operating in India and insurance is within easy reach of even the small townsman. But to add to the facility, co-operative insurance societies have seen the light of the day within the last few years which like other co-operative institutions cater to the needs of the small man by issuing policies for small amounts and by offering lower rates of premia which they find it possible to do by following the co-operative policy of the elimination of the middle man, in this case the canvasser agent, and they remain co-operative by looking for their clientele among the members of co-operative societies as far as possible and by the elimination of profits by working them it as mutual societies without shareholders. Bengal took the lead in this matter but it was followed soon by the sister presidencies of Bombay and Madras and you have to-day in the South India Co-operative Society a fine institution, ably managed and wisely directed, capable of serving the interests in this direction of the

co-operators of your Presidency. It is to my mind, therefore, very obviously the duty of every Urban Co-operative Bank to draw the attention of their members to the imperative wisdom of insuring their lives in the South India Co-operative Insurance Society and thereby render them the best possible assistance to safe-guard the position of themselves and their families which ought to be the veritable concern of every co-operative institution, and I would urge co-operative banks to act as willing and earnest agents of your insurance society. While I recognise this to be the duty of a co-operative bank towards its members on essential moral and co-operative grounds I am not oblivious of the advantages of such insurance to the banks themselves. If a thrifty man had better insure his life, a borrower must needs insure his life; what is wisdom and provision in one is but a sacred duty, a dharma, of the other, what is provision against dangers that might come in one case, is provision for the troubles which he already has. Besides a borrower has to furnish two sureties since co-operation recognises personal security only when thus reinforced. Premature death of the borrower does not therefore merely, land his family in difficulties but also the friends who stood sureties for him. The omission to insure in the case of a borrower is therefore to my mind a crime or a sin which those dependent on him might out of affection condone and forgive but which is most improper when it involves those who stood by him in unmerited troubles. I wonder why this aspect of the borrower's Dharma has never struck us co-operators forcibly ere now. It is the common practice when loans are advanced by charitable trust funds to students for example going out abroad for higher studies, for the trustees to insist upon the students taking out an insurance policy to cover the loan advanced. A commercial bank need not similarly insist as obviously they have tangible securities to fall back upon and recognise no personal security at all. From the pure business point of view thus I feel that insurance should be made a condition precedent to members asking for loans and even to sureties who stand by their borrowing friends. I am connected with the Bombay Co-operative Insurance Society as its President for the last few years, Government having kindly allowed me to do so, and I have devoted some serious thoughts to the correlation between Co-operative Finance and Insurance and I have come to the conclusion that while the thrifty non-borrowing co-operator might well be persuaded in his own interest to take out a policy the borrower should be compelled to do so in the interests of himself, his family, his friends,

as also in the interests of the co-operative society which grants him the loans. How far co-operative insurance is a necessity for the rural population and how far even by introducing special schemes like those of decreasing term insurance and of group insurance it can be made practicable for them is a point on which I have not been able to come to a conclusion. But so far as the urban population is concerned, I mean the small men in urban areas, I have not the least doubt that life insurance is a sacred duty, a social obligation and an honest necessity, which they should not be allowed to evade.

Of the urban societies a large number relates to salary earners. These have been classified by the Registrar in his Annual Report as Government servants, superior employees under the municipalities and the local boards, inferior employees of the same institutions, railway servants and factory employees. Out of 348 societies of this type in 1931-32, 224 were for Government servants while 116 were for Municipal and railway employees. I should think this type of society would be a very safe type indeed. At any rate, in my presidency it is so, and it was a surprise to me to find the Madras Registrar remarking in his Annual Report for 1931-32 "With few exceptions, the work of societies registered exclusively for public servants, that is, Government servants, and employees of local boards, municipalities etc., is very unsatisfactory." The explanation for this state of affairs he finds in the irregular payments by the taluka boards and municipalities but more in overfinancing, and he states that loans to members were advanced more fully than their repaying capacity justified, and he rightly warns against the absurdity of the directors not realising that inadequacy in pay could not possibly be met by extension of credit. It is strange that there should be overfinancing at all in such cases because while the repaying capacity in the case of non-salaried people is difficult to estimate it is very easy to do so in the case of salary earners for it bears a close relation to their pay. To prevent overdues the best course obviously for such societies is to deduct the loan instalments from the salaries by previous arrangement with the head of the office with the general consent of the members to this procedure. This recovery of loan instalments through the paysheet is indeed a very useful precaution and deserves to be very generally adopted and I do not believe that this practice is not co-operative as some authorities allege. For indeed what is co-operation if it does not keep a man straight in his dealings with the society through the kindness and co-operation of

his employer or superior officer with his own consent? Would it be I wonder better co-operation to place temptation in his way, give him his full pay and then exhort him to practise self-restraint and pay with his own hands the instalment due on his loan and thereby run the great risk of the member defaulting, the society suffering and ultimately ceasing to be serviceable to the group for which it was intended. It is to my mind both better business and better co-operation to secure the interests and goodwill of the head of the office and the Department and to arrange with him for the recovery of loan instalments through the pay-sheet. Where managed in this way, such societies have no overdues, build up large reserve funds and are able to offer a higher rate of interest on deposits but to charge a smaller rate on loans and by building up a common good fund to be of considerable service to the members in a variety of ways. The larger of such societies are styled banks though they are more of the nature of thrift-cum-credit societies than institutions carrying on banking business on modern lines.

Credit Societies for factory workers are few in the Madras Presidency; the number is larger in industrial provinces like Bombay and Bengal but they too are more or less of the same type as those we have just noticed with the difference that the scale of operations is smaller, the deposits being practically absent and the members more inclined to default if given the chance to do so. Here also arrangement with the factory authorities will secure greater harmony and will spell better security.

By far the greater number of Urban Credit Societies are, however, in Madras as in all provinces based on a community or a locality tie rather than upon employment in the same office or department. The communal link is I consider a very frail one to base a society upon, since it weakens business efficiency by fostering sentiment and tends to produce jealousies and quarrels in place of the harmony and peace that would be at first sight expected between members of the same community. It would be very desirable, therefore, in my opinion to convert some of the big and more successful of such societies to full pledged peoples' banks without the narrow restrictions of membership confined to a particular community.

Urban Banks are, of course, the most important class of Urban Credit Societies. A considerable measure of success has been

achieved in the Bombay Presidency and to a smaller extent in Bengal also, but the achievements on this side of India have not yet been, I am afraid, considerable or striking. Though there are, I understand, more than 1,100 Urban Credit Societies in the Madras Presidency, only few of them are banks in the usual sense of the word, with a large amount of business and an adequate share capital. It is gratifying to note from the Registrar's Reports that though the number of Urban Credit Societies does not show any signs of increase, the membership, the paid-up share capital, the reserve fund, the deposits by members and by non-members all show substantial increases during the last five years. It appears, therefore, that the societies are trying to expand into bigger and better financed bodies than before. The same process should further continue, though many more new Urban Banks and salary earners' Societies should also be organised. While the present agricultural depression and the difficulties which the Rural Co-operative Societies are labouring under on that account point out more than ever the need for an effective brake in the multiplication of such societies, I do not see why Urban Societies particularly those for Salary Earners and those devoted to thrift purposes as well as larger institutions like the Peoples' Banks should not continue to be organised more and more. While the Rural Movement might have a breathing time to set itself in order and recover its health by the process by rectification and consolidation, the Urban Credit Movement can and should march ahead, the organisation of more societies there holding out a great promise of success.

The problems that affect the Urban Banks are many, but amongst those that engage the attention of the leading workers in the field may be mentioned the desire to have separate central urban credit organisation, the desire to free themselves from the supervising unions, the desire to remove restrictions and be allowed to undertake all kinds of banking business and the problem of audit. These problems are engaging the attention of urban banks in the Bombay Presidency and I see from the reports of the first and second Urban Conferences in your Presidency that you too have much the same problems. I have always felt that credit institutions on a co-operative basis or otherwise should have their own organisations, central and provincial according to the purpose they are intended to serve. As you are aware, the broad classification of our population would give us three classes of people, the consumers, the

middlemen and the producers. Of these last, there are two important classes, the agricultural producers and the small cottage worker. The credit organisation that has so far been evolved serves only one of these four classes, viz., the agriculturists. They have their primary society, the District Central Bank or the Banking Union and the Provincial Co-operative Bank. For long-term loans you in Madras have proceeded of late years much ahead of the other provinces by having the primary and central land mortgage banks. The consumers really need or should need no credit organisation. Credit to be fruitful has to be for productive purposes and you cannot obviously view with equanimity a consumer requiring finance for unproductive purposes. To tide over a bad period such as unemployment or sickness he might need temporary accommodation; but he should normally need more an institution that will give him a more remunerative and safe return in the savings that he ought to be able to make from time to time. These are the thrift societies and as I said before, it is my view that these primary thrift societies should have a central society, the co-operative investment trust, with later on perhaps a big provincial organisation. The artisans likewise may have their own credit society; the finances required here are for an essentially productive purpose, of buying raw materials and carrying on their work of production; but as the character of the work is so vastly different from that of agricultural production, the artisan credit society too should need a district industrial bank with ultimately a provincial industrial bank. In the same way the middlemen, the small traders, require financial accommodation for short periods, to provide which is chiefly the function of a co-operative urban bank and it is obvious that if these banks are to develop strength and efficiency ever more and more, they should have also their own central and provincial organisation. To expect the district central bank which is obviously the central financing agency for rural primary societies to also envisage urban problems and act as a central institution for urban banks is to confound the urban and the rural movements altogether. A central bank must have obviously a directorate representative of its affiliated societies which are predominantly rural and the chief workers even if they stay in towns must have an essentially rural outlook. For these workers, to look also to the urban banks is not quite the right thing to do, for they cannot have the outlook and ideas, the knowledge and technique of those who are to deal with the mercantile community in the town areas. I do not think therefore that there should be any objection to having

a central organisation on a provincial basis at the head of urban co-operative banks. It is not quite a wise policy to have only one provincial bank and one set of district central financing agencies which have and ought to have an essentially rural outlook, if co-operation is to attempt to render effective assistance to the small trader in towns. Excepting for the desire to have unity, there is nothing much in favour of smuggling in essentially urban institutions in what is essentially a rural financial structure. I am aware that co-operative authorities do not favour this separation of central organisations but I am not inclined to yield to their views, inasmuch as I believe that their experience and outlook being largely rural, they cannot bring themselves to view the urban co-operative problems with sufficient detachment and clarity. When the question is properly considered I wonder what possible objection there can be to the urban banks evolving their own provincial organisation or it may be divisional organisations?

Urban banks seem to desire that they should be permitted to finance small industrial credit societies in urban areas, thereby putting forth a claim for the reservation of the urban area to themselves. But as I said before, I do not find myself in agreement with this desire, since I feel that the peculiar problems of small scale cottage industries are not confined only to credit facilities but also include the purchase of raw materials and implements and the marketing of their products. The ordinary urban co-operative bank is surely not fitted for developing into industrial banks, not merely financing the small primaries but also facilitating the solution of the important problems of purchase and sale. In Gujarat, I find this desire to be very keen and some of the well managed urban banks claim that till co-operative industrial banks are established in the districts, it is they, the ordinary urban banks, who should be allowed to deal as financing agencies for the artisan societies, in preference to the District Central Bank; and in their recent conference they propose to appoint a committee to investigate into the possibilities and to collect necessary information for the development of small scale industries and to examine how far the bigger urban banks could make themselves useful towards the achievement of that purpose.

The problem of supervision of co-operative societies is one of almost supreme importance to us at the present day. It has been accepted that co-operative societies have multiplied very rapidly, the

arrangements for financing them have been perfected, and the administrative machinery has been suitably extended, and yet the co-operative tree thus planted has not borne the fruit that it was expected to bear. It has been felt that this unsatisfactory result has been due largely to the omission of a very important function, namely, effective supervision. Not that there is no supervision at all. There is the departmental auditor or the assistant registrar; there is the central bank inspector; and there are the honorary or stipendiary workers of the provincial co-operative union who now and then look in, each one from own point of view of course, and try to keep the societies safe and straight. In what way this important item of supervision of co-operative societies can best be organised has been the chief matter for consideration, deliberation and consultation generally throughout India; the All-India Co-operative Institutes' Conference considered it at Hyderabad, the Registrars of different provinces have been seriously thinking about it; and the Government of Bombay have even appointed a Committee to go into the whole question. The system that was evolved in Madras, that of supervising Unions, does not appear to have succeeded as well as at one time it was supposed it would. A similar system introduced in Bombay also has been under searching examination. The Punjab and Bihar have a system of their own which combines supervision with audit, and make both these functions officialised or de-officialised according to the angle of vision that we might bring to bear upon it, while elsewhere the situation is still more or less amorphous. There is no doubt at all that supervision is of the highest importance, when the men in charge of the societies and the men interested in them are very ignorant and largely illiterate. But in case of urban societies, one wonders whether the need for close supervision is as great. The Townsend Committee, in examining the position in this respect for Madras, observe and very rightly too that the supervision of urban banks is a different problem from that of rural societies and that if the efficient management that they advocate, was provided, the need for supervision would not be so great, and that further the advice required would be more on technical than administrative matters. It seems to me, the ordinary supervising union, with rural co-operative societies affiliated to it, is not much use for urban societies even if they are small. Separate supervising unions for the smaller urban societies, largely of one particular type, would be very desirable; and for urban banks the experience of the supervising union of the Gujarat Urban banks was encouraging enough to enable the Bombay Banking

Enquiry Committee to recommend the formation of such divisional supervising unions for urban banks. I do not see why such a system could not with advantage be adopted in other provinces. I however personally think that even such a specialised union is not very necessary if efficient management and trained staff are secured and effective audit provided. The efficiency of the management and the carefulness of the auditor would be enough in such business institutions run on co-operative lines like the urban banks.

The question of audit was examined at the Second Conference of Urban Banks in Madras last year and I note that you resolved to recommend the formation of regional audit unions, and to discourage the policy of encouraging audit of societies by private auditors. After what you have decided, I would not like to intrude my own personal opinion till I see what the result of your resolution has been. I cannot help thinking, however, that the prestige of and public confidence in Co-operative Societies largely depends upon effective audit and so great indeed is the importance of this effective audit that the duty has been wisely thrown by statute on the Registrar of Co-operative Societies. It is he who has been made responsible by law to see that the audit is maintained on a high and satisfactory level. I have no experience of non-official audit unions and I cannot say how far audit by their staff will be really independent and efficient, which we want more to be in the nature of a close supervision over the year's working of the bank than a mere verification of receipts and payments. If the independence of the audit under your scheme is in any way impaired, I should not be in favour of it at all. I would not mind audit being conducted by official agency under the Registrar and I would not be in favour of de-officialisation at the expense of efficiency. Of course, our experience on Bombay side tells us that the audit fees charged by Government from urban banks are much more than what those institutions would have to pay if they appointed a duly qualified approved auditor of their own. This, of course, should not be the case. So long as, therefore, the audit is cheap, effective, independent and thorough, I would not mind whether the agency is a private, a non-official or a Government one.

As regards the desire of urban banks to be given greater freedom in the development of the work or being allowed to undertake banking business of all kinds, I have just to say two things. In the first place, it is a question of 'deserve and desire'. Set your house

in order, have an efficient staff, make a success of your organisation, build up strength and efficiency, and your desire for expansion and freedom from irksome restriction will be justified. On the other hand, the Registrar should relax his fixed notions, wherever he find that a particular institution has attained a position and status to be allowed to enter upon an extended sphere of usefulness. The Registrar is generally a wise and intelligent man with great administrative ability, but he cannot be a better banker than the bankers themselves and it would be always very desirable if he were to view the demands of urban banks in this direction with more favour according to the merits of each case. I do not say that the Registrars do not do this. On the contrary, if the institutions really develop to the stage of the required efficiency, they have been always feeling inclined to give them the permission and freedom required. No hard and fast rule can be laid down in this connection, particularly when you in Madras mix up all sorts of urban credit societies and call them loosely 'urban banks'. Demands for being allowed to undertake all kinds of banking business, for inter-lending, for granting loans on the security of raw produce or manufactured goods, for purchasing demand bills, for financing non-credit urban societies working in their area of operation, and so on might well come from peoples' banks, with a substantial capital, with efficient management, with a trained staff, and capable directorate, and I have no doubt that when that is the case, the required permission will be forthcoming promptly.

I have one more thing to add, and that is the nature of the security on which Urban Banks advance their moneys in Madras. A large portion of the loans is on the security of mortgages and a large proportion is long-term loans. It is here that I feel that you depart from the fundamental principle of co-operation, which is the capitalization of character. There are the ordinary commercial banks, which are ready to lend out their moneys on the security of mortgage. Where is then the need for your specialised co-operative institutions at all, unless you recognise what they do not, and advance a much larger proportion as short-term loans on the security of personal suretyship? The object of an urban co-operative bank should not be merely the safe investment of its moneys. It should rather be the economic improvement of the condition of its members by recognizing that the character of the borrower is security enough for the creditor, strengthened considerably by the endorsement of

that character by a couple of friends of the borrower. In this way, you secure safety for the loans advanced and do not shut out many people from your membership or from your loans, simply because they have not property which could be mortgaged with you. Of course, when you advance on personal credit there are dangers which must be guarded against. In the case of mortgages, a margin for safety is easily understood, but in case of personal credit, safety lies in estimating the repaying capacity of the borrowing member, which obviously depends upon his earning capacity. Unless the amount of loans is correlated to this repaying capacity or the earning capacity, there will be the danger of default and resulting overdues.

I am afraid, I have taken up too much of your time with my rambling discourse on urban co-operative banks and I shall not detain you any further. Before I conclude, however, let me reiterate my sense of gratefulness to you for the honour you have done me in electing me as your President and for the opportunity you have given me thereby of learning something at first hand of problems special to Madras in the matter of urban co operating banking ; for though there is an essential similarity in this respect all over India, local circumstances and factors create problems and issues in different parts distinct from those to be observed elsewhere.

Conferences.

THE THIRD MADRAS URBAN BANKS' CONFERENCE, *Periyakulam, 27—12—1933.*

RESOLUTIONS PASSED AT THE OPEN CONFERENCE.

1-A. This Conference reaffirms the resolution passed on the subject of Audit Unions at the II Urban Banks' Conference, with due safeguards to secure an efficient and impartial audit. It does not feel satisfied with the action taken on that Resolution by the Government so far. Till non-official Audit Unions as suggested are started, this Conference is strongly of opinion that the scale of audit fees charged at present should be reduced to bring it on a par with the fees charged by private qualified auditors.

I-B. Resolved that the Provident Fund Deposits invested as such in the Central Banks or deposited there from out of such funds should to that extent be excluded from the Working Capital of the Urban Banks for calculation of audit fees.

II. This Conference resolves that all Urban Banks give adequate financial help by means of joint loans to groups of artisans and all other encouragements for the promotion of cottage industries suitable to the locality.

III. This Conference urges on the Government that in regard to loans to members on the security of gold pledged, the proportion of gold loans to paid up share capital be removed subject to such conditions as the Registrar may lay down regarding safe custody and insurance of the gold pledged and the maximum amount of individual loans and the proportion of the total gold loans to the total working capital of the Bank concerned.

IV-A. This Conference is of opinion that the formation of regional Central Banks for Urban Banks is necessary to consolidate and give an impetus to the Urban Bank movement in the province and urges on the Registrar the need to register such Central Banks and also request the Provincial Co-operative Bank and the Provincial Co-operative Union to take prompt and adequate steps to help the formation and the registration of such Urban Regional Central Banks.

IV-B. In the meanwhile, this Conference is of opinion that Urban Banks in the area of a Central Bank be given a representation of two members on the board of management of the Central Bank of whom at least one shall be in its Executive Committee as far as possible and requests the Central Banks amend their bye-laws accordingly.

V. This Conference resolves that no member of an Urban Bank should be eligible to vote unless he has been a member of the said bank for a period of at least six calendar months preceding the date of election and recommends that Urban Banks do suitably amend their bye-laws.

VI. Whereas it is found necessary to continue the convention set up of appointing a working committee for the purpose of arranging for the next conference for carrying out the resolutions made at the Conferences and generally for doing all such and every act necessary for safe-guarding and advancing the interests of the Urban Banks in the Presidency, it is resolved that a working committee be appointed at every conference of the Urban Banks held and that the rules specified below do apply in regard to the formation and working of the committee.

1. The Committee shall consist of a President, a Secretary and four other members elected at the Conference and one member nominated by the Madras Provincial Co-operative Union. They shall hold office till their successors are appointed. Of the four members elected at the Conference as far as possible, two shall represent the Banks in the Tamil Nad and West Coast Districts and two in the Banks of the Telugu Districts. The First Committee under this constitution shall consist of (1) Mr. E. S. Ganapathi Ayyar, President, (2) Mr. P. S. Sundaram Ayyar, Secretary, (3) Mr. K. Govindarajulu Nayudu, (4) Rao Sahib M. S. Seshachalam Ayyar, (5) Mr. C. Subba Rao, and (6) Mr. L. Gangadhara Sastri.

2. The Secretary shall be in charge of all properties belonging to the Committee. He shall hand over to his successor all the surplus cash balance, papers and proceedings relating to the Conference and such other properties as may be available, after winding up the affairs of the Conference. He shall likewise present an audited statement of accounts along with the final report of the Committee.

3. The Secretary shall maintain such accounts and registers as may be prescribed by the Committee. Until a permanent head-quarter for the conduct of the business of the Committee is fixed up, the place of business of the Committee shall be where the Secretary resides.

4. The business of the Committee shall be conducted either at a meeting or by correspondence. The quorum for a meeting shall be three. All questions shall be decided by a majority of votes. The President shall preside at a meeting and in his absence, the members present may elect one from among themselves to preside.

5. The funds of the Committee shall be derived from surpluses of the Conferences held, sale proceeds of properties if any donations to be collected from the constituent urban banks at the rates specified below and such other sources as may be prescribed by the Committee.

CONFERENCES

Rates.—Rs. 3 per year by banks with a working capital of one lakh of rupees and below.

Rs. 5 Do. Do. more than one lakh.

6. The Working Committee shall meet at least once half-yearly. Members attending Committee meetings may be paid their travelling allowance.

7. Any co-operative Institution that invites the Conference shall be an agent of the Working Committee and shall act in accordance with the instructions of the Working Committee.

8. The Conference shall be held biennially.

VII. This Conference is strongly of opinion that Registration fees and search fees which are at present charged should not be charged particularly in view of the present economic depression.

VIII. Resolved that the Working Committee of the Conference be requested to secure all details regarding the working and financial condition of all the Urban Banks in the Presidency and take steps to compile a report with the assistance of the Registrar and forward it to all Urban Banks.

IX. This Conference is of opinion that the question of amendment of the Co-operative Societies Act to the effect that all persons liable for the debt contracted by a member be joined as parties to the dispute be referred to the Provincial Co-operative Union for enquiry, investigation and action.

THE ANANTAPUR DISTRICT CO-OPERATIVE NON-OFFICIAL EMPLOYEES' ASSOCIATION, ANANTAPUR.

RESOLUTIONS PASSED.

1. This conference requests the authorities that a common service be instituted of all employees of all the Non-Official Institutions in this District with provision for transfer from the Executive to ministerial and *Vice-Versa*.

2. This conference requests the authorities to amend the clause 8 in by-law No. 31 so as to enable the Supervisor to prefer an appeal to the Bank against the orders of punishment of the Unions.

3. This conference resolves that in view of the Government Order No. 936 Mis. dated 1-8-1933, the authorities of the District Bank be requested to reduce the No. of tour days of the Executive Staff from 25 to 20 days.

4. This conference requests the liquidator of the Anantapur District Federation and the Unions to refund the Provident Funds and other amounts due to the employees immediately with interest.

5. This conference requests the authorities of the Bank to allow the employees the benefits of the accrued leave.

6. This conference requests the Bank authorities to disburse the pay of the Executive Staff direct, through cheques instead of adjusting the same to the current deposit of the Unions.

7. This conference resolves to request the authorities of the District Bank to remove the cut of $6\frac{1}{4}$ per cent now imposed.

8. This conference resolves to request the authorities of the District Bank to fix up the common scales of pay, increments, T. A. according to the service of all the employees that are now under the control of the District Bank.

9. This conference requests the employees in the movement to do propaganda work in rural areas on the economic aspects of Co-operation by preaching the evils of drink, insanitation, litigation and waste in private and public life by the under current fashion and civilisation.

10. This conference requests every member of the Supervising Staff of this district to make at least one society as a model one in his jurisdiction before 30-6-1935.

11. This conference exhorts co-operative workers in the Presidency to immediately form District Association so as to facilitate the formation of Provincial Association.

12. This conference requests all co-operative institutions to treat the days spent by their employees in attending conferences of the association as on duty wherever such a practice is not in vogue.

13. This conference requests the Madras Provincial Co-operative Union and the Madras Provincial Co-operative Bank to take steps to organise a Provincial Association of Co-operative Non-Official Employees.

14. This conference requests the authorities of the District Bank to provide, a stationery life at least for a period of not less than 1 year to such of those employees who have continuously worked for 4 years in the executive line.

15. This conference requests all co-operative Non-Official employees to work for the South India Co-operative Insurance Society subject to the control of the Anantapur Local Board.

16. This conference resolves to request the Bank authorities to give preference to the servants already in the service of the Local Unions in regard to promotions and vacancies that arise from time to time in the Bank's service.

17. This conference resolves to request the District Bank to supply each employee, in the executive line, a Homeopathy Medicine Chest with the book of Guidance out of the Common Good Fund of the Bank. Contributions from the affiliated societies may also be taken from their Common Good Fund if the Common Good Fund of the Bank is insufficient.

(Sd.) K. RAMADAS RAO,
President.

District News.

(1) KULITALAI.

Mr. Panjabi, I.C.S., the Registrar of Co-operative Societies, Bombay, visited the Land Mortgage Bank, Ltd., at Kulitalai and noted as follows in the visitors' book.

"I am very grateful to the Secretary and Directors of the Bank for exhaustive and valuable information about the working of this Bank. It has still many difficulties to face, due to the unforeseen drop in prices. I hope the indomitable courage which has characterised its working in the past, will carry it through these times".

(2) MADRAS.

The Government Telegraph Employees' Co-operative Society, Ltd., Madras.

The number of readers during December 1933 was 924 and the number of volumes issued for home reading was 526. The corresponding figures for November 1933 was 1311 and 717. The Library was closed for Christmas Holidays for five days in December 1933."

(3) PROVINCIAL CO-OPERATIVE UNION, MADRAS.

The Reading Room of the Madras Provincial Co-operative Union has become popular as following facts will show:—

Number of readers who attended the reading room during the month of December 1933 was 1084 and in January 1934 was 1110.

We understand that many readers take interest not merely in general journals placed on the reading room table but also in co-operative and agricultural journals made available to the readers.

(4) CHIDAMBARAM.

Mr. Panjabi paid a visit to the Land Mortgage Bank, Ltd., Chidambaram and was received by Mr. C. V. Srinivasachariar, President of the Bank, who welcomed him and explained to him the history and the working of the Bank. Mr. Panjabi spent nearly 2 hours in the Bank premises discussing various points of interest arising in the present working of these Banks. He was thanked and garlanded by the President on behalf of the Directors present.

(5) BERHAMPORE.

The official and non-official members assembled in the premises of the Deputy Registrar's Office on the New Year's Day to exchange New Year's Greetings and to discuss and come to an understanding about the plan of work for the year. M.R.Ry. M. Venkataratnam Pantulu the Deputy Registrar presided. With light refreshments and with a vote of thanks the pleasant function came to a close.

Registrar's Circulars.

R. Dis. B. 4575/33.

OFFICE OF THE
REGISTRAR OF CO-OPERATIVE SOCIETIES,
Madras, 25th November 1933.

M. R. RY. RAO BAHADUR K. DEIVASIKHAMANI MUDALIAR AVL.,
Registrar.

Circular.

Subject :—Collections—Progress—Review.

Reference :—(1) Registrar's Circular R. Dis. B. 5598/29 dated 9—10—1929, and

(2) Registrar's Circular R. Dis. B. 6310/29 dated 12—12—1929.

In the first of the circulars quoted, the importance of Local Co-operative Supervising Unions getting monthly a statement of Demand Collection Balance of loans from their affiliated societies and submitting in their turn a consolidated report every month to the District Federations was emphasised. It was also directed that the Federations on receipt of these consolidated reports from the co-operative supervising unions should issue a monthly review showing the progress made in collections and send copies of it to the Unions, Central Banks and the Deputy Registrars. In the second of the Circulars quoted, the Deputy Registrars were also asked to examine the review issued by the Federations and issue a memo of instructions and suggestions for improvement of collections particularly in bad areas and send copy thereof to the Registrar. It was hoped that the procedure mentioned above would bring about a marked improvement in the state of collections and that it would ensure prompt repayment of loans by members and timely action on the part of societies in case of everdue loans.

2. Information was called for from the Deputy Registrars as to how far the instructions conveyed in the Circular have been carried out. The reports received from them show that the local unions have found it difficult to obtain from their affiliated societies statements of D. C. B. every month in time and consequently they could not submit their consolidated report to the Federations. It is represented that on account of this difficulty the practice of reviewing the statements was given up in one or two Districts. Some of the Central Banks which have taken over the functions of the District Federations on their liquidation, have not also obtained D. C. B. statements from unions and reviewed them.

REGISTRAR'S CIRCULARS

3. The Registrar considers it very necessary that the D. C. B. statements should be obtained regularly and that action should be taken on them. A supervisor is generally in charge of not more than 15 to 20 societies and it should be possible for him to visit a society once a month or at least once in two months, to prepare the statement required and get it signed by the Secretary or the President. The statements need not, however, be delayed merely because the signature of the President or the Secretary cannot be obtained. Central Banks and Federations (wherever they continue to work) are therefore requested to insist upon the D. C. B. statements being furnished to them by the Supervisors of Unions and to see that action is taken promptly on these statements. The Registrar trusts that all Central Banks, Federations and Local Co-operative Unions will heartily co-operate and carry out faithfully the instructions issued already.

(By Order)
A. SINGARA RAJU,
Manager.

No. B. 6661/33.

OFFICE OF THE
REGISTRAR OF CO-OPERATIVE SOCIETIES,
Madras, 13th December 1933.

M. R. RY. RAO BAHADUR K. DEIVASIKHAMANI MUDALIAR AVERGAL.,
Registrar.

Circular.

Subject :—By-laws-model—Secretary and Treasurer—separate persons desirable.

It is observed from the numerous cases of misappropriations brought to light that in Co-operative Banks the functions of Secretary and Treasurer are often placed in one and the same man. Model by-law 23 of Co-operative Banks prescribes that the President shall be the ex-officio treasurer. But the safeguard implied in this by-law in the separation of treasurership and secretaryship has been lost sight of and the model has been adopted but in a few Banks. The Townsend Committee on Co-operation emphasized the desirability of entrusting these two functions to different persons and observed in paragraph 40 of their report dealing with Central Banks. "We are strongly of opinion that the old by-law providing for a separate secretary and treasurer should be introduced in Banks where it has been changed: the danger of the same man holding both posts has been very forcibly brought home to us." That has been said by the Committee in regard to Central Banks applies with equal force to banks and societies. The Registrar believes that it

THE MADRAS JOURNAL OF CO-OPERATION

only the safeguard implied in the separation of the two functions is incorporated in the by-laws there will not be much room for malpractices by office-bearers.

All Deputy Registrars and Sub-Deputy Registrars are therefore requested to examine the by-laws of all Urban Banks in their charge and report to Registrar the names of those banks in which both the functions are vested in one and the same man. They should also see that all banks and societies amend their by-laws suitably either for the appointment of a separate treasurer or making the President the ex-officio treasurer.

(By order)
A. CUNNIAH,
Manager.

D. Dis. F. 4298/33.

OFFICE OF THE
REGISTRAR OF CO-OPERATIVE SOCIETIES,
Madras, 19th December, 1933.

M. R. RY. RAO BAHADUR K. DEIVASIKHAMANI MUDALIAR AVERGAL.,
Registrar.

Memo.

Subject:—Registration—Application for encumbrance certificates—purpose to be specifically mentioned in the resolution.

Reference:—Registrar's Circular No. R. C. 2712/22 dated 11-5-22.

Instances have come to the notice of the Registrar where applications to the Registration Department for issue of encumbrance certificates were not accompanied by specific resolutions of the Panchayat in each case but by a general resolution—authorising a particular class of paid servants of the society to apply for such certificates whenever necessary. Such a procedure is contrary to the instructions issued in the Registrar's circular quoted and is likely to lead to the abuse of the privilege. The attention of all co-operative societies should be drawn to the Registrar's instructions quoted and they should be informed that each application for encumbrance certificates should invariably be accompanied by a resolution of the panchayat indicating the specific purpose for which the certificate has been applied for.

(By order)
A. CUNNIAH,
Manager.

**Co-operative Credit
Its Achievements, Potentialities and Limitations.**

BY

V. RAMADAS PANTULU,

Vice-President, The Madras Economic Association.

(Paper contributed to the 17th Indian Economic Conference.)

Organised and cheap credit a necessity.

The Co-operative Movement in India is mainly the outcome of the search for a solution of the problem of agricultural indebtedness. Placing agricultural credit on a co-operative basis appeared to the founders of the Movement to be the best solution; no one has so far suggested a better one. Judged by the proportions which co-operative credit organisation has attained in India, since its inauguration in 1904, and the results it has achieved, it must be said that the co-operative credit society has not only come to occupy an important position among the existing credit agencies of the country, but has also found an integral place in the regular banking system of the country. This is borne out by the fact that co-operative banks are definitely brought into the scheme of the Reserve Bank of India. In India (British India and the Indian States), there are about 1,00,000 primary credit societies and about 600 secondary institutions, popularly known as central banks, which primarily finance the rural credit societies. There are Provincial Co-operative Banks in all the major provinces in British India except the United Provinces. They primarily finance the central banks. The working capital of these co-operative credit institutions in British India is about Rs. 50 crores (excluding loans made by the secondary bodies to the primaries and deposits made by the latter with the former). Out of this sum, about Rs. 14 crores represent the capital owned by the societies themselves, that is to say, their share capital and reserves. The membership of these societies is about 3 millions and on the usual computation that an average rural family consists of 5 members, it means that about 15 million people are brought into the movement. Among the material benefits derived from the movement, its effect on usuary is of course the most important. The Royal Commission on Agriculture state that "where the co-operative credit movement is strongly established, there has been a general lowering of the rate of interest charges by the money lenders; the hold of the money lender has been loosened, with the result that a marked change has been brought about in the outlook of the people." This is also the opinion of many others who are competent to speak on the subject. There are of course the moral and educative effects of the movement to its credit besides the material benefits.

economic position of the rural co-operators. All the Provincial Banking Enquiry Committees have reported that hand loans and short term finance for current needs are obtained from money lenders on much more onerous terms than intermediate and long term loans for which tangible security is offered.

The future development of short term co-operative credit through the rural societies must mainly aim at supplying the current financial needs of the agriculturists for seasonal operations, payment of kist and allied objects. The loans must be recovered from the year's harvest. At present co-operative credit is rigorously contracted on account of the decrease in the repaying capacity of the borrowers consequent on the catastrophic fall in the price of agricultural land and its products. Genuine short term credit can however be safely expanded through societies which are working satisfactorily, for current needs of their members. The members of rural credit societies must be educated in the economic benefits of this form of credit. A development of this type of credit will discourage fresh borrowings from money lenders and favourably react on the problem of rural indebtedness. Moreover, expansion of such credit will enable central banks to improve their profits which have considerably fallen owing to shrinkage of transactions in the primary societies financed by them. If rural societies are encouraged to borrow for the satisfaction of the current needs of their members, there will be an appreciable revival in the healthy activities of the credit movement.

(2) *Loans for movement and marketing of produce.*—A sphere of co-operative credit activity, which has been much neglected hitherto, is credit for the movement and marketing of produce. It is not purely a problem of credit. Co-operative marketing not only requires credit but calls for business organisation of a very complicated nature and expert assistance in processes like standardization, storage, transport, risk-taking, demand creation and distribution. The organisation of marketing and the establishment of warehouses seem to be yet distant ideals in India and will be a programme too ambitious for any co-operative institution to attempt at present.

Every day new difficulties are coming up in the way of co-operative societies entering this field. Even the small trader who has been financing the movement of crops and their marketing is being gradually ousted from the business. Wholesale exporting houses are penetrating into the interior supported by cash credits from banks to buy up the produce even before it is harvested. Advances on crops are made on the spot by those agents who go there with their bags of money in the season. This has sent the local traders to the wall. As competition

among buyers is not strong locally, the cultivator is also hit. It is idle to expect that co-operative sale societies can withstand the agents of large buying firms who are financially backed by their Central Offices while the local trader is unable to do so.

The ordinary joint stock banks of this country are also hostile to the co-operative banks entering on this sphere of credit. A request of the Co-operative Central Banks' Conference to the Madras Government to permit them to lend money to members of rural credit societies on the pledge of their produce, when storage and other facilities are available, was turned down by the Government on the ground that such business involved competition with commercial banks. This was also the view expressed by the representative of the Imperial Bank who gave evidence before the Indian Central Banking Enquiry Committee.

The Government must, in my opinion, re-examine the whole question once more carefully with the assistance of its expert economic advisers and of commercial and co-operative banking interests, so that the respective spheres of action of commercial and co-operative banks may be so demarcated as to eliminate competition.

Intermediate Loans.

Loans for buying cattle and agricultural implements or for outlay on various items of production such as the sinking of small wells which do not require large capital expenditure, are now called intermediate loans and they cannot be expected to be repaid in an year. So they are lent for periods going up to five years. Much care must be exercised in disbursing these loans. If sums larger than necessary for the purpose in view or than can be repaid in the period allowed are lent, they will invariably become overdue. The legitimacy of the purpose and the repaying capacity of the borrower have to be looked into very carefully. There was much neglect in the past in this matter and co-operative credit societies must profit by their experience.

Urban Co-operative Credit.

The financial needs of the urban population, specially the middle class people, are of a different nature from those of the agriculturists and require a different type of society to satisfy them. The small trader, the artisan, the shop-keeper, the salaried class, the petty contractor, the wage-earner and similar strata of urban population, are not now served by the co-operative credit organisation to any appreciable extent. But we have a few societies for the purpose known as urban banks. These urban middle classes borrow to take up occupations, for acquisition of household equipment

to meet medical and educational expenses, to pay taxes and insurance premia and similar purposes. Such accommodation can be had from the urban money-lender only at very exorbitant rates of interest and that too, on the security of house property, jewellery, insurance policies, stock exchange securities and other tangible assets. Co-operative credit institutions to lend to these classes, at reasonable rates of interest and on personal security supported by the guarantee of another person as surety, will surely prove to be economically very beneficial to the urban population. They will to some extent relieve growing urban unemployment by assisting intelligent, thrifty and enterprising men and women to take up small but remunerative occupations. These banks can also finance small industries organised on a co-operative basis. These banks have made the greatest progress in Madras and Bombay and are steadily growing in popularity. They have in Madras a membership of about 2 lakhs and a working capital of about Rs. 2½ crores.

Urban banks require qualified paid managers and staff to run them unlike the rural credit societies which are expected to be worked entirely by unpaid and honorary workers in the villages. The money circulates more rapidly in these banks than in rural societies and in most cases loans are repaid in monthly instalments. In most countries these urban banks do modern advanced banking business, such as granting cash credits, dealing in cheques, collecting and discounting inland bills, clearing and remittance business. The more developed of the urban banks are now permitted to do similar business in India also and they must be encouraged more and more in this direction.

Long Term Co-operative Credit—Land Mortgage Banks.

Co-operative land mortgage credit has of late been receiving more and more attention. It is gratifying to note that the Finance Member of the Government of India and the Select Committee on the Reserve Bank Bill have agreed on the desirability of incorporating a provision in the Reserve Bank Act for the future creation of a Rural Credit Department in the Reserve Bank. Another proof of the interest which the State is evincing in Land Mortgage Banks is found in the Madras Government guaranteeing the interest on the debentures floated by the Madras Co-operative Central Land Mortgage Bank and their promise to consider favourably the proposal to guarantee the principal also in future and making the debentures trustee securities. The Madras Government have also initiated legislation to vest the land mortgage banks with summary powers of recovery of loans by sale and foreclosure without the intervention of civil courts, so as to make land mortgage debentures readily marketable and negotiable and to popularise them.

Co-operative land mortgage credit is being developed in the Punjab, Bombay and Madras. It is as yet negligible in Bengal and Assam; and in the other provinces there are no Co-operative Land Mortgage Banks. Madras alone has a Central Land Mortgage Bank to deal exclusively with this form of credit. The debenture issue is centralised in it. In the Punjab and Bombay, the movement is still dependant on the Provincial Co-operative Banks and the Local Governments to finance the Land Mortgage banks.

It is sometimes said that there are no pronounced elements of "Co-operation" such as joint responsibility and mutual guarantee of members in a land mortgage credit institution and that "there is no special object in making land mortgage credit available only through the co-operative movement." In my opinion this is a very erroneous view. The primary land mortgage banks are essentially *associations of borrowers*, though a few non-borrowers are thrown in for attracting a small initial capital and securing other incidental advantages such as business talent and organising capacity. The rule of "one man one vote" with unrestricted open membership obtains irrespective of the amount of share capital contributed by a member. Credit is created not by collection of large share capital from non-borrowers as in joint stock concerns, but by issue of debentures with a floating charge, in favour of the trustees for the debenture holders, on all the mortgages executed by the borrowers and in force on any particular day. These banks do not aim at profits or dividends, and are, therefore, able to keep the interest on loans as low as possible. The purpose of the loan and the repaying capacity of the borrowers form very material considerations in sanctioning loans. In order to afford relief to the small farmer and owner of small holding, the co-operative type of Land Mortgage Credit Associations, therefore, offer peculiar facilities which Joint Stock Mortgage Banks cannot. To accommodate large land owners and zamindars, Commercial Land Mortgage Banks on the model of the Credit Foncier de France or the Agricultural Bank of Egypt may be more suitable, but they are wholly unsuited to provide long term finance to the agriculturist.*

Among the impediments in the way of developing these banks in some provinces, special mention may be made of two, namely, the system landholding and the statutory restraints on alienations of agricultural land. The agriculturist to be eligible for this form of credit must be a peasant proprietor with unfettered rights of heritability and transferability of his holding. Even in the Punjab which is the home of peasant proprietors, the operation of the Land Alienation Act has proved a serious impediment to the growth of the Land Mortgage Banks for

* *Vide* paragraph 382 of the report of the Royal Commission on Agriculture and paragraph 199 of the report of the Indian Central Banking Enquiry Committee.

obvious reasons. In some Provinces even occupancy raiyats have only qualified rights of transfer in their holdings under the Tenancy Acts in force there. As the Indian Central Banking Enquiry Committee has put it, "The double object of preventing the free mortgage and sale of agricultural land and the provision of credit for the economic benefit of the agriculturist through the co-operative land mortgage banks cannot easily be achieved."* This question cannot be solved on an All-India basis, as conditions vary from Province to Province. It must be solved by each Province for itself. Moreover, proposals to remove all impediments to the free transfer of lands or to vest the occupancy raiyats in all the Provinces with free rights of heritability and transferability cannot unfortunately be dealt with purely on economic considerations. Complicated and delicate political, social and even communal issues are involved in the problem.

Madras offers exceptional facilities for the development of co-operative land mortgage credit. Both the Ryotwari Pattadar and the Zamindari Ryot have, generally speaking, unfettered rights of transferability and heritability in their holdings and there is a fairly satisfactory system of settlement and record of rights in the Province with the result that the ascertainment of the title of the borrower to the land which he offers as security and the assessing of its value are comparatively easy processes. The Zamindari ryot in Madras is, however, in a much less favourable position than the Government ryot both because he is often rackrented and because the land records in certain Zamindaris are often extremely defective. So, until the economic position of the Zamindari ryot is further improved by reduction of the rent he pays to a fair and equitable level through suitable legislation and the record of rights in Zamindaris is put on a better footing, the establishment of land mortgage banks in the Zamindari area of Madras Presidency must necessarily be done with considerable caution.

The three vital factors that enter into the assessment of the economic benefit of the co-operative land mortgage loans are the purpose for which loans are advanced, the rate of interest charged and the period allowed for repayment. It may be said that the land mortgage banks are now used practically for a single purpose, namely, the liquidation of prior debt. It will no doubt be the main purpose of these banks for a long time to come. Efforts should also be made to give loans for other purposes which are recognised as legitimate, namely, (i) the improvement of land and methods of cultivation and the building of houses of agriculturists and (ii) the purchases of land in special cases. It is true there is now no demand for loans for these purposes. A demand for loans for improvement of land and methods of cultivation must be created by educating the ryots in their economic value.

* For the recommendation of the Indian Central Banking Enquiry Committee in this connection, see para 228 of the report.

The rate of interest charged and the period of repayment naturally go together in assessing the burden of the loan on the borrower. The maximum period for which loans are now given in Madras is 20 years. As regards rate of interest to the ultimate borrower, we started with 9 per cent; it was subsequently reduced to 8 per cent. and recently it is further reduced to 7 per cent. I understand it is contemplated to reduce it to 6 or 6½ per cent if money becomes available to the Central Land Mortgage Bank at 4 per cent. in sufficient volume. The burden of a land mortgage loan may be judged from two standpoints, namely, (i) what is the *total amount* which a borrower pays when the debt is ultimately wiped out? and (ii) what is the annual instalment which he has to pay to amortize the debt? I feel that the economic benefit of a land mortgage loan consists in recovering it in as small annual payments as possible, from the margin of the profit of the agriculturist which is often very slender, though it may ultimately involve the payment of larger amount. It is like life insurance on a scheme of smaller premiums spread over a longer period. The annual payment must have relation to the earning and saving capacity of the payer. I give below a table to show how greater relief can be given to the agriculturist by increasing the period than even by reducing the rate of interest. If both can be done simultaneously, it is of course all the better.

**Annual payment (Including Principal and Interest) for
Repayment of a Loan of Rs. 100.**

Term of years.	Rate of Interest Charged.				
	4 p. c.	5 p. c.	6 p. c.	7 p. c.	8 p. c.
10	12'32	12'95	13'58	14'23	14'90
15	8'99	9'63	10'29	10'97	11'68
20	7'35	8'02	8'71	9'43	10'18
30	5'78	6'50	7'26	8'05	8'88
40	5'05	5'82	6'64	7'50	8'38
50	4'65	5'47	6'34	7'24	8'17

It will be seen from the table that an increase in the period will have a more tangible effect in reducing the annual instalment than even a substantial reduction in interest. The annual payment for a 20-year loan at 7 per cent. will be Rs. 9'43, while for a 30-year loan it will be

Rs. 8'88 even at 8 per cent. A loan at 6 per cent. for 30 years will involve only a payment of 1½ per cent more to wipe out the principal. So, in order to give immediate relief to the agriculturists by reducing the amount of his annual payment, I plead for a substantial increase in the maximum period of the co-operative land mortgage loans. We may now increase the maximum to 30 years and work up to 50 years. There is no substance in the apprehension that new legal complications may arise in the case of 30 year loans that have not arisen in the case of 20-year loans. Nor do I consider it very difficult to raise the period of debentures from 20 to 30 years without materially raising the rate of interest offered if the debentures are made readily marketable and facilities for raising credit on them are created. Co-operators must make, in any case, a serious endeavour to raise the period to 30 years in order to give full benefit of these banks to the agriculturists. The repaying capacity of the borrowers having become materially curtailed due to economic depression, an increase of the period to 30 years will result in an increase in the number of eligible borrowers.

Limitations of the Co-operative Rural Credit.

There are very serious limitations to which co-operative credit is subject, but which are not generally recognised. Some of them arise from the peculiar nature of the co-operative finance and the structure of the organisation which handles it. In regard to the methods of raising and banking the resources and the obligations of co-operative banks to meet their demand and time liabilities to their depositors and creditors, the position is precisely the same as that of joint stock banks. But, the borrowing power of central banks, unlike joint stock banks, is strictly proportioned to their owned capital; there are no facilities for the negotiation and discounting of the agricultural paper held by them. The Imperial Bank which was the only bank giving some accommodation on agricultural paper, that is, on the demand promissory notes of credit societies, has now completely cut off such accommodation. Owing to the unsuitability of the demand promissory notes of credit societies for discounting or rediscounting with commercial banks to raise loanable funds, these co-operative banks are under perpetual necessity to be borrowing in the open market at current rates in order to be always in possession of funds to finance the societies and have also to maintain fluid resources to meet deposits on maturity. This has resulted in almost all these banks investing much of their unused money in Government securities and in most of them surplussing while credit to primary societies is contracted. The establishment of the Reserve Bank and connecting the co-operative banks with it for rediscounting facilities will have no effect whatever, unless the quality of co-operative paper so changes as to make it eligible for rediscounting purposes.

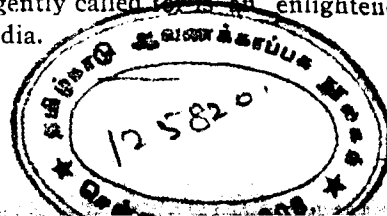
Notwithstanding such rigidity in co-operative finance, the co-operative banks are expected to adequately and promptly meet the credit requirements of their constituent societies, which, in their turn, are charged with the duty of distributing their resources among thousands of small cultivators "thinning" as the late Mr. Wolff graphically put it, "the stream (of money) sending it in rills over a broad surface, so that irrigation may be perfect and reaching every root to be watered." Agriculture is a precarious industry and the repaying capacity of these numerous small borrowers is adversely affected by every factor, physical and monetary, which affects either production or the prices of the products. The investment of capital and credit on the improvement of cultivation may result in increased production; but unless there is a market for the improved and larger crop, and the additional income from it is greater than the additional cost incurred in raising it, the effort will result in an actual loss, instead of in gain. Notwithstanding all these risks, the co-operative banks are expected to be able to shoulder these extraordinary financial responsibilities on the assumption that the members of the rural credit societies will be alive to their joint responsibility and mutual guarantee to discharge the loans of their societies, which may in the last resort be recovered by the enforcement of unlimited contributory liability of all the members arising on liquidation. This is an extraordinary remedy, and when prospects of its application are in sight, punctual and solvent members will naturally begin to leave the society. It is further assumed that the panchayats of village societies will function efficiently in the matter of distribution of loans to their members and in collecting them. The panchayats were expected to observe business methods and pay attention to the purpose of the loans and the repaying capacity of the borrowers. No other agency, co-operative or otherwise, can possibly step into the place of the panchayat of a primary society to discharge these functions. With the increasing migration of leisured and wealthy men from the villages to towns, it is becoming more and more difficult to find efficient and reliable men to constitute these panchayats. So, to the extent that these fundamental assumptions fail, co-operative credit must fail. It is about the failure of the primary societies to discharge their simple but onerous functions that one hears so much of in these days. Any weakness at the foundation naturally threatens to affect the whole structure of co-operative credit organisation.

There are other limitations which arise from causes beyond the control of co-operative institutions, relating to more intricate spheres of rural economics. The holdings of a large number of members of co-operative credit societies are uneconomic in the sense that they do not yield enough even for the sustenance of the farmer's family after meeting the costs of cultivation and the public demands or landlord's rent on the land. The number of uneconomic holdings is ever on the increase with

the excessive fragmentation of land which is constantly going on, by reason of operation of laws of inheritance, economic strain resulting in alienations of small bits of land, the operation of rules of revenue administration and other causes. Normally speaking, with most of the rural co-operators, agriculture is not a business, but merely a mode of living. Besides the land itself, the other main item of capital invested on agricultural industry consists of cattle. The labour is mostly that of the farmer and the members of his family. Farm accounting is unknown and "profits of cultivation" is a term of art, as lawyers call it, introduced by the Indian Settlement Officer for the purpose of his fiscal calculations, and the implications of its technical sense can be appreciated only by his trained intellect.

Looking upon co-operative credit essentially as business, not forgetting that even personal and moral responsibility to repay a loan will require some ultimate backing of tangible assets, it must be clear that, under the limitations stated above, the scope for co-operative credit societies serving the rural co-operators is severely circumscribed. The large bulk of agricultural population will be ineligible for even seasonal short term credit under the most easy standards of repaying capacity. The experience, short as it is, we have gained from the working of land mortgage banks in the Province has shown us how few the eligible borrowers are who can be helped by long term credit through land mortgage banks, on approved standards of valuation of the security and the repaying capacity of the borrowers. Any violation of these business considerations and methods, either in short term or long term co-operative credit, is bound to lead to financial disaster.

Before I conclude, I must state that to believe that the economic rehabilitation of the ryot can be at any time accomplished through co-operation alone is to labour under a serious illusion. The depressing environment which envelopes rural life and the low economic vitality of the Indian peasant, for which he is not solely or even largely responsible, are the outcome of many political, social and economic factors. The latest foreign testimony about the general economic condition of the masses comes from the Simon Commission. They say "the wants (of the Indian masses) are few, diet is simple, climate is usually kind, and a deep rooted tradition tends to make the country-men content with things as they are. But the depth of the poverty, the pervading presence of which cannot escape notice, is not so easily realised." In order to remove the operation of causes which have produced this economic condition, action in many other spheres besides co-operation is necessary. Action which is most urgently called for is an enlightened agricultural policy by the State in India.



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