THE
INDIAN CO-OPERATIVE REVIEW

VOL. II. JULY, 1936. No. 3.

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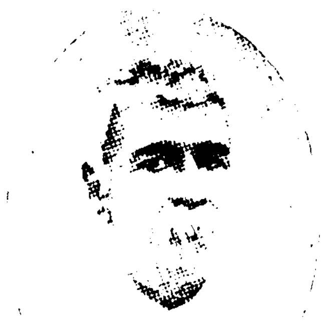
Sir Frederick Nicholson
(1846 to 1936)



Dewan Bahadur
R. Ramachandra Rao
(1871-1936)

Sir M. Ramachandra Rao
(1868 to 1936)

Sir Rajendranath Mookerjee
(1854 to 1936)

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EDITORIAL NOTES

THE LATE SIR FREDERICK NICHOLSON

It is our painful duty to record the death in the last quarter of four of our foremost veterans in the co-operative field. Now that the Movement is already three decades old in this country, it is but inevitable that we should now and then mourn the demise of one or other of the leaders of the older generation. The oldest and the greatest of them all was Sir Frederick Nicholson who died in June last at Coonoor. Nicholson could be more justifiably called the Father of the Co-operative Movement in India than even Robert Owen of the Movement in Great Britain. Born in 1846, he joined the Indian Civil Service in 1869 and after strenuous service in various capacities for three decades and a half in the Madras Presidency, he retired in 1904. His intimate knowledge of the people, particularly of their economic condition, was phenomenal even for those days when the average Civilian was not so much out of touch with the masses. He was deputed by Lord Wenlock's Government in 1892 to enquire into the possibility of introducing into the Madras Presidency a system of agricultural and other land banks. Nicholson went abroad to make a first-hand study of the new credit organisations in some of the European countries, notably Germany, and the very comprehensive and lucid official document he submitted in 1895 has turned out to be the first great classic on Agricultural Co-operation in the English language. It seems to have been for the moment shelved by the Local Government due to the misgivings of Nicholson's own colleagues, and it was given to Lord Curzon to take up the idea of co-operation—now for the benefit of the whole of India. In the Committee that was appointed for suggesting practical measures, Nicholson found a place. It was on the lines laid down by this Committee that the Co-operative Societies' Act of 1904 was passed.

Nicholson's interests were far wider than those of the ordinary co-operative leader or administrator. His account of the sturdy ryots of Coimbatore in the Manual of that District, his note on Agriculture in Japan, his Bulletins on the Development of Fisheries and his evidence before the Indian Industrial Commission on Small-scale Industries in India are all as interesting as his account of Land Banks in Europe. He was one of the few administrators liked equally by the Government and the people. He was deputed by the Government to accompany and assist Dr. Voelcker in an enquiry into the possibilities for the improvement of Indian agriculture, when the latter toured in Southern India. He was nominated a member of the Imperial Legislative Council for four years; and he was appointed as member of the Indian Famine Commission in 1901. He was responsible for the development of the Fisheries Department of which he was Honorary Director for some years. It was at his instance that the Government Kerala Soap Factory was started at Calicut which is quite flourishing at present. The Fruit Preserving Institute at Coonoor was his creation, but it has had a somewhat chequered career.

Unlike other European Civilians, Sir Frederick chose to retire in India at the cool heights of Coonoor, from which he was watching the growth of co-operative and other activities which he had initiated. We have been told that he was not altogether pleased with the conduct of the Co-operative Movement and he was declining invitations to preside at Conferences, though he was quite willing to discuss any question with individual co-operators. But he was so much of an optimist that it could not be said of him, as was said of Sir Horace Plunkett by Sir A. D. Hall: "For his own happiness, one might even say for his own fame, Horace Plunkett should have died earlier. . . . . His faith never wavered in Co-operation but it would have cheered his latter days, if he had seen a little more result."

THE LATE DEWAN BAHADUR R. RAMACHANDRA RAO

Dewan Bahadur R. Ramachandra Rao, who by a strange coincidence passed away on the same day as Sir F. A. Nicholson, was one of the earliest and the greatest of our co-operative administrators. He was the second Registrar of Co-operative Societies in the Madras Presidency, and on no one has the choice by the Government of Madras fallen so happily since then. In him was found a rare combination of zeal and energy, of intellect and enthusiasm, of the mind to conceive and the will to execute.

Born of well-to-do parents in 1871, brought up in affluent circumstances and chosen early in life to occupy a high rank in the Madras Civil Service it is a matter for wonder in this country that Ramachandra Rao developed a passion for helping the poor ryots while in office and after retirement. He was frank and fearless to a fault, which cost him preferments in office, but which he did not mind, deeming the esteem of his fellow men greater than recognition by an alien Government. He was known to have visited the humblest huts of ryots and talked on for hours together to the villagers to enthuse them on the new Movement of co-operation, in which despite all deterioration he had not lost an iota of faith. The scheme of a net-work of Central Banks in the Province

was his; he founded and edited for some time the *The Madras Bulletin of Co-operation*, now the *The Madras Journal of Co-operation*.

After retirement, he lost no time in rejoining the Movement and working with redoubled vigour and enthusiasm. He became one of the active Directors of the Madras Central Urban Bank, now the Madras Provincial Co-operative Bank. But his greatest work lay in the comprehensive scheme of rural reconstruction that he planned and carried out in a part of the Salem District. He put his whole heart and soul into it, indeed to such an extent that the work told on his health and literally paralysed him. He was a believer in Co-operation all round—not merely in credit or in any other single type of co-operative organisation. He promoted thrift by means of home savings boxes, agricultural improvements of every kind, medical relief, adult education, healthy recreation for men, women and children of the villages, etc. The marketing society he founded is quite flourishing now. The temperance campaign he carried on with Sjt. C. Rajagopalachariar was a phenomenal success.

Ramachandra Rao, was a staunch patriot and promoter of Swadeshi enterprises; his organising capacity was well seen as Secretary of the All-India Industrial Exhibition held in 1927 as annexe to the Madras Congress Session. He was a keen mathematician and a discoverer of the genius Ramanujam. In moments of disgust in his official career, he is said to have yearned for the life of a Professor of Mathematics. But what would have been a gain for the academic world might have been a loss to the co-operative world. May his soul rest in peace!

THE LATE SIR M. RAMACHANDRA RAO

Sir Mocherla Ramachandra Rao, who passed away in May last at the age of 68, was cast in a different mould from that of his name sake. A well known public man for over 30 years, he came into prominence in the co-operative field only six years back, but before his death had reached an eminence all his own in the sphere of land mortgage credit. He had none of the fire and infectious enthusiasm of R. Ramachandra Rao. He was calm and quiet, patient and studious. He was none the less an ardent friend of the agriculturist and was all his life pleading for his relief and welfare.

Ramachandra Rao had a lucrative practice at the bar in the mofussil but was able to spare time and energy for a number of public activities. He was Chairman of the Municipal Council, President of the District Board, member of Provincial Legislative Council and member of the Legislative Assembly. His interests were very wide and on whatever subject he spoke or wrote, he was so persuasive in his ways of presenting facts and arguing points, he had such a clear grasp of principles and a mastery of details, that he earned the name of "Gokhale of Madras" from no less a person than the late Sir Harold Stuart, one of the ablest members of the Government of Madras. As a Liberal Politician he won the confidence of the Local Government and the Government of India and was chosen as member of several Committees. He was twice chosen as a member of the Round Table Conference and his interest in the improvement of the lot of the subjects of the Indian States is well known.

He succeeded the late Dr. S. Swaminadhan as the President of the Madras Central Land Mortgage Bank only in 1930 but in the course of five years, he brought it into such prominence by cautious expansion that he won from the Government concession after concession and its debentures are now quite well recognised in the money market. Registrars and non-official leaders from other provinces have been going over to Madras to study its system of land mortgage banking, so much so it might be said : 'To speak of land mortgage banking was to think of Mocherla and to speak of Mocherla was to think of land mortgage banking.'

He was appointed by the Government of Madras as a member of the Central Board of Directors of the Reserve Bank of India, where his services were sought in connection with the development of its Rural Credit Section. We daresay he must have made useful proposals on the subject to the Central Board though his work there has not seen the light of day and he himself, we very much regret, has not lived to see the fruit of his labours in that field.

THE LATE SIR RAJENDRANATH MOOKERJEE

Another outstanding personality in Indian public life that passed away in May last was Sir Rajendranath Mookerjee, head of Messrs. Martin & Co., Calcutta. Born in 1854, his was a long life devoted to unremitting work, but fortunate enough to be crowned by glorious achievement and phenomenal prosperity. When Rajendranath joined Martin & Co. at the invitation of the late Sir Oscar Martin, its founder, it was a firm of moderate size. On the death of the founder, Sir Rajendranath stepped into his shoes and set about the work of expansion steadily but surely. To-day Martin & Co. stands in the very forefront in the field of engineering, railways and mining in India. More than anything else, the secret of his success and popularity was his absolute integrity, whether in private life or in business.

In his political views Sir Rajendranath was a Liberal in the best sense of the term. His own life is an illustration of how given equality of opportunity in the old liberal sense, one can work one's way to the highest position through enterprise and integrity. Though one of the busiest of men, Sir Rajendranath found time to devote to more than one sphere of work outside his business routine. His public activities make

a long list ; to mention only a few, he served as a Member of the Indian Industrial Commission (1917-18), Indian Railway Committee (1920-21), All-India Retrenchment Committee (1922) and the Royal Commission on Indian Currency and Finance (1926). He was elected President of the Institution of Engineers, the Asiatic Society of Bengal, and the Indian Science Congress, also of the Howrah Bridge Committee (1921) and the Bengal Retrenchment Committee (1922). He was Sheriff of Calcutta in 1911 and a Governor of the Imperial Bank of India from 1921 to 1928. Numerous other institutions, educational, charitable and philanthropic, received his patronage in service and in money.

Not the least of his interests was his intimate and active connection with the Co-operative Movement. He was President of the Bengal Co-operative Organisation Society in 1929 and Chairman of the Bengal Provincial Co-operative Bank from 1927 to 1931. He also presided over the 13th Bengal Co-operative Conference (1927). He had a deep faith in co-operation and he believed that it was specially suitable to India because it was so much akin to more than one indigenous form of associated enterprise. But he emphasised that without sound business methods the Co-operative Movement could never succeed.

Even more emphatic is his recognition of the principle of autonomy as the basis of a successful Co-operative Movement. Referring to the need of making the village units of the co-operative credit system broadly democratic in constitution compatible with existing conditions he said : " And the best and quickest means of instructing the cultivator's mind, oppressed by the burden of debt and poverty, is to show him the way how to get out of the morass with the help of others provided he in his turn undertakes to do a similar service to them. This is the educational aspect of the co-operative ideal and this high function can only be discharged by bringing the administrative work close to the people who are to do it."

Sir Rajendranath Mookerjee was no radical in politics ; in business he was enterprising but cautious. This fact makes his advocacy of the principle of self-government in co-operation all the more significant. Unfortunately, in official circles there is not nearly enough appreciation of the democratic nature of the Co-operative Movement. He was a charming host, a warm friend and a generous patron and he never forgot his first love, the village of Bhabla where he was born. He contributed a large sum of money towards its uplift. It will ever be Bhabla's proud boast that it contributed to the country a prince among men.

PROBLEMS OF CO-OPERATIVE CENTRAL BANKS

Our invitation for contributions on Co-operative Central Banks has had quite a good response, as readers will see in the later pages of this issue, from several authoritative writers in the British Provinces (with the notable exception of the United Provinces) and in two of the leading Indian States. The evolution and the present position of these important financing institutions are dealt with in a lucid and thorough-going manner and we trust this issue will be found a useful symposium on the subject. There are several problems common to all the Central Banks, while some have difficulties of their own, due partly to historical accidents and partly to economic environment on which light is thrown by the writers.

We shall deal here with problems more or less common. Central Banks are of various sizes ; there are as many as 118 Banks in Bengal, many are too small with jurisdiction each over an area less than a sub-division. The Punjab follows very closely with 49 Central Banks and 65 Banking Unions, though at present they cater together for a little more than 5,000 societies, the other 11,000 being more or less moribund. The average number of societies served by a Central Bank in Bengal and the Punjab is much less than 200, the standard prescribed by the Maclagan Committee. In Bombay, on the other hand, excluding Sind, there are only 15 Central Banks, some of them serving an area bigger than an administrative district, the maximum area laid down as desirable by the Maclagan Committee. Too small banks have not inspired confidence, and have attracted neither enough depositors nor a well-trained staff. Too big banks do not have the close touch with societies which it is necessary to have, especially where the Supervising Unions do not exist or have ceased to function. The device of Branches and Agencies with semi-autonomous local committees often leads to friction. This is, however, a dilemma, not peculiar to Central Banks, but common to all large urban banks and other institutions. We may say that so far as the size of Central Banks is concerned, the happy mean has been reached by Madras, though even here there are yet a few banks serving parts of districts and need to be amalgamated. 'One District, one Central Bank' would seem to be the soundest working rule, though transactions in special cases might warrant a larger or smaller area per bank. There are, of course, other factors which have caused the stagnation or failure of a few Central Banks in Madras, which has led to the supersession of their managing bodies by the Registrar of Co-operative Societies, who has now been armed with the power to supersede even without the concurrence of the Provincial Bank. A similar power is sought to be vested in the Registrar in Bombay by means of a Rule.

As regards the composition of membership and constitution of these financing institutions, the ideal of *pure* type, which permits only societies as members and not individuals, is yet a distant ideal, judged by experience in every province, notably in Bengal. As long as deposits come almost entirely from the urban, non-agricultural middle classes, among whom it is also easier to find better personnel for management, the Utopia of a borrowers' Central Bank cannot be realised. It is again unfair to deny urban banks and large non-credit institutions a due share of representation on the Board of Directors as long as they are obliged to get affiliated to Central Banks, borrow from them and invest their reserve funds and surplus moneys in them.

As for financial resources, there seems to be no dearth of funds in the case of the majority of Central Banks, though the flow of deposits has been arrested in the case of the smaller ones, particularly in Bihar, Bengal and Berar, where owing to the overwhelming overdues from primaries, depositors could not be paid their interest dues in time. The embarrassment in the bigger banks seems to be the unceasing flow of unwanted deposits despite drastic reductions in rates of interest quoted. This situation has been created by a conjunction of circumstances unforseen. The starting point was the advent of the economic depression followed by the fall in prices of produce and in land values, the sale of gold since 1931, the growing insecurity of private money-lending and the fear of debt conciliation. The difficulty is now to find out adequate safe outlets for funds, especially with the ban on expansion of societies and the starvation of even good societies in some provinces. It is also an unwise policy to shut out altogether deposits even at low rates, when all along promotion of thrift has been preached as essential. Central Banks' surplus funds flow into Provincial Banks, which in their turn are surplusing, as few good Central Banks borrow from them now to any appreciable extent. Such funds find their way into Government Securities and other paper, which with the end of the era of cheap money may well bring about a crash unless Investment Reserve Funds are put by.

On the other hand, in the Punjab and in some other provinces too the majority of societies have thrown up the sponge in disgust on account of rigid recoveries when they looked for adequate relief during distress. The staff of the Department or Central Banks engaged in collection work have become 'glorified bailiffs.' The conversion of short term loans into long term loans by the organisation of land mortgage banks may in some cases ease the tension, though we feel that in some cases what is needed is the sale of lands, now, or at a future date, to wipe off the debts. Again the Provincial Banks, Central Banks and Urban Banks, glutted with money are all driven to do banking business which may be said to be not for the benefit of the agriculturists or industrial workers of small means for whom the Movement was organised but of those who exploit the poor producers.

This is not to say that much more cannot be done for small agriculturists and craftsmen. As Dr. C. R. Fay finely puts it in the current Year

Book of Agricultural Co-operation, co-operative credit in India is " like unemployment insurance in Great Britain, the cushion on which the shock of depression has been taken. Without co-operative credit and the loyal service behind it, the condition of the peasants, bad enough as it is, would be far worse." He goes on to suggest " Co-operative credit in the future may get further than in the past by setting itself a more limited task—the making of loans to the selected few who have qualified for such loans by association for some other purpose in the sphere either of supply or sale." If our credit societies concentrated their attention on short term credit for the improvement of crops or cattle and increase of ryot's earning capacity, they would not be in this parlous state at present.

But even safer and sounder from the banking point of view would be the provision of credit of a self-liquidating character as loans on pledge of produce, harvested and warehoused, which may be extended later to growing crops, provided the charge on the same is by law clearly fixed. If any scheme of co-operative marketing is well developed, even if it be confined in the first instance to commercial crops, it will create a demand for funds which it will not be easy to meet with all the available deposits and other sources of working capital. There is yet too much talk but too little active work done in this sphere. Our economic environment has been bad enough, but the position was made worse for sometime by the attitude towards joint marketing adopted by some Local Governments, who perhaps lent their ear to the complaints of joint stock banks and the Imperial Bank which feared the rivalry of co-operative banks in this field. This attitude, we are glad to see, has now changed to one of helpfulness and loans at low rates are now offered for the construction of godowns. The Central Banks too have not been slow in proferring their help to loan and sale societies. While Banks in Bombay and Madras have reduced their lending rates to primaries to 5½ or 6 per cent., they are lending to sale societies at 4 or 4½ per cent. The Provincial Bank in Bombay had in the past helped many sale societies directly and is prepared to do the same where Central Banks are not coming forward to help sale societies. The Madras Provincial Co-operative Bank is ready to do likewise and only awaits opportunities. But it is not merely lack of finance that hinders development. We are looking forward to the reports by the Central and Provincial Marketing Officers to provide the correct data on which Central and Provincial Banks can act and act more effectively.

The next issue of the Review will be mainly devoted to the discussion of long-term finance by Land Mortgage Banks and House-Building Societies.

THE MYSORE COMMITTEE ON CO-OPERATION

By THE EDITOR.

The Report of the Chandrasekhara Iyer's Committee on Co-operation in Mysore, besides being a comprehensive review of the working of the Co-operative Movement in the State during the last three decades, also deals with the general economic conditions which have an intimate bearing on the past progress and future development of co-operation ; and the recommendations of the Committee, a summary of which we publish elsewhere in this issue, give a clear indication of the view of the members that co-operation by itself, without the interaction of all the socio-economic factors that affect the life of the people can do little to improve the economic condition of the rural and urban co-operators. The Committee has given a right and helpful lead by placing on record its conclusion that " the final solution of the problems of rural poverty lies in a material improvement of the economic position of the raiyat population, through the steady pursuit of a policy aimed directly at that end." Such a policy involves much more than the fostering of the Co-operative Movement.

As regards the present condition of the Movement in the State the general conclusion of the Committee is that it is sound at the core and the moneys invested in the credit institutions at present are, generally speaking, safe notwithstanding the high percentage of overdue loans. This view seems to us to be on the whole correct. In the primary societies, the percentage of owned capital to the total working capital is 49 and the reserve funds amount to 57·6 per cent. of the paid-up share capital. In spite of the adverse economic conditions the net profit earned by the societies in 1934-35 amounted to 7·2 per cent. of the paid-up share capital and 1·2 per cent. of the total working capital.

The credit machinery is simplified and placed on a better footing by the Committee's proposal to wind up all the District Central Banks and Federal Banking Unions, which have always been extremely weak links in the credit organisation of Mysore and to link up the primary credit societies directly with the Mysore Provincial Co-operative Apex Bank at Bangalore, so as to make it the sole financing agency and balancing centre of the primaries. It may, if need arises, establish branches in important centres like Mysore with local committees having defined powers to recommend or sanction loans as the case may be. We are of opinion that this is a satisfactory solution of a long standing problem.

The Committe envisage the necessity for the formation, sooner or later, of a Central State Bank for Mysore apart from the Mysore

Provincial Co-operative Apex Bank and the Central Land Mortgage Bank which provide co-operative credit and the existing Bank of Mysore, a joint stock bank, in which the Mysore Government have a controlling interest. We gather from the report that this new State Bank is intended to deal specially with long term rural credit on a more extensive scale than the land mortgage banking system can, with the financing of house-building societies and special industrial schemes, and that it will supplement the financial needs of the joint stock as well as co-operative enterprises in the State, besides linking up the local financing organisations with the controlled credit policy of the Reserve Bank in British India. We wish the Committee had elaborated the scheme in somewhat greater detail and indicated the methods whereby the new Bank can make the credit policy of the Indian Reserve Bank efficient in Mysore State. Without further materials we are unable to express an opinion about the need for such a Bank or the soundness or otherwise of this recommendation as to the conception and function of such a Bank.

The type of co-operative society which has succeeded best in Mysore is undoubtedly the urban bank. The recommendations of the Committee in regard to urban banks are, therefore, of special interest. The Committee favour the expansion of the activities of the urban banks which are now mainly confined to receipt of fixed deposits and grant of loans to members. They are advised by the Committee to enlarge their services to urban population by opening current and savings accounts, issuing prudential deposit bonds, and cash certificates, offering cash credits, cashing cheques and discounting bills, besides financing on cautious lines the economic activities of such of their members as are engaged in handicrafts, small trades or cottage industries. These recommendations are progressive and if carried out, will enable the urban banks in Mysore to afford valuable banking facilities to the people, besides relief to some extent unemployment among intelligent and enterprising young men and women in towns whose main handicap is capital and credit to follow small occupations. On the question of the size and constitution of these banks, the Committee were divided in their opinion. The majority held the view that these banks, if too large, would become unwieldy and incapable of looking after the interests of all their members properly and that the membership should not ordinarily exceed 1,500, but might go up to 2,000 with the special sanction of the Registrar, but should in no case exceed that limit. The minority who are opposed to such limitation on membership vigorously controverted this view in a well-reasoned note of dissent with which we entirely agree. There are many ways in which business efficiency and democratic control can be harmonised without unduly restricting the size of the banks. If the urban area over which a bank operates cannot be served with equal efficiency from a single centre, it may be divided into wards with local committees with or without power to recommend or sanction loans as the case may be, or the Central Board of Directors may be recruited by election of Directors on a territorial basis or the loan committee may be so constituted as to include the particular territory director, when applications from that territory are dealt with or other suitable devices may be adopted according to local conditions. It will be unwise to aim at uniformity in such matters and to lay down inelastic standards and constitution. As for the General Body, an unwieldy gathering is no doubt a great weakness. But it is now well known that in large consumers' societies in Europe the *representative system* is adopted to make the general body compact and really deliberative, without sacrificing the principle of democratic control. The representatives drawn from each ward or branch area will deliberate at the centre while all the members of the ward or branch area will deliberate at the branch meetings. With suitable modifications, the system may be adopted in the case of urban banks.

Among the interesting questions discussed in the report, those relating to qualifications of members of committees and the relations that should subsist between the general bodies and their managing committees deserve special mention. In regard to qualifications of membership of the committees, two tests were urged upon the Committee: one, the possession of some financial stake by holding a prescribed number of shares or a certain volume of deposits and the other a standard of knowledge of co-operative principles and training and experience in the business of co-operative societies. On the first test, the majority held that it was undesirable to put a premium on shareholding, which might lead to unhealthy desire for high dividends, concentration of power in a small capitalist clique and exclusion of poorer men, who may be otherwise eligible for election and perhaps morally and intellectually superior. We unhesitatingly agree with the view of the majority. On the other test, the Committee were unanimously of opinion that, while management of societies should not be entrusted to men ignorant of co-operative principles and devoid of business training, the choice of committees was largely a matter of discernment by the electorate and no educational or intellectual tests could be prescribed. We can easily sympathise with the Committee and realise that no other conclusion is possible, however much we may regret the result sometimes.

The Committee felt called upon to answer a question of considerable importance to the Movement, not only in Mysore but elsewhere as well. It is the nature and extent of the powers and responsibilities of the Committees on the one hand and of the control of the general bodies over the committees on the other. The members were divided in their opinion. Fortunately, there was unanimity of opinion up to a certain extent which, in our opinion, is good enough to furnish us with a working formula. The Committee as a whole agree that it is normally undesirable (whatever may be the legal power) for general bodies to interfere with executive acts of their committees done in exercise of the powers conferred on them by the bylaws, or when such interference would prejudice the rights acquired by third parties from decisions of the committees actually executed. On this basis, the majority recommend that while adequate powers of executive management are delegated to the committee, taking care to see that the allocation of functions in the bylaws is made clear and definite, it is equally necessary to affirm and safeguard the position of general body as the supreme authority in matters affecting the administration of the society. The minority evidently have no quarrel with the recommendation so far as it goes. The main point at issue between the majority and the minority seems to be this : Has the general body any inherent power, apart from that expressly reserved to it in the bylaws, to revise the acts of the committee done in exercise of the powers expressly conferred on the committee by the bylaws ? The majority hold that it has, while the minority hold the contrary view. In so far as the minority lay down that the supremacy of the general body in the matter of administration means its supremacy " under the law " of the society, that is to say, that the bylaws which define the powers of the general body and the committee are equally binding on both, it seems to us that they are clearly right. If there is anything in the bylaws restricting such power it will bind the general body. But when they go further and say that in the absence of an express reservation in favour of the general body to revise the acts of the committee, the general body will have no such power, we are unable to agree. The matter in controversy seems to us to rather centre round the technical procedure of regulating powers than any essentially legal or fundamental conception of the powers themselves. The technical conscience of the minority can be fully satisfied by the promulgation of a model bylaw for adoption by all societies, wherein such residuary power of revision is made to rest in general bodies. The minority fortunately do not go to the length of saying that such a bylaw when adopted by the general body will not be valid. So the broader issue whether such power should or should not be given to general bodies by the bylaws in the interests of the Movement does not seem to emerge from the battle of wits in which both sides have shown considerable forensic skill.

In regard, however, to the control of the Registrar over the members of committees, there is no divergence of opinion among the Committee. The Committee are in favour of vesting the Registrar with power to order the removal of any member of the managing committee, if in his opinion such member has acted contrary to the interests of the society. Again, the Committee also recommend that no person should be elected or appointed to an honorary executive office in a society for a period of more than three years and that no person shall be eligible to serve on the committee of more than one society of the same type, without the sanction of the Registrar. We feel that such dependence of non-official co-operators for their eligibility for election to honorary offices and membership of committees on the good certificate of the Registrar, will cut at the very root of the independence of those men and the fear of incurring the displeasure of the Registrar may seriously interfere with their taking a bold and independent line of action according to their own conviction or the mandates of the society on whose committees they sit. The vitality of the Movement, instead of being strengthened will, in our opinion, be seriously impaired by the enforcement of such a rule. The temptation of the Registrar to replace men in the committees by those who are more in agreement with his policy than that of the society, when they are in conflict, is not imaginary.

The recommendations of the Committee on the necessity for and the nature of legislation to deal with such vital matters like debt conciliation and consolidation of holdings follow the traditional lines of the British provinces, and proceed on lines of least resistance and utmost consideration for vested interests. Legislation on such lines, even if attempted, is not likely in our opinion to prove effective.

The Consumers' Store in Mysore is a growing institution. We welcome the Committee's recommendations that the retail price charged to customers should not ordinarily vary markedly from current market rates and that cash sales should be the rule for all and that where credit is allowed, it should be restricted to members and only to the extent of their paid-up share capital and other assets in the society. As regards the establishment of a strong central wholesale organisation, the Committee while recognising its obvious advantages, feel that there is no insistent *demand* at present for such a central society. There is certainly a desire and a need for it. The demand must be created by necessary stimulus. We are of opinion that if the Government gives the necessary encouragement and the co-operators evince genuine interest in the scheme, it may not be difficult to find the requisite capital and expert management required for the realisation of this desire for a central society.

In regard to co-operative education, while the recommendations of the Committee constitute some advancement over the existing position, they are not on the whole sufficiently progressive or effective. As we have dealt with this topic at length in our issue for July 1935 and indicated the lines on which co-operative education should be organised in the provinces and States, it is unnecessay to reiterate our view here.

The Committee has given a very useful lead in pointing out the adverse effects of laying undue stress on caution and consolidation and the need to accelerate the pace of the advance in organisation and development. In many other parts of India total neglect of schemes for expansion by the obsession that till bad societies are rectified no new ones should be started is leading to the stagnation of the Movement and the Mysore Committee rightly remind co-operators of this danger. The Committee's recommendation for reduction in the rate of interest charged to ultimate borrowers is also a step in the direction of expanding the benefits of co-operative credit and a useful plank in the programme of expansion.

The Committee's recommendation that no important change of policy should be embarked upon without consultation of responsible non-official opinion is a very sound one and is in consonance with the spirit of the times not to speak of the essentially popular character of the Movement. But we entertain very serious doubts whether the advisory committee which will be entirely nominated will faithfully reflect the accredited non-official co-operative opinion of the State. In any case, the Government should consult on matters of such changes in policy the provincial co-operative organisations of the State, like the Mysore Co-operative Institute and the Mysore Provincial Co-operative Apex Bank, which must be deemed to be more fully representative of non-official co-operative opinion in the State, and examine the views expressed by the proposed advisory committee in the light of the opinion of the provincial bodies.

In conclusion, we congratulate the Committee and its distinguished Chairman, Dewan Bahadur K. S. Chandrasekhara Iyer, on the promptitude with which they conducted the enquiry and produced their Report at very little cost to the Mysore tax-payer. This achievement is in refreshing contrast to that of the Travancore and the Cochin Committees. The report marks a new epoch in the history of Co-operation in Mysore, and we have no doubt that the Government and the public will examine the recommendations of the Committee carefully and with the respect they deserve, with a view to improve them wherever such improvement is felt necessary to advance the interests of the Movement in the State.

FRUIT AND VEGETABLES

BY

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Fruit and vegetables are grown almost throughout the world. They may be the product of large scale plantations or (as in the case of glass-house cultivation) of almost factory conditions, but in the main they are the typical small man's crop, more especially the small acreage crop, for the capital and labour required is often relatively high. They constitute a branch of agriculture which is appropriate to the specialist, but in which the mixed farmer also plays, in the aggregate, an important part. From this circumstance alone comes a notable lack of uniformity in the skill or at least in the attention devoted to cultivation and handling. But the main difference affecting the marketing of fruit and vegetables is not whether they are produced on large or small holdings, or even the quality of the product, but its degree of perishability. Nearly all fruits and many vegetables are highly perishable in their natural state. (Citrus and a few other tropical fruits and many roots vegetables are the principal exceptions.) They can, however, be preserved or processed by means of canning, drying, and the manufacture of wines, syrups and jams. Cold storage has also gone far and may go further since even flowers, once the very symbol of perishability, may now be made to last through an ocean voyage of several weeks. All the elements of diversity in the fruit and vegetable industry have been reflected in co-operative marketing, but perishability has fixed the main types, and these are shown in perfection by the market gardens of Holland and the citrus plantations of the New World.

Market gardening is one of the traditional industries of the Netherlands. Everyone has read of the tulip boom of a past century ; the Dutch garden is as famous as the Persian carpet, and almost as symmetrical. In the flat land of Holland, gardens, each of an acre or two only, extend for miles in a sequence unbroken save for what appear from an aeroplane to be shining lakes, but which are in fact glasshouses, where grapes and tomatoes defy the seasons. In the open ground, early potatoes, onions, cabbages, cucumbers, lettuces and other vegetables succeed one another through the years. Strawberries are increasing. Some districts specialise in trees and shrubs, others in flowers. The bulb industry, which in spring covers the soil of Holland with an immense patchwork of brilliant colours, is well known, but it does not stand alone. Many years ago the draining of a lake threw a number of poor fishermen out of employment. With the help of a co-operative credit bank, a co-operative selling organisation and the good soil at the bottom of the now dry lake, they set up as market gardeners, producing pot plants and cut flowers, especially roses and lilac, while some specialised in the glasshouse production of cactuses. To-day the village shows every sign of prosperity, and its output is valuable enough to warrant aeroplane transport of the choicer blooms.

The story could be repeated (barring the romantic touch of the rose-laden aeroplane) of a hundred market gardening villages. How has it been done ? The co-operative auction sales of to-day (known as "veiling ") originated about forty years ago when a few groups of gardeners established a common market place in which to display their goods. Gradually the auction method was introduced, the form became more co-operative and the members more closely bound by mutual obligations, while the society as a whole, on the one hand assumed responsibility for the products submitted and on the other enforced higher standards upon its members. Finally, a central organisation was formed in 1917 to secure the centralisation made necessary by war conditions, and local auctions affiliated themselves to it. There are now about 150 auctions, two-thirds of them in North and South Holland, with between 50,000 and 55,000 members and a turnover of over £ 8,000,000. Local auctions vary somewhat in form, though all but four are co-operative organisations legally as well as in practice. Some have limited liability. More are without share capital and have unlimited liability or liability fixed on some variable factor such as turnover with the society. Membership is in every case for five years and carries a contract to deliver all produce over that period, the only exception being where a grower is himself a recognised exporter. In order to put up the often handsome buildings owned by the auction societies, loans are obtained, generally from the local gardeners' co-operative credit bank, which are paid off progressively. In some cases auctions which have paid off their loans charge an entrance fee to new members. Each member has one vote. A very small quantity of non-members' produce is sometimes accepted.

The method of auction in the Netherlands has been described, but is worth repeating. A well-equipped auction possesses its own wharfs, and it might almost be said, docks, for the bulk of the produce comes by canal in flat-bottomed boats. Some of it is unloaded on arrival on to trolley tables, but much frequently remains in the boats. The actual sale takes place in a large hall, at one end of which is a species of orchestra at which the buyers sit at tiered desks. The buyers lease their places, but a few are generally left free for new or poor buyers. Opposite them, and somewhat in the position of the conductor, is a large clock face with a movable hand and a series of figures inscribed round the dial, rising in value clockwise. Below it is a raised desk for the clerk of the auction, and between it and the orchestra a lane is left which in many cases is occupied by a small canal which communicates by a water gate at either end with the " dock " outside. This canal can be covered over with flooring when it is desired to sell goods on trolleys, but the more characteristic sales are made from boats. One boat after another is polled through the watergate and allowed to pause below the dial. The name of the producer and the quantity and nature of goods offered is called out and an employee of the market holds up specimens of produce for the inspection of buyers. Sometimes a cabbage or a lettuce will be thrown up to the orchestra, pinched between the sceptical finger and thumb of a buyer and tossed down again on to the boat. In the meantime, the dial hand has been set in motion and runs rapidly from the higher values to the lower. As soon as a figure is reached which one of the buyers is prepared to give, he presses an electric button in his desk, the hand stops and at the same time one of a number of small squares bearing figures and arranged in the centre of the dial is illumined, thus indicating the number of the buyer. The sale is rapidly recorded by the clerk, one copy of the note being handed to the producer and the duplicate transferred to the office of the market, where it is checked, and a third copy given to the buyer, which entitles him to delivery of the produce. By this time the barge has moved on and others have taken its place. The whole process is carried through with admirable order and at an astonishingly rapid pace. The market undertakes the sale of all products of whatever quality and the grading is left to members ; if any lots are found to be fraudulently packed, the sale is cancelled and the goods re-sold at the end of the auction. Packs are generally standardised and satisfactory. Lots are sold under the names or known numbers of the growers and the produce of expert and honest producers is much sought after. Sellers are in some cases entitled to withdraw their produce if the price reached is insufficient, or the first ten sales may be withdrawn if the market has opened badly. No auctioneer in the English sense is employed, but besides the necessary clerks and porters, the secretary or a member of the managing committee must be present at sales to see that all is properly carried out. The auction charges a certain commission, which is deducted from the price paid to growers and covers running costs and capital charges, the remainder being returned to members as bonus on their sales. A foreign observer has remarked of the auctions : " All selling arrangements operate like an exhibition at which buyers act as judges of the goods displayed and allot prizes. Everyone who takes part sees the produce and the packing methods of his neighbours and competitors and also the prices which each obtains, and he can strive to be equal to the best."

For many products the proportion sold through co-operative auctions reached 90 per cent or 100 per cent. But the organisation of gardeners does not stop short with the establishment of auctions. Horticultural winter schools, experimental stations and plant disease services are the work of Government, but the gardeners have devised co-operative services of their own. Their co-operative credit banks are as well organised as those of the farmers and as they are federated in the same central banks. Credit-thirsty gardeners are able to draw on the savings of the more conservative peasants to finance their undertakings. Co-operative societies for the supply of horticultural requirements also exist in most districts, and not only supply fertilisers, tools, pots, fuel and glass, but undertake the construction of houses and frames and the installation of heating apparatus.

Co-operative auctions of fruit and vegetables, not always on precisely the same lines, exist also in Belgium, Germany and England. Other societies undertake the grading and packing of members' produce and sell it on commission, sometimes to urban consumers' co-operative societies. Others arrange for special seasonal sales of fruit to jam factories and others again (for instance in Switzerland, Czechoslovakia and Austria) are themselves engaged in the manufacture of fruit syrups. Nearly all of these are local societies, though they are generally members of some non-trading federation.

The production of citrus fruits is concentrated in California and Florida, with a few smaller areas. It is sold on distant markets and growers early felt the need to protect themselves against dealers and commission agents. In California the first co-operative organisations undertook pooling of crops and sale by auction or direct to the trade. Local "exchanges" as they were called, were set up and brands established. Packing and selling were usually entrusted to a broker working at a fixed commission. An attempt to organise jointly with shippers was a failure. These local exchanges were gradually linked together and surrendered part of their individual authority. They are now federated in one large organisation, the California Fruit Growers Exchange, covering the whole state and handling 90 per cent of the lemons and 70 per cent of the oranges. There are also a few smaller co-operative organisations in other parts of the United States.

The method followed in all these organisations is very similar. Local packing units are formed by the growers, and may be with or without share capital. Each has its own Committee and is responsible for the picking, grading and loading of members' crops. It is usual to arrange a monthly or fortnightly pool, according to variety, grade and season. All expenses, losses and profits are also pooled. District exchanges consist

of groups of local packing units, with occasionally individual members. They fix minimum prices and make contracts with the locals and centrals and generally act as a link between them. The Central Exchange is a co-operative society without share capital formed by the district exchanges. An interesting experiment in co-operative technique is that its directors meet in public. Its main business is to keep in touch with markets and direct the orderly flow of members' produce. Consuming areas are divided into market districts in each of which an office is established in charge of a representative of the Exchange. Fruit is allocated to the different sales markets according to demand and sold on consignment. Much goes direct to the retailers; some is sold by auction. The California Exchange maintains rail inspectors, who watch the progress of fruit on the railways. It also carries on extensive advertising, as well as legal and horticultural advisory work. Such services are paid for under contract. The Exchange controls sales as well as grading and packing. The California Exchange has a subsidiary organisation engaged in manufacturing orange juice and similar products from the culls. The Florida Exchange has a subsidiary society supplying growers' requirements, and another making loans, both to local associations, in the form of invested capital, and also to individual growers on the security of a mortgage on land and on the crop, which also involves insurance of the crop and a contract to sell it through the Exchange. Since 1906 the production of oranges and grapefruit in the United States has tripled, not a little being due to the advertising and propaganda carried on by the Exchanges. The organisation has stood the recent financial stress well, and falling demand has been met by establishing quota for (i) packing fruit and (ii) loose fruit for local sale, and sending the balance to the processing plant. Increased expenditure on advertising has also been adopted.

Raisins are also an important crop in California, which produces over two-thirds of the world output. Local co-operative organisation was started as early as 1889. In 1912 the California Associated Raisin Company was formed with share capital and the participation of some non-growers. Later the well-known "Sunmaid" brand was adopted. The Society was reorganised and placed on more co-operative lines in 1923. It was also restrained by law from fixing retail prices. The new organisation is in three separate units. The first, a co-operative association without share capital, receives raisins from its members and makes advances which, however, vary in amount. It is a central, not a federal, organisation, and though it has divided its area into districts, it has no local societies affiliated. The second, which is a co-operative company with share capital, some of which is held by non-members, receives the raisins from the first and prepares them for market at 28 packing stations. The third, also co-operative and without share capital, is responsible for marketing. No non-members' raisins are handled. Members enter into fifteen-year contracts to supply, but these may be revised on due notice. All sales are made through the society's own representatives. It undertakes the manufacture of by-products.

The American fruit marketing societies, with their elaborate federal organisation and deliberate method of operation are poles apart from the local independence and summary business of the Netherlands auctions. They have suffered somewhat in the violent changes through which the United States have been passing, the Raisin growers in particular being for a time caught up in the mechanism of Stabilisation Corporations established by the ill-fated Federal Farm Board. They do however represent one of the most remarkable achievements in co-operative marketing. Other dried fruits—prunes, apricots, peaches and figs—are the subject of similar undertakings, so are walnuts, almonds and one or two varieties of fresh but not acutely perishable fruits, like apples and cranberries. Citrus fruits are handled by large scale co-operative societies working for export in such countries as Jamaica, Palestine, South Africa and Australia, and the last two also have dried fruit organisations. These societies may be federal in character, with democratically organised local societies, or they may be severely centralised, but they are all either national in scope or at least cover a homogeneous area equivalent in size to many of the smaller European countries. At the same time, the stages of marketing are frequently divided between the local societies or branches which are responsible for assembling, grading, packing and sometimes storing, and the central or federal body which does not handle the commodity but arranges for its shipment and sale in distant consuming centres through its own agents or through brokers paid on commission. Pooling is carried out almost universally and, owing to the long period which must elapse between harvest and sale, it is usual to make an advance payment to growers up to two-thirds of the anticipated price.

The diversity of fruit and vegetable marketing societies raises a number of questions. Local societies are well adapted to serving a local market, but where the market is distant and competitive, the value of federation becomes apparent. Specialised societies handling one crop only show certain gains in efficiency, but their period of activity is usually seasonal, and a long idle period for plant and staff is apt to be costly. Processing has been successful when the society has run a canning factory or a syrup factory as its main business. As a means of disposing of surplus it is rarely profitable, since costly plant is used to handle

fluctuating supplies of (usually) inferior produce. Pooling has enormous advantages in uniformity, bulk handling and general high quality, but it is not always liked by growers, who feel it gives no reward to individual excellence. On the other hand the auction method, though it has met with brilliant success in Holland and gives less opportunity for risk and miscalculation, can do less to influence prices than a method which brings a wider field of transport and distribution under the growers' control. No growers' co-operative has completely eliminated the middlemen except those, mostly local societies, which sell direct to the consumers' co-operative societies. This is only a small development at present, but it undoubtedly points to the only sound method of advance, not only on account of the economies to be effected, but because herein lies the solution to one of the worst dilemmas of marketing federations on a national scale—the temptation to bring about price stabilisation and with it over-production.

'Co-operation', says a co-operative idealist, 'like the nightingale sings most sweetly when all the world is dark.'

—A. J. May.

ECONOMICS AND ETHICS OF CO-OPERATION

By

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WHAT IS CO-OPERATION ?

The Co-operative Movement is a modern development of the spirit of association which is found in all social history ; e.g. the early village communities everywhere and the modern Russian Mir. It is expressed in such writings as Plato's " Republic " ; More's " Utopia " ; and in that medieval English poem, William Langland's " Piers Plowman ".

As a " consumers " movement (and this is largely its form in Britain), it is an attempt to eliminate economic waste by a better organization of supply and demand ; or rather, to meet a known demand, and thus reduce the risk of production and also lower the number of ' middlemen ', who are not performing a service to the community comparable with the amount of their remuneration. That there is some justification for this claim to reduce the risks of production seems to be supported by the fact that the percentage of members in receipt of unemployment benefit in the special trade union catering for co-operative employees was only about half of that in other similar trade unions in England during some of the immediate post-war years.[1]

THE CO-OPERATOR'S CRITICISM OF CURRENT ECONOMICS.

Probably it is true to say that present economic theory generally asserts that national welfare is best attained through competition, may be regulated or controlled and even sometimes suppressed, but still competitive. It is claimed that the spur of competition is deemed to be necessary in order to bring out the best efforts of the people engaged in industry ; that under competitive conditions each man will do the work for which he has special aptitude and thus best serve the ends of society as a whole ; hence the total net product will be the largest under a competitive regime of industry.

1. Up to about ten years ago there was one trade union which catered specially for the employees of the Co-operative Movement ; it did not accept any other workers as members. Now, it is merged in a larger union which caters for all kinds of distributive and allied workers, hence it is not possible to obtain similar figures to compare the percentage of unemployed to-day in co-operative and other employments.

The co-operator criticises this as a false deduction from the facts. He says that there is far too much stress laid on material things and too little on the side of human welfare ; that the emphasis is generally on commodities rather than on men, and hence the net product is very much reduced. Further, he contends that the object of the study of Economics is often far too narrow, although against this it should be noted that the modern tendency in economic study is towards the inclusion of " welfare " as well as " wealth " in its domain, or to incorporate the former in the latter.

Again, the co-operator asserts that the capitalist system breeds selfishness ; that it encourages the idea that altruism is fatal to individual progress and hence it causes men to seek their own interests in antagonism to the well-being of their fellows. Rivalry in business becomes over-keen ; this leads to jealousy and strife, coupled with the idea that the failure of a competitor improves one's own position.

Other points on which the co-operator-critic falls foul of individualism, is that it leads to overlapping and waste ; that no systematic attempt is made to link production and consumption, or the need of the community, where profit is very often the only stimulus to production. In this connection we notice in Western countries the numerous milkmen, newsboys, and commercial travellers, all overlapping in their work in one street on their daily rounds, and compare this form or distribution with the single postman threading his way through them.

It is also contended that the system is wasteful of men's energy in its unemployment of some good workers, the cutting of wages and employment of too young children and old men and that these evils seem inevitably associated with a competitive system. Again, the frequent assumption that there is equal opportunity for all in the competitive struggle is not correct. The competitors are not all equally trained, nor equal in resources ; monopolies, rights of birth and many other forms of inequality still exist. The best men and goods are not necessarily brought to the forefront under the present system of competition ; a form of Gresham's Law seems to be at work all too often. Inferior qualities of goods are also supplied on far too many occasions in order to get in at a particular price.

Finally, co-operators ask whether it necessarily follows that what is true of the individual as regards his own benefit is equally true when considered from the point of view of the nation as a whole ? Individuals may gain from particular transactions but the community may suffer. (Even a robber may profit from his work but does the community ?) Much speculating and advertising in modern business may bring profit to the individual but be of no service whatever to the community.

ECONOMIC ADVANTAGES OF CO-OPERATION.

The economic advantages claimed for Co-operation are that

(1) It takes over functions of the

(a) Entrepreneur (and secures his profits).

(b) Capitalist (and receives his interest).

In so far it does these things, it gives to the workers in general (not necessarily those in a particular workshop) control over industry, as for instance, over such things as the

(a) Conditions of working hours, wages etc.

(b) Quality of the goods produced.

(2) It helps to harmonise the conflicting ideas of consumers, producers and capitalists—especially in so far as they become one group, or even an individual, under a co-operative system.

(3) Closer adjustment of supply and demand is secured and hence less unemployment. There is more likely to be a guaranteed market for production under co-operation especially Consumers' Co-operation than under private trading. The loyalty of the members resulting in a regular demand, is one of the main reasons for the success of Consumers' Co-operation. The producers and consumers are brought closer together—in fact they are the same people.

(4) It tends to eliminate the waste of competitive industry in such matters as

(a) Overlapping, and hence overproduction,

(b) Waste of time and labour.

(5) The general advantages of large-scale production are secured in those cases where co-operation is popular and flourishing.

(6) The Co-operative Movement presents a new ideal of industry and a new method of industrial organisation.

(7) In general, the outstanding discovery and practical achievement of the Rochdale Pioneers was, as has been so well said, "To organise industry from the consumption end, and to place it, from the start, upon the basis of production for use instead of production for exchange, under the control and direction not of themselves as producers, but of themselves as consumers."[2]

CO-OPERATIVE ASSOCIATION.

There are two distinct types of modern co-operative association, the differences of which are perhaps due largely to differences in origin. It does not seem to be desirable to classify the forms of co-operative societies into "distributive" and "manufacturing" (or "productive") associations as is so common. The classification should be on a basis of administration, not on the particular work performed. The same organisation may perform *all* the functions of industry; it may be engaged in extractive manufacturing (or productive) and distributive work.

Professor Fay[3] has a four fold classification of co-operative societies into—I. Bank (usually called Credit Societies) II. Agricultural Societies. III. Workers' Societies. IV. Stores.

Is not the banking or credit form of organisation, however, attached also to the producers' and consumers' forms of organisation? For example a Raiffeisen Bank in Germany is really a part of agricultural co-operation; and is not agricultural co-operation really a form of Producers' Co-operation? Smith Gordon and O'Brien criticise Fay, but their classification seems to be little better, if not worse, than his, with their division into co-operation for production and co-operation for consumption, and having associations of consumers and producers in each group.

The whole thing seems to boil itself down to the problem of whether industry should be organised and controlled by workers as workers (i.e. in their capacity as producers) or in their function as consumers? Is not one of the problems co-operators have still to solve in all countries the conflict between the interests of the producers and the consumers? It is one of the most difficult problems of the whole movement, and is still far from being solved. Are both forms compatible with the establishment of any Co-operative Commonwealth worth the name?

Perhaps as good a classification of co-operative societies as any is that once made by Mr. W. P. Watkins (now of the International Co-operative Alliance) and formerly on the staff of the Co-operative College, Manchester, when he divided them as follows:—

2. S. & B. Webb. "The Consumers' Co-operative Movement", p. 2.
3. "Co-operation at Home and Abroad", p. 5.

Co-operation

Consumers' Societies. — Producers' Societies

Producers' Societies: Creameries, Boot and Shoe Factories, Clothing, etc.,

Consumers' Societies: Retail Societies for Consumption. — Co-operative Supply Associations for agricultural needs, (seeds, manure and implements.)

1. Individual.—e.g. Retail Societies running a bakery or a farm. Agricultural Societies making implements.

2. Federated.—e.g. the Co-operative Wholesale Societies in Britain, with their estates in Ceylon and similar ventures.

ASSOCIATIONS OF PRODUCERS.

This is the form of organisation adopted by the workers in a workshop, or in an industry, when they are attempting to do the work of the entrepreneur in that workshop, or industry, and where they expect, therefore, to absorb the profit usually secured by the entrepreneur, and to share it among themselves. It is not an attempt to *eliminate* profit, as is claimed for the consumer's form of co-operative organisation.

The later producers' Association have profited from the mistakes of the people who had run the early Self-Governing workshops. Almost every where these had been compelled to close down, in spite of the large amount of time and money spent on them by such people as the philanthropic Christian Socialists and others who sympathised with their aspirations.

In addition to this economic motive there is, behind some Producers' Associations a very keen desire for economic freedom ; there is the desire to control all the *conditions* of work. This motive is not so prominent now-a-days, as it was some 80 years ago in England. Factory conditions have been much improved in that country and in fact almost everywhere ; the present day generation of workers in the West have no recollection of, nor any particular desire to return to, the older form of the domestic system of industry. In the middle of the nineteenth century, there was such a reaction on the part of the workers from the factory

system as to create a strong desire to get back to the older form of organisation. The worst side of the factory system was uppermost in the minds of the workers at that time and the ideal seemed to be some of self-governing workshops. The early evils of the factory system were fresh in the minds of the people until the second half of the nineteenth century.

Generally speaking, however, it was a looking backward rather than forward, just as one feels that Mr. Gandhi is doing at the present moment in India—whether rightly or wrongly is a matter for others to decide.

ASSOCIATIONS OF CONSUMERS.

The idea in the consumers' form of co-operative organisation is to perform the work of the entrepreneur in the business of supplying certain definite needs and then, instead of the balance left after the payments to the other agents of production in the shape of rent, interest and wages, being handed over to the entrepreneur in the form of profits, it shall be retained by the consumers themselves. Such surplus in the case of an ordinary commercial firm is either retained in the business for the future benefit of the proprietors, or handed over to them immediately in the form of a proportion of the share holding, *i.e.*, in a dividend on capital.

In the case of a co-operative society the surplus may also be retained in the business as a Reserve. Or it may be distributed in the form of benefits of a general character to whole of the members, e.g., education, or social work. Or it may be handed over immediately to individual members in the special form of dividend on sales. It is never distributed *pro rata* to the shares held by the members, but in proportion to the amount of business such members have done with the society i.e., in the degree to which they have helped to make it a successful trading concern.

This has one very important result. So long as it is certain that the balance of the profits of an ordinary trading concern will ultimately go to the holders of the share capital sooner or later, then there is always the possibility of the value of the shares in the concern changing according to the likelihood of future profits or losses. In the case, however, of a co-operative society which pays a *fixed* interest on the share capital and makes the division of its surplus on some other basis than on the capital, and where there is always the further possibility of either new or old members being able to purchase more shares at their face value, then the value of the shares will never rise above par. Neither, so long as the society is perfectly solvent will shares fall below par.

Further there is no limit to the number of members which a society may have under such conditions, except the limit placed by the total number of people in a community. There is no close preserve of share holdings; no incentive for any member to wish to restrict the right of entry into the society, but rather the reverse; people are encouraged to join, since every new member is a prospective customer. This tends to increase the turnover of the business and thus to diminish the relative cost of overhead expenses, which in turn tends towards an increase in the available surplus for all the members new and old. Hence the inherent economic soundness of the dividend on purchases idea and consequently the success of the Rochdale Pioneers and kindred societies founded on the same basis.

Supporters of consumers' co-operation claim that it is an elimination of "profit". This may not be true technically, since there is a surplus left over after trading, but the motive, behind the idea of consumers trading is not to make a profit, but to get the goods over to the consumer members at the same cost as the service. In practice this has been found to be impossible as the management cannot tell beforehand exactly what any article and its distribution will cost; there are so many either unknown or uncertain factors to take into consideration; i.e., fluctuations in prices, losses of stock etc. Consequently, it has been found desirable in actual practice to charge somewhere about the actual market retail price and to return the surplus, if any, in the form of either a dividend on purchases, or in some form of service to the members, or to the general community.

As far as possible, any distribution to members is made on the basis of purchases, even when the amount has been allocated to such objects as Education, or to a Life Insurance Fund (for the general benefit of members by the payment of a certain sum on the death of a member, or his wife, or her husband) as is quite common now in the cases of consumers' societies in England.

True, this idea of selling at market price has not always been adhered to in the actual working. Some societies have sold below market rates, especially in times of rising prices while some societies (especially among the more or less thrifty artisan classes in the North of England and Scotland) have sold their goods above market price in order to be able to pay a high dividend. Where this practice is followed it is because the members have preferred this as a way of saving. They scarcely notice the small extra payment on each purchase and the money comes back to them in a lump sum when the dividend distribution takes place either quarterly or half-yearly.

Apart altogether from the pure economic motive of getting supplies cheaper, one of the aims of consumers' co-operation has always been to

provide pure goods, or, at any rate, to state exactly the quality and quantity of the goods which were being sold to the customer members. In short the aim has been to sell goods of just weight or capacity and of a stated quality; there is no point in deceiving the members in consumers' societies; it is like robbing oneself. Such tricks as mixing sand with sugar, or weighing a heavy paper bag along with an article sold by weight (when paper is much cheaper than the article sold) or buyers of flour getting a mixture of china clay with the flour are as *useless* in a consumers' co-operative society as they are morally indefensible anywhere.

Out of such evil practices, however, arose the necessity on the part of the consumers' societies of securing control of the sources of their supplies in order to guard against being defrauded themselves in their wholesale purchases, and hence to protect their own members. All this led eventually and inevitably to the formation of wholesale societies by the consumers' societies, and as inevitably led in turn to the start of manufacturing work by those wholesale societies, in order to guarantee the quality of the supplies to the retail societies. This was an attempt also to be independent of private traders at a stage farther back in the industrial machine and this, in turn, meant getting back still farther right to the sources of supply of the raw materials, e.g. the tea estates in Ceylon belonging to the English and Scottish Wholesale Societies.

The people who were responsible for the formation of the successful consumers' societies of the "Rochdale" type had always visualised the possibility, yet the probability, of producing for themselves, in the sense of manufacturing goods, as well as undertaking the distribution of such productions. All this extension of the field of consumers' co-operation into the manufacturing side meant some overlapping and a certain amount of clashing with the producers' form of co-operation; as for example, in England, in the boot and shoe manufacturing trade and also with the butter factories and creameries of the agricultural societies.

AIMS OF CO-OPERATION

One of the problems which the early workers in the Co-operative Movement sought to solve was nothing more or less than to get rid of the disadvantages arising from the separation of the wage-earners from the ownership and control of the instruments of production under modern largescale organisation of industry. In Europe generally, and particularly in such countries as Germany (in the pre-Nazi regime) and Great Britain, an attempt has been made by the workers in the Consumers' Co-operative Movement at expression and action for improving their lot, instead of spending their time in dreaming of some future Utopian state. This has been their attitude for well-nigh a century. To state this fact does not mean to imply that the Movement has been devoid of ideals, but these ideals have tended to be regarded as an ultimate end ; the people concerned have been keenly conscious—perhaps unnecessarily so—of the difficulties in the path of the attainment of those ultimate ideals. Generally they have been much more concerned with what they could achieve right here and now towards making the lot of the workers a little brighter than it was before and then to go on to the next step, rather than dwelling on and struggling with the thought of some idealistic existence in a future state when they would all be dead and gone. It should never be forgotten that the Co-operative Movement in these Western lands has always been a thoroughly cent. per cent. working class movement, and the thrifty artisans, who have largely been in control, had always to remember that they could not afford to be philanthropists—they had no margin for that kind of thing ; their immediate concern was with their bread and butter, with perhaps occasionally a little jam on it ; but the ideals have always been kept in view, even if it were realised that they were not immediately attainable.

IDEALS OF CO-OPERATION

The great object of the idealists (if not of the rank and file of the members) of the co-operative movement in Britain, (I cannot speak with any great knowledge of those of other countries) has been, by means of mutual association, to eliminate the present competitive industrial system and to substitute a system of mutual co-operation for the common good as the basis of society. The aim is to do this by the collective ownership of common things, and to use such common things for the benefit of the community instead of for the benefit of a few individuals. Co-operation properly carried out means a much more equitable distribution of the products of labour than is likely to be attained under a competitive capitalist regime, and not only this but also an equitable association for all common purposes may be secured by using a democratic form of government.

Further, co-operation is an attempt to promote truthfulness and honesty in all economic relations with the inevitable result of improving all social relations. In short, the ideal is to secure a Co-operative Commonwealth set up on this earth, here and now, and not in some future life, an ideal expressed so frequently in the writings of co-operative enthusiasts in the phrase of "Each for all, and all for each." Under which form of co-operation, producers' or consumers', this can be best attained, is the cause of serious differences of opinion even among the co-operative idealists themselves.

Perhaps it may not be out of place to mention here, some of the things which appear to be essential if ever this idea of a co-operative commonwealth is to be realised. It goes without saying that a certain amount of the spirit of association, a willingness to co-operate, and to sink individual interests, is essential if the Co-operative Movement is to prosper, especially where it is unaided by Government or other outside influences. Until this spirit is secured, progress must be slow, if not impossible. Other conditions necessary for success are :—

(1) An acceptance of the democratic idea ; the decisions of the majority have to be recognised ; this means individual subordination to the will of the majority.

(2) Suitable representatives of good calibre must be available for service in the societies ; men and women with energy, enthusiasm and integrity for public service and a willingness for disinterested effort must be ready and willing to come forward to give of their best for an ideal.

(3) The community must be sagacious enough to choose the right people, with the above mentioned qualities—people with intelligence and imagination ; with faith and foresight and also business capacity.

The eighteenth century (and earlier) attempts at self-government in religion provided good training in these necessary qualities for the workers in Britain ; particularly was this the case in the North of England and especially in Lancashire ; it is not an accident that many of the leaders in these independent, self-governing religious societies were also the leaders in various democratic movements. In the nineteenth century the Trade Unions, Benefit Societies, the Chartist Anti-Corn Law and Socialist Movements, as well as the Co-operative Movement, provided the necessary training and experience in working a democracy which has been such an outstanding feature of British political and social life of the past hundred years. Hence the democratic tradition, which is so well rooted in English life, and recent events in other countries have only tended to emphasise the conviction of some of us, who were brought up and trained in that tradition, that the only alternative to counting heads is breaking them. Which is better must be left to readers to choose.

ADVANTAGES OF CONSUMERS' CO-OPERATION TO THE COMMUNITY.

Consumers' Co-operation can no longer be considered to be an experiment. It is now a well-tried and firmly-established form of industrial organisation. Apart from its commercial success, it is important because, whilst primarily a commercial institution, the Movement has, in the course of its ordinary business, given expression to broader ideals, and conferred many advantages upon its members in particular, and upon community in general.

(1) It has familiarised its members with cash payments;

(2) encouraged thrift and opened up new fields of working class investment;

(3) contributed a great service in the definite sacrifice of effort and money made by the leaders in the interests of education and the general social life of its members;

(4) introduced the wage-earner to the task of self-government in industry. Any ideal industrial partnership must be preceded by a knowledge of the problems of industrial control; both theoretical and practical education in industrial organisation must be secured. The Co-operative Movement certainly affords a wide opportunity for gaining this experience, and it has shown that representative government in industry is not an unattainable ideal;

(5) introduced some measure of direct democratic government into industry;

(6) provided a means of achieving the difficult task of organising consumers, and giving them an effective voice in directing production;

(7) been of great educational value in the community because of its considerable furtherance of such things as the

(*a*) encouragement of high ideals, and
(*b*) training of workers in management.

(8) increased economic and political stability. If it be true that an economic revolution will only come from a propertyless class, then as co-operation has helped to prevent such a class becoming numerous in many countries, it has assisted in securing political and social stability.

To sum up, co-operation tends to promote human welfare and wealth in its widest sense, by the encouragement of honesty, integrity and high ideals in business; by the production of a fairer association on an equitable basis of fraternity—the greater the need, the greater the possibilities of help; by the reduction of class distinctions; by putting the production and consumption of material wealth in their right place, and that not the first; by encouraging culture, purity and fellowship and hence, so far as is humanly possible providing the basic conditions for a life free from harassing cares and needless worry.

That is no mean achievement and to have had the satisfaction of knowing that they have helped in such achievement, has been the only—but most satisfying—reward of thousands of co-operative workers in many lands.

THE AGRARIAN PROGRAMME OF THE CONGRESS

BY

DR. B. PATTABHI SITARAMAYYA, MASULIPATAM

While it has been generally recognized that politics is the science and art of human well-being, it is only recently that the necessary emphasis has been laid on the agrarian and economic aspect of national life. It is not to be wondered that in India we have taken a little time to discover such a necessity because politics has come to mean to this subject nation primarily emancipation from foreign rule. In striving for this end the country has been tossed about between the larger problems of politics and the smaller issues of administration. The Congress really began with the latter in the early years of its career and in its later years has concentrated upon the former. But even when it struggled in the latter part of the nineteenth century for reduced taxes and restoration of lost privileges in field and forest, it was as an administrative reform that relief was sought, the problem was not envisaged as a social or a socio-economic issue. When therefore the Lucknow Congress has reverted to this question of "poverty, unemployment and indebtedness of the peasantry," the point of view held in mind was the causation of this appalling state of affairs which has been put down as being fundamentally due to the "antiquated and repressive land tenure and revenue systems." The fact that in recent years these conditions of suffering of the peasant population have been intensified by the great slump in the prices of agricultural produce has greatly augmented the difficulties of the solution which in its final phases involves, in the words of the Congress resolution, "the removal of British Imperialistic exploitation, a thorough change of the land tenure and revenue systems and a recognition by the State of its duty to provide work for the rural unemployed masses."

India, however, is such a vast country with varied conditions of tenure and land revenue organisation that a full All-India programme can only comprise general principles while provincial programmes must separately be drawn up in order to suit the local conditions. Thus it is that "freedom of organization of agricultural labourers and peasants" is put down as the first of the nine items in the Congress resolution in respect of which detailed provincial recommendations have been sought. In South India where such a freedom may, generally speaking, be said to exist, we may wonder where such freedom is restricted. But even in the South it may be remembered that when a Peasants' (Zamindari Ryots') Conference was sought to be held sometime in 1930 or 1932 at Venkatagiri, a stronghold of zamindari interests, Section 144 was served on the organizers and it was only when it was braved and disobeyed that the right was conceded. But in North India such a freedom is not enjoyed as a rule. In the United Provinces, for instance, in a big Zamindari stronghold, the peasants cannot assemble and deliberate with full freedom. Really this freedom will be curtailed in the measure in which the peasants are in earnest about the redress of their grievances.

One of the chief grievances of the peasants is the uncertain position that they hold at the hands of the intermediaries between Government and themselves. In Madras too such intermediaries, sometimes more than one, exist. But the rights of occupancy of the cultivating tenant have been secured to them by the Estates' Land Act of 1908. Similar rights do not exist in U. P. One would naturally think that the first reform to be effected in the U. P. agrarian system is a tenancy measure under which no cultivating ryot could be ejected from the land. The Socialist is rather inclined not to have such legislation, as it is likely to serve as a dope that would subdue and hold under check any revolutionary spirit that may be left in the peasant. Our contention is the contention of the Congress and demands immediate relief to the peasant, instead of visualizing a kaleidoscopic change of a sudden and startling character at a remote age in the social, agrarian and economic conditions of the country which would in one bound abolish private property and with it of the thousand ills to which the ryot of to-day stands heir.

The greater the number of intermediaries, the worse is the position of the cultivating tenant. Even the landlord is not interested in leasing out his lands for a year or two only, as the tenant can have no interest in a piece of land which is apt to slip out of his hands at any moment. Agriculture is not like pitching a cinema or circus tent for a three-day exploitation of a town by an itinerant troupe of globe trotters. Even the land under our feet has a soul which reacts and responds to the affection and the attention bestowed on it by its master.

A second outstanding grievance of the peasant and the petty landed proprietor is the inundating character of the agricultural indebtedness in the country. What the Congress has recommended is a just and fair relief of this indebtedness, including arrears of rent and revenue. Let us mark the word "*relief*." At a time when there is a lot of loose talk about effacement or obliteration of indebtedness the Congress cannot all of a sudden think in terms of a Socialistic State, carved out on Communist lines,

and not a little harm has been done by the alarming manner in which high placed men have occasionally talked about the subject. Loose talk always requires immediate correction and serves only to weaken the case for the new principles meant to be popularized thereby. After all, the moneylender has filled his own place in the economy of the nation and cannot be suddenly shunned as a moral leper. There is doubtless a malady in him which requires treatment. But the treatment is not homicide. The real defect in the resolution is that in common with the various pieces of legislation that are put through the legislatures in the various provinces, it is silent on the means of securing this relief of indebtedness. Everybody speaks of the scaling down of debts, disallowing amounts in excess of double the principal and compelling adjustment and satisfaction with the payment of eight annas in the rupee. But nobody seems to think of the financial machinery that would make possible such a payment at all, side by side with the legislature and propagandist machinery. A Trustee Bank which has been dealt with in these pages is an immediate desideratum.

What the peasant suffers from is not merely an uneconomic holding which sweeps him into debt. He needs emancipation from certain feudal and semi-feudal levies as well as a substantial reduction in respect of rent and revenue demands. The system of forced labour in one form or another is still in existence in the Zamindari areas enjoying Permanent Settlement and it cannot be said that it is altogether absent in Government villages. Whenever high officials and dignitaries move about, labour and supplies are virtually forced from the poor villagers and whenever the Zamindari has a fancy for *shikari*, the peasants' services are impressed. These are relics of a barbarous past and demand immediate abolition. Nor are the rent and revenue demands "legitimately" levied upon the peasant less exacting. It may be recalled that in the Champaran District when Mahatma Gandhi investigated the conditions in 1917, there were 64 levies exacted from the indigo peasants by the Planters. Likewise in Loharu where there recently broke out a kind of disturbance, the exactions were over a dozen in number. The peasant cannot get a single piece of service from the village officer without having to pay for it. While this is so, in the name of Resettlement in ryotwari areas once in 30 years the taxes are increased by 18¾ per cent. At least the enormity of enforcing such increments at a time when the general depression has hit the peasant very hard is to be noted in the recent enhancements in the Kistna and Godavari deltas. We need not go into the details of these periodical enhancements. But the broad fact remains that the burden of taxation is heavy and unbearable and demands immediate reduction. Nor is it a mere reduction in Rupees, annas and pies that the peasant wants. It is a relief to the mind that he needs freedom from oppression and harassment at the hands of Government officials and landlords.

It is one thing for a ryot to complain of the burden of debts and taxes, rents and revenue officials and landlords. And it is quite a different thing for him to be deprived of the natural facilities around him by harassing restrictions placed on their utilization for domestic and agricultural needs. The Forest Laws, as well as the Salt Laws, have brought about a lamentable state of things in the country depriving the poor of nature's gifts which are helpful to them in looking after their homes and hearths. The Salt monopoly has destroyed the fishing trade and undermined the health of man and beast alike. The Forest laws have made grazing prohibitive and fuel costly.

There remains two other items in the programme which throw the burden very much on Government. It is notorious how the ryot and his village do not get a just allotment of the State expenditure for their social, economic and cultural amenities. In fact such a terminology sounds strange in the ears of Government which is purely a constituent Government and performs little or no ministrant functions. Law and Order form the full alphabet of administration and services constitute an unknown quantity. A small beginning that has been made in recent years to rectify this state of things has not carried matters very far and if the ryot should get his legitimate share of the revenues of the country he would not need to complain of want of roads and bad transport, of illiteracy and scarcity of schools, of disease and absence of hospitals. Over and above this he should get his reading rooms and libraries, and recreation grounds, banks, insurance and a host of other socio-economic amenities.

Finally the ryot has suffered from the general onslaught of Western civilization on his ancient callings and crafts, which had provided a supplementary occupation in the country. The scheme of Hindu society, both in its structure and its functions has been such that the very word unemployment could not exist in society. There might be underemployment, which is a common disability shared by the fellow-workers of a caste, craft or guild, but unemployment which means tall oaks and short blades of grass is not a factor to contend against. All this has been changed. Machinery has invaded the artistic crafts and imported goods have penetrated the villages with the result that the ancient crafts have been destroyed and the consequent pressure upon land has made agriculture unremunerative.

The agrarian programme of the Congress will thus be seen to be of a composite character, seeking to help the ryot to stand on his feet and

exercise his rights of citizenship in a spirit of independence. The starving peasant would prefer to speak more of bread and less of ballot. The indebted peasant is a tool in the hands of the landlord and the factory owner or the money-lender. The peasant that is called upon to perform the services of a serf or he who is the victim of levies, legitimate and quasi-legitimate and illegitimate would not have the patience to speak of Satyagraha or Swaraj,—much less undergo the trials and tribulations that follow in their train. Accordingly the Congress has conceived the idea of resuscitating the village as the foundation of Indian nationalism and the peasant and the labourer as the pillars of society based upon rural foundations.

I would brush aside the officious interferer in our co-operative affairs who would offer on the part of the State to do for us what we should and could do for ourselves.

—*A. E.*

CO-OPERATIVE MARKETING OF COTTON IN SOUTH-EAST MADRAS

By

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It is singular that there should be so few co-operative cotton sale societies in the Madras Presidency,[1] which produces more long staple cotton than any other Province and which ranks third among the British Indian Provinces even in point of the quantity of cotton produced.

In this article the writer wishes to present a study of the working of the three co-operative cotton sale societies in the three southern districts of Madura, Ramnad and Tinnevelly for the simple reason that he has an intimate knowledge of their problems and difficulties and is confident that he could offer helpful suggestions for their improvement.

I. DINDIGUL SALE SOCIETY

The Society is the only one of its kind for a district that produces about 70,000 bales of cotton. Further it is located in the Dindigul town itself, one of the biggest cotton markets in South India. The average arrivals of cotton in the Dindigul market itself are about 20,000 bales. Moreover, there are no 'diversions' of cotton to the smaller 'interior markets' in the whole of the Dindigul Taluq as is the case in the other taluqs of the Tinnevelly and the Ramnad Districts. These considerations warrant that the Society should be able to obtain an adequate volume of business for itself.

The Dindigul Sale Society is very advantageously placed even for effecting the sales of cotton. For at the Dindigul town itself are the purchasing firms of Messrs A. & F. Harvey and The Meenakshi Mills, direct consumers, who buy about 10,000 and 2,000 bales in the local market every year. Further, the new mills in the Coimbatore District are also regular purchasers of cotton at Dindigul. Again, there is the agency of an exporting firm, Messrs Langley and Company who take about

1. They are as follows:—The Tirupur Trading Society (Coimbatore Dt.), The Rasipuram Co-operative Trading Society (Salem Dt.), The Co-operative Sale Society, Dindigul (Madura Dt.), The Cotton Sale Society, Koilpatti (Tinnevelly Dt.) and the Tuticorin Loan and Sale Society (Tinnevelly Dt.).

1,500 bales. In addition to such large wholesale buyers, there is a very large number of smaller buyers, 75 commission merchants and three gin-owners. Under these circumstances it is not extravagant to presume that the Sale Society should be overflowing with receipts of cotton and declaring decent dividends owing to profitable selling. But the actual achievements of the Society fall far short of the assumptions.

In the only year (1932-33) when the Society was able to declare a dividend of Rs. 4-1-6 per cent ever since its inception (19-4-32) the receipts of cotton amounted to 500 bags of *kapas* and 40 candies of 400 lbs. of lint (or about 67 candies of 500 lbs. of lint), roughly about a three-hundredth of the total arrivals in the Dindigul market. And as this ridiculously small quantity could not be sold to the bigger buyers or the direct consumers, the Society was obliged to sell it to the smaller local dealers.

But the Dindigul Society is in no way better or worse than almost all the Sale Societies througout the country. In the classic passage of the Indian Central Banking Enquiry Committee Report, " they (the co-operative commission shops) sell in the local market exactly under the same conditions as other traders. The management is not more efficient. It is indeed, perhaps, inferior. It is claimed that by this means a cultivator may save half a rupee per maund in commission.......... Co-operative marketing is not worth doing if the existing methods cannot be improved on.

One would like to know why a sale society located in a market possessing enviable advantages should be doing so miserably. The answer that can be suggested easily is 'lack of loyalty'; but it may be pointed out here that lack of loyalty is the symptom of a deep-rooted cause rather than the cause itself.

Another symptom like lack of loyalty is the smallness of membership in the society. The membership of the Dindigul Sale Society was 50 in 1932, 76 in 1933 and 71 in 1934.

Why has the society not been able to secure loyalty on the part of the members or enlarge the membership in spite of the persistent endeavours and propaganda of a wholetime of a Co-operative Inspector whose services have been lent to the society for this very purpose? If the society gives correct weighment (as it undoubtedy does) while the private traders indulge in all sorts of frauds and malpractices (as alleged by critics and widely believed by the public at large) why should not the ryots flock to the society?

It would be a bold and thoroughly unwarranted answer to give that it is all due to the 'inertia' and the 'stupid ignorance' of the ryots. It is rather due to the provision of better and more efficient services performed by private traders. For every one of the 75 commission shops in the Dindigul cotton market advances loans liberally and free of interest not only at the sowing season but also at the harvesting season, and the borrowers are not under any legal obligation to sell their produce to or through them. Furthermore they charge no godown rent and no insurance fees either as long as the ryots choose to keep their produce in storage. Thus it is the superiority of the private marketing system that deprives the local co-operative marketing society of its business and makes its position so small.

One might perhaps controvert the above view. The methods of private traders, it may be argued, are intended to dupe the ryots and not benefit them; for what the traders may lose by way of their foregoing interest on the loans and rent for godown accommodation, they may gain by short weights and false weighment, by taking to account the consigned goods at lower prices or by selling them at higher prices but submitting an invoice at lower prices—frauds which are associated with commission shops in all parts of the world.

It is easy to allege such charges against the *mandi* merchants at Dindigul. Perhaps stray cases of frauds may come to light now and then. But those acquainted with the cotton market at Dindigul would never be prepared to endorse any of the above allegations. The truth is that the mandi merchants do make up their losses arising out of their foregoing interest on loans and of godown charges, not by frauds but by charging very high rates of commissions—Rs. 2-14-9 per *pothi* of 336 lbs. of kapas, the highest in all the three southern districts of Madura, Ramnad and Tinnevelly.

The local co-operative sale society takes commission at the full rates (foregoing, however, a trifling deduction for charity called 'mahimai' and the appropriation of loose samples of kapas) without performing the service of giving financial accommodation to the ryot at the sowing and harvesting seasons, which involves not only loss of interest but also risks of bad debt. Besides it levies interest on the loans given on the pledge of produce and insurance charges too. Small wonder that the ryots prefer the private mandies and leave the co-operative mandi severely alone.

Supposing the Dindigul Sale Society advances loans (charging however, a nominal interest) to the cotton cultivators organised as in the Cotton Growers' Association at Tirupur, charges smaller commissions as at Koilpatti, As. 8 per *pothi* of kapas, and establishes branches that would work as successfully as those attached to the Tuticorin Loan and Sale Society can we not hope to enlarge the business of the society?

The answer is, unfortunately, not cheering. There are several fundamental obstacles to the development of co-operative marketing of cotton in the Dindigul Taluq. In the first place, the ryots of this taluq are more improvident and more indebted than those in most of the taluqs of the Ramnad and the Tinnevelly Districts. Secondly, cotton cultivation is so hopelessly scattered that it would be practically impossible to organise seed supply or supervise ginning and co-operative selling of cotton under departmental supervision as is done in the Coimbatore District under the Seed Extension Scheme. Thirdly, the villages are very far away from the central market at Dindigul, which is a serious handicap in enlarging membership and the volume of business. Fourthly, the quality of the crop raised in this taluq varies so widely that unless large quantities are received, bulk selling will be impeded very considerably. And finally, there is very little social solidarity or communal unity among the cotton cultivators—there are in each village people belonging to diverse castes, a situation in striking contrast with that in several 'one caste villages' in the Ramnad and Tinnevelly Districts and which is certainly the most important cause of successful co-operative marketing.

If cotton was the only commodity in which the Dindigul Sale Society is dealing, the author would recommend without the least hesitation that the Society be wound up. For such Societies are a liability rather than an asset, considering, at any rate, the immense cost to the tax-payer.

II. THE KOILPATTI SALE SOCIETY

The splendid success of the Koilpatti Cotton Sale Society offers a refreshing contrast to the failure of the Dindigul Society. The figures tell the story most convincingly. At the time of its inception (24-10-26) the Society had a membership of 25, which rapidly rose to 54 before that year closed (31-12-26). But before the end of the next official year (31-12-27), that is within 14 months after its starting, the membership broke all records and jumped to 486. In 1932 membership stood at the peak figure of 842.

With such a huge membership, the financial aspect of the Society is certainly cheering. From Rs. 320 in 1926 at the time of starting, the share capital leaped up to Rs. 7,394 in 1934. The total of the loans advanced to members have never been below five digits in any year, while in 1929 it was actually in six digits (Rs. 148,358) of which only a trifle (Rs. 3,306) or about 2 per cent of the whole was outstanding for collection. In 1934 a short-term deposit of Rs. 4,000 stood to the credit of some members and a fixed deposit of Rs. 100 to the credit of 2 non-members. Provident deposits amounted to Rs. 4,100. A better test of the success of the Sale Society is the structure or the composition of membership. Out of a total of 682 members village credit societies are only 36, i.e., about 5 per cent., the rest are individual members, of whom all but two are ryots.

The transactions of the Society are also very encouraging. From 163 candies of lint and 259 pothis of kapas received for sale in 1927, the figures rose to 1,823 candies of lint and 5,335 pothis of kapas in 1932, the record year. The net profit in the latter year was Rs. 1,414. It is gratifying to find that in spite of a slight fall in the receipt of stocks for sale in 1933 and 1934 and also of a heavy fall in prices since 1931 the profits have been steadily increasing from Rs. 1,533 in 1933 to Rs. 1803 in 1934. The Society's reserve funds at the end of 1934 stood at the high figure of Rs. 1,537-10-0.

What is the proportion of the business done by the Society to the total business of the market ? In this test, the Koilpatti Society comes out most creditably ; perhaps, more creditably than any of the Cotton Sale Societies in the whole of India. For, out of a total of about 10,000 candies of cotton arriving in the Koilpatti cotton market, the share of the Sale Society, which received cotton straight from the ryots, was very nearly a sixth in 1933 and more than a fourth in the record year of 1932. What a contrast between the volume of business done at Dindigul and that at Koilpatti !

What is the explanation for the unique success of the Koilpatti Sale Society ? The success is in the main due to the type of members who compose the Society. The members are all drawn from the well-to-do Naidu and Reddi ryots who are actuated by strong feelings of communal solidarity. Furthermore, they are substantial ryots owning very large-sized farms. They have larger quantities to sell and could afford to sell them leisurely. The virtue of 'loyalty' is not a heaven-sent gift to the Koilpatti tract or a monopoly of the Naidus and Reddis. It is a quality born of the greater financial stability of the members. It is no use deploring the lack of this quality in societies where the members are too small and could ill afford to sell their produce leisurely.

The man who exploited the communal unity of these two castes and gave it the most tangible expression through the Sale Society is Mr. Alagirisamy Naidu, a local leader of the Naidu community and a gentleman of high character and broad public spirit. If the launching of the Society was due to the genius of Mr. Naidu the successful working of the Society in the earlier years was due no less to the managerial

ability of its Secretary, Mr. Sankarapandia Reddiar, who, I am told, spent his own money for touring round the villages and inducing the ryots to bring cotton to the Sale Society.

Apart from these two 'human factors'—there is one important 'environmental influence' that has made the Koilpatti Society a success. That is the uniformity of the quality of the cotton crop of the tract, which enables the Society to sell in bulk and to the direct consumers and exporters. For the whole of the Koilpatti tract produces the superfine Karunganni cotton.

III. TUTICORIN LOAN AND SALE SOCIETY

The Tuticorin Loan and Sale Society is the youngest but is in many ways the most promising of the cotton sale societies in the three districts under reference. The Society was started towards the end of 1932 and till the end of the second year of its working (31-3-1933) it was simply struggling for existence. Indeed it sustained a loss of Rs. 169-4-0 as it could not sell the very small quantity of about 50 candies of kapas received for sale. The total membership of the Society is less than a third of that at the Koilpatti Society. Furthermore, it has a much larger number of trader-members than either of the two societies described in the preceding sections. Again, even in the record year of its business (1935-1936) the Society's share of the business as compared with the total cotton business of the Tuticorin market was only less than a hundredth. Still, the Society has progressed rapidly and shows great promises of success in the future.

In the first place, the Society has had the good fortune of having a ginnery for itself—not built by the Society, but built by the President of the Society and leased to the Society. Indeed it was the difficulty of turning the kapas into lint that landed the Society in a loss in the second year of its working. Secondly, the Society has established five important branches at Maniyachi, and four other centres and has been able to control a larger and increasing volume of business for itself. At Kurrukuchalai, the President is erecting another ginnery for the purpose of leasing it to the Society.

It is difficult for those unacquainted with local conditions to explain the enormous increase in the volume of business done by the Society. For, from 92 candies of cotton received in 1933, the figure has jumped to 2056 candies in 1935. The increase under kapas is still higher. The explanation is that the ryots of the Tuticorin tract, like those of the Koilpatti tract, are very well-to-do and the members of the Society are mostly Reddis, a people who under the guidance of a leader and for a common cause can be effectively harnessed for large enterprises.

One of the most commendable features of the working of the Society is the method of selling cotton. The Society does not indeed receive cotton of a single variety or of fairly uniform quality like the sister society at Koilpatti. For in 1935, the receipts of cotton according to variety were 700 candies of Karunganni, 300 candies of Cambodia and 2,800 candies of 'Tinni.' Still the Society classifies the lint of all these varieties according to a few grades, draws out samples from each grade and sends them to the direct consumers and exporters and invites their quotations. The following is the record of sales for the year 1935 :—

To The Meenakshi Mills	..	400 candies
To Messrs Volkart Bros.	..	400 „
To Messrs A. & F. Harvey	..	400 „
To Messrs The Bombay Co.,	..	300 „
To The Japan Cotton Trading Co.,	..	50 „
To The local merchants at Tuticorin	..	2,250 „

The Society could indeed sell larger quantities to direct consumers and exporters, provided they would buy 'ready' instead of on a 'forward' basis.

IV. General Conclusions

From the foregoing study the following general conclusions can be drawn for the organisation and development of co-operative marketing of cotton in the Madras Presidency.

Of all commodities cotton offers the greatest scope for the organisation and immediate development of co-operative marketing. It can, however, succeed only in areas where cotton production is concentrated (as in the Koilpatti and Tuticorin tracts) and where the cotton cultivators in whose midst or for whom a sale society is organised belong to a fairly homgeneous community or caste.

Co-operative marketing should, indeed, be pioneered by the Government. However great the need may be and whatever material there may be available for making the society a success, the pioneering should come from the Government as the ryots by themselves are at present incapable of organising such enterprises for themselves. One need not therefore take too literally the observation of a veteran co-operative official! "Experience has shown that a Society worked well when the producers *themselves* felt the need........Societies imposed on people who have not understood the benefits never worked satisfactorily."[2] What is wanted is not so much the 'spur of necessity'—the time-worn dictum that rings so constantly in the ears of the co-operators —but availability of a local leader and a few selfless workers. If the Co-operative Department would first of all study the local conditions in the promising areas through the help of some economists and experts who have had experience of the cotton trade before organising a sale society, there is no chance for failures.

2. The Indian Co-operative Review, Vol. I, No. 4, P. 419.

The first consideration of every sale society so organised is to enlarge the volume of business. And the most effective way of doing it is to start 'co-operative seed societies' on a credit basis to the members of such societies, who will be required to sign an indenture that they will gin the kapas and sell the lint through the sale society. Such seed societies are indeed the corner stone of co-operative marketing ; for co-operative marketing should start with co-operative production and not *vice versa*.

We require also a change in the constitution of the sale societies. For, at present, many of the sale societies are patronised or dominated by enthusiasts and title-holders and are only remotely representing the ryots whom they are intended to benefit. What the ideal constitution of the sale society should be has been admirably sketched by Mr. G. R. Hilson, the father of CO_2 cotton and the organiser of 'co-operative seed societies' in the Coimbatore District. "If the Loan and Sale Society were composed of representatives of the seed societies we should have a type design organisation which could be brought into existence wherever cotton is grown in sufficient quantity." (For fuller details of the working of the co-operative seed societies the reader is referred to Pp. 276 ff. of Vol. IV of the Madras Banking Enquiry committee).

If the sale society secures a large volume of business there emerges another new problem, namely, profitable selling. For what would it benefit the society if it controlled the supply of lint in the market and failed to secure attractive prices for its members ? After all, loyalty to the society depends ultimately upon this fact. For this purpose the writer would suggest the following for serious consideration and adoption by the Department.

At present, each sale society is given the services of a wholetime Inspector on a fairly high salary. Certain societies enjoy the free services of more than one such Inspector. These Inspectors are at present performing the functions of a faithful watch-dog and not those of a zealous shepherd. We would recommend that these Inspectors be replaced (the tax-payer's burden will be lightened to that extent) by expert salesmen who have had their training and experience in some European cotton firms. A few men of this type are now available. If the Government would appoint such men on a contract basis, taking sufficient security from them it would be the best means of securing the most favourable prices for cotton.[3]

In regard to the method of sales, the sale societies may follow the example of the U. S. Staple Cotton Co-operative Association. Each society should evolve a type most suited to itself, make advance payments on the basis of its first classing and sell the whole lot of cotton co-operatively to the ultimate consumers.

Another problem for the sale society is the supply of finance, both adequately and promptly. In this connection the suggestions of Mr. T. Adinarayana Chettiar are well worth a serious consideration by the Co-operative Department. (His brochure on *The Co-operative Marketing of Agricultural Produce in South India* may be consulted).

We can conceive of several other problems for the sale societies—market control, exports to up-country mills and to foreign countries and the like. But they are not of immediate concern. Neither is the problem of federating the cotton sale societies of any importance at the present moment. Nay, one feels that on account of the numerous varieties of cottons produced in the different localities, federation of the sale societies would not serve any useful purpose.

But what is immediately called for is the organisation of co-operative marketing in all areas where conditions are favourable.

3. For example one such sales manager will be sufficient for the Tuticorin and the Koilpatti sale societies. He can be remunerated by a fixed salary and a small commission, and the increased turnover of the societies would be sufficient to meet the pay of this sales manager.

THE STATE AND AGRICULTURAL CREDIT

BY

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CREDIT IS A NORMAL NEED OF AGRICULTURE

In a healthy agricultural economy, debts contracted for agriculture can be met from the profits of agriculture, and do not corrode the capital value of the land. Where debts cannot be met from profits, and therefore eat into the value of the land, and this happens not once in a while but with inevitable persistence, we have an agricultural economy which is sick to death—a condition where the average income from agriculture leaves a recurring deficit, and the cultivator has either to borrow or starve.

The steady increase of agricultural indebtedness in India indicates that the return from the average agricultural holding does not suffice to meet the average cost of cultivation, including the cost of living of the agriculturist, his conventional necessities, and the land-tax. This paper is written with special reference to Mysore, but it is probable that the conclusions arrived at are of general application to India where conditions are essentially similar. In the present state of agriculture, the smallest holding which can yield a living is about ten acres of dry land —or its equivalent, taking one acre of irrigated land as equal to two acres of dry land. A holding of this extent just maintains the cultivator, but yields no surplus out of which any tax could be paid. Nearly 83 per cent of the agricultural holdings in Mysore are of, or below, this size[1] and as no agricultural holding, however small, is exempt from tax, the land revenue on these holdings swells the deficit year after year and adds to the compelling necessity to borrow. The only result can be a steadily growing indebtedness—and we have it here. The total agricultural indebtedness in Mysore is estimated at 35 crores. In Mysore the volume of debt is authoritatively stated[2] to amount to 30 times the land revenue assessment, and much of this debt carries a rate of interest which is three times the rate of return from land. The strangling influence of this indebtedness on agriculture can well be imagined. Of the

1. Mysore Agricultural Relief Committee's Report (1935), p. 4.
2. *Ibid.*, p. 5.

It may be assumed that the return from land would ordinarily be higher than the interest at which the State could borrow, and that the State would be able to lend money to agriculturists at a rate which would cover its costs. But if at any time, owing to extra-ordinary causes, such as agricultural depression, or tightness of money, the return from land fell below the interest in the market, then the State would have to save agriculture and agriculturists by bearing the adverse difference. It would have to borrow at the market rate of money and lend it at a rate of interest not higher than the return from land in order that food might be grown, the community live, and land not deteriorate through neglect. This is a duty which no Government should neglect to perform even if it involved a net irrecoupable loss. The State does not think of recoupment of the cost of relief of famine and pestilence; and there are famines and diseases of money as well as of rainfall and infection.

But in the long run-over periods like that of the Survey Settlement —fluctuations in the return from land and in the money market are bound to correct themselves. In fact the Survey Settlements proceed on this assumption. My argument is that what the State pays out in bad years in the form of deficit interest it will recoup in good years, provided there is a statesmanslike staedfastness of policy. All that is necessary is the creation of an interest equalisation fund.

How is this equalisation fund to be created, how maintained, and how developed?

The assessment on land is in theory a half of the net return from land. The Survey Settlement proceeds on the assumption that in spite of unfavourable fluctuations the average expectation will be realised over the guaranteed period of 30 years; in other words, that on the average the cultivator gets a total net return of twice the assessment, of which the Government takes a half. It is in the fitness of things that a part of the State's half, collected as land revenue, should be devoted and kept in reserve for meeting temporary unfavourable fluctuations in agricultural conditions—specially agricultural credit. My proposal is that an adequate percentage of the land revenue realisations every year should go to constitute a special fund to be called the Agricultural Credit Equalisation Fund, and be utilised for meeting the adverse difference between the rate of interest at which the State can borrow and the rate at which it has to lend to agriculturists. As the fund grows, as grow it must, the scope of operations can be expanded, till it covers the entire requirements of the State. The fund would also be a very convenient resource in times of extreme national stress, such as war or famine.

Where long term agricultural credit is involved, the rate charged on loans to agriculturists will have to be revised at necessary intervals and brought in accord with the actual return from land.

The above note treats of the question of agricultural credit generally. The application of the principles accepted in it to Land Mortgage Banks would give the following result:

1. Land Mortgage credit should be financed by the State which can raise loans on behalf of the country on terms far more favourable than any other organization.

2. The lending rates should be lower than the rate of return from land—the actual rate being ascertained from time to time.

3. The Land Mortgage system should be adjusted to serve as large a portion of agricultural estates as possible—that is to say the limits and conditions should be framed with regard to average estates, and should aim at saving all estates which are retrievable. It should not, for instance, serve only about 5 per cent and that, the larger estates.

4. For purposes of amelioration of agriculture, co-operation which stands for knowledge, sympathy, and guidance, is an eminently suitable agency, and therefore a co-operative structure of the machinery of credit administration is to be preferred. The administration of credit may be entrusted to Co-operative Land Mortgage Banks, Central and Primary, where they exist, and where they do not and till they can be organised to special officers. The control of the financing administration may be vested in a Statutory Board directly subordinate to Government. The period of the loans should be appropriate to the purpose for which they are granted. The interest should be subject to revision to make it accord with the fluctuations of return from land.

5. The State should create an Interest Equalisation Fund, to which should go a certain percentage of the land revenue collections. The purpose of this fund should be to make up the deficit, if any, between the interest paid by Government on its borrowing and the interest realised by Government from its Land Mortgage loans.

6. Land Mortgage loans should include a floating advance for working expenses, which should be a first charge on each year's crop at harvest time.

It is only by the adoption of a policy on broad lines like these that Land Mortgage loans can be administered on a scale commensurate with the needs of the situation, or do real and lasting good to agriculture and the State.

CENTRAL CO-OPERATIVE BANKS IN BENGAL

BY

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Central Co-operative Banks were established in India primarily with the object of financing primary co-operative societies, but in Bengal and certain other provinces these have also been entrusted with the functions of spuervision, while as financing institutions they have naturally a considerable voice in the matter of organisation. Any discussion of the methods of working of central co-operative banks, practically therefore, means an examination of the policy and methods followed in the working of co-operative societies in this country. This, in other words, means an examination of the very foundations on which the co-operative superstructure in India rests. Several committees and commissions and other bodies have in recent years dealt with the subject as exhaustively as possible. Fortunately or unfortunately, Bengal has so far been spared any formal enquiry into the working of co-operative societies by a provincial co-operative committee, which had been set up in some of the provinces, such as Madras, the United Provinces, Burma, etc. It cannot, however, be said that the policy and methods followed in the conduct of co-operative societies in this Presidency has altogether escaped the searchlight of criticism. For, the Co-operative Movement in the various provinces formed a subject of close scrutiny and elaborate discussion by the Royal Commissions on Indian Agriculture and Labour, the Central Banking Enquiry Committee, and the Provincial Banking Enquiry Committees. Although it is true that the actual conditions of working vary from province to province, it cannot be denied that so far as the broad lines of policy and the general conditions are concerned, the differences are not of a fundamental character.

RESOURCES AND FUNCTIONS OF CENTRAL BANKS.

Central Co-operative Banks, as has already been stated, were brought into existence mainly for facilitating the operations of primary credit societies. They balanced the funds of such societies and supplied capital to them. They have in many cases functioned also as financing institutions for other kinds of co-operative societies. Their resources consist of their owned capital (share capital and reserve funds), deposits of various kinds, and loans and advances from the provincial bank, other central co-operative banks or co-operative societies. Some Central Banks

receive overdrafts and short term loans from the Imperial Bank of India as also from some of the joint-stock banks. Surplus funds of primary societies affiliated to them, especially the contributions to the reserve fund which are required to be separately invested in Central Banks, also are in many cases included in the resources of the Central Banks. It has to be noted in this connection that 25 per cent of their net profits are required to be carried to a reserve fund. Central Banks are required to maintain adequate fluid resources to meet the demands of depositors and are expected to follow the rules of sound banking like well-established joint-stock banks. " They have fostered the growth of cheque habit in the mofussil by the opening of current accounts for the general public and encouraged thrift by establishing savings banks and provident funds. Some Central Banks have also begun to do commercial banking in a small way, making remittances, collecting bills and issuing demand drafts."

The dividend paid by Central Banks does not exceed 12 per cent. A fundamental difference between a joint-stock concern and a central co-operative bank is that while in the former profit-seeking is the motive, in the latter it is exceedingly important that such a tendency should be checked.

There were altogether 118 Central Banks in this Province in 1934-35, the year for which official figures are available at the time of writing. These Central Banks commanded a sum of Rs. 517.45 lakhs as their total working capital. They had reserve funds amounting to Rs. 50.73 lakhs, out of which Rs. 26.44 lakhs represented the statutory reserve and Rs. 24.29 lakhs other common funds created out of profits. The total amount of owned capital represented 19.1 per cent of the total working capital. While loans from the Provincial Co-operative Bank and other co-operative banks amounted to Rs. 122.71 lakhs, the deposits from individuals and other sources came up to Rs. 282.83 lakhs. The Central Banks had a total membership of 25,097 ; out of this 19,937 were societies and 5,160 individuals. Of the 19,937 societies, 18,939 were agricultural credit societies, 404 non-agricultural credit societies and 589 other societies, besides 5 central credit societies.

SIGNS OF DETERIORATION.

It appears from the Report of the Registrar that in 1934-35 there was a decline in the amount of loans issued by Central Banks to affiliated societies from Rs. 79.43 lakhs in the previous year to Rs. 53.65 lakhs ; that repayments by societies came down to Rs. 62.92 lakhs from Rs. 87.72 lakhs, that is to 16 per cent of the outstanding amount at the beginning of the year under report as against 22.2 of the preceding year. The total profits increased from Rs. 7.31 lakhs to Rs. 7.72 lakhs and the cost of management stood at Rs. 6.83 lakhs. The total amount in fluid reserves at the end of the year stood at Rs. 42.95 lakhs as against a total demand of Rs. 100.53 lakhs on current, savings and other deposits falling due within the twelve months following. The figures quoted above indicate that all is not well with the credit side of the activities of the Co-operative Movement in Bengal, and credit is the main preoccupation of central co-operative banks of the province. It is quite pertinent to enquire, what is likely to be the possible effect of the policy and circumstances that have resulted in the present situation on the stability and future development of the Co-operative Movement in Bengal.

REMEDIES ATTEMPTED.

It appears that the central co-operative banks in Bengal have reached a stage when they are unable to move forward. The many bad societies which cannot or will not pay their dues to Central Banks serve as a serious drag. The routine remedy of "consolidation which involved reconstruction of bad societies and weeding out of hopeless ones" is being administered, but the Registrar in his last Report in describing the results uses very doleful language. Considerable difficulties, it is said, are being experienced in carrying out this policy with regard to both these methods. What is then to be done? Mention is made of other specifics or palliatives that have either been applied or are proposed to be tried. The area under each Central Bank has been divided into audit circles with about 100 societies for each circle. Each of these circles has been placed under an auditor who is entrusted with the work of audit, collection and supervision. Measures were taken for the revision of the rates of borrowing and lending. Rates of interest on deposits were reduced by many Central Banks with the consent of the depositors. Increased departmental control has been attempted in certain directions. Further, it is proposed to strengthen the staff by a considerable increase in the number of officers of all grades, namely, Deputy Registrars, Assistant Registrars, Inspectors and Auditors. A scheme of co-operative education is being hatched since Mr. Darling suggested to the Government of India that this should be done. A new co-operative Bill is being drafted which may be expected to embody the quintessence of official wisdom by a process of double distillation of the elixir contained in the preceding provincial Co-operative Acts.

FUNDAMENTAL CHANGES NEEDED.

As the Co-operative Movement is based primarily on the principle of self-help and self-reliance, it is felt that remedies of a fundamental character should be used, if co-operative societies are to be lifted out of the rut into which they have fallen. If they are to move forward

they should abandon their present policy of inaction as its continuance cannot but lead to absolute inefficiency and ineptitude followed by utter collapse. For there is no such thing as remaining stationary in life. If they do not move forward, the inevitable result will be that they will be pushed backwards. "The greatest evils of society are goods that have refused to go on, but have sat down on the highway, saying to the world, 'We stop here, do you stop also.'"

AMALGAMATION OF SMALLER CENTRAL BANKS.

The province has, as we have already seen, 118 Central Banks. The position of all of them is not unsatisfactory. There are some Central Banks which have all along been carrying on their work with credit and efficiency in spite of the fact that they have been hit hard by the unexpected economic depression that has overtaken them all. Some of the Central Banks have very small areas of operation. There are some subdivisions in which more than one or two Central Banks carry on their work, of course, in differently demarcated areas. It cannot be said that Central Banks of this type have been invariably successful. Some of them are of course performing their functions creditably. But there are others which, in the nature of things, cannot be expected to fulfil their responsibility with efficiency. They cannot expect to secure adequate capital from their areas; they have not the requisite number of capable and public spirited co-operative workers willing to devote their time and attention to the work; a number of primary societies in their area are not up to the mark; there is besides very great danger that a Central Bank in such an area, if it has not already fallen, is likely to fall, in the hands of some designing persons who can have no difficulty in utilising their position and opportunity to exploit others for their own advantage. Such Central Banks should immediately be amalgamated with larger and more efficient Central Banks in the neighbourhood, if that is possible.

The Maclagan Committee very appropriately laid down that a Central Bank should cover as large an area as is compatible with convenience and efficiency. "Although," the Committee added, "it may commence on a small scale, it cannot expect ultimately to work at a profit unless it has a considerable capital and we think that a Central Bank should ordinarily expect to deal either at once or within a reasonable time, with at least 200 to 250 societies. Subject to the above considerations, it is always well to adhere as far as possible to administrative divisions and to avoid the creation of banks intended permanently to deal with any area exceeding a district." In some of the provinces a district has been taken generally to be the area suitable for a Central Bank. In Bengal the past cannot be wiped out altogether. It appears to me, therefore, that, except in special circumstances, a subdivision should generally be taken to be the minimum area needed for the working of a Central Bank. A Central Bank that is unable to secure a fair share of the capital that it needs from its area and depends almost entirely on the Provincial Bank or some other co-operative society that has failed to enlist the support of public-spirited individuals ready to devote their energies to the work of their society, that is not able to propagate the principles of co-operation among the members of its constituent societies, and that is always dependent on the Department for help and guidance and whose affiliated societies consist mainly of members who consider co-operative societies as bodies which exist for supplying them with the funds that they may require, funds that they may not repay, should not be allowed to masquerade as a co-operative bank.

MIXED TYPE OF CENTRAL BANKS.

The constitution of Central Banks is another important matter in which changes of a fundamental character are needed. There are at the present moment broadly speaking two types of Central Banks, namely, "mixed" type and "pure" type. Central Banks of the mixed type are those in which both individuals and societies are members. In Central Banks of the pure type, the membership is confined to societies only. The "pure" type Central Banks are taken to be the ideal at which we should ultimately aim. But the experience that we have gained in Bengal for close upon twenty-five years convinces us that the time has not yet arrived when such banks could generally be worked with advantage.

The Committee on Co-operation in India while discussing this matter in their Report published in 1915, observed: "It is difficult under the present conditions to find among the members of societies representatives with sufficient capacity to manage such an institution (a pure type Central Bank), and this type of bank generally fails to excite the interest or leave room for the assistance of the middle classes who by its constitution are excluded from active participation in the Movement; nor has it the necessary prestige to command local deposits to the extent to which they would have been forthcoming if the middle classes were identified with the bank. In view of these practical difficulties banks started on these lines have not hitherto proved an unqualified success, and though they represent the model at which co-operation should ultimately aim, they should not be unduly forced." The Committee, however, expressed the hope that at some future date the agriculturist will have developed the indigenous ability to provide for Central Banks an efficient management which will command the confidence of the depositing classes. The Maclagan Committee thought that

hough in some places there were signs that, given the opportunity, men vith the necessary qualifications would be forthcoming, this ideal must equire many years for realisation. "We think," they added, "that at resent the best constitution is undoubtedly to be found in banks in vhich the directorate is drawn partly from men of the commercial and rofessional middle-classes and partly from leading members of societies, ach director representing his own class of shareholders and providing he elements in which the other classes are lacking. Care should however be taken to see that the ultimate control of the bank rests with the ociety shareholders, since this prevents any possibility of exploitation of ocieties. It should also be made clear that the ideal aimed at is the ventual transition of the bank to a co-operative constitution where the nly shareholders will be societies."

The Bengal Provincial Banking Enquiry Committee, which reported fteen years after the Maclagan Committee, found almost the same position: "It was found that in most places the members of the primary ocieties could not supply enough men of education; business habits and bility to form efficient directorates of the Central Banks, nor had they many men who had personal influence enough to command the confidence f the investing public. For this reason Central Banks of mixed type vere organised."

Simultaneously with the publication of the Report of the Provincial Banking Enquiry Committee the economic depression set in and it at nce disclosed the unsafe position of many of the Central Banks of the rovince. It was significant that the pure type Central Banks were found o be the greatest sufferers. Among mixed type Central Banks also there re some whose constitution and conditions of working approximate to ure type Central Banks. These also have been laid low. Among Central Banks of the pure type it is possible to find perhaps one or two successful ones. But a much larger number among banks of the mixed ype have proved successful.

OWERS OF THE REGISTRAR.

Under the rules and by-laws the Registrar can, in special circumstances, exercise certain extraordinary powers, such as nomination of proportion of the Board of Management, fixing the proportion of members to be elected by individual members and member-societies, the selection of the Chairman, disallowing members in certain cases to stand as andidates for election to the Board, nomination of outsiders to the oard, etc. The present writer has found occasions when hese powers have been exercised with caution, circumspection and prudence. But Registrars are after all human beings and there are frequent changes in the personnel of that office. The degree of intervention through this method is thus naturally a matter of personal equation, more or less. There is, therefore, enough room for abuse, and it is not possible for even the most ardent advocate of the present system to claim that a Registrar wielding such dictatorial powers is not often liable to serious mistakes or errors of judgment, especially when as a rule he has to depend for all information on subordinate officials or other individuals who are in expectation of favours from him.

When actual responsibility is conferred on the bank and the present system of departmental tutelage and espionage is discarded, then only will the Registrar be able to hold Boards of Management responsible for abuse of their position and inefficiency in the discharge of their duties.

Since the co-operative societies were established in India there has been a well recognized rule that the Movement should maintain an attitude of absolute neutrality in matters of religion and politics. It appears from the Reports of some of the Registrars that in their Provinces this rule has begun to be observed more in the breach than otherwise. It cannot be said that Bengal is free from this serious menace to Co-operative Movement. If not checked betimes, the evil is likely to develop and luxuriate in the manner of some of our tropical weeds and ultimately overwhelm the Movement.

NEED FOR REVISION OF THE SYSTEM OF AUDIT.

A complete overhauling of the system of audit is another important reform that should be undertaken at once. The basic principle of a sound system of audit is that the auditing authority should not have any responsibility in the management of the concern, the accounts of which are to be audited. So far as I am aware, the various systems of audit in force in the different Provinces in India contravene this essential condition.

Certain changes in the system of audit have been advocated by influential individuals and approved by important public bodies. Under the proposed arrangement the position will be somewhat like this: The Provincial Institutes will consist of representatives of societies, the accounts of which are to be audited. These representatives will thus be people responsible for the management of their societies. Further, the auditors are to be appointed by them and they will have to depend for their promotion or preferment on the good will of these representatives. It does not appear to me that it is possible to have any independent and efficient audit under such circumstance.

The system of audit at present in force in Bengal will, if properly examined, be found to be based on equally unsound principles. Nobody

can deny that whatever may be the theory, in practice the Co-operative Department exercises, through their officers, very great power of control over the societies. In such circumstances I do not think it is reasonable to expect independence from them. And so long as the Department retains its present system of control over the management and the working of co-operative societies, their audit cannot be expected to yield the results expected from an independent and efficient system of audit. The circumstances point to the need for the introduction of a system of audit which would be free from the defects of the arrangements now in force in the different Provinces in India as also of the proposed schemes.

THE EXECUTIVE TO BE PAID AND TRAINED.

It is necessary that changes of an important nature should be introduced in other directions also. The present practice of entrusting honorary workers with the executive work of the society should, it appears to the writer, be replaced by a system such as that is in vogue in Western countries in respect of local self-governing bodies. These officers are generally known as "executive officers." Executive officers and other officers of co-operative societies including the supervisors should receive proper co-operative training before they are appointed; and in no case should men be employed for any consideration other than fitness for the work for which they are to be appointed. Arrangements for the proper co-operative training of their officers should be made by the central banks through their federation. Various aspects of the problem of co-operative training and education have been threshed out of late with very great thoroughness. Though a vitally important matter the present writer does not think it proper to overburden this paper with a repetition of observation already made on the subject.

DEVELOPMENT OF ACTIVITIES OTHER THAN CREDIT.

It is besides of absolute importance that the central banks should take steps for promoting other forms of co-operation in directions such as marketing, development of cottage industries, etc., which would add to the income of members of rural societies. If they depend wholly on the credit side of co-operation they will never be able to strengthen their own position or that of their constituent societies and their members. In areas where any central bank shows any disinclination or is unable to undertake work in this direction efforts should be made to establish other societies for promoting such activities. If the Department and central banks extend their vision a little beyond the groups by which they are surrounded, they may reasonably expect to be able to enlist the sympathy and support of a considerable number of people who are eager to undertake work which has for its object the amelioration of the condition of the vast mass of the poor and indigent people in this province irrespective of their creed or caste.

PANDIT JAWAHARLAL NEHRU'S OBSERVATIONS.

Pandit Jawaharlal Nehru in his *Autobiography* devotes a small chapter to Municipal Work, to which he devoted his energies for two years. In this he describes in his usual telling manner his experiences and the conditions under which municipal administration is carried on in this country. The conditions under which co-operative societies work are in many cases similar to, if not worse than, the conditions under which local bodies work in India. Referring to the moral that is often drawn by interested parties while discussing the failings of local bodies in India, that democratic institutions are not suitable to India, Pandit Jawaharlal makes the following very appropriate observations:

"Their failings are obvious enough, but little attention is paid to the framework within which they have to function. This framework is neither democratic nor autocratic; it is a cross between the two, and has the disadvantages of both. That a Central Government should have certain powers of supervision and control may be admitted, but this can only fit in with a popular local body if the Central Government itself is democratic and responsive to public needs. Where this is not so, there will either be a tussle between the two or a tame submission to the will of the central authority, which thus exercises power without in any way shouldering responsibility. This is obviously unsatisfactory, and it takes away from the reality of popular control. Even the members of the Municipal Board look more to the central authority than to their constituents, and the public also often ignores the Board. Real social issues hardly ever come before the Board, chiefly because they lie outside its functions, and its most obvious activities are tax-collecting, which do not make it excessively popular."

I commend the extract quoted above to the notice of co-operative workers in India. Pandit Jawaharlal Nehru's observation with reference to municipal work may be applied to co-operative work at least so far as Bengal is concerned. If the ideal of autonomy is steadily kept in view, the Movement in its onward march should be able to attain it in an increasing measure and acquire sufficient strength to resist all attempts at undue interference by extraneous and interested persons and bodies. And it is only when the Movement is firmly established on an autonomous basis that it will be possible for it to give the fullest expression to the ideal of co-operation the complete economic emancipation of the individual human being.*

*This article expresses the views of the writer himself and not of any co-operative institution with which he may be connected.

WORKING OF CO-OPERATIVE CENTRAL BANKS IN BENGAL

BY

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In order to obtain a fairly accurate perspective of the present position of the Co-operative Central Banks a short resume of the history of the Movement in the province is necessary.

In Bengal the period from 1918 to 1928 was one of rapid expansion. It was the era when the Movement grew in proportions, one might say that the growth was abnormal and sudden, and this, as in all such instances, connotes an internal weakness. Consolidation and strength which should always go on simultaneously with expansion was for a time rather lost sight of. The world economic forces, the all-round rise in prices consequent on the Great War and other events only served to accelerate the rate of expansion of the Movement.

In the enthusiasm of the moment, the leaders of the Movement, with their organisers, were bent more upon its quick spread amongst the general mass of the people. They wanted to create an impression amongst them, to give practical co-operative education to the people, to popularise the Movement and also to demonstrate in practice its latent potentialities. The economic, social and political factors were more prominently in their view. The Montague Chelmsford Reform conferred on the people a more extensive franchise and it was perceived by the leaders that our co-operative institutions did indeed contain in them the strongest association of unselfish and intelligent workers banded together by a common economic ideal and hence they formed a nucleus of power. It was an organisation of which there was no corresponding counterpart in any other single association in the country. These factors led to one result viz., expansion without proper attention towards consolidation.

1929 ushered in an era of unprecedented and continued economic depression. Market value of the staple food crops as also of the commercial crops fell to an unremunerative point. The fall in the price of jute and of paddy completely overturned the financial stability of the agriculturist who could scarcely pay his obligatory charges viz., cost of production, labour and rent. He therefore failed to meet the demands of his creditors, be they private capitalists or co-operative societies.

In the first period, the period of expansion, when prices were abnormally high and money remained in the hands of the cultivators, the leaders scarcely perceived the primary importance of differentiating between long term, intermediate term and short term loans. We must consider that this factor also aggravated the intensity of the situation. A policy of consolidation was adopted at this stage. There was practically a cessation of registration of new societies. Some of the old societies, which were either moribund or absolutely bad, were wound up—and attempts were made both by the Central Banks as well as by the Co-operative Department to improve the existing ones.

This policy was however pushed too far. The total stoppage of all fresh organisations automatically led to a stagnation of the Movement. Even some of the strong Central Banks suffered a good deal and were seriously handicapped by not finding normal outlets for their surplus capital in prudent investments and in good societies. It was represented that this was virtually a progressive liquidation of the whole Movement and more than once this feeling was echoed in the All-India Provincial Banks' Association. This ban on expansion has however been taken away and we hope that our Movement will once again resume its normal, healthy, regulated and progressive career.

During the second period viz., the period of depression and consolidation, which has been outlined above, it was perceived that with their depleted resources and attenuated income the cultivators could not possibly meet their annual demands, try as much as they could, and that if there be default in the primary societies that would be reflected in the Central Bank collections.

To improve the position of the weaker Central Banks and to place them on a solid and solvent financial footing, two things amongst others were found necessary viz., first to balance their budget as far as possible, and secondly to improve the financial condition of the primary societies, who really constitute the backbone of the Movement. This period of depression has synchronised with low bank rates and one may say with easy money at low rates, so that, at any rate, the stronger Central Banks, specially those situated at the district headquarters, have been able to reduce the rates of interest on deposits to 3, 3½ or 4 per cent. and thus give corresponding relief to the village societies and ultimate borrowers.

In the weaker banks the policy adopted was different, it was a policy of taking into confidence. The Registrar and the shareholders of the Bank met the depositors on a common platform and laid before them the true position of the Bank and the position of the agriculturists on account of the continued economic depression. This policy of taking the

depositors into confidence has met with singular success in many quarters. The depositors, who had all along received a high rate of interest for several years, have voluntarily reduced the interest to a figure. consistent with the financial position of the particular Central Bank, and have agreed to accept their matured principal in instalments spread over several years. It is hoped that the restoration of normal agrarian conditions will enable the Central Banks to keep to their engagements and enable them to resume the prosperous career of the first period.

As stated above the economic regeneration of the primary village societies demanded greater attention than anything else. This economic depression has been the severest test of the real materials on which this Movement had been founded. It has now been demonstrated conclusively by experience that we have got really, in the majority of instances, good and honest people to deal with. The traditional respect for sanctity of debts continues unabated. And although in certain parts of the province the non-payment campaign was launched by designing persons, it did not find the slightest response from our co-operative workers or members. The slight rise in the price of jute last season resulted in improved collections and it shows that it is not that the desire to pay was lacking, but it was really the want of capacity of the cultivators, that was responsible for the paucity in collection. It has been perceived that one of the principal defects of the Movement was the ignorance of the first principles of co-operation amongst the members of village societies. The members were in many cases under the impression that the Central Bank was there merely to advance loans and the societies being autonomous were independent bodies and were free to utilise the same, as to them appeared fit and proper, for any purpose, no matter productive or unproductive. As money was in abundance, which the Central Bank wanted to invest in order to derive greater profits, regular repayment of principal, which is the foundation of all short term loans, was not in all cases properly insisted upon. This resulted in the accumulation of large debts in the hands of the Panchayats of the village societies, in many cases far beyond their repaying capacity, and is one of the principal causes of the present trouble.

This position is attempted to be met in the following ways:—

(1) Attempts are being made by workers, non-official and official, to come into closer touch with the members of the village societies. The non-official workers are going to the village societies and explaining to the members the fundamental principles of co-operation. The Department has taken action by setting up a new system of administration on circle basis with definite instructions to circle auditors to come into intimate touch with every member of the village societies.

(2) Special efforts are being made through non-official as well as official agencies to spread co-operative education amongst the members of the societies. The Central Banks at the present moment, although realising the great importance of this portion of their work, cannot, on account of depleted resources, adequately cope with the financial responsibility of imparting a complete course of co-operative training to all members of their constituent societies. There is, however, every hope that the Government of India grant for co-operative training, coupled with any assistance which the Local Government may spare for this purpose and also other funds to be found within the Movement itself, will enable the Central Banks to launch on a comprehensive scheme of co-operative training of all the members of the village societies in their respective areas.

All Central Co-operative Banks, who have been able to keep their heads above water, have now taken up the constructive scheme for rehabilitating the position of the credit movement. And time is indeed opportune. The Land Mortgage Co-operative Banks, established in five districts, are giving some relief to the Central Banks by taking over those solvent members, who have got adequate repaying capacity, but who on account of sudden freezing of assets were unable to meet their instalments unless spread over several years, which only a land mortgage bank can grant them.

The Government of India grant for rural uplift and the improvement of handloom industry are likely to increase the repaying capacity of the raiyats by providing subsidiary occupations which would give them some additional returns.

It is expected that a slight increase in prices, on account of improved trade conditions, will in the near future place at the disposal of the Central Banks necessary funds for undertaking the various schemes outlined above.

We have got in Bengal 118 Central Banks which have 19,937 societies affiliated to them with a total working capital of Rs. 517.45 lakhs. The paid-up share capital on the 30th June 1935 stood at a figure of Rs. 53.33 lakhs and the total reserve fund was Rs. 50.73 lakhs of which Rs. 26.44 lakhs represent the Statutory Reserve Fund and Rs. 24.29 lakhs are other common funds created out of profits. The total owned capital of the Central Banks is 20.1 per cent. of the total working capital. The deposits from individuals and other sources amounted to Rs. 282.83 lakhs while the loans from the Bengal Provincial Co-operative Bank, Ltd., amounted to Rs. 122.71 lakhs.

The cost of management had been reduced slightly last year and it is expected that there would be further reduction of the same during the course of the present year.

Taking all relevant factors into consideration one cannot but feel that the haze of the last few years is in the process of clearance and if we do work up our programme with faith and honesty, we can confidently look forward to a series of prosperous years which will compare favourably even with the best and happiest decade of the Movement from 1918 to 1928.

State aid greater than is absolutely necessary demoralises the co-operative spirit of the institution, robs it of its most valuable co-operative features and must be resisted by the whole Movement.

—*N. Barou.*

WORKING OF CO-OPERATIVE CENTRAL BANKS IN THE BOMBAY PRESIDENCY

By

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In the year 1934 there were 19 Central Banks operating in different parts of the Bombay Presidency. Four of the Central Banks in Sind were amalgamated with the Sind Provincial Co-operative Bank Limited, reducing the number to 15 on 30th June, 1935.

The Early Central Banks.

The first banks were registered under Act X of 1904 as urban banks, as there was then no provision for registering central banks till Act II of 1912 was passed. The sponsors of the Movement appear to have imagined that the rural societies would be able to progress on their members' deposits, coupled with Government loans equal to their initial deposits. These loans were to be repaid by 20 instalments, and for the first few years no interest was to be paid to Government. They also hoped that if the rural societies required more money urban banks would help them from their surplus funds. The Movement progressed steadily. If any urban bank was unable to lend out such money or if there was no urban bank nearby, the societies got the required amounts through the Registrar who arranged for non-members' deposits from those who sympathised with the Movement.

The Provincial Bank.

After a time it was found that the arrangement was not quite satisfactory even though it worked smoothly. An urban bank was started in Bombay to provide such finance. In 1911 the Bombay Provincial Co-operative Bank, Limited, (the then Bombay Central Co-operative Bank Limited), was registered through the efforts of the late Sir Vithaldas Thakersey and Sir Lalloobhai Samaldas. This bank then began to finance the societies all over the Presidency. In a few districts, notably Surat, Broach and Ahmednagar, banks were started which financed both societies and individuals. The Bombay Central Bank financed primary societies, not only in areas where Central Banks did not exist, but also in those districts where Central Banks did exist, especially if the societies happened to be affiliated to guaranteeing unions. In 1920, it was decided

that there should be no competition in financing the rural societies. Central Banks, where they existed, were requested to take over the finance of the Provincial Bank in their respective areas. It was also decided that new Central Banks should be started in districts where there were none and that they should take over the finance of the Provincial Bank in those districts. It was further decided that the Provincial Bank should work as the apex bank and should finance societies only in those districts where no Central Banks could be started.

The Area of Operation.

The areas of operation of the Surat, Kaira, Bijapur, Belgaum, Karnatak and Canara Banks are the revenue districts. The Barsi Taluka of the Sholapur district has a separate bank of its own while the Sholapur Bank finances the remaining area of the district excluding the canal area. This canal area along with that of the Poona district, nearly a half of the districts of Nasik and Ahmedabad and the Panchmahals Division of the District of Broach and Panchmahals are now financed by the Bombay Provincial Bank, the remaining area in these districts being financed by the various district banks. There is no Central Bank in the districts of Thana, West Khandesh, Nagar, Satara, Ratnagiri, Bombay City and Colabo and the societies there are therefore financed by the Provincial Bank through its various branches. Sind is financed by the Sind Provincial Co-operative Bank Limited, except in Larkana District which has a district bank of its own.

Types of Banks.

Out of the 13 banks, the Dascroi Co-operative Banking Union, Ltd., is a Central Bank of the pure type. The membership is restricted to societies only. The management thus vests in the hands of the representatives of societies. Though this is the ideal type of Central Bank, it is not able to secure persons with Banking experience on the directorate and as such it cannot develop to the full extent in these days of competition. The other 12 banks are of the mixed type. They admit individuals as well as societies as members. Both have representation on the Board of Directors and can shape policies jointly.

Board of Directors' Election and Qualification.

The Board of Directors is elected by the General Body of shareholders either by postal ballot or at the general meeting by a show of hands or by ballot. The method is not uniform in all banks. Voting is on the principle, 'One member one vote'. The number of Directors varies from 7 to 15. These Directors retire annually in a majority of the banks. In the rest they retire by rotation every second or third year. In some banks, the Directors appoint one or two of them as Managing Directors who look to the day-to-day management of the bank. The qualification of a Director is generally one share, though societies' representatives are exempt even from this qualification. The general meetings are more lively now than before, as members have begun to take interest in the working of the parent institution though the level of criticism and debate is not of a very high standard in comparison with other joint stock banks.

QUALIFIED STAFF.

In the early days, these banks could not afford to maintain efficient staff and hence the Chairman managed them with the help of paid clerks and cashiers (if any). After 1920, a change came over in the management of the banks, and one by one they appointed full-time managers or secretaries. The banks advanced steadily and in the last 10 years or so, almost all the banks have engaged one or more young energetic graduates of arts or commerce, some of them being appointed managers. The staff has also increased in all banks, their work having steadily progressed. They have also engaged full-time inspectorial staff to supervise their finance to affiliated societies. In the beginning the Government and the Provincial Bank contributed towards the cost of the field staff, but they stopped doing so after a time. The banks then recovered half of these charges from the affiliated societies which showed profits at the end of the year. This practice was also discontinued after a time. This arrangement also did not last very long and the banks had to bear the whole cost of their maintenance of the inspecting staff. The field staff was unqualified though arrangements were made with the Provincial Bank to train the field as well as office staff. The Institute has now prescribed courses for the Managers' and Inspectors' Examinations and gives diplomas to those who pass them and undergo practical training at the Provincial Bank.

CONTROL.

The staff is all under the control of the Board of Directors except in a few banks where the appointment and remuneration of the manager or secretary is subject to the approval of the general meeting. The management of the Kaira Bank is at present conducted through an Advisory Committee as its affairs deteriorated a few years ago. The Managers of the Kaira and Nasik Banks are at present Government officials.

POSITION OF STAFF.

"With their scope of business limited as it is at present, and the field for development circumscribed, each individual Central Bank is not in a position to offer any very attractive prospects to those who join its service and proposals were mooted some years ago for constituting a provincial cadre. Almost all the banks have provident funds for the staff and give annual increments, but owing to the acerbity of communal feelings prevailing in parts of the Presidency, the employees of some banks labour under a feeling of uncertainty of tenure—not very conducive to efficiency of work. In order to stimulate the powers of initiative and enterprise among the staff it would also be an advantage if, subject to periodical check and general control, the managers and inspectors were allowed more latitude in the discharge of their duties than they seem to enjoy under present conditions", writes an eminent co-operator.

AUDIT.

The audit of these banks is conducted by the Government through special auditors who are under the control of the Registrar. The banks have to pay audit fees according to a graded scale. The audit is done every year or thereabout. The auditors classify the banks as A, B, C, or D. A. class banks are banks with good management and less than 10 per cent. overdues. This classification is rigidly followed in Gujarat while elsewhere it is liberally interpreted and hence we find 5 banks classed A elsewhere. The remaining 14 are classed B. As the Government audit is not regular and is hardly over before the date of the publication of the balance sheet time most of the banks employ their own auditors some of whom are Registered Accountants, to certify the balance sheet before they are published.

WORKING CAPITAL.

The banks derive their working capital from four main sources: (1) Share capital, (2) Reserve and other funds, (3) Deposits, and (4) Loans.

(1) SHARE CAPITAL.

The share capital is raised by the issue of ordinary shares. There are no preference shares or debentures. All the shares are fully paid and there is no uncalled capital or reserve liability. The issue of shares is made to intending borrowers and others who apply for them as and when the bank thinks it necessary to do so. There are no public issues of their shares as it might then be difficult for the banks to make shares available to intending borrowers.

The face value of the shares varies from Rs. 20 to Rs. 100, though Rs. 50 is the more common value. Under the Act, no person can hold shares exceeding the face value of Rs. 3,000. The affiliated societies are required to subscribe to the shares of the bank up to 1/10th or 1/20th of their borrowings though originally 1/60th was contemplated. A member cannot transfer his shares unless he has held them for over a year. Some of the banks now issue their shares at a premium of 20 to 25 per cent.

BORROWING LIMITS.

Under the Act banks can borrow upto eight times the total of the paid up share capital and Reserve Fund provided that for the purposes of this, gilt-edged securities owned by the banks may, upto an amount equal to twice the paid up share capital, be excluded in calculating the liabilities if the same be lodged with the Bombay Provincial Co-operative Bank. As a large amount of money is released for investment due to the sale of gold since 1931, there has been a great influx of deposits in the Central Banks, so much so that in some of them the borrowing limit was reached and they were therefore obliged to increase their share capital.

The share capital of Central Banks has increased as under :—

31st March, 1925	.. Rs. 17,58,369
31st March, 1930	.. Rs. 30,86,631
30th June, 1935	.. Rs. 35,16,730

(2) RESERVE AND OTHER FUNDS.

Under the Act, the banks carry ¼th of their net profits to reserve fund every year though there is no compulsion as to how it should be invested. The accumulation of Reserve Fund is as under :—

31st March, 1925	.. Rs. 2,18,727
31st March, 1930	.. Rs. 5,37,948
30th June, 1935	.. Rs. 14,98,755

Besides the Reserve Fund, most of the banks have Bad Debt Fund, Investment Depreciation Fund, Building Fund, and Dividend Equalisation Fund.

BAD DEBT FUND.

In 1934 the Banks were advised to take stock of their position and estimate likely bad and doubtful debts and also the frozen debts. It was thought desirable that there should be sufficient Bad Debt Fund for the first contingency and that the banks' own funds should be at least equal to the frozen debts. The Bad Debt Fund in most of the banks is now sufficient to write off such losses as and when they accrue.

BUILDING FUND.

The Co-operative Department's policy now is not to allow the purchase of buildings for the office of banks unless backed by sufficient building funds.

DIVIDEND EQUALISATION FUND.

Whenever there were surplus profits in banks after distributing dividend the usual rate of 6 or 7 per cent., the banks transferred some amount to the Dividend Equalisation Fund to provide for the rainy day.

INVESTMENT DEPRECIATION FUND.

The rates of interest on deposits have gradually gone down since 1931 and hence the banks have been slowly driven to the securities market. Due to the phenomenal rise in price of Government paper, this investment has given handsome profits to the banks and some of the profits thus made have been now transferred to Investment Depreciation Fund.

(3) DEPOSITS.

All the banks receive deposits from members, non-members and societies. The deposits accepted are of all types, Current, Savings Bank, and Fixed, though some banks open Savings Bank Deposit or Savings Bank Cheque system accounts in addition. The Canara Bank has Provident Fund deposits of members. Formerly the banks received Fixed Deposits only, but slowly they began to accept Savings Bank Deposits also. After that as the banks grew, current accounts were also opened firstly for members and then for non-members. Till 1931 the bulk of deposits was for fixed periods. But after that year there was a gradual transformation and now the Savings Bank Deposits have increased at the expense of the Fixed in many banks. The banks have therefore to be very careful in preserving their credit as the Savings Deposits can be withdrawn without notice though once a week. The Central Banks have been mainly responsible for developing the cheque habit in the mofussil as except the Imperial Bank of India, Joint Stock Banks have not penetrated into the interior except at Ahmedabad, Poona and Surat. All banks allow cheques to be drawn with vernacular signatures. Most of the forms used by the banks in dealing with the public are also in vernacular.

RATES OF INTEREST.

Five years ago the Central Banks offered rates of interest much higher than those offered by the Joint Stock Banks. The cheap money era has now brought down the rates in level with those of other banks and Central Banks now offer ½ per cent. to 1 per cent. on Current Accounts, 1¾ to 2¼ per cent. on Savings Bank Accounts and 2 to 2½ per cent. on Fixed Deposits. Mosts of the banks allowed a higher rate of interest on the deposits of societies but they have withdrawn this concession as the margin of profit on deposits has gone down considerably to practically nil. The receipts and payments of Fixed Deposits are spread throughout the year. The bulk of the deposits is from non-members, the deposits of societies being the smallest.

The banks receive Fixed Deposits for one year only. Some banks do accept such deposits for two to three years. Deposits for periods less than a year are not now generally favoured.

Some of these banks have been recognised by Government for the deposits of the funds of Local Board, Municipal and School Board. The deposits swelled since 1931 and were at the highest in 1935 much to the embarrassment of the banks which could not utilise them profitably.

The following figures will give an idea of the increase in deposits :—

	Individuals.	Societies.
	Rs.	Rs.
31—3—1925	1,00,04,167	11,72,155
31—3—1930	1,99,83,253	29,80,153
31—3—1934	2,47,70,232	55,49,509

(4) LOANS.

In the early days, almost all the banks borrowed from the Apex Bank by way of Cash Credits or maximum credits, the total requirements of societies being in excess of the loanable funds of Central Banks. The Provincial Bank financed them on the security of their pro-notes backed up by documents of affiliated societies. The credits were renewed yearly or half yearly and the rate of interest varied from 6 to 7 per cent. But now the banks have large surplus funds at their disposal and hence only the Kaira Bank has to borrow from the Provincial Bank. The Central Banks have arrangements for temporary overdrafts from the Apex Bank and local branches of the Imperial and other joint stock banks against Fixed Deposits placed with them or against gilt-edged securities. The Imperial and other banks have not till now been approached for finance against agricultural paper. Inter-lending without Registrar's permission is prohibited. Such permission is rarely granted.

LAND IMPROVEMENT LOANS.

Till now Government every year placed some money at the disposal of the Provincial Bank for granting Land Improvement Loans to members of agricultural societies through the societies and Central Banks. The Provincial and Central Banks and the rural societies each reserved a margin of 2¼ per cent., the finance ultimately reaching the borrower at 6¼ per cent. The procedure was very cumbrous and as such this facility was not much availed of.

UTILIZATION OF FUNDS

The working capital thus raised is utilised in (1) financing co-operative societies, rural and urban, credit and non-credit, (2) financing individual members where the bye-laws permit, (3) purchase of buildings for offices, (4) fixed deposits with other banks, (5) gilt-edged securities, and (6) investment in other trust securities.

(1) LOAN TO SOCIETIES.

Urban Banks. The chief object of the Central Banks is to finance affiliated societies. The urban societies are generally granted cash credits on the securities of their members' bonds or overdrafts against gilt-edged security. This finance is very limited as good urban societies grow into plus banks in a short time. The finance to these societies is at rates varying from 5 to 7 per cent.

NON-CREDIT SOCIETIES.

Advances to non-credit societies are for very short periods every year. The Cotton Sale and other similar societies require money during the season time only or short time thereafter for holding their members' crops for better prices. The societies generally borrow on the security of the agricultural produce of their members deposited with them. These advances are at 4½ per cent. to 6 per cent. and are limited to 60 per cent. of the market value. The banks are giving as much facility as possible for this type of finance in the district towns as well as in the interior if they have branches there. This work is of great importance to the agriculturists and is being gradually developed though it has to be done on very cautious lines. Societies doing this type of work are naturally preferred for registration.

RURAL SOCIETIES.

The bulk of the advances of Central Banks is to rural societies. These societies have to prepare normal credit statements of their members every year before the commencement of the season. These statements contain all the information regarding the members' dues, expected repayment, overdues, fresh finance required (with purposes), land owned and cultivated, estimated yearly income, share or deposits, last year's sanctioned credit and the new year's credit recommended. These statements are passed in the general meetings of societies and after the same are scrutinised by the managing committees and supervisors of the supervising unions where the latter exist, they are sent to the banks. Bank Inspectors scan them carefully reducing the credits of members where necessary. This credit is not recommended only on the ground that members hold lands but in looking to their needs, their repaying capacity, their previous dues, expected recoveries, etc. The banks then sanction the maximum credit of societies which are in A or B class or are new and have overdues below 20 per cent. or thereabout. For other societies, the statements are carefully gone through and loans are sanctioned after looking to repayments. A society with a bad repayment record does not now necessarily mean "no fresh finance." Members who have made due payments are advanced loans though to a limited extent. The maximum credits are drawn by the societies as and when the members ask for loans. The maximum credits of societies are limited to a maximum of one-third of the total value of the unencumbered transferable assets of the members. The finance to societies is at 6 to 8 per cent. For regular repayment, a rebate varying from ½ to 1 per cent. is granted to all types and classes of societies. Some banks have made provision for charging penal interest in case of defaulters but the enforcement of the same is an exception rather than the rule at present.

ARREARS.

The rural societies of the Presidency, in common with those in other parts of India, are not regular repayers. Bad seasons, trade depression and low prices of agricultural produce have hit them hard. Consequently, societies which do not repay in time have to ask for extensions. Whenever the bank's dues get old, the societies are asked to get their members' dues secured by mortgage of property. The position of societies now show some improvement through the efforts of the field workers.

LAND REVENUE OF MORTGAGED LANDS.

A problem before some of the banks is the payment of Government assessment on some of the lands thus mortgaged to the societies as the original owners generally fail to pay the same, (once awards are passed against them) in case there be no bidders or willing tenants for the lands so mortgaged.

DISPOSAL OF MORTGAGED PROPERTY.

Another problem before the banks was the purchase of property in the absence of bidders. Formerly the societies had to offer adequate bids but now the lands are transferred to the societies for management on certain terms.

SOCIETIES IN LIQUIDATION.

A third problem is the liquidation of bad societies. The Registrar does not now cancel societies except on the recommendation of Central Banks. The Central Banks in their turn do not so recommend unless all efforts for improvement have failed. Considerable amounts of the banks are now locked up in such societies. Many liquidators generally took 2 to 3 years to pass orders and after the said orders had been sent to the Revenue authorities for execution it took many years more. We find in many banks dues 8 to 10 or even more years old still owing by such societies. The Co-operative Department has now become strict and the liquidators are instructed to pass the orders within six months on pain of removal. The Central Banks are now requesting the Registrar to appoint their inspectors as joint liquidators without remuneration for expediting the liquidation work. Interest ceases to run from the date of liquidation, and only if there is a surplus, interest after liquidation is paid.

RECOVERY OFFICERS.

The delay that occurred in the execution of awards and liquidators' orders has now been reduced by the appointment of Special Recovery Officers in almost all districts. These officers belong to and are appointed by the Revenue Department and are under the control of the Collector and Registrar. Their appointment had a salutary effect on the defaulters and promoted good recoveries. Some banks have asked for additional recovery officer to work only for societies in liquidation. The cost of these officers is met by a 5 per cent. levy on the awards and orders sent to them for execution.

UNLIMITED LIABILITY.

One more problem in connection with liquidated societies is the enforcement of unlimited liability of the dues if they could not be realised in due course. The Department does not now enforce this liability if the banks can conveniently wipe off such dues from their various funds.

The following figures will give an idea of the rural finance of banks in the last 5 years. The figures include those of the Provincial Bank also :—

Year. 1	Amount of loan due to be recovered. 2 Rs.	Amount of loan actually recovered. 3 Rs.	Arrears un-authorised. 4 Rs.	Arrears un-authorised. 4 Contd. Rs.	Fresh Finance. 5 Rs.
1930—31	6,52,53,716	5,01,70,844	78,38,159	72,44,713	5,24,41,460
1931—32	5,64,62,137	3,95,10,471	80,45,081	89,06,585	3,80,13,261
1932—33	4,44,78,369	2,85,68,668	59,72,052	99,37,649	2,53,06,567
1933—34	5,26,34,234	3,69,38,592	55,87,529	1,01,08,113	2,95,47,989
1934—35	7,98,59,839	6,55,79,972	49,71,708	93,08,159	4,59,84,910

It will be noticed that the recoveries in 1934-35 were much in excess of the recoveries of previous years. The increase in fresh finance shows that confidence between the members and societies has been revived.

REDUCTION OF INTEREST RATE.

There is a clamour for reducing the rate of interest charged to rural societies by the banks as the general rates of interest have gone down. But those making this demand do not seem to realise that a reduction in interest rates on deposits does not necessarily allow a reduction in the rates of interest charged on loans. Whenever the joint stock banks advance moneys to parties (which are not quite sound) on personal security or even on agricultural or industrial produce the rate of interest is 6 per cent. generally. Besides, the following figures of a bank will show how far the rates can be reduced if calculated on strict cost account method :

Loans to Societies :—

	Interest rate.	Interest		
Rs. 2,83,800	7 %	Rs. 19,862	Banks borrow at	2¼%
" 1,62,200	6¼%	" 10,138		
" 73,800	Nil	involved in liquidation	Add Management Expenses	1 %
" 5,19,800		" 30,000		3¼%

Less

Rebate for punctual re-payments	Rs.	600
Union grants	"	1,560
Inspectoral Charges	"	2,000
Bad debts and overdue interest	"	4,000
		21,840

i.e. 4% on loans.

The profit is ¾% only.

OVERDUE INTEREST.

All interest overdue for more than 6 months has now to be deducted from profits as the same cannot be utilized for payment of dividends. This interest amount is also embarrassing some banks whose profits are thereby crippled.

LONG TERM LOANS.

The banks also used to grant long term loans to societies which in their turn passed them on to members for defined objects on mortgage of property valued at thrice the amount. Long term loans by Central Banks are now stopped in districts where Land Mortgage Banks have been started.

SPECIAL LIMITS.

The banks also grant special limits to members of societies after previously obtaining the Assistant Registrar's approval. These limits are for one year and are now generally secured by mortgage of property valued at thrice the amount of the loans and two in addition by sureties. The special limit is up to twice or thrice the ordinary limit and is for productive purposes only.

CENTRAL BANKS AND RURAL SOCIETIES.

The relations between the Central Banks and agricultural societies are fairly cordial, although in some cases the Central Banks follow a very cautious policy in fresh finance. A very disquieting feature in the working of some banks is the appearance of party politics. This is very disheartening, as if party battles are fought in the banks their credit will be shaken, to the detriment of the Movement.

INSPECTION OF SOCIETIES.

The bye-laws of Central Banks provide for inspection of affiliated societies. For this purpose they have to maintain an inspectoral staff. The Inspectors visit the societies and enquire as to whether fresh finance is granted according to the credit statements recommended by them and approved by the bank and whether the sureties are solvent. They also enquire into the causes of non-repayment and get recalcitrant members referred to arbitration. They have to report the steps the bank should take to improve the societies or to otherwise cancel them. They have to revise the asset statements and recommend extensions in deserving cases. They also prepare statements of likely bad debts that would accrue to the banks and to the societies. When they inspect the societies, they submit their reports on the printed forms of the bank.

SUPERVISING UNIONS.

In many Talukas supervising unions are now started. The Unions maintain Supervisors to inspect and guide the societies. The expenses are recovered from the societies who have to pay ½ per cent. on their working capital. The banks also have now to contribute ¼ per cent. on its loan operations, the deficit being met by Government from the surplus of audit fees. The contributions are to be pooled together per district and managed by a board consisting of the Assistant Registrar and representatives of the Central Banks, the District Institutes and the Unions. This board also controls the appointment, promotion and dismissal of the Supervisors. There is no clear-cut division of work between the Supervisor and the Bank Inspector and though some move is made to co-ordinate the same their work is bound to overlap, as the banks will not do away with the Inspectoral Staff. Besides the Supervisors, the Institute maintains a Propaganda Officer per district who also visits the societies. Some of the banks give a special grant for maintaining him in addition to the usual fees.

Loans to rural societies do not form more than one third of the total working capital of most of these banks.

LOANS TO INDIVIDUALS.

As some of the earlier Central Banks were urban banks at the start they have been dealing with their individual members also. Other Central Banks found great difficulty for employment of their surplus funds and since 1928 many banks have got their bye-laws amended so as to allow them to advance to their members on the security of gold and silver bars or ornaments, or against agricultural or industrial produce or gilt-edged securities. As this was also found insufficient the Department has permitted them to advance to their members against approved shares of joint stock companies. They can thereby successfully compete with other joint stock banks.

OFFICE BUILDINGS.

Most of the banks now own their own office buildings. The ownership raises the bank in the eyes of the public. When the banks rent out portions not required by them for office use they derive good income therefrom.

DEPOSITS WITH OTHER BANKS.

Till 1931, the surplus funds were generally deposited by the Banks as fixed deposits with the Provincial Bank. The Banks also tendered for Treasury Bills when the yield was good. After 1931 the Apex Bank was glutted with money which it could not utilize properly. The result

was that it lowered its rate of interest and for a time not only refused fresh deposits but even renewals. This made the banks enter the market for Government securities.

The banks are also allowed to deposit some amounts with approved joint stock banks but as there also the interest rates are too low this facility is not freely availed of.

INVESTMENT IN GILT-EDGED SECURITIES.

The remaining funds of the banks are invested in the gilt-edged securities. In most cases, more than one half of their deposits are so invested. Though the banks are at present quite secure in these holdings, the end of cheap money era will affect them adversely unless the investments are judiciously made and sufficient Investments Reserves are built up. The banks hold in the aggregate about a crore of Government, Municipal, Port Trust and Improvement Trust paper and a fall of a rupee per cent. in its value would mean a loss of one lakh of rupees to the Movement, though it must be admitted that some of the securities were bought by the banks at low rates.

INVESTMENT IN OTHER TRUST SECURITIES.

The banks take advantage of section 20 of the Indian Trusts Act, 1882 sometimes, and advance loans to their members on the mortgage of property in urban as well as rural areas, the loans being repayable by instalments spread over a fixed number of years.

PROFITS AND DIVIDEND.

The profits of Central Banks have increased as the following figures show :—

31—3—1925	..	Rs. 2,15,199
31—3—1930	..	„ 3,55,008
31—3—1934	..	„ 4,12,436

The dividends have been restricted to 7½ per cent. since the last two years by an amendment to the rules under the Act. Before that dividends up to 8 per cent. were declared and paid. Last year no bank declared dividend exceeding 6½ per cent.

COST OF MANAGEMENT.

The cost of management has increased consistently with the increase in working capital :—

	Cost of Management	Working Capital
	Rs.	Rs.
31—3—1925	1,03,021	1,40,95,791
31—3—1930	2,90,733	2,84,61,180
30—6—1935	4,13,277 (15 months)	3,85,35,190

To maintain the present position and advance further, it is imperatively necessary that the staff should be more efficient and the employment of qualified, well paid men should be pushed further.

EXCHANGE BUSINESS.

All the banks are doing inland exchange business. They issue and collect drafts, cheques and bills on other places on behalf of their clients. Some of the banks discount the bills of their members. Most of the banks have agreed amongst themselves to collect cheques on each other and on places where they work, free of charge. The Government of India appear to resent the co-operative banks dealing in Hundi business with non-members. The whole question is, it is understood, being reviewed by the Reserve Bank which is the Currency authority now. The banks also purchase and sell shares and securities for their constituents.

SAFE CUSTODY BUSINESS.

Some of the banks also receive Government Promissory Notes, etc., of their members for safe custody and collection of principal and interest on due dates. As most of the banks have their own buildings, the question of opening safe deposit vaults may be considered, particularly at Poona and Surat and if the Dascroi Bank so chooses, it can also investigate the possibilities thereof at Ahmedabad.

BRANCHES.

A majority of the banks have opened branches in the Taluka towns. They keep in close touch with the affiliated societies through their Inspectors and Agents. They also keep an eye on their advances to non-credit societies through their branches. The branches accept all types of deposits and at some places, the deposits are considerable. All the branches do not always work at a profit, but it is now realised that branches may be run at some loss if they can well serve the societies and the public. Loans are received and paid to societies through the branches. These branches also do *hundi* business. They are also allowed their sealed boxes with the sub-treasuries every day. They are given remittance facilities in many places by Government.

The branch staff generally consists of an agent and a clerk. Some of them have a cashier in addition, while some are worked only by agents. These branches keep all accounts submitting to the Head Office copies of the cash book every day and of other statements every month. The branches are audited by the Government Special Auditor once a year. Besides, the bank officers also check the accounts periodically but the control over accounts must engage more attention. The branch-staff should be well paid and qualified and should be periodically transferred.

QUARTERLY STATEMENTS.

The banks have to submit quarterly financial statements which are published in Government Gazette for the information of the public. The banks have to maintain fluid resource to meet unforeseen withdrawals. A statement as under has to be sent to the Registrar and a copy of the same to the Provincial Bank. They send their comments and suggestions to the banks concerned.

Provision required :—		The amount is provided as under :—
Current account	60%	Cash on hand and in banks.
Savings Bank account	50%	Undrawn portion of overdrafts against Government paper and fixed deposits sanctioned by provincial or other banks.
Fixed Deposits falling due in the next quarter	33%	Undrawn portion of guaranteed cash credits.
Undrawn portion of Cash Credits	33%	

CONFERENCE.

The representatives of all the Central and Urban Banks meet in Bombay every alternate year. Subjects of common interest are discussed and important resolutions are passed. There is a Conference Committee which takes action on the various resolutions passed by the Conference. The Committee is an important body and has done good work for the Central Banks by putting before the Government and the Provincial Bank the various grievances of the banks.

CONCLUSION.

From the above it will be seen that the Central Banks have done very useful work in providing agricultural finance and in developing the banking habit in the mofussil. The banks have come to stay, some of them having completed 25 years of their existence, they all having weathered the depression bravely. The banks have still to penetrate far into the interior by opening branches at suitable centres. They must also find out suitable avenues for the profitable employment of their money within and without the Movement. The overdues and frozen debts also need special attention. Party politics needs also to be kept in the background and stopped from destroying the useful work done by the co-operators in steadily building up an important structure in the Co-operative Movement. The staff needs to be strengthened by employing more efficient and qualified hands. The banks also will have to increase their various funds to meet unforeseen contingencies. They will have to do *hundi* business without Government help.

CO-OPERATIVE CENTRAL BANKS IN THE MADRAS PRESIDENCY HISTORY AND PROGRESS

BY

MR. T. R. NAGARAJA RAO,

Madras Provincial Co-operative Bank, Ltd.

The Co-operative Banking Organization of the Madras Province is a federal structure, and the history of its evolution is an interesting one. The units of the organization are the Provincial Bank, Central Banks and Primary Societies. Central Banks are federations of primary societies located within a revenue district or part thereof, and the Provincial Bank is a federation of Central Banks. There are also a few individua shareholders in the Central Banks and the Provincial Bank.

The Madras Provincial Co-operative Bank, formerly called the Madras Central Urban Bank, Ltd., was the first "Central Bank" to be registered in the whole of India. It was registered in 1906 and by evolution, it was converted into a Provincial Bank in 1920. At the outset, the membership of the bank was confined to individuals, the Act of 190 having made no provision for admission of societies. In fact, the Act contained no provision for the registration of any "secondary" institution During the early years of the Movement, the societies, even rural, were registered on the basis of limited liability, as they could not be induced to accept unlimited liability. The Government promised to supplement the resources of the societies up to a certain maximum, by a grant equal to that raised from members by way of share capital and deposits. A sum of Rs. 5,000 was also advanced by Sir D. Hamilton of Calcutta for lending to societies. The societies, thus started, worked mainly on the initia deposits of its richer members and the State grant. Considerable difficulty was felt in attracting money by an institution which was quite new The societies, notwithstanding the State grant, suffered for want o funds, as they could not at the beginning attract enough deposits fron members and others. The need for a financing agency was, therefore keenly felt, and the Madras Central Urban Bank was created. Sir F Rajagopalachari, the first Registrar of Co-operative Societies, was largel responsible for bringing it into existence. Under its by-laws, it wa allowed to lend to co-operative societies only. The Bank progressed fror year to year, and was able to meet all the demands for loans from primary societies

As societies increased in number, the need for a financing ban nearer the societies was keenly felt. The late Dewan Bahadur R. Rama chandra Rao, who was the second Registrar of Co-operative Societies, conceived the idea of starting *District* Central Banks. In one of his Administration Reports, he described the nature of these institutions in the following words:—

"These (banks) are identical in principles and working to the Madras Central Urban Bank, Ltd., but their area of operations has been confined to individual districts. Their shareholders must reside in such districts. The advantages of the decentralization are these. These banks attract local money which, under no circumstances, could have gone to Madras; so, the sum total of money available for financing Co-operative Societies throughout the Presidency is increased. Secondly, I expect that the District Banks will actively supervise the societies to watch if its loans were safe. A third advantage of the District Bank is that it educates some persons at head-quarters to banking habits; and as the movement spreads, we shall require many persons with these habits to stand at its head and guide it."

The Salem District Urban Bank was the first *District* Central Bank to be registered in the province, and it was registered on the 25th January, 1909. The Trichinopoly District Urban Bank, the Coimbatore District Urban Bank, and the Tenali District Bank were registered, all before the end of 1910 in the regime of the late Mr. R. Ramachandra Rao and their by-laws were modelled on those of the Madras Central Urban Bank. Membership was then confined to individuals, for societies could not be admitted to membership under the Act of 1904 then in force. In 1912, a new Co-operative Societies Act was passed superseding the Act of 1904, and it permitted the registration of secondary societies. Advantage was fully taken of this Act, and the Department registered Central Banks in other districts also. By 1920, every revenue district had a Central Bank. The later Central Banks were of the "mixed" type, i.e., both individuals and societies were admitted to membership. To-day, there are 31 Central Banks in the Presidency. Four districts, Ganjam (which has now gone over to the Orissa Province), Krishna, East Godavari and Tanjore have more than one Central Bank. After the completion of the organization of District Central Banks, the Madras Central Urban Bank was converted into a federation of Central Banks in 1920. Its name was changed to "The Madras Provincial Co-operative Bank Ltd.," in 1931, when its Silver Jubilee was celebrated.

The main functions of the Central Banks are:—(1) To act as a clearing house for the reception of the societies' surplus funds, re-lending such funds to societies which could employ profitably more capital than they can locally secure. (2) To attract deposits from other people for financing the member societies. (3) To provide a safe place for the investment of the reserve funds of the societies. (4) To supervise the working of the member societies by laying down the necessary rules governing the employment of loans and by inspecting them from time to time to find out their financial and general position.

Resources. The combined resources of the three units of the Co-operative Banking Organisation in this Province at present amount to about Rs. 20 crores. If the investments of one co-operative institution in another are eliminated, the resources amount to about Rs. 11 crores. The resources of the Central Banks alone amount to about Rs. 5½ crores; their aggregate paid-up capital is Rs. 55 lakhs, the reserve fund Rs. 32 lakhs and the borrowed capital about Rs. 4¾ crores. The biggest Central Bank has a working capital of Rs. 50 lakhs, while the smallest has Rs. 6 lakhs. In recent years, the resources of the Central Banks have undergone a shrinkage owing to the economic depression. The Government has authorised the investment in these banks of the funds of Local Boards and Municipalities and the security moneys tendered by employees of the Government, local and municipal bodies, renters and contractors and other quasi-public funds.

Investment of funds. A sum of about Rs. 3½ crores is outstanding against the primary societies. Cash on hand and at banks amount to Rs. 20 lakhs, Government Paper holdings aggregate to Rs. 56 lakhs, and Central Banks' other investments amount to about Rs. 75 lakhs. The amount of loans outstanding from members to primary credit societies, agricultural and non-agricultural, is Rs. 619 lakhs on 30th June, 1935, of which Rs. 352 lakhs represent those in agricultural credit societies and Rs. 267 in non-agricultural societies. These figures show that Urban Banks, that is limited liability societies of the non-agricultural type do not borrow largely from the Central Banks.

Rates of interest on deposits and loans. Central Banks have taken full advantage of the present low rates of interest prevailing in the money market. They have effected substantial reductions in the rates of interest offered on deposits, thereby enabling them to lend at cheap rates to primary societies. The banks offer 3 to 3½ per cent on deposits. It is a convention in this province that the maximum rate offered by Central Banks should be at least half a per cent less than the lending rate of the Provincial Bank, which is now four per cent. The banks lend to societies at rates varying from 5½ to 6½ per cent.

Issue of loans. The Central Banks have since their inception issued loans to primary societies to an aggregate amount of Rs. 28 crores. The largest amount issued was in the year 1926-27, the amount being Rs. 3 crores.

Loan Policy. The maximum period for which Central Banks might be permitted to safely lend to primary societies was for a long time a matter of controversy among co-operators in the province. Some favoured long term loans upto 10 or 12 years, while some others were in favour of lending upto a maximum period of 5 or 6 years. It is now generally agreed that Central Banks should issue short and intermediate loans only, and they now lend up to 5 or 6 years. As the system of Land Mortgage Banks is being developed in the province, the issue of long term loans is left to them.

Directorate. The administration of Central Banks is entrusted to a Board of Management on which both individuals and societies are represented generally in the proportion of one to two. The Boards are ordinarily 21 strong. Boards normally meet once a quarter. There is also a small working committee elected from among the members of the Board of Management, and the Committee is entrusted with the conduct of day-to-day administration of the bank. There are no Government representatives on the Boards, either *ex-officio* or nominated, as in some other provinces. But the Provincial Registrar and the Local Deputy Registrar attend the meeting of the Board sometimes or on invitation and their advice to the Committee is given and availed of by the Boards.

Statutory control. The Government has prescribed regulations for observance by the banks. A Central Bank's maximum borrowing is limited to ten times its share capital and reserve fund. The Government has also prescribed the following scale of fluid resources to be maintained in respect of liabilities: 50 per cent. of Current deposits; 25 per cent. of Savings deposits; and 50 per cent. of Fixed deposits maturing in the next 30 days. The fluid resources may take the form of cash, Government Paper or cash credit granted by the Imperial Bank of India. The cash credit granted by the Madras Provincial Co-operative Bank on the security of Government Paper, Debentures of the Madras Co-operative Central Land Mortgage Bank and on Fixed deposits of the Bank is also allowed to be reckoned as fluid resource in respect of " outside " liabilities. The cash credit granted by the Madras Provincial Co-operative Bank on other securities including the pronotes of societies is allowed to be reckoned as fluid resource in respect of cash credits granted by Central Banks to primary societies. A daily fluid resource register has also to be maintained showing the liabilities to be provided for the fluid resources available.

The Government has also limited the maximum dividend payable by a co-operative institution to 9 per cent. The Central Banks are audited by the Government staff, private audit not being allowed. The audit fees are recovered from the banks according to the scale prescribed by Government, the Registrar being given power to show some concession in fit cases.

Overdues. The membership of a co-operative credit society demands certain traits of character, of which a sense of time and a sense of relationship are the most important. It is, therefore, one of the essential duties of a member to repay his loans promptly and on the due dates. If he does not pay, the society becomes a defaulter in respect of its own obligations and other members most often have to suffer. In the past, co-operative societies have generally shown themselves to be irregular repayers. Out of 9,000 societies in the province that are indebted to the Central Banks 7,000 are defaulters as on 30th June, 1936. A sum of Rs. 60 lakhs (excluding societies under liquidation) is overdue under principal and Rs. 6 lakhs under interest out of a total outstanding of Rs. 3½ crores. Most of the debts are not bad ; and Central Banks have an aggregate bad debt reserve Rs. 15 lakhs to cover losses. This fund together with the statutory Reserve Fund of Rs. 32 lakhs is ample to cover any probable losses. But unless loans are repaid promptly, the co-operative credit system whose object is to lead people out of debt and convert them from borrowers into depositors, cannot be said to be a success.

Relief given to borrowers. During the last two years, Central Banks have afforded considerable relief to member societies. The rates of interest on old as well as new loans have been reduced. Penal interest on overdue instalments of principal and interest has been abolished. The accumulated penal interest, if any, has also been waived. Extensions of time for repayment of loans have also been granted in deserving cases.

Supervision. During the last decade, there has been a great deterioration in the efficiency of co-operative societies. A discussion of the causes for the same lies outside the scope of this article. One chief cause, is, however, the breakdown in the supervision machinery. The Supervising Union was expected to maintain the societies in proper working order and efficiency. There were about 600 such unions in this province about three years ago. To-day, owing to liquidation and amalgamations, the number has been reduced to 400. For a long time the view that finance and supervision should be separate held the field in this province, and Central Banks had no direct part in supervision beyond making money grants towards the supervision fund. In order to improve the efficiency of Unions, several measures were tried and one of the latest was the formation of a federation of unions in each district. After trial for about a decade, co-operators and Government have come round to the conclusion that Central Bank, under the present circumstances, is the most suitable agency to supervise the working of societies with the aid of unions. Almost all the federations have been liquidated. To-day, almost all Central Banks have established "administrative sections" in order to discharge their responsibilities.

Rectification and Consolidation. From 1930 onwards, the work of rectification and consolidation of societies is being carried out on an extensive scale. The essentials of the scheme are: (1) Examination of every outstanding loan in every primary society; (2) where security for the loan is sufficient and where there is repaying capacity to adjust the period of the loan to the repaying capacity; (3) where there is insufficient security but repaying capacity to take additional securities and to grant extensions, if necessary; and (4) where there is neither the repaying capacity nor sufficient security, steps to be taken for the recovery of the loan as far as possible.

Every society in the province had to be examined in the manner stated above, and the programme was expected to be completed in three years. Extra staff for the purpose was appointed in almost all Central Banks. The Provincial Bank gave a subsidy towards the cost of the staff. So far, the Provincial Bank has made grants to Central Banks to the extent of about Rs. 1,89,500 and Central Banks have spent out of their own funds about Rs. 5 lakhs. The Provincial Bank has been reviewing the work periodically. The Registrar also now issues a periodical review of the progress of work. As a result of all these efforts, the deterioration of co-operative societies has been arrested to some extent. But their usefulness in the future depends upon other factors, like the economic situation and the human material available to run societies.

Central Banks' Conference. Once a year, the Central Banks' representatives meet in a conference at Madras under the auspices of the Madras Provincial Co-operative Bank to discuss the various problems confronting them. Fifteen such conferences have already been held and very helpful decisions were reached.

The Future. The Co-operative banking system has now a definite place in the money market. It is intended to cater to the financial needs of a population not ordinarily reached by the joint-stock banking institutions. The indigenous banker and the co-operative society are the only two in the field. The usefulness, however, of the co-operative organisations is to a very large extent dependent upon the efficient conduct of primary societies. Central Banks are now in a position to mobilise money for the use of societies at low rates of interest, much lower than the rates offered by several of the newer joint-stock banks. Their credit is high and they are supported by a strong Provincial Bank. But

the primary co-operative organisations are unable to make much headway. The bulk of the borrowing members of Central Banks are agricultural credit societies. The depressed prices for agricultural products which have prevailed now for some years have rendered the Co-operative Movement (which is regarded as the channel through which agriculturists could obtain cheap credit) almost moribund. The return from land on which staple food crops are grown is about to 2 to 3 per cent., and rarely yields 6 per cent. But the agriculturist is compelled to borrow at a rate of interest ranging from 9 to 24 per cent. from outside agencies and at about 7 or 8 per cent. even from primary credit societies. It requires little effort to see that so long as these conditions remain, a solution of the difficulty must lie outside the realm of banking credit. The value of any banking system depends in the last resort upon the efficiency of the borrower. And Co-operation can progress no faster than the people can be trained to understand and administer its business. To train the rural community in co-operative business which has for aim "the unity of economic life," is one of the fundamental problems of the future.

Co-operative credit in India, like Unemployment Insurance in Great Britain, is the cushion on which the shock of depression has been taken.

—C. R. Fay.

THE WORKING OF THE CENTRAL BANKS IN THE PUNJAB

By

KHAN MOHAMMAD BASHIR AHMAD KHAN, M.A., LL.B.,

Hony. Secretary, All-India Co-operative Institutes' Association.

NUMBER OF CENTRAL BANKS.

The first Central Co-operative Bank in the Punjab was registered in 1909 at Jullundur. There are now 49 Central Banks in the Province, including the Co-operative Industrial Bank, Amritsar, which finances industrial societies throughout the province. The Punjab Christian Bank financed Christian Societies in Lahore, Gujranwala, Sheikhupura, Amritsar and Ferozepur; these societies are not numerous and the majority are financially weak. The bank experienced great difficulty in administering so large an area and has gone into voluntary liquidation.

BANKING UNIONS.

There are 65 Banking Unions, which are a particular feature of the Punjab. They are really independent Central Banks in miniature, with the difference that whereas Central Banks admit individuals as shareholders, the membership of Banking Unions is confined to societies. The area of operations of a Banking Union is smaller than that of a Central Bank. The Banking Union is in closer touch with local conditions and is more co-operative.

POSITION OF CENTRAL INSTITUTIONS.

	1931	1932	1933	1934	1935
	Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).	Rs. (lakhs).
Working Capital	709	709	715	686	660
Owned Capital	79	86	97	105	108
DEPOSITS.					
(a) Individuals	511	502	515	493	459
(b) Societies	56	59	62	59	54
Invested in Government Securities (Book Value)	91	99	100	112	114

The Industrial Bank, Amritsar, has been excluded from the statement.

WORKING CAPITAL.

The working capital has decreased from Rs. 709 lakhs in 1931 to Rs. 660 lakhs in 1935. The reason for this is that the banks have continued to reduce their borrowing rates in keeping with market conditions and have discouraged further accumulation of funds which they are unable to invest at a profit. Owned capital, which includes share capital, reserve and undistributed profit, has been steadily increasing and has risen from Rs. 79 lakhs in 1931 to Rs. 108 lakhs in 1935. The prescribed standard for owned capital is 8½ per cent. of the total working capital. The owned capital of central institutions in the aggregate is now over 16 per cent., i.e., Rs. 108 out of Rs. 660 lakhs.

DEPOSITS.

The deposits from individuals have decreased from Rs. 511 lakhs in 1931 to Rs. 459 lakhs in 1935. The decrease in societies' deposits is, however, not heavy—from Rs. 56 lakhs to Rs. 54 lakhs.

Fixed deposits held by the banks in 1935 amounted to Rs. 316 lakhs from non-members, Rs. 66 lakhs from members and Rs. 64 lakhs from Local Bodies.

BORROWING RATE.

The most common fixed deposit rate paid by Central Banks and Unions at the beginning of the co-operative year, 1935, was 3½ per cent and 4 per cent. respectively. At the close of the year the most usual rate for both was 3½ per cent. The large banks offer only 2½ per cent. A few Unions are borrowing at 2½ per cent. and two even at 2 per cent. Many banks are far too slow in reducing rates, and this delay is reflected in their diminished profits. Even now the rates of some of the banks are high. However, on account of the continuous cheapening of money there has been a marked decrease in the rate of interest paid by Central Banks on fixed deposits. Not long ago, the rate was 6 per cent., but in 1935 it came down to 3½ per cent. There is still room for further decrease in some places and banks are taking advantage of this to reduce their rates when advisable.

SAVINGS BANK ACCOUNTS.

Savings Bank Accounts continue to increase, though the trifling balances maintained in many accounts give more trouble than they are worth. The number of savings bank accounts in 1935 stood at 20,450 and balance Rs. 73·74 lakhs as against 8,963 and Rs. 32·36 lakhs in 1930. The most usual rate on these accounts is 2½ per cent on minimum monthly balances. Depositors are encouraged to operate these accounts by cheques which have become popular.

COLLECTION OF DEMAND BILLS AND SALE OF DEMAND DRAFTS.

Central co-operative institutions in towns where commercial banks do not exist are frequently asked to collect railway receipts and demand drafts. The Punjab Provincial Banking Enquiry Committee recommended that co-operative banks should do this business under certain conditions and restrictions :

(1) Only banks in towns where there are no commercial banks are permitted to collect and sell ;

(2) for their own customers ; and

(3) for other persons on such places as the commercial banks of their town, having no agents, are unable to serve.

The number of demand drafts sold in 1933 was 4,051 of the value of Rs. 13·32 lakhs and the demand bills and cheques collected amounted to 14,811 for Rs. 45.84 lakhs. Of these the bank at Gujrat, where there is no commercial bank, collected 2,091 bills to the value of Rs. 5·61 lakhs and sold 2,582 drafts to the value of Rs. 8·36 lakhs.

FLUID RESOURCES.

Central Banks are required to hold a minimum of fluid resource to meet 12½ per cent of fixed deposits maturing within 12 months, 25 per cent of savings bank balances, 50 per cent. of current balances and the total statutory reserve account. The amount required in 1935 was Rs. 106 lakhs ; the amount held was Rs. 124 lakhs.

WORKING EXPENSES.

The working expenses of the 49 Central Banks represented 0.6 per cent. of the working capital in 1933, 0.77 in 1934 and 0.76 in 1935. The costs are small, compared with commercial undertakings. But it may be noted that the co-operative banks in this province do not employ any field staff for recovery and other purposes. For this they have to depend on the staff of the Punjab Co-operative Union and the Government.

LOANS TO SOCIETIES.

The balance of principal outstanding at the beginning of the year 1935 was Rs. 414 lakhs and at the end of the year Rs. 392 lakhs, and the amount of interest was Rs. 22 lakhs and 27 lakhs, respectively. There has been constant increase in the amount of loans advanced during the last three years. Rs. 46.12 lakhs were given on loan in 1934 to 5,134 as against Rs. 53·21 lakhs to 8,426 societies in 1933. Rs. 57·49 lakhs were advanced in 1935 to 6,842 societies, i.e., Rs. 11·8 lakhs more than in 1934. It may, however, be noted that 11,000 societies on an average did not borrow in the last few years. There has been some improvement in total

business, but the figures show that the business of a very large number of societies is still stagnant.

RECOVERIES.

The remarks of the Registrar in his Report for 1931 are interesting. " The economic storm, that is sweeping the world beats strongly on the central financing institutions. But it may be said that they and all concerned with their building up and continuance are standing up manfully against it, though there are great difficulties, and deposits and repayments, the stones of which they are built, are hard to come by. They have not yet been shaken. Let us be thankful to Providence, that the storm has come when the foundations, good credit reserve funds, have been well and strongly laid ; and to our past Registrars, that they planned and built so well. If the good and healthy sense of the Punjabi villager, which is their institutions' bedrock, is not undermined, we may surely face the future without fear. Low prices have very much cut down the farmers' income and at the same time as the prices of other commodities than agricultural produce have not changed materially, have created in him a desire, if not sometimes actual need, for more money. On the other hand, his income having been cut down, his capacity to repay any loans that he may owe is cut down correspondingly."

RECOVERIES DURING THE YEARS, 1931-35.

Year.	Principal. Rs. (lakhs).	Intt. Rs. (lakhs).	Principal. Rs. (lakhs).	Intt. Rs. (lakhs).	Principal. Rs. (lakhs).	Intt. Rs. (lakhs).
1931.	111·50	55·13	107·77	37·98	35·10	17·48
1932.	93·78	57·83	84·40	40·41	28·80	22·67
1933.	75·79	52·14	73·05	35·12	28·80	22·67
1934.	53·49	51·05	63·06	26·95	19·51	26·15
1935.	44·76	52·53	61·66	22·02	16·01	28·34

Recoveries include sums paid in advance. The amount of principal recovered during the past five years represented 22·15 per cent., 17 per cent., 12·6 per cent., 15·2 per cent., and 15·5 per cent., respectively, of the amount on loan to societies at the beginning of each year.

Overdue principal in the last four years was 6 per cent., 4.9 per cent., 4.7 per cent. and 4 per cent. respectively of the amount on loan at the beginning of the year. 6,825 societies defaulted in payment of principal demand and 6,981 defaulted in payment of interest in 1935 as compared with 7,251 and 6,645 societies respectively in 1934 and 8,037 and 5,921 in 1933.

OVERDUES.

Overdues for the five years from 1925 to 1929 were as follows : —

Year.	Amount on loans. Rs. (lakhs).	Overdues Rs. (lakhs).	Percentage of loan overdue Rs. (lakhs).
1925	259	36.62	10
1926.	312	42.22	13
1927.	416	57.33	14
1928.	504	65.79	13
1929.	554	71.87	13

For these five years annual repayments by primary societies averaged 40 per cent of the amount borrowed by them from Central Banks. In subsequent years recoveries fell on account of economic depression.

BAD AND DOUBTFUL DEBTS.

The debts due by societies in liquidation, classed D, are described as bad or doubtful debts. In 1935 societies in liquidation owed Rs. 19.46 lakhs, as against Rs. 17.28 lakhs in 1934. D class societies owed Rs. 67.49 lakhs in 1935 as compared with Rs. 59.23 lakhs in the previous year. The total owed by both in 1935 was Rs. 86.95 lakhs. The Bad and Doubtful Debt Fund created by the banks to meet any loss stands at Rs. 25.10 lakhs. They are trying to increase it to 50 per cent of doubtful debts. The total amount written off as irrecoverable from the beginning of the Movement upto now is Rs. 82.399 in principal and Rs. 43.247 in interest. This shows that the financial position of these banks is sound.

PROFITS.

At one time the glamour of high dividends had somewhat blinded many of the banks to the necessity of the sound, though slow and unobtrusive, practice of building up their reserves of all kinds as quickly as possible, and some were ready to slip into the highly dangerous path of distributing their profits before they had fully received them, and of forgetting that profits are distributed on the balance sheet that is before the meeting, and not on the strength of the accounts position altered by the period that has elapsed between the end of accounting year and the date of the meeting. However, much teaching and persuasion, including an indication of the tribulation to come if such a course were adopted, have brought them back to the centre of the straight and narrow path that leads to complete financial safety. There are also banks whose policy in the past has been a model of caution, and these are now reaping their reward.

The profits for the past four years have steadily declined from Rs. 10.38 lakhs in 1932 to Rs. 6.25 lakhs in 1935. There has been a sudden decrease of Rs. 3.06 lakhs in the profits in 1935 as compared with 1934. This decrease is more than accounted for by the interest accrued and not paid on D class societies, being held in suspense interest account and not credited to profit as before. It was decided in 1934 that recoveries from certain D class societies, selected by the staff, should in future be credited to principal, and accruing interest from the half year ending 31st July, 1934, should not be taken to profit but held in suspense. In 1935, it was further decided that accruing interest on other D class societies should be similarly treated, with effect from the amount accrued up to 31st January. " To make the position still sounder, banks have been asked to reverse gradually, from the profits of this and future years, accrued interest for previous years, which they had taken to profit, and to credit it to suspense. The amount of this interest to credit of suspense at the end of this year is Rs. 5.54 lakhs, and after allowing for the amount allotted last year, the balance is considerably more than the decrease in this year's profit ; the profit is under the circumstances satisfactory. It is equivalent to 0.95 per cent. on the working capital as compared with 1.3 per cent. last year."

DIVIDENDS.

The Registrar wrote in his Report for 1931 : "My own idea is that the payment of a dividend in the present circumstances should be very much the exception even if it is possible. Not only would the passing of dividend be financially wiser, but also it would be far more logical ; it is hardly possible to cry out in one breath that the agriculturist is at his last gasp, and with the next to demand that an institution whose assistance depends on him should at all costs pay a dividend, even out of money that it has not received. Such a prudent course would not be unique, for in South Africa loan companies, with the approval of the Central Board of the Land and Agricultural Bank as the largest shareholder, decided on account of the severe slump in the prices of farm products, not to pay any dividend for the year ended June 30th, 1930, and instead to hold profits against probable losses and so strengthen the position of the loan companies."

The average dividend paid by Central Banks for the three years ending 1934 is 5 per cent. By-laws permit a maximum dividend of 10 per cent. Banks generally are curtailing the rate of dividend in keeping with the present reduced interest rate obtainable on invested capital. Banks generally in the south-east of the province are precluded from paying dividends until the large amount of interest is recovered which has accrued on societies' loans and not been paid. This will not be possible until harvest conditions and prices in these areas become normal.

PRIVATE BANKS.

In 1930-31, the Registrar called a series of meetings of representatives of all Central Banks to discuss questions of interest to them such as regulating deposit rates, and dealing with debtors' reduced paying capacity by cutting the maximum credit limits of societies. For the first purpose, banks were divided up into groups, each with a big bank as a pivotal bank. The pivotal banks fixed their own rates, and ordinarily the others in the group were not to offer more than a small amount over the rate offered by the pivotal bank. In this manner the smaller banks would be able to get a fair share of the available deposits, and unreasonable competition being eliminated, the Movement as a whole would benefit by not having to pay too much for its money.

MAXIMUM CREDIT LIMITS.

As regards the maximum credit limits of societies it was decided that, as a measure of safety for themselves, the Central Banks should cut down all such limits by a certain percentage (this varied between 10 and 20) and that the case of each society should then be investigated separately. But, lest this decrease of borrowing power, suddenly imposed might do real harm to societies and their members, it was decided that the new limit should be reached gradually, by the societies being allowed by the banks to reborrow upto three-quarters of what they had repaid.

The Registrar in his report for 1932 remarked that the system devised in the previous year of grouping Central Banks, each with a big bank to work as a pivotal bank, had scarcely been successful in the matter of regulating deposit rates. It was hoped to attain some measure of uniformity throughout a large area by means of correspondence and periodical meetings when necessary. In the alarmist winter of 1931-32, Central Banks showed a tendency to discount the need for any such "co-operation," and deposit rates in divisional areas frequently showed an unnecessary wide variation in their range. Directors were inclined to take too circumscribed a view of the situation and the advice of the Department went a begging. While Central Banks remain the autonomous bodies they are, there will always be much lack of co-ordination, but the anxieties of the past year have helped to teach the need for a more united front. There is a lag in banking as in agriculture, and with co-operative institutions working independently or semi-independently, there is a double lag. When the market rate of interest falls, it does not fall fast enough to catch up the natural rate of interest, and the price level sags; and when the market rate of interest is falling, Central Banks allow their deposit rates to lag behind, with the result that their profit is deflated.

PRESENT POSITION.

These has been a further general reduction in the lending rates of Central Banks to societies this year. Banks being able to borrow at lower rates have not been slow in reducing their lending rates. A rebate of 1 per cent. is allowed by most banks where the six months' interest is paid in full and in several instances 2 per cent rebate is allowed on payment in full of the Kist demand of both principal and interest. Defaulting societies are given loans for the purchase of seed or bullocks, if recommended by the staff, and banks continue to supply the legitimate financial needs of affiliated societies. If a society's debt is in excess of its reduced maximum credit limit, it may withdraw 75 per cent. of the principal Kist, if that and interest have been paid in full. Further if a defaulting society is recommended for a further loan by the staff, banks now usually give the loan. The staff, however, is very careful in recommending a defaulting society for further financial help and only recommends it if the record is good and it feels that the money will be wisely used. In 1934 one or two banks did not agree to lend to a defaulting society on the recommendation of the staff. This niggardly policy had the inevitable consequence of discouraging societies from making repayments since they realised that efforts on their part did not meet with any generous response from their Central Bank, and they were merely deprived of the finance for the future. But happily there is no case of this kind now.

The amount advanced to societies in 1935 was Rs. 11.8 lakhs more than in 1934. The increase in 1934 was Rs. 11 lakhs. Comparing the amount on loan at the beginning of the year with the corresponding figure at the end of the year there is a reduction of Rs. 3 lakhs. The number of societies which have not borrowed during this year and also for two years has increased. This position indicates that additional societies have been able to put their accounts in order and resume borrowing.

Comparing the figures of 1935 with those of 1934, overdue principal is less by Rs. 3.50 lakhs and overdue interest shows an increase of Rs. 2.19 lakhs. The figures for 1933 were Rs. 9.57 lakhs and Rs. 3.48 lakhs and for 1932 Rs. 6.30 lakhs and Rs. 5.19 lakhs respectively. It is in the South East of the Province, particularly in the Districts of Gurgaon and Rohtak, that the figure of overdue interest has assumed the most serious proportions. The position as regards these overdues will improve if they get normal harvests for a few consecutive years. For the Province, the average principal recovered, as against the amount on loan at the beginning of the year was 15.5 per cent. in 1935 as against 15.2 per cent. in 1934 and 12.6 per cent. in 1933.

It must be admitted that Inspectors and Sub-Inspectors have had to give a great deal of their time in paying numerous visits to societies to stimulate recoveries with greater and greater difficulty attending recoveries from members ; many committees have got weary or indifferent or have thrown up the sponge ; and the result has been that the departmental staff have taken on the likeness of glorified bailiffs. This is of course, to devitablize the committees, but every one seems agreed that without this fairly intensive effort on the part of the staff, recoveries would have made a poor showing indeed. A realization of necessity for some repayments has been kept alive ; the question is whether the price of it has not been excessive in quasi-distress payments and the loss of co-operative morale.

FINANCIAL ADVISER.

In October 1928 the post of the Financial Adviser to the Co-operative Department was created. Mr. P. D. Macpherson, who has a very wide experience of the working of the joint stock banks in India and abroad, was appointed to this post. Under his wise guidance Central Banks have progressed on sound and satisfactory lines. Most of the defects, from which Central Banks were suffering prior to 1928, have disappeared on account of his constant supervision and advice. There are still some Central Banks which are in great need of improvement and in some cases it seems hardly too much to say that the continued safety and success of the banks depend much on the constant vigilance of the Financial Adviser.

The scope and structure of the Co-operative Movement depend on the social and economic requirements of each nation. State action and individual enthusiasm doubtless make their contributions.

—*C. F. Strickland.*

HOW TO REHABILITATE CENTRAL BANKS IN BIHAR

BY

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In this article it is proposed to deal solely with the question of rehabilitation of the Central Banks in Bihar which have, generally speaking, fallen in a state of extreme helplessness due to the economic depression which has been prevailing for several years and which shows no sign of lifting in the immediate future. The question of rehabilitation has now become one of great urgent necessity as the Central Banks cannot face the effects of the depression any longer. There was a time when the Central Banks in Bihar and Orissa enjoyed great prosperity, but the present slump in prices of agricultural produce and land values turned the table. The deterioration that has been caused by the economic depression will be evidenced by the fact that the recoveries of principal demand of Central Banks against their societies has dwindled down during the last 7 or 8 years, from 57 per cent seven years back in 1928 to 5 per cent in 1934. The percentage for 1935 is not yet exactly known as the official report on the working of co-operative societies for the year 1935 is not yet out but it is certainly expected not to exceed that of 1934, if it is not lower. The fall which amounts to about 51 per cent is tremendous and it unmistakably shows that the repaying capacity of the members of societies is very nearly exhausted. This is a very serious situation and unless steps are taken at once to remove the causes which are at the root of the evil, things will never straighten out and the existence of the entire Co-operative Movement will be at stake. It is proposed to deal with these root causes and to show how they can be effectively done away with provided a certain amount of courage and foresight is forthcoming on the part of the banks concerned, their financing bank, that is to say, the Provincial Bank, the Co-operative Department and the Government. All these four bodies will have to act in concert and do their respective bits in order to achieve the desired end, *viz.*, revivification of the Movement.

The primary aim of the Co-operative Movement is to set the small peasants and the small industrialists on their own legs, that is to say, to make them entirely dependent on their profits and earnings for their living. In order to secure this end it is absolutely necessary that credit should be available to them at the cheapest rate so that they may have no difficulty in arranging to liquidate the credit out of their profits.

What has happened in Bihar is just the contrary of this salutary rule. The practice followed in Bihar has been to adopt high rates of interest even though they happen to be lower than the rates charged by the local Mahajans. The rates at which primary societies lend out to their members still average 12½ per cent. Although this rate may sound lower compared to the rates of 24 and 33 per cent charged in the villages by Mahajans, still it is beyond the capacity of the borrower to repay out of his profit. This is one of the main reasons why recoveries in principal have been deteriorating and have now almost vanished. So the first step necessary is to lower the rate of interest by a drastic reduction to at least 8 per cent. This step becomes all the more necessary in view of the present economic depression and the lowering of the prices of agricultural products. The cultivator had not so much difficulty in paying a higher rate of interest in the days when his crops fetched him higher prices than he finds himself now in the face of lower prices. In the matter of charging lower rates of interest, Madras has set an example which Bihar and other sinners in this respect would do well to follow. The writer has interviewed thousands of members of primary co-operative societies and always come across the same complaint that the interest is too high to enable them to repay the loan. There must be thousands of cases in which the interest paid has exceeded the amount of the original loan. The collection of interest is also going down year by year. It is now in the region of 32 per cent of the total demand of interest and the overdues amount to the heavy figure of Rs. twenty-five and a half lacs. In addition to lowering the rate of interest and bringing it down to at least 8 per cent, if not lower still, it will be necessary to remit a large portion of the overdues. The writer would suggest the remission of at least 50 per cent of the overdues and in some deserving cases even a larger portion in order to enable the borrowers to throw off the heavy burden of the overdues and to start from now with a clean slate to enable them rewrite their future career with a rate of interest which is within their means to pay. This will at once put heart into the people and revive the Movement.

Another measure of equal importance is to arrest the stagnation which has set into the societies. This stagnation has been mostly caused by the policy of starving the societies which has been followed ever since the economic depression set in and the recoveries began to dwindle. This policy has been most fatal and has been responsible for a good deal for the deterioration which has set into the Movement. Members do not look forward to their societies as they used to do in the past for financing them in their agricultural pursuits, that is to say, the societies are no longer playing the part for which they were founded. Even good members cannot hope to get loans for ordinary agricultural purposes

and have again now become dependent on the village Mahajans. It is absolutely necessary so long as the Co-operative Movement is maintained and these societies are not wiped off that the ordinary needs of the members of societies should be fully met and not ignored as has become customary now. There is great callousness on the part of the financing banks in meeting the demands of societies with the result that the societies do not care either to borrow or to repay the past debt. The Central Banks have therefore lost the means wherewith to repay their depositors and meet their requirements. Fresh deposits in Central Banks are few and far between and depositors are more anxious to get back their money than to leave them in the hands of the Central Banks. This is the inevitable result of the starvation of the societies which has been going on for the last several years. Financing of societies must be renewed on a large scale but on cautious lines. With reduction in the rate of future interest and partial remission of overdue interest as well as fresh financing, the Movement will, it is expected, revive in no time. If the depositors of Central Banks get regular payment of their interest they would not be so anxious as they are now to get back their deposits. The first thing in order to regain their confidence is to arrange to pay them their interest regularly. The depositors have, with very few exceptions, behaved admirably and have in cases of several weak banks generously agreed to accept reduced rate of interest and even to completely forego taking of interest for the time taken up in rehabilitating the banks. Full advantage should be taken of their offers and the advantages gained should be passed on to the borrowing members of societies.

The cost of establishment and the over-head expenses in Central Banks are in most cases very high. Serious attempts should be made to reduce them. In the writer's opinion one way of doing this would be to do away with the Inspecting Clerks who are employed by the Central Banks to supervise the societies. The institution of Inspecting Clerks of whom there is one for every 50 societies has been no doubt a failure. In spite of the best efforts of the Central Banks, they have not helped recoveries and therefore they stand self-condemned. The Co-operative Department has recently reorganised its staff and provided a number of Inspectors to help the Assistant Registrars in their work of controlling and supervising the societies. Altogether 28 Inspectors have recently been appointed who will cater to, roughly speaking, about 7,000 societies in Bihar. This is not enough. The Co-operative Department would do well to press for an increase in the cadre of Inspectors. There should be at least one Inspector for every 100 societies. If the Government cannot afford to meet the entire cost, it might impose a levy on the Central Banks. But it is certain that in the long run the employment of Inspectors maintained by Government will be more advantageous to the Movement than the employment of Inspecting Clerks by the Central Banks.

Another great drawback in the Movement in this Province is that the primary society has so far been catering for both short term and long term requirements. It is now an established fact that a primary credit society does not ordinarily possess the means and capacity to cater to long term requirements. The sooner the long term loans—and there are too many of these in the societies in this Province—are separated and assigned to a separate agency, the better for the Movement. It is encouraging to find that the Local Government have shown signs of awakening to their responsibility in the matter by deputing an officer, who is well-known in the Co-operative Movement here as one of its best sympathisers, to study the question of the formation of Land Mortgage Banks. It may not be out of place to mention here that against the opposition of Government, the Legislative Council carried a resolution on the subject of the creation of Land Mortgage Banks in this Province and it is as the outcome of this resolution that Rai Bahadur Akhauri Gopi Kishore Lal has been deputed to study the question. Let us wait and see the result. If a net work of small Land Mortgage Banks with an Apex Land Mortgage Bank at Patna is organised, the thorny question of long term loans will be easily settled. But it will take years to organise Land Mortgage Banks in the Province. In the meantime something must be done by the Central Banks themselves to separate the long term loans from the short term loans. Circulars have been issued by the Department asking them to do so but no proper steps have yet been taken. The Central Banks will be well-advised to set to this task immediately and to depute an Officer for this work and then to create separate long term funds to cover the long term loans. These long term funds they might try to create by inducing some of their good depositors to agree to turn their deposits into debentures repayable in 20 years on a slightly increased rate of interest, say up to 5 per cent. In order to popularise the issue of these debentures they might ask the Provincial Bank to guarantee the repayment of interest on the debentures. These debentures may later on be passed on to the Land Mortgage Banks when the latter are organised. The issue of debentures by Central Banks will materially help them in their existing difficulties. The Provincial Bank may require some sort of support from Government in giving the guarantee for the regular payment of interest on debentures and Government should not hesitate to give the required help under suitable conditions, as it will go a long way to help the Movement and put it on sound lines.

The organisation of a separate agency for dealing with long term loans and the separation of the present long term loans will also solve the serious problem which has arisen in connection with the acquisition of lands by Central Banks in satisfaction of their dues which Central Banks have failed to administer properly or to dispose of on advantageous terms. Land value has at present so much gone down that it has become difficult to dispose of lands on reasonable terms or to settle them at profit. The result is that thousands of acres of lands are lying in the hands of the Central Banks undisposed of and unsettled and which are a source of positive loss to them instead of bringing them any profit. Collusive rent decrees have also been obtained against these lands in order to recover them at cheap expense. The Central Banks generally find it futile and useless on their part to waste further money by paying all the decrees. On the whole the acquisition of land by Central Banks has been of no gain to them and it would be well if these lands were returned to the owners on their liquidating the dues of the Central Banks by taking long term loans. Meanwhile while these lands are not disposed of, serious efforts should be made to properly administer them. It should not be difficult to get an yield of 6 per cent. out of the lands but at present owing to faulty management and neglect, they are not yielding even as much as 2 per cent. The management of these lands should be delegated to a particular Director who should be made solely responsible for it. This Director should not only be possessed of capacity to manage lands but should also have sufficient time to go round the villages for making settlement. As matters stand at present this work is entirely left in the hands of the Inspecting Clerks who by their neglect and dishonesty have augmented the losses sustained by the Central Banks. It is high time that this work were completely taken away from the hands of the paid staff of the Central Banks and placed in the hands of a Director who enjoys in a special measure the confidence of the people. Such a Director had better be selected in consultation with the Assistant Registrar.

The way in which liquidation work has been carried on in this province has been, to say the least, very unsatisfactory and needs thorough overhauling. Generally managers of Central Banks are the liquidators except in certain areas where the work has been placed under officers specially appointed for the work. Managers of Central Banks are generally so hard worked that they do not find the time required for vigorously pushing on litigation work. Either from gross neglect or from want of time, liquidation work has suffered grievously at their hands. At the close of the year 1934 there were 1,044 cases of liquidation pending, involving a sum of Rs. 27.85 lakhs. The number of cases satisfied during the year 1934 amounted only to 63. At this rate the satisfaction of 1,044 cases pending will take another 15 years, if not more. Inordinate delay in the disposal of liquidation proceedings coupled with the fact that very little recoveries are effected by these proceedings, has had a very disastrous effect on the Movement. It has very much stimulated non-payment by members who have become emboldened to think that payment can be evaded even up to the last. The overhauling of the liquidation work is a matter that devolves on the Department. Various reforms have been introduced from time to time but there has been very little improvement. A drastic change is called for and in the opinion of the writer it would be advisable to transfer the work to specially appointed Inspectors under a special Assistant Registrar, who should devote himself solely to the supervision of liquidation work in the Province. At present the Circle Assistant Registrars have not got time to devote that amount of attention to liquidation work which is required of them. The appointment of a special Assistant Registrar for this work will not only relieve the Circle Assistant Registrars of this burden but will also greatly accelerate the disposal of liquidation proceedings.

The Directors of the Provincial Bank have realised the gravity of the present situation in regard to the Central Banks and have initiated various measures of relief to them. In the first place they have agreed to cut down their rate of interest by 1 per cent. all round. This reduction will apply to all Central Banks good, bad or indifferent. In regard to particular weak banks the Provincial Bank has agreed to give further concessions. In regard to those which are in the worst possible condition, they have decided to forego all interest for a period of five years and in regard to those which are comparatively better off they are reducing the rate of interest on their loans to 3 and 4 per cent. These concessions will involve the Provincial Bank in a loss of very nearly one and a half lakhs of rupees which will completely wipe off its profits. But in addition to these concessions the Provincial Bank should be prepared to help further by undertaking to carry on the management of such Central Banks as have become too weak to administer their affairs themselves.

To conclude, the measures suggested for the rehabilitation of the Movement are summarised below :—

(*a*) Immediate reduction in the rate of interest charged to borrowers from primary societies to 8 per cent.

(*b*) Immediate remission of overdue interest to the extent of at least 50 per cent.

(*c*) Financing of societies to the extent of their normal requirements to be immediately renewed.

(*d*) Confidence of the depositors of the Central Banks to be regained by regular payment of interest to them.

(*e*) Cost of establishment and overhead expenses in Central Banks to be reduced particularly by abolishing the post of Inspecting Clerks.

(*f*) Government to provide at least 30 more Inspectors for the proper supervision of societies.

(*g*) Separation of long term loans to be arranged. If necessary debentures to be issued by Central Banks on the Provincial Bank guaranteeing the payment of interest to the debenture-holders.

(*h*) Creation of Land Mortgage Banks to be accelerated in order to take over the long term loans from primary societies.

(*i*) The management of landed properties in the hands of Central Banks to be overhauled and placed in the hands of specially qualified Directors.

(*j*) Liquidation work to be taken away from the hands of the managers and placed under special Government Inspectors, a special Assistant Registrar being appointed to supervise the work of liquidation.

(*k*) The Provincial Bank should be ready to take over the management of Central Banks which have proved incapable of managing their affairs on satisfactory lines.

It is not sound to minimise defects and disappointments, but it is equally unsound to lose a sense of proportion. In spite of set backs the Movement has shown steady progress and is becoming more and more a definite factor in the rural life of India.

—*L. D. Gammans.*

CO-OPERATIVE CENTRAL BANKS IN CENTRAL PROVINCES AND BERAR

By

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There was a time not very long ago, when C.P. and Berar could boast of 5,000 societies, the majority of which were of the agricultural credit type. The first indication of the decadence of the Movement here was noticed in the year 1920-21, when owing to wide failure of crops in the province, it was realised for the first time that the edifice of co-operation which had been raised had its shortcoming. The crop failure left its greatest impress in the recoveries. And owing to indifferent harvests that followed, the situation was much aggravated. It was noticed that Berar was over-financed. Land assets were taken as the criterion for making advances on. Repaying capacity did not count as much as it should have done with the then co-operative financiers--official as well as non-official. While attempts were being made to improve the position, world-wide depression set in and since 1930 co-operators in this province have been losing hopes.

There was, however, one redeeming feature during all this period of stress and strain. Among those districts which profited by the experience of Berar, one could single out those comprised under Chhattisgarh Division. Being forewarned, they found themselves forearmed. All that smacked of a bad element in them was weeded out. A few other districts in C.P. also took the clue and even after making allowance for bad years, one could say that they have maintained their own. The cautious ones have stood the test of times, the fool-hardy have been humiliated.

To be particular, cotton tracts have been the worst victims; next are the regions growing money crops like wheat. Rice-producing parts have always had a slow speed and they have maintained it to this day and have even made a considerable headway. Recipients of co-operative credit, who once blessed its dispensers, are now cursing them. Seizure of lands, attachment of crops and house property and expropriation have now become the order of the day, particularly in Berar. Central Banks own thousands of acres of lands but are not finding the buyers. Character, honesty, punctuality and prudence which were expected of borrowers have long ceased to exist. Raiffeisen has been almost banished. Creditors of Central Banks too entrusted thousands to such districts as had

tangible assets to back up their lendings. The result has been that when it came to paying, the rates were put up and claims were met out of counter claims raised over their heads. This situation could proceed for sometime but a crash came and some of the banks in Berar had to fall back on the resources of the Apex Bank. In some of the banks the flow of fresh money both from the prospective depositors and borrowers has been stopped. But there are others who are glutted with money and do not know the practical means of employing it. All that they can do is to divert all such money to the Provincial Bank which finds itself in a similar predicament. In the interests of security, the Provincial Bank has been very parsimonious in its advances. It has, however, run to the succour of some of the banks which were about to collapse. To be brief, several Central Banks have degenerated into mere debt-collecting agencies. All fresh avenues being blocked and barred and the outstanding assets frozen, they are just eking out a slothful existence.

Despite all this, it must be said to the credit of those who are responsible for piloting the Movement, that financially speaking, the heart is yet sound. To substantiate my proposition, I reproduce below a rough balance-sheet of the Movement in this province from which it will be clear that with right spirit permeating its sponsors and improvement of times there is sufficient hope of revival. Signs are not wanting to bear me out, but to this I shall turn later.

A BALANCE SHEET OF THE CO-OPERATIVE MOVEMENT IN C.P.

(as on 30th June, 1935).

Liabilities.	Rs.	Assets.	Rs.
Deposits.		Cash in hand and in banks outside the Movement ..	3,58,619
(a) Fixed ..	1,38,84,062	Surplus in Government Securities ..	31,27,716
(b) Savings ..	31,94,967	Fluid Resources in Government Securities ..	24,29,568
(c) Current ..	5,25,200	Reserve Fund in Government Securities ..	34,83,331
Provident Fund of Employees ..	2,63,882	Demand Loans on security of deposits and Government paper ..	60,189
Loans due to Banks outside the Movement ..	1,12,574	Deposits in approved Banks outside the Movement ..	7,35,981
Total Liabilities to outside creditors ..	1,79,80,685		
Paid-up Share Capital ..	22,26,338		
Carried over	2,02,07,023	Total liquid assets ..	1,01,95,404

Brought Forward	2,02,07,023	Brought Forward		1,01,95,404
		Buildings and stock	6,37,982	
		Landed property	19,33,519	
		Total fixed assets		25,71,501
		Total of liquid and fixed Assets		1,27,66,905
		Good debts outstanding against societies		88,25,698
Grand Total	2,02,07,023	Grand Total		2,15,92,603

Mixed up with the above figures, one finds those of the Apex Bank, and as such they require a little elucidation. Bereft of provincial bank figures, both grand totals just stand for a crore of rupees on either side. However, taking the figures as a whole one may say that the total assets comprise 46·7 per cent. in cash and liquid assets and 12 per cent. in other fixed assets. Thus for the liquidation of outside liabilities only an amount of Rs. 52,13,780 or 59 per cent. of the good debts outstanding against societies would suffice. A portion of the good debts (Rs. 88,25,698) viz. Rs. 69,93,892 is secured by first mortgages on lands of members. In Berar, banks hold first mortgages on 65,017 acres of land. Besides these the Berar banks own in their own right 32,707 acres of land for the total auction value of Rs. 19,05,540. It would thus be obvious that despite the adverse situation as depicted above, the intrinsic financial position of the Movement as a whole continues to be sound. It is in no small measure due to the liquid position of the Apex Bank which though not losing sight of team work, has been continuing to maintain its equilibrium.

Having thus far reviewed the general financial position of the Movement, let us now turn our attention to the position of Central Banks as that is the main topic with which we are concerned. For comparison, figures for previous three years as far as may be necessary will be quoted in brackets.

The total working capital of Central Banks numbering 35 decreased to Rs. 2,45,61,800 (Rs. 2,543,400, 2,428,400, 2,460,000). Share Capital which stood at Rs. 1,816,600 in 1931-32 and Rs. 1,756,800 in 1932-33 stands now at Rs. 1,680,000. The general reduction that we notice hereunder is due largely to redemption of shares held by members of the societies, brought under liquidation and also partly to the conversion of non-share societies into share societies. Reserve and other funds increased from Rs. 4,459,000 in 1933-34 and Rs. 3,717,600 in 1932-33 to Rs. 4,958,000 out of

which Rs. 3,078,200 are earmarked as provision for bad and doubtful debts against Rs. 2,675,300 three years back.

Overdues are the lowest in Chhattisgarh Division, where they amount to 8 per cent. of the outstandings. No indiscriminate renewals are now allowed. Taking the renewals and overdues together arrears decreased slightly from Rs. 15,871,700 to Rs. 15,854,700. The percentage of such arrears to total outstandings was 79 and 96 (as against 84 and 90 in 1933-34) in the Central Provinces and Berar, respectively. Closely bound up with these is the question of big borrowers, i.e., those who owe more than Rs. 1,000. They were 85 per cent. of the total number of members in C. P. and absorbed Rs. 7,47,500 out of Rs. 4,743,944 or 15.8 per cent. of the total loans, while in Berar, they were absorbed by 22 per cent. of the total number of members of societies and were responsible for loans amounting to Rs. 4,701,413 out of Rs. 6,027,817 or 78 per cent of the total outstandings against members. There are 222 members owing more than Rs. 5,000 each and are responsible for a sum of Rs. 21,86,364. The increase seems to be due to the capitalisation of interest. While constant criticism has created an opinion against concentration of debts in a few hands and adequate action is being taken against them, in some places where big borrowers wield considerable influence, proceedings are still not pressed with sufficient vigour. Now the Local Government has framed rules whereby loans are limited to Rs. 250 in C.P. and Rs. 500 in Berar.

Bad debts amounted to Rs. 8,78,000 in C.P. and Rs. 1,832,600 in Berar on 30th June, 1933. At the end of June, 1935, they stood at Rs. 1,077,100 in C.P. and Rs. 2,796,600 in Berar; doubtful debts being respectively Rs. 5,09,300 and Rs. 26,900. The percentage of bad and doubtful debts with reference to the total outstanding loans works out at 28.8 per cent. in C. P. and 30.3 per cent. in Berar.

The picture drawn above must be supplemented by that of the agricultural societies affiliated to Central Banks. About three years back they numbered 3,689 as against 3,512 existing to-day, their total number according to the two divisions of the Province being 2,992 in C. P. and 520 in Berar. During the last three years about 200 new societies have been registered (only 50 being to the credit of 1934-35) as against 431 cancelled. Cash recoveries of Central Bank loans from societies were Rs. 7,53,500 in C.P. and Rs. 2,18,000 in Berar in 1934-35, as against Rs. 1,042,100 in C. P. and Rs. 1,88,500 in Berar in 1932-33, corresponding figures for 1933-34, being Rs. 8,32,200 and Rs. 1,70,800 respectively. It may be interesting to pit against these, the loans of the Central Banks against societies. They amount to Rs. 1,486,025 in 1934-35 as against

15,365,932 in 1933-34, cash advances to members of the societies amounted to Rs. 6,17,500 against Rs. 6,52,700 in 1933-34 and Rs. 8,07,000 in 1932-33.

Deposits from individuals fell from Rs. 1,304,400 in 1933-34 and Rs. 12,900,500 in 1932-33 to Rs. 1,226,548. There have been considerable withdrawals of deposits in Berar, particularly in one bank. Fluid Resource position in 24 Central Banks is extra-satisfactory while in 11 banks it falls short of the prescribed standard. However, speaking as a whole, cover for deposits is being maintained according to the prescribed criterion.

Above all things, the coercive action which has to be resorted to latterly has been making the Movement rather unpopular but there is no way out of the situation. The total number of awards in C.P. stood at 3,977 the amount involved being Rs. 2,289,600. Out of this 459 involving Rs. 1,332,255 were against societies and 3518 involving Rs. 9,57,341 against members, Berar's quota being 1,618 awards involving Rs. 3,241,019. Similarly liquidation proceedings also have been looming large. They comprised at the end of 1934-35 about 1,100 societies of which 792 went to the lot of C.P. and 322 to Berar, loans recoverable being Rs. 4,322,136 in C.P. and Rs. 3,336,415 in Berar. The weeding process is not yet complete but the difficulties raised by acute depression, and those attended with the selling of lands, are getting insurmountable.

The whole situation is fraught with difficulties and it is up to them who are out for the economic regeneration of India to ponder anxiously over it. While rural co-operation has thus come to a standstill and as remarked elsewhere, the assets have frozen, one finds a few rays of hope in urban co-operation; particularly the clerks' societies are making their leeway and so a few other types here and there. Land Mortgage Banks, now 10 in number, have been recently started in this province and results are awaited. The problem of recoveries is getting complicated by recent rural uplift legislation and it will be premature to pronounce any opinion on their working. It may, however, be hazarded that wherever Debt Conciliation Boards are functioning, recoveries have received a setback. After all honesty cannot be practised at the cost of life. The economic conditions are so excruciating and staggering that even those who honestly thought that they would be able to repay co-operative loans are now turning rebels. To add to this the workers themselves have not the enthusiasm which once inspired them. Politics has a better attraction for those who want to be in the limelight. Integrity of purpose, unflinching faith in co-operation and indomitable will to serve the masses are some of the qualities that are needed in a true worker. There cannot be a better field for best instincts and latent qualities of head and heart than co-operation.

Government also must play its role. Road development has been the poorest in our land. Similarly, cottage industries which once flourished, are now woefully losing and the villager of to-day has neither the means nor the capacity to supplement his income by subsidiary industries. Days of economic planning are fast approaching. Research Departments should not be mere job-giving agencies to a few experts. They must plan and carry out what is best in the interest of agriculturists. Days of patch work and pilfering with the sentiments of people are fast disappearing. It must be a comprehensive scheme of rural uplift. We must endeavour to raise the purchasing power of our masses and then alone we can talk of repaying capacity.

All over India, it is the same story of overdues, unrealised interest, bad debts, surplus funds, lack of initiative and voluntary spirit, want of education and supervision. It is, therefore, no use harping upon our shortcomings or cavilling at those who criticise us. We have to take courage in both hands and the whole machinery of co-operation, official as well as non-official, has to be set in motion. We also want Government to co-operate with us or it may be said that we are all hypocrites and do not mean real business.

What gains there are have so far been in the unpalatable commodity, experience; a realisation that credit without thrift is but a fair-weather friend; and that to make production easy without making marketing efficient may well be a dangerous half-service.

—Editor, Year Book of Agricultural Co-operation, 1936.

EVOLUTION OF CO-OPERATIVE FINANCE IN THE CENTRAL PROVINCES AND BERAR

BY

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The founder of the Co-operative Movement in Central Provinces and Berar was Mr. H. R. Crosthwaite, who devoted the greater part of his official life to it with exemplary devotion and enthusiasm. He founded the first co-operative credit society at Piparia in 1902 and the first Central Bank at Sihora in 1904. He guided and controlled the Movement till his departure in 1923, by which time 34 Central Banks and some 5,000 societies with a membership of over 1,50,000 had been established.

The history of the Central Banks in this province may be divided into three periods, viz., (1) the period of organization and expansion, (2) the period of financial crisis and subsequent reconstruction of the Movement and (3) the period of depression (slump in the prices of Agricultural produce).

I. THE PERIOD OF ORGANIZATION AND EXPANSION (1902—20).

The first Central Bank was established at Sihora in the Jubbulpore district. This was an ordinary bank of share-holders for financing rural societies and in due course, it took upon itself the functions of organization, supervision and general control of societies and became the prototype of other banks in the Province. There was a gradual increase in the number of Central Banks which, by the year 1920 numbered 34. It may be noted here that this period synchronises with rapid growth in the number of the primary societies.

In the beginning the banks made arrangements for funds with commercial banks in order to finance their affiliated societies. However, the credit and resources of the individual Central Banks varied considerably. While some of them began to accumulate considerable surpluses, others found themselves handicapped by lack of capital. Thus

in order to co-ordinate the reserve of individual Central Banks and to provide a link with the money market, the C.P. & Berar Provincial Co-operative Bank was established in April 1912. Originally, the management of the apex bank was in the hands of its individual share-holders but in 1917-18 preference shares were issued to Central Banks and primary societies by virtue of which they acquired controlling influence in the Directorate of the Provincial Bank.

In the year 1912-13 the C.P. and Berar Co-operative Federation of Banks was organized with the object of providing an efficient system of supervision, audit and control of banks and societies. The Chairman of the Federation was also the Chairman of the Provincial Co-operative Bank for some years.

The Central Banks raised their capital by issue of shares to individual shareholders and to primary societies and their members, by accepting members' and non-members' deposits and by loans obtained from the Provincial Bank.

The special feature in the co-operative structure of this province has been that from the very beginning the reserve funds of the Central Banks and societies have been invested outside their working capital in a liquid form either in the shape of Government paper or some other mode easily convertible into money. This has contributed to the strength and stability of the Movement. The position of the Central Banks at the end of the first period is depicted by the following figures :—

		Rs.
Share capital	..	16,87,491
Deposits	..	54,52,437
Reserve Fund	..	1,93,023
Other funds	..	1,40,524
Loans from Provincial Bank	..	25,03,825
Loans outstanding against societies	..	83,71,301
Stock and furniture	..	60,368

From the very beginning the Provincial Bank held the fluid resource of all the Central Banks as cover or protection for the Movement as a whole. This cover at the close of the year 1919-20, i.e., on the 30th June 1920, amounted to Rs. 6,30,778 or 9 per cent of the deposits falling due for repayment in the following 12 months as against Rs. 24½ lakhs or 50 per cent of the deposits in 1918-19. A year before the percentage of fluid resource was as high as 68 per cent. The main cause of the decline of the fluid resource was that the Provincial Bank advanced Rs. 10 lakhs in 1918-19 to members of societies for the repayment of old debts. The banks were therefore advised to encourage long term loan deposits and to begin to build their own fluid resources. They were further advised not to pass on their reserve funds to the Provincial Bank but to invest them in gilt-edged securities.

No doubt the repayments by societies during the period of expansion were not steady on account of poor harvests in different parts of the province in different years, but the year 1919-20 was a year of progress to the Movement as a whole and 85 per cent of the Central Banks' loans were recovered. Out of the demand of Rs. 46,89,188 the actual recoveries amounted to Rs. 39,83,629. On account of these good repayments the Central Banks were in a position to pay off to the Provincial Bank Rs. 12,45,026 or 88 per cent of the latter's demand of Rs. 14,08,409.

The year 1919-20 was the culminating year of the period of expansion. As many as 706 new societies including 588 primary credit societies were registered in this year. This rapid expansion left the Central Banks and societies in deep waters and in greater dependence on the Provincial Bank. Deposits from the investing public did not keep pace with the increase in the loans advanced to members of primary societies. The Local Government gave a timely warning in its resolution on the annual report on the working of co-operative societies for 1919-20 in the following words:—"The primary societies and Central Banks may be intrinsically sound, but any mistake in the higher finance for the control of which the Provincial Bank is responsible cannot fail to involve the whole of the credit organisation in serious difficulties."

II. THE PERIOD OF FINANCIAL CRISIS AND RECONSTRUCTION (1920-28).

A financial crisis developed in the Co-operative Movement in 1920. This was the result of dissipation of fluid resource by the Provincial Bank and the use of reserve funds of the Movement in the grant of loans. A policy of expansion was pursued in 1920 by the Federation and the failure of monsoon in that year brought matters to a head. Meanwhile, the influx of deposits proved insufficient for the requirements of the Movement, and in November 1920 co-operators in the Province were face to face with a difficult situation. The crisis deepened, and on the 26th January 1921 the Federation Congress resolved to seek financial help from Government, and that was provided. A sum of Rs. 17 lakhs was made available as a cash reserve or fluid resource for the protection of depositors and another sum of Rs. 19 lakhs was granted for the financing of members of rural credit societies.

The Federation Congress while asking for help agreed to the appointment of a Committee on Co-operation, and one was appointed under the chairmanship of Mr. King, I.C.S., to inquire into the constitution, financing, audit, supervision, banking methods and general working of rural co-operative credit societies, Central Banks, Provincial Bank and of the C.P. Co-operative Federation. It was on the Committee's recommendations that the Provincial Bank was reorganized by the redistributing of its share capital equitably amongst the rural societies, and the hand of the Federation in guiding and controlling the policy of the Provincial Bank was withdrawn by amendment of the bye-laws. The Federation was also reorganized and it was made more or less a deliberative body discussing problems of importance to the Province as a whole. The reserve funds and fluid resources were either invested in Government securities or with the Registrar.

It may be noted that the cash credit arranged in 1921 was withdrawn in 1924 and the Government loan was fully repaid by 1925. The weakness of the Movement fully came to light in 1923 and the banks followed the policy of consolidation and reorganization as endorsed by the Standing Committee in that year. It was realized that while the Provincial Bank safely tided over the financial crisis, it was in the primary societies that deterioration had set in which threatened the safety and prosperity of the Movement. The following measures were adopted:—

1. A programme of reorganisation of societies was drawn up according to which 1,443 lifeless societies were weeded out and those that were not past hopes of revival were kept on the programme for being rehabilitated—by expulsion of weak members, making easy and convenient instalments of the arrears and enrolment of sound thrifty members.

2. New organisation, wherever necessary, was permitted but with great caution in the light of the past experience.

3. As per recommendations of the Sub-Committee appointed by the C.P. Federation for examining the question of share societies on the Punjab model, the share system was introduced in good working societies and 597 new societies with share capital were organised.

4. Emphasis was laid on the writing of societies' accounts by their members for which training classes were held to teach them.

5 Rallies or village gatherings of members of co-operative societies began to be held at convenient centres in rural areas at which not only education in co-operative principles was given but also the villagers were encouraged to improve their agriculture and to stop waste of ceremonial expenditure.

6. The Reserve Fund scheme was introduced by which a certain proportion of the reserve funds of societies was allowed to be mixed in their respective working capital and the rates of interest on societies' lendings to their members were reduced.

7. Above all, a system of education and supervision was introduced by which the functions of (*a*) finance and (*b*) education and supervision were separated and separate Local Supervision and Education Committees were appointed in the banks for controlling and guiding the societies and for supervising the work of the field staff, i.e., the Group Officers and Assistant Group Officers.

These measures which were adopted by the Department with the consent of the co-operative institutions proved to be useful in strengthening the position of the societies and the Central Banks and the cash repayments from the societies increased from Rs. 26 lakhs in 1925-26 to Rs. 28½ lakhs in 1926-27 and to Rs. 44 lakhs in 1927-28.

With one or two exceptions all the Central Banks maintained more than adequate fluid resource as cover for their fixed and savings deposits and they had no longer to lean on the Provincial Bank for help in this respect. The percentage of deposits held by the Central Banks in proportion to their working capital increased from 50 in the year 1920-21 to 60 in 1927-28, while the Provincial Bank loans decreased from 22 to 9 per cent of the working capital during this period. This will show that the overdependence of the Central Banks on the Provincial Bank for finance, objected to by the Committee on Co-operation in 1921, practically disappeared and they were able to stand on their own legs in this respect. The rates allowed by banks on deposits were also appreciably reduced in a majority of the banks. As will appear from the following figures adequate provision was made for bad and doubtful debts.

Bad debts ..	Rs. 6,49,209
Doubtful debts ..	" 9,54,734
Provision made ..	" 9,97,241

Despite the fact that some new societies were organised the numbers of agricultural societies affiliated to the Central Bank declined from 4,421 to 3,828 but consequent on the revival of demand, their working capital was nearly doubled and it amounted to more than 2 crores, the share capital increased by 25 per cent, the deposits registered more than 120 per cent increase and reserve and other funds increased 8 times. Thus the position of the Central Banks in the Province which increased from 34 to 36 was appreciably strengthened.

It was noticed that in Berar where the land tenure system is different, i.e., the lands held by the cultivators are mostly transferable, the members were tempted to borrow heavily on the strength of this material security and co-operative spirit waned, with the consequence that the Central Banks practically functioned as Land Mortgage Banks. A large portion of their capital was concentrated in a few hands. In 1927-28, 22 per cent of the members of societies absorbed as much as Rs. 65 lakhs of loans and the remaining 78 per cent owed only Rs. 24 lakhs. This long-term business became a general problem for the Berar co-operators to tackle. This difficult position synchronised with the world-wide economic depression and fall in the prices of agricultural commodities.

III. THE PERIOD OF DEPRESSION.—1928

The work of reorganization was well-nigh completed in the banks of Chhattisgarh Division and some other banks, and new organization was encouraged there. In the year 1929-30, 344 new societies were registered. The number was the largest since the year 1920-21. The unprecedented economic depression in 1930-31 and 1931-32 resulted in a partial set-back to the Central Banks and to the policy of eliminating lifeless societies. Organization of new societies was restricted to the banks in Chhattisgarh and a few others where the societies were in a healthy condition.

The slump in prices of agricultural produce accompanied by poor crops had a very bad effect on cash repayments which were very poor during this period. They were 16 per cent in 1930-31 and 13·5 per cent in 1931-32. The main problem before the Central Banks was the recovery of their heavy overdues. For want of bidders at the auction of immovable property, the Berar banks had to purchase land against their will. The area held by the societies and banks there, is 32,707 acres. The acquisition of large area of land by co-operative societies not only tends to make them unpopular but their management has proved a formidable task. They are advised to dispose of the lands as quickly as possible.

Every attempt is being made to put the Central Banks on a proper footing again and the defects noticed from time to time are being remedied. New societies are formed only of honest and solvent agriculturists who are reported to have understood the principles of co-operation. Fresh financing is confined to short term loans for agricultural purposes only. In order to prevent over-financing, a rule has been made by the Government laying down that no member of a society shall be granted a loan exceeding Rs. 250 in C.P. and Rs. 500 in Berar.

In order to ensure proper supervision and control over the field staff group system has been introduced and Central Boards have been established in each Institute area for this purpose. The extensive campaign for education and training of members undertaken recently will, it is hoped, help materially in resuscitating the Co-operative Movement in the Province.

Another effect of poor cash recoveries from societies was that some Central Banks found it difficult to meet the calls of depositors. The financial crisis which threatened them was averted by the timely intervention of the Provincial Bank which came to their rescue. There are three such Banks, Mandla, Malkapur and Amraoti—to which the Provincial Bank had to render financial assistance in order to meet the demands of their depositors and in return the Central Banks have agreed to entrust their management to a Committee which includes the Registrar and the Managing Director of the Provincial Bank or their representatives. This novel experiment has so far proved to be a success in Mandla Bank as its affairs have improved considerably. In the other two places it is too early yet to pronounce a judgment.

Successive crop failures in the Northern districts and in cotton growing tracts and low prices of the agricultural produce have hit the cultivators very hard and all possible measures are being taken for their relief in these abnormal times. Some of them are enumerated below :—

1. Rates of interest on societies' loans outstanding against their members were reduced from the income on the investments of reserve funds, by the application of the reserve fund scheme more freely

2. Lending rates of the Central Banks were reduced and the benefit of this reduction was given to the members of societies.

3. As a temporary measure the margin of 3 per cent between the lending and borrowing rates was reduced in order to give relief to the members of societies. As a result of these concessions the rates of interest charged from societies' members have been considerably reduced and they now range from 6 to 11½ per cent.

4. Ten Land Mortgage Banks have been established in order to provide long term credit to the cultivators. For this purpose the Tenancy Law has been amended in order to make the occupancy holdings mortgageable for the loans to be taken from these Banks.

5. Facilities for the repayment of debts due to societies in easy instalments by means of their conciliation through the Debt Conciliation Boards have been provided.

6. Enquiries in Berar, where the loans are very heavy, were made for writing off bad and irrecoverable debts of societies from their respective reserve funds subject to certain conditions. Orders have been passed to grant relief in suitable cases.

The world is passing through a crisis created by the abnormal depression and the Central Banks are no exception. They are faced with the formidable problems of overdues, big borrowers and the heavy fall in land values, which are becoming acute every day and call forth the highest degree of energy and patience. The position of the Central Banks in general continues to be sound and it is hoped that they will weather the storm successfully.

The failure of the Co-operative Movement in our view has been due to failure to realise that credit organisations alone can never provide an effective remedy for the indebtedness of the cultivator. His position can only be improved if the full force of the Co-operative Movement is brought to bear on him at every point—in the sphere of education, of better living, of better farming and of marketing.

—A. P. McDougall and A. Friederich,
(Foreign Experts to the Indian Central Banking Committee.)

CENTRAL CO-OPERATIVE BANKS IN THE MYSORE STATE

By

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At the end of the year 1934-35, there were 1,998 Co-operative Societies within the State of which 1,445 were agricultural societies, and 12 central banking institutions. The latter included the Provincial Co-operative Apex Bank, the Central Land Mortgage Bank and the Central Co-operative Bank of Bangalore. Five of the remaining nine were District Central Banks, the rest being Federal Banking Unions.

The Central Co-operative Bank of Bangalore, which is the oldest of the Central Banks, used to admit as members both societies and individuals. Later on when the Apex Bank was started in 1915 to finance solely co-operative institutions, competition and conflict arose between the two societies. At last the Central Bank ceased, after the intervention of the Government, to lend to co-operative societies, but confined its transactions only to individuals. Its jurisdiction which extended at first over the whole State, still continues to be as extensive, though it has been obliged to fix the amount of loans advanced to members outside the city of Bangalore, at a minimum of Rs. 2,000 so that there may not be any conflict between itself and the primary credit societies in the State. It is therefore now merely a credit society of limited liability, an urban bank, with its membership open only to individuals, having its jurisdiction extending over the whole State, but working under the restriction of not lending less than Rs. 2,000 to mofussil members. This institution is not, therefore, a Central Bank in the accepted sense of the term. It is being included, however, amongst the Central Banks in the official lists, as there are still certain societies which linger as its members even though they cannot borrow from it, as their membership cannot be cancelled till their old dues have been fully paid up.

The Central Land Mortgage Bank lends both to individuals and primary Land Mortgage Societies. It does not, however, lend to persons who are members of primary Land Mortgage Societies.

Few of the five District Central Banks and the four Federal Banking Unions have been advancing any loans to their constituent societies for the past many years. Except the District Central Bank of Mysore, they do not lend to individuals. In the year 1934-35 the only one of the nine banks which advanced a loan to a primary society was the Kadur District Central Co-operative Bank, which lent a sum of Rs. 1,000 only.

A comparative table (Table A) is appended herewith which furnishes certain figures pertaining to the District Banks and the Federal Banking Unions. These Central Banks which were 13 in 1930-31 declined to 9 in 1934-35. Their membership, working capital, reserve fund and transactions have all been going down year by year. Their total loans to primary societies were nothing during two of the five years and the highest amount which those 13 societies lent was only Rs. 8,920 in 1930-31. Though the total number of societies that have been their members is pretty large, the transactions with them have always been very negligible.

It is thus evident that the District Central Banks and Federal Banking Unions have not at all been meeting the credit demand of their member-societies. Their utility as financing and balancing centres of their constituent societies is now nothing.

The Central Banks are all located in urban areas. Whereas the urban primary credit banks have been thriving well all along, it looks strange that the Central Banks situated in the same environment have failed in their business. Though the failure of Central Banks is widely published, the reasons for their failure do not seem to have been fully investigated. Some believe that the following are some of the reasons for their failure:

(1) The Central Banks did not develop from within to meet the demands made by the primary societies for an organization of the kind. Most of the Central and Federal Banking Unions were formed by official persuasion during or before the year 1914, within about 8 years after the inauguration of the Movement of Co-operation in Mysore State. People on whom primary societies were almost forced by means of official propaganda during the few years before, had scarcely understood how to work even primary societies. All at once Central Banks were introduced by the Department. As the management of Central Banks is far more complicated than that of primary societies, people could not be expected to run them with efficiency as they were all practically inexperienced.

(2) The Central Banks had amongst their members a large number of individuals who were sympathisers of the Movement. They were either depositors of their own funds or were instrumental in influencing their friends and relatives to deposit their funds in these societies with the very laudable object of rendering financial assistance to the village agriculturists through their primary credit societies. But few of these well meaning persons, most of whom were elected to the Boards of Directors, were well-versed either in the principles of Co-operation or Banking. Twenty years back there were practically no commercial joint-stock banks within the State—except the Mysore Bank, which too was in its infancy at that time. People who undertook the management of

the Central Banks were not at all well versed either by observation or by study, in conducting a deposit banking concern with foresight and ability. Moneys were lent to primary societies on the recommendations of the Registrar or his subordinates. The Boards depended fully upon their valuations of property and their estimates of the creditworthiness of the borrowing society. The primary societies also borrowed, not with any regard to the repaying capacity of their borrowing members, but with reference to the value of the security offered by them. Hence heavy loans were advanced to societies without regard to the capacity of the borrowers to return the amount.

(3) The Central Banks believed that the unlimited liability of the borrowing society was an immense material security for their loans and considered that practically the whole of the movable and immovable properties of the members of the borrowing society could be secured to their loans. They were therefore careless in the sanction of loans to the societies. They did not clearly understand how unlimited liability would be helpful to them to realise their dues, ultimately. They little considered that their loans were not a charge upon the properties of the members of the borrowing society and their security could be materially diminished by the withdrawal from membership of persons of means and standing.

(4) The Central Banks were not the repositories of the funds of the primary banks. At the time the Central Banks were organized, few societies had any large amount of reserve fund to deposit in the Central Banks. Nor had they any local deposits of their own. The affiliated societies had very little financial risk of theirs in the Central Banks, and after they had borrowed loans, their interest in the Central Bank practically ceased. They were, when they had defaulted, more inclined to avoid the Central Bank and its authorities, than take interest in its administration or affairs. The working capital which consisted mostly of share amounts and deposits of the individual members and non-members was therefore not taken proper care of by the borrowing societies.

(5) Government officers discovered rather late that to make people run successfully a co-operative credit society was not so easy as to persuade them to start a society. Having brought into existence numerous societies some of which had not in them the healthy blood to live robustly, they were unwilling to end them even when they observed that they showed no symptoms of life in them. The extreme reluctance of the Departmental Officers to enforce recovery of the dues from defaulting societies by either cancelling their registration or enforcing unlimited liability demoralised societies and made them ignore the demands of the Central Banks.

It may be said that these drawbacks and defects were not peculiar to Mysore and were more or less common in other provinces of India and the question was raised why, while the Central Banks in some British Indian provinces have been able to survive these defects, the Central Banks in Mysore have failed to overcome them.

The District Central Banks of Mysore also would have probably thrived better if at the earlier stages the functions of the District and Federal Banks and of the Central Apex Bank were clearly defined without allowing any overlapping. Unfortunately, the Central Bank of Bangalore, the only one and the earliest of the Central Banks formed to finance societies also, was permitted at first to advance loans directly to societies, as at that time there were no District Central Banks at all. Later, when the District Banks and Federal Banking Unions were formed to finance societies, the operations of the two provincial banks were not confined to the grant of loans to primary societies only through the District Central Banks. Consequently there was overlapping and competition and the provincial banks which were stronger and had more influence and financial resources refused to give up their right, secured under their bye-laws, to have direct dealings with the primary societies.

The conditions of the District Banks were unsatisfactory even in 1920 when the Samaldas Committee was appointed. That Committee worked in a very leisurely manner and reported as late as 1923, on which the Government passed orders in 1925. In the long interval that elapsed between the deliberations of the Committee and the Order of the Government the old order continued. The Committee which was asked to report on the position and function of the Central Banks finally said that there was no necessity of having them any longer, and suggested that the State of Mysore, being a small and compact area, did not need the intermediary organization of a Central Bank which, if organized as an indispensable link between the Apex Bank and the primary societies, would only increase the cost of borrowed money to the primary societies. Thus the District Banks before they developed into useful institutions to finance the primary societies, were condemned as useless, and were allowed to decline. The District Central Banks and Federal Banking Unions are practically inactive now except in the matter of recovering their dues from the debtor-societies and are thus gradually breathing their last. They will be no more within a short time, as Government have definitely decided to end them as soon as their assets are realized.

Some persons suggest that it is better to allow the District Banks to work as primary credit societies with jurisdiction extending over the whole of the District, instead of closing them once for all, and permit them to work within their Districts in the same way as the Central Bank of Bangalore is working within the whole State. Though the working of a primary society with a huge area for its operation has grave disadvantages and tends to raise the rate of interest on loans on account of the heavy incidental expenditure to be incurred by the Bank and its officers to go to the spot for inspection of property and investigation of the title, etc., still the suggestion is worth considering as the persons living in the headquarters of the Bank can use it to borrow on the security of lands which are outside the town, since many of these dwellers of the cities are unwilling to take the huge risk of becoming members of unlimited societies within whose jurisdiction their lands are situated, and the local urban banks do not lend on the security of immovables lying outside their area of operation.

The only Central Co-operative Bank which has been functioning now within the State is the Provincial Co-operative Apex Bank which is located at Bangalore. It was started in the year 1915 and has now amongst its members nearly half the number of societies within the State. A comparative table of the past five years of its position is appended herewith. (Table B.) It has been progressing fairly well though latterly its working capital and transactions have fallen. It lends only to societies and was advancing loans to depositors on the security of their deposits. The latter practice is objected to by the Registrar as opposed to law and principle and his position is now strengthened by the support which the recent report of the Co-operative Enquiry Committee has given to his view.

The Apex Bank has no branches whatsoever and has to deal directly with all the societies which are its members. The authorities of the Bank are unwilling to open branches though repeated demands are being made at the Annual Conferences to give that facility to the members. There are some societies in the State which are more than 200 miles away from Bangalore and it is idle to hope that they can make use of the Apex Bank especially to deposit their savings with it. The Government has no doubt given facilities to the Apex Bank to utilise its treasuries for collection of money from, and disbursing funds to, the societies. But the procedure is felt by the societies to be not quite easy, and, therefore, the Apex Bank has become more the repository of the well-to-do in the cities than the centre of savings and of the spare funds of the societies in the State. It is not yet the balancing centre of co-operative finance.

The societies which borrowed in the past have defaulted very much and the policy of the Bank in advancing fresh loans has become somewhat stringent. The loan advanced by it in 1934-35 is less than even one lakh of rupees.

It is the fashion of the times that co-operators should interest themselves in non-credit activities. The Apex Bank ought to consider what non-credit business is suitable to be undertaken now, how to organize it, how to finance it and on what terms to lend. It cannot be said that it is the function of the Apex Bank merely to sit waiting for suitable customers to come to its doors and then advance loans to such of them, as offer proper security. It stands for the support of a cause and for the expansion of the Movement of Co-operation, and, therefore, it is within its function to find new and safe outlets for the money that comes into its counter or accumulate at its till.

The Urban Banks devote very little of thought and time to the affairs of the Apex Bank. Though many of them have become its members yet barring a few of the Bangalore City, the bulk of the societies outside, have not been keeping their surplus funds in this institution. Urban banks scarcely borrow from the Apex Bank, as many of them are self-supporting and do not need outside capital. In fact the prestige of some of them is much better than that of many of the Central Banks. Deposits pour into them more rapidly than into the Central Banks. They therefore consider that as the Apex Bank is practically not required to finance them, they do not need it, and, therefore, are indifferent about its affairs. Many hold the view that the Apex Bank is more or less the concern of the village unlimited liability societies. Few urban societies of the mofussil send delegates to the Annual General Meetings of the Bank, and the representatives of urban co-operative interests on the Board of Directors of the Apex Bank are few.

The Urban Banks have another fear also. Their surplus, when handed over to the Apex Bank, finds an outlet in the village societies. But as most of the village societies have been financially in a very bad position, and as some fear that a large proportion of the loan may be irrecoverable, the Urban Societies feel that their surplus will get locked up and may be lost in part. Hence also they are nervous to entrust their funds to the Apex Bank. The latest report of the Co-operative Enquiry Committee recommends that five of the seats on the Board of Directors may be set apart for urban societies. If this recommendation is acted upon and branches of the Apex Bank are established in big towns and cities, where urban societies have been thriving well, there is a possibility of the urban co-operative fund flowing towards the Apex Bank instead of towards the Mysore Bank, and the Apex Bank becoming really the reservoir of all surplus co-operative funds.

It is well known that the success of the Central Banks is in proportion to the efficiency of the primary societies to which they advance loans. It is complained that the latter are following wrong principles and are said to be actuated by motives thoroughly opposed to co-operation. Central Banks should be, not only the financial centres of the Movement, but also centres of co-operative education and propaganda. We read that the Central Banks in the West spend substantial sums on co-operative propaganda and education. But the record of our Central Banks in this respect is very disappointing. The Apex Bank no doubt spends a few hundred rupees annually to supplement the meagre finances of the Co-operative Institute to which it has given shelter in its premises. But that is a very insignificant contribution. The belief entertained in the past that the net profits should find their way either to the Reserve Fund or to the pockets of the shareholders and nowhere else still remains alive in the minds of many persons. The sooner the view is changed the better for the Apex Bank and its constituent societies. It is not too much even if all the 15 per cent. of the net profits permissible under the Regulation, is for some time, fully utilised either by itself or through the Institute to the work of propaganda and dissemination of correct principles and practices of co-operation in the villages where it has got its members. Though the response of the villages may not be encouraging, and on the other hand disheartening in the beginning, nevertheless the situation must be faced. Inactivity, continued, however long, cannot yield any positive results, though one may hope that activities on proper lines, though apparently ineffective in the beginning, may result eventually in the achievements of the objects in view.

The cat in Æsop which was transformed into a beautiful women sat at board with human propriety until a mouse ran across the table, when she at once darted after it. So there are co-operators who, when they see a possible dividend before them, dart after it without regard to equity, never enquiring to whom it belongs.

—*G. T. Holyoake.*

TABLE A.

(District Central Banks and Federal Banking Unions)

Year.	No. of Central Banks & Unions.	No. of Individual members.	Members which are agricultural Societies.	Members which are non-agricultural Societies.	Loan to Individual Members.	Loans to Societies.	Loans due from individuals.	Loans due from Societies.	Paid up Share Capital.	Reserve Fund.	Total Working Capital.
1930-31	13	276	232	13	6,413	8.920	18.283	1,35.877	51,815	24.688	1,92,835
1931-32	11	277	219	13	2,103	3.620	13.716	1,12.841	47.190	22.801	1,76,363
1932-33	11	235	218	14	2,675	—	10.174	1.11,136	43,030	22.019	1,49,611
1933-34	10	202	202	13	523	—	7,457	1,07.602	39,126	21.455	1,40,366
1934-35	9	206	189	12	1.696	1.000	4.992	92.200	38,812	19.533	1,06,253

TABLE B. (Apex. Bank)

Year,	Individual Members.	Society Members.	Loans to Societies.	Recovery of loans.	Total dues from Societies.	Deposits received from individuals & Non-members.	Deposits received from Societies	Share Capital.	Reserve Fund.	Working Capital.	Net Profits.
1930-31	295	922	7,71,091	4,46.011	26,36,640	20,30.804	3,74,297	2,09,558	1,15,679	33,53,932	41,526
1931-32	280	954	1,75,371	1,90,615	26,21,395	20,65,834	5,37,913	2,16,381	1,40,741	39,84,819	20,846
1932-33	285	964	1,75,623	2,08,372	25,88,646	21,72,355	6,24,995	2,29,613	1,56,100	42,42,940	21,764
1933-34	285	975	1,08,434	2,42,331	24,54,750	19,87,470	3,85,780	2,41,127	1,67,980	39,87,215	20,885
1934-35	256	976	97,789	2,35,187	23,17,352	19,81,922	2,79,563	2,45,924	1,81,759	37,58,151	14,546

CENTRAL BANKS IN MYSORE.

By

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Central Banks came into being at a very early stage of the Movement in Mysore, and were perhaps not a little instrumental in extending it. The first one to be organised in the State was the Bangalore Central Co-operative Bank, Ltd. registered on 17th December, 1908, when the whole strength of the Movement consisted of less than three dozen societies. It was a Provincial Bank with jurisdiction over all the State. It was primarily meant to consist of other primary co-operative societies, and finance them, but like all the early Central Banks in other parts of India it was both an urban and a Central Bank, its membership being composed of both individuals and societies and having loan transactions with either class, indiscriminately. There were no intermediaries between the primary units and this provincial institution.

The first District Bank was the one organised at Mysore on 1st September, 1911, and the next one did not come into existence until 1918. This was the Shimoga Co-operative Bank registered on 1st March, 1918. Soon after, four other districts got their own district banks, but three of them were earlier, Taluk Federal Banking Unions, later raised to the status of district banks. But the only district banks of any import were those of Mysore and Tumkur. They were however quite independent institutions, self-contained and unconnected with any of the provincial institutions. They found all the necessary capital themselves, by shares and to a large extent by deposits, and lent to members within their respective districts in which areas the provincial institutions had also independent and direct dealings. Thus, the Provincial Banks and the District Banks worked on more or less parallel lines, but they recognised each other's clientele and there has been no instance where both have lent to the same primary society. The present position of the District Banks is anything but satisfactory. The Mysore District Bank which was modelled on the lines of the Bangalore Central Bank, having both individuals and societies as members and lending to individuals as well as to society-members, showed good strength and vitality at one time, and was the best of them, but has now fallen on very bad days. Recoveries which grew increasingly scanty and irregular have of late almost totally stopped, and the Bank's funds being thus wholly congealed it has almost

suspended transaction. The other District Banks are worse still. There is one other important factor that may be said to have contributed to the decay of the District Banks. It was felt that for an area like Mysore, it should be possible for one Central Bank with provincial jurisdiction to undertake the financing of all the co-operative institutions, and that the District Banks were superfluous and while themselves starving would to some extent interrupt the free flow of capital into the provincial institution. Accordingly the Government directed the gradual winding up of these institutions. They have thus ceased to receive much support and have been on the wane.

A third class of central institutions, the Federal Banking Unions, made their appearance early in 1913. They were meant to be organised, one for each taluk, but there were only some 15 of them mostly in Tumkur and Hassan Districts, and a few in the Bangalore, Shimoga and Kadur Districts. The other three Districts had none. These Unions, being federations of the primary societies in their respective taluks, had no link with the District Banks, but were affiliated to the Provincial Bank. They were in fact no more than mere local agents of the latter bank having no capital of their own apart from the small share moneys contributed by their constituent societies, passing on their loan applicants to Provincial Bank and getting all the necessary funds from the latter bank. They were not guaranteeing unions either, nor could they be called supervising unions though some of them attempted some sort of supervision. They got some small commission on the loans that passed through them, and it was this that maintained them. It was soon realised that they were inefficient and unnecessary intermediaries and Government ordered their cancellation. Accordingly, three of them were converted into District Banks and steps were taken to wind up the others. The registration of eight has already been cancelled and four are awaiting cancellation pending the final adjustment of their accounts.

The chief financing centre for the Province now is the Provincial Co-operative Apex Bank, Ltd. It was registered on 10th November 1915 and was then known as the Provincial Co-operative Bank. Before then, for fully seven years, the Bangalore Central Co-operative Bank was the only provincial financing institution, and was perhaps meant to be the only one. It was ushered into existence under very good auspices. Its first President was a Retired Member of the Executive Council of His Highness the Maharaja's Government, and the successive holders of that office are similar ex-members of council. Its first Secretary, was also an eminent officer of the State (Retired) and among its other Directors too were many high officials of Government in and out of service. By the end of June 1915, it had a membership of 232. (148 individuals and 84 societies), a share capital of Rs. 65,439, deposits of Rs. 2,85,633 and a Reserve Fund of Rs. 6,488. But as already stated, it was both an urban bank and a Central Bank, and among its outstandings of Rs. 3,57,040 on that date, Rs. 56,555 were due from individuals and Rs. 3,00,485 from societies. Further it was felt by the then head of the Co-operative Department that the institution did not answer to correct co-operative principles, and could not be brought to accept the reforms suggested by the Department. It was considered that a central institution that accorded better with the requirements of a true Provincial Bank was a necessity for the further development of the Movement and thus took birth the Provincial Co-operative Bank. It speaks to the energy and influence of the then Registrar that this Bank emerged almost full grown at birth like Minerva out of Zeno's head. Within about six months of its registration, it had enrolled a membership of 812 (504 individuals and 308 societies), collected a share capital of Rs. 53,931, and attracted deposits to the extent of Rs. 1,25,501 and within another year, the share capital and deposits had nearly doubled themselves. It grew rapidly thereafter, with some temporary setback in the year 1922-23 and its position on 30th June, 1935, was a membership of 1,232 (256 individuals and 976 societies), a paid up share-capital of Rs. 2,45,924, deposits of Rs. 33,15,468 and a reserve fund of Rs. 1,54,497.

With the organisation of the Provincial Bank there were in fact two provincial financing institutions, for the State. A conflict was inevitable and the Government sought to avoid this by limiting the operations of the Provincial Bank to four out of eight districts, and those of the Central Bank to the other four. The existence of two provincial Central Banks was still however an anomaly. Attempts were therefore made to amalgamate the two, but with no success; and finally, on the recommendation of the Samaldas Committee which found the Provincial Bank to possess in a greater degree the true characteristics of a Provincial Central Bank and the Central Bank to drift more and more towards an urban society, Government ordered on 15th September, 1925, the conversion of the latter into a purely urban society, and made the Provincial Bank the sole central institution in the State for the financing of the primary co-operative societies, whereon, it assumed the name of the Provincial Co-operative Apex Bank.

With the promulgation of this order, the Central Bank, while still retaining its old name has become only a primary society, but with jurisdiction over the whole State. It enrolls members from all parts of the Province, and lends also to such persons residing in far off nooks. But to obviate conflict between this and other primary societies, working in

the particular localities, the former has been prohibited from granting any loan less than Rs. 2,000 to a member outside the City of Bangalore. There is no upper limit placed and the Bank has lent even up to Rs. 25,000 to single individuals. It is no longer lending to co-operative institutions, but its old accounts with some 53 societies still remain unadjusted. This Bank is however one of the earliest, biggest and most efficiently managed co-operative institutions in the State, very strong in its finances. Its reserve fund of Rs. 2,17,172 forming three fourths of its share capital is the highest for any co-operative society in the State.

The Provincial Bank was constituted, as already stated, on lines in stricter accord with the principles of a Provincial Co-operative Financing Centre. Though individuals were not precluded from membership, societies were given preference, and it has been the policy of this bank to eliminate the individual members as opportunities occur and make it approach a true federation of primary societies. Consequently, the number of individual members is decreasing year by year, and that of affiliated societies increasing. Loans are however given to affiliated societies only, and no individual member is entitled to a loan directly from the Bank. In later years, however, the Bank, in order to find some vent to its growing surpluses and also with a view to retain the custom of its depositors, adopted the practice of lending to individuals direct, (whether members or non-members) against their fixed deposits in the Bank. This practice has now been prohibited by Government. With regard to inspection of affiliated societies, their improvement, propaganda, etc. also, the bank has been playing the role of a true Provincial Bank. The Bank is however still short of being a full federation of the primary societies in the State. Very many societies and specially the urban ones have kept themselves away from it, and only 976 out of 1998 societies are affiliated to the Bank. It has not fully achieved the position of a balancing centre either. A good many primary societies are investing their surpluses elsewhere and several of them are having direct inter-dealings among themselves. A few have sought for and obtained accommodation from commercial banks rather than from the Provincial Bank. But a better understanding seems to be coming about and it is hoped that with the support of the Department, it will not be long before it attains fully to the position of the parent institution.

The lendings of the Provincial Bank are of three kinds, cash credit, short-term loans for agricultural purposes, and long-term loans, but the last predominate and are far in excess of short-term credit. Of the present outstandings of the Bank of Rs. 22,89,760 against societies, only Rs. 31,768 are short-term loans, and Rs. 20,34,540 are long-term loans, the balance of Rs. 2,23,452 being cash credits. The long-term loans are generally repayable in ten equal annual instalments with interest payable half-yearly in advance. These loans are invariably advanced to societies with unlimited liability, and though good portions have been lent for purchase or improvement of lands, by far the larger portion has been for the redemption of prior debts of their members. The loans advanced to societies by the other Central Banks were also for similar purposes. In the absence of other land mortgage institutions, this proved to be of immense benefit to the agriculturists and tended not a little towards the popularity of the Co-operative Movement. In spite of the relatively short period of the repayment, and the absence of the equated system, the recoveries were very satisfactory until the economic depression set in. The depression has, however, seriously affected the position of the societies, and consequently, the income and transactions of the Bank. Though the societies well withstood its effects during the first couple of years, its continued prevalence has told hard on them. Securities have depreciated, recoveries have become poor, overdues have mounted and transactions shrunk. The following comparative statement will tell its tale :

	Loans issued to societies.	Demand.	Recoveries.	Overdues.
1. Pre-depression period.	Rs.	Rs.	Rs.	Rs.
1927-28	4,98,955	3,62,651	1,24,063	2,02,325
1928-29	7,46,383	4,15,101	1,89,943	2,25,158
2. First two years of the depression.				
1929-30	8,61,678	4,90,673	2,20,875	2,69,798
1930-31	5,82,435	6,69,355	2,65,307	4,04,048
3. Subsequent years.				
1931-32	1,02,794	7,46,416	98,622	6,47,794
1932-33	64,457	9,46,731	1,19,459	8,27,272
1933-34	27,784	10,58,025	1,22,626	9,35,398
1934-35	16,351	10,92,537	69,922	10,22,614

The bank's early loans were all at 7½ per cent. Its rate rose up later even to 9½ per cent. but very recently it has again been reduced to 7½ per cent. The bank has been graceful enough to reduce the rate even on loans which had been lent at the higher rates.

Though the bank advances the whole loan to the society on a mere promissory note, and the society is, as a whole, responsible for its repayment and the bank has thus apparently no concern in its further utilisation by the society, the procedure is more elaborate and more direct precautions are taken for the safety of the loan. They may be said to be more in protection of the other members of the borrowing society, than in the interest of the bank. The loans are invariably advanced to the members on specific mortgages of immoveable properties and not exceeding 50 per cent of their value, and before any loan is raised, property lists of the intending borrowers will be drawn up, valuated and scrutinised at general meetings and loans sanctioned, modified or rejected by the General Body in consideration with such scrutinised property lists, and the total amount wanted according to such sanctions applied for. The Departmental Inspector then takes up the investigation, verifies the correctness of the statements in the property list which includes the earnings and the repaying capacity of each borrower, checks the encumbrances from Sub-Registrar's office records and forwards the application with his investigation report to the Divisional Officer who after his scrutiny makes his recommendations to the bank. The bank makes its own scrutiny and accepts or modifies the grant to each individual. Only such sum as has been approved by it has to be granted by the society to the particular individual approved by it and on mortgages specified by it. The recoveries on these loans are to be remitted to the Provincial Bank without being utilised for reloaning. This does not absolve the other members of the society from their liability for the loan, but the risk to them is inconsiderable. The joint liability, however, ensures a reliable valuation etc., by the other members. The risk to the bank is also very little under this system. But still have been observed some instances of intentional overvaluation, suppression of known defects and ill-considered sanctions. The greatest risk to the bank however arises out of the great fall in land values, and the accumulation of uncollected interest, thus obliterating the margin of security.

The bank's credit still stands high enough in the money market. Its rate of interest on current deposit has been reduced to Rs. 1-9-0 per cent, and the highest rate paid on fixed deposits is 4½ per cent for deposits of 10 years and over. Yet it has not found itself wanting in funds but finds itself cumbered with a superfluity of them. It has now some nine lakhs of idle money which is a good strain upon its revenues.

The latest financing central institution to enter the stage is the Central Land Mortgage Bank. After a good deal of consideration, the Government thought that a separate Central Bank was necessary to take up this work. Hence, came the Central Land Mortgage Bank on 25th November, 1929, with a registered share capital of Rs. 5 lakhs, consisting of 10,000 shares of Rs. 50 each. Apart from its paid up share-capital which now amounts to Rs. 56,970 it derives its funds from debentures, which have been guaranteed by the Government, both as regards principal and interest. It has so far issued three series of debentures at

5, 4½ and 4 per cent. respectively and has thus raised a sum of Rs. 4,66,100. Its debentures are quoted at a premium in the market. The bank operates only in specified areas, the jurisdiction being extended from time to time. It has affiliated to it 22 primary land mortgage societies, and loans are generally issued through them. A sum of Rs. 4,57,875 has been issued on 317 applications so far. The loans are repayable in 25 equated annual instalments. Special facilities are provided by law for the recovery of the instalments. The scheme is yet young in the State, but under its energetic and enthusiastic President, also a Retired Member of the Executive Council of His Highness the Maharaja's Government, it bodes to make good progress.

Credit is not an end in itself, but a means. Its object must be productive, whether by the creation of new values, or the economy of labour and capacity, or the reduction of waste, or even the increased capacity gained through freedom from accumulated burdens.

—*Report of the Committee on Co-operation in Mysore.*

CO-OPERATIVE CENTRAL BANKS IN HYDERABAD

BY

DIWAN BAHADUR S. ARAVAMUDU AIYANGAR, M.B.E.

President, The Hyderabad Co-operative Dominion Bank, Ltd.

The Co-operative Movement was inaugurated in Hyderabad in 1914 with the registration of the Hyderabad Central Bank, which until 1918 financed directly societies throughout the Dominions. It was in the latter year that District Central Banks were organised and societies which were financed by the Hyderabad Central Bank were gradually taken over by them. This went on until 1925 when the Hyderabad Central Bank was raised to the position of Apex Bank for the Dominions, and all societies except those which were working in the City of Hyderabad and a few in Warangal District were disaffiliated from it and brought directly under the financial control of the respective District Central Banks. Since then the number of Central Banks has increased with co-operative business. There were in 1935, 39 Central Banks with 4,500 members, of whom 1,500 were individuals. Their Working Capital amounted to Rs. 67 lacs, made up of :

Paid up shares	..	Rs. 11 lacs.
Reserves	..	Rs. 11½ lacs.
Deposits	..	Rs. 26 lacs
Loans	..	Rs. 18½ lacs.

Their owned Capital was Rs. 22½ lacs, *i.e.*, ⅓ of Working Capital.

Outstandings with societies amounted to Rs. 59 lacs : Principal, Rs. 48 lacs, Interest, Rs. 11 lacs.

The large arrears of interest were due to eleven of the older banks whose societies were in the early years of inexperience financed liberally in order to enable their members to repay old sahukari debts. As much as ten lacs out of a total of eleven lacs was due by way of interest to them. The other Central Banks are in this respect in a better position. They are facing the situation by reducing the rate of interest charged to financially weak societies. In some cases of hopelessly weak societies they have stopped charging interest and credited all amounts recovered from them to the outstandings of principal, leaving those of interest for settlement at a later stage. Taking the lead given by the Apex Bank which has lowered its lending rate to Central Banks from seven to six per cent., the latter have in turn reduced their lending rate to primary societies from 9⅜ to 8 per cent. The societies have in turn brought down the rate of interest on loans to members from $10\frac{15}{16}$ to $9\frac{3}{8}$ per cent.

Under instructions from the Apex Bank and the Department, Central Banks are not allowed to accept fixed deposits at a rate exceeding five per cent, while in fact many Central Banks are now in a position to tap local deposits at three to four per cent.

The one-date system of fixed deposits which had been originally tried in Bihar and Orissa by Mr. Collins, when he was Registrar of the Province, was introduced in the State on his advice and has worked quite satisfactorily during the last five years.

Formerly the departmental staff of Inspectors and Sub-inspectors worked independently of Central Banks; but since the last five years Government has helped the banks by lending them the services of Inspectors as Inspector-managers. Though the banks are expected to contribute 20 per cent of their net profit as contribution towards the salary and travelling allowance of Inspector-managers who are paid directly by the Department, no such contribution has actually been levied having regard to the general economic depression which has affected their financial position. Similarly the Sub-inspectors have been lent to the Co-operative Union which is entrusted with the administration and control of the supervising staff through the direct agency of Central Banks. The latter contributes four annas per cent on the total amount of loans outstanding with their affiliates, while societies pay eight annas per cent on their working capital towards the supervision fee. The fee is collected through the Central Banks and is pooled in the Central Co-operative Union, which administers the fund so raised through its Executive Committee consisting of the Registrar and representatives of Central Banks. The supervisors are appointed and paid by the Central Co-operative Union on the recommendation of the Central Banks concerned, which has been invested with certain disciplinary powers over the supervisory staff.

The policy laid down for the guidance of all the Central Banks is one of conserving their resources and building reserves. They are to be very chary in the distribution of dividends to share-holders which ordinarily does not exceed 3 to 4 per cent. It is only the individual share-holders who are to be paid dividends; the societies are to be paid none, for it is considered that it is in their collective interest that the amount which would otherwise have been disbursed as profit should be left to accumulate as reserves.

So far as recoveries are concerned, the results would have been better but for the fact that the Revenue Department, naturally and justifiably, views with disfavour, the sale of all the lands of defaulters. Execution through Civil Courts has proved still more dilatory, and ultimately awards have to be sent to the Revenue Department for execution against lands.

Practically every district in the Dominions has now one or more Central Banks. Until about 1925 the rule was one Central Bank for every district, but with the increase in the demand for societies and in the volume of business turned out by Central Banks it was felt that the District Central Banks might with advantage be split up into Sub-Divisional Banks, especially with a view to bring them into closer contact with village societies. It is therefore that the number of Central Banks is comparatively large and stands at 39. A profit of more than Rs. 1½ lacs was earned during 1935, which has been added to owned capital. Out of the latter, the various reserves amounted to nearly Rs. 11½ lacs as against a paid-up share capital of about Rs. 11 lacs. As late as 1927 the total reserves of the Central Banks amounted to only a lac of rupees. The progress made since is really gratifying.

The Central Banks received during the period under review, 1918 to 1935, deposits amounting to Rs. 107 lacs while repayments under this head aggregated to Rs. 81 lacs, leaving an outstanding of Rs. 25¾ lakhs at the end of 1935. As in the case of the Dominion Bank, the Central Banks are now able to command enough confidence with the public to enable them to bring down their borrowing rates on deposits from 6 and 7 per cent to, in many cases, as low a rate as 3 and 4 per cent for periods of one year and more. As stated above, since 1929 the one-date system of deposits has been introduced in all Central Banks and in spite of apprehensions to the contrary, this novel system of receiving deposits under the stipulation of returning them on one particular date during the year according to the convenience of the banks has become popular with the investing public.

Loans advanced to affiliated societies ranged between Rs. 2½ lacs in 1933 and Rs. 13½ lacs in 1930 and aggregated to Rs. 109 lacs during the period 1918 to 1935, out of which nearly Rs. 64½ lacs were recovered leaving about Rs. 48 lacs outstanding at the end of 1935.

The economic conditions of the last five years have produced a depressing effect on the transactions of Central Banks and societies with the result that advances of loans which had shown a tendency to increase since 1928 have abruptly come down to an average of about Rs. 3 lacs a year since 1932.

Quite recently, a Committee has been formed by the Rt. Hon'ble Nawab Sir Akbar Hyder Nawz Jung Bahadur, the Finance Member, consisting of the following gentlemen to go into the present financial condition of the Movement. Their recommendations are being awaited:—

1. Mr. Syed Mohammad Mehdi, Secretary to the Hon'ble the President's Office,

2. Mr. Taraporewala, Assistant Secretary, Finance Department,

3. Mr. Fazalullah, Registrar of Co-operative Department,

4. Nawab Rais Jung Bahadur, Secretary, Commerce & Industries Department,

5. Mr. Ahmed Mohiuddin, Marketing Officer, and

6. Diwan Bahadur S. Aravamuda Aiyangar, M.B.E., President, The Hyderabad Co-operative Dominion Bank, Ltd.

To say that credit societies can solve the difficulties of the peasant is to pay lip service to him. They can only serve him in a limited sense by restricting credit and stopping him from borrowing heavily. It is in this sense only that credit societies can serve the peasant class by helping him to put off the evil day........It is only by concentrating on the positive pole of the Movement—better farming and better marketing—that it can bring some hope to the small farmer.

—S. Fazalulla, Registrar, Co-operative Societies, Hyderabad.

MARKETING CREDIT

AN OUTLET FOR SURPLUS FUNDS OF CO-OPERATIVE BANKS

BY

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INFLOW OF UNWANTED FUNDS.

The pressing problem at present of co-operative financing institutions is the difficulty of finding safe and proper outlets for all the funds that are flowing into them. It is not only the Apex Banks in British Provinces and the chief Indian States but also the strong Central Banks and even Urban Banks therein that are embarrassed by the offer of deposits by members and non-members, by individuals and institutions, despite drastic reductions in the rates of interest quoted. It is difficult to decide which is worse from the banking point of view: to take in such deposits which come unsought and cannot be safely utilised within the Movement or to choke off such deposits even though such a policy really runs counter to the preaching of thrift among members all along and may well mean driving off many depositors once for all. The fact is that most of our banks are flush with funds most of the year, for which all sorts of outlets, co-operative and otherwise, have been found or suggested. Banking business is done with members, and sometimes non-members, who are neither agriculturists nor industrial workers of small means but are middlemen who exploit the former, for whom the Movement was founded. Investment of surplus funds in Government and other gilt-edged securities far beyond the requirements prescribed for the maintenance of reserve funds and fluid resources has becomes inevitable, with the risk of loss when the era of cheap money ends, unless an investment reserve fund is built up. The overdraft, though curtailed yet granted. by the Imperial Bank is far from fully drawn upon. Such a situation was not contemplated by the founders of the Movement, who feared Government would have more often to go to the rescue with financial aid. This embarrassment of surplus funds in a Movement essentially agricultural has struck Dr. N. Barou, an authority on co-operative banking, as something unique; for the reverse is the position in agricultural co-operation in the West, where financial aid is successfully sought from consumers' co-operatives that usually have surplus funds to spare.[1]

1. In *Co-operative Finance in Capitalist Economy*, a paper in *Co-operation and Charles Gide*, Edited by Karl Walter. Dr. Barou states: Agricultural Co-operation

Perhaps it is not so well known to writers like Dr. Barou that our numerous agricultural credit and the few non-credit societies seldom attract deposits from members or non-members in rural tracts, which they were fondly expected to do, and almost all the deposits in the Urban, Central and Provincial Banks are drawn from the urban middle-classes—so that the situation is not so unique after all. Only the consumers' societies are ill-developed in India.

UNSATISFIED DEMAND FOR CREDIT.

While there is such a plethora of funds in the financing institutions, relative abundance though it be, the cry for more funds for use in rural tracts has not abated a jot—a truly Gilbertian state of affairs, one might exclaim! But the village seems to have become a sink into which money is drawn but is seldom released. The ryot borrows but cannot repay at all or within the stipulated period. Some of the short-term loans should be converted into long-term loans to get any chance of voluntary repayment, though such a proposition was systematically investigated by the Madras Central Land Mortgage Bank in a few districts and declared not very promising for a variety of reasons. Short-term or intermediate credit to those who have no heavy prior debts, for the improvement of crops or cattle, might be more fruitful. But it requires greater vigilance, and the atmosphere created by the depression has not been congenial to the growth of such credit as a general rule. The purposes quoted in loan applications are notoriously untrue in most cases. As the representatives of the Madras Provincial Co-operative Bank told the Indian Central Banking Committee, the disbursements of loans and repayments, judged by their own figures were dictated not so much by the needs of cultivation as by the desire of the Central Banks to stand well in respect of their financial position at the end of the co-operative year. Dr. C. R. Fay suggests in the current Year Book of Agricultural Co-operation, when speaking of South India, that "Co-operative credit in the future may get further than in the past by setting itself a more limited task—the making of loans to the selected few who have qualified for such loans by association for some other purpose in the sphere either of supply or of sale."[2] We may not agree with him when he says that the scope for co-operative supply is limited as there is little intensive agriculture here. We believe that

with the exception of some Provincial Banks in India or British Malaya has not sufficient funds for the fulfilment of their new tasks; they are potential customers for the supply of funds by other branches of the Movement, (p. 137).

2. *Year Book of Agricultural Co-operation*, 1936; p. 37.

the scope for the supply of better seeds, improved implements and fertilisers is really great, in the case of commercial crops in particular. In fact for the success of any scheme of co-operative sale it has been found essential to connect it with improved method of production. The limited success that has been achieved in this sphere in India, notably in cotton sale, would have been impossible without the supply of better seeds and manures, for which credit has been cautiously granted and its use carefully watched.

CREDIT FOR MARKETING APPRECIATED.

There is no need to labour the point that credit for marketing is credit of a self-liquidating kind, credit most approved by the commercial banks, which therefore appear rather jealous at co-operative banks entering the field. To persuade now our financing institutions to provide credit facilities for marketing would be to preach the gospel to the converted. Central Banks in Bombay and Madras have alrerady been lending funds to sale societies for short periods at 4½ to 6 per cent., i.e., at one per cent. lower than the rates they charge for ordinary credit societies. The Provincial Bank of Bombay had taken the lead in providing credit through its Branches to several sale societies in their initial stages. The Madras Provincial Bank is only too willing to help likewise, wherever there is a call for help and the Central Bank in the area cannot itself lend. At every Central Banks' Conference in recent years, including the last one, held at Madras, financial aid has been promised wholeheartedly for sale societies. It was rather the Government that at first seemed to look askance at this new business of banks, though latterly it has changed its attitude and sought their help in all ways, itself offering aid in the construction of godowns by grant of loans at low rates of interest.[3] Bombay and Madras have been so far most successful in co-operative sale and their Central and Provincial Banks have been the most helpful. Nay, the Urban Banks in Bombay have some of them vied with the former in helping local sale societies; the representatives of Urban Banks in Madras, at a recent Conference convened by the Registrar, have sought permission to finance non-credit societies, including sale societies, in their jurisdiction. Banks in other Provinces and States have been anxious to help sale societies and some of them have indeed burnt their fingers by helping over much and incautiously, e.g., Bengal for Jute and Mysore for Cardamom societies. The latest scheme in Burma is to combine credit with marketing to such an extent that no member could get a loan without binding himself to sell the produce he raises. The most

3. Proceedings of the meeting of the Board of Management of the Madras Provincial Co-operative Bank, July 1936, pp. 7 and 8.

recent evidence of interest in marketing is to be found in the report of the Mysore Committee on Co-operation.[4]

In spite of so much enthusiam and good will evinced, cooperative marketing has not so far been a conspicuous success in India; it has indeed made a poor show in most parts of the country or served as mere window-dressing. The best societies could but attract 15 to 20 per cent. of the produce marketed in the locality and therefore make but a feeble impression on the trade. It is now necessary to analyse the causes of failure and find out the scope and limitations of financing co-operative marketing as revealed by our own experience so far and the experience of other countries so far as conditions are comparable.

CREDIT TO GROWERS NOT 'TIED' TO MERCHANTS.

The most commonly cited cause of failure is the impecunious condition of the cultivator who is almost invariably 'tied' to the village trader-cum-moneylender and occasionally to the commission merchant in the nearest market centre. Where he is a member of the co-operative credit society, he borrows as a matter of course but does not feel called upon to deliver the produce unless he has entered into a special agreement, whose legal validity again is questioned. The loan and sale society in Madras has from its inception been concentrating its attention on, if not exclusively confining itself to, the members of village credit societies, who are really poor material for such an enterprise. Cotton sale societies in Bombay from early days, and such societies in Madras latterly, have admitted as members a better class of ryots, not so indebted to the merchant in the village or the market, but yet liable to be tempted by the latter by advances made free of interest before the harvest on the understanding that produce shall be sold to themselves. Almost all the ryots appreciate advances made during the cultivation season, though their needs are of varying degrees, reflected by the terms of interest or the prices they accept to pay or receive. A rigid refusal in the past to advance loans for cultivation expenses and adherence to the cautious policy of loans only on pledge of produce up to 60 or 70 per cent. of its value offered no attraction to even the better class of cultivators and hence the lack of popularity of loan and sale societies. The attempt to finance cultivation by bigger growers of crops and others who are not members of primary credit societies by the formation of special societies of growers as a sort of annexe to sale societies has been made recently in connection with the cotton sale and sugarcane societies. The legal position as regards the binding to deliver produce is not yet made clear,

4. pp. 46—49.

either of members of these special societies or of ordinary credit societies. Loans on standing crops are not usually advanced by commercial banks, for they are no tangible security at the time of entering into a contract. The lack of clear understanding on the validity of such contracts created enormous trouble in the Cotton Co-operative Association in Texas (United States), which was ended after a series of appeals by a clear pronouncement by the highest judicial tribunal in the State.[5] There is need to enact a measure making crops attachable by sale societies in lieu of loans granted for their growing.[6] In case of failure of a member to fulfil the contract to deliver his produce, even when no loan has been granted, the society must be enabled to claim damages. Credit could now be safely extended to standing crops by banks after the passing of the Agricultural Credits Act of Great Britain in 1928 on the lines of chattel mortgage in the United States.[7]

IMPROVED CULTIVATION—GRADING AND POOLING.

It is necessary for another important reason that sale societies should interest themselves in the cultivation of crops which they wish to sell later. It is no good attempting to sell produce which is poor in quality and is not easily gradable. If the cultivator's earning capacity should be enhanced, his crop-yield must increase in quantity, improve in quality and belong to one or a few grades. Such a policy involves supply of better seeds and fertilizers for which loans may be utilised, improved methods of cultivation and processing of produce and proper grading and classification—all of which require expert scientific as well as financial aid, detached from any motive of private profit. Such an integration of production with marketing involving the employment of agricultural experts besides co-operative auditors and administrators is a *sine quo non* of progress in societies selling commercial crops. Bombay has done well in recruiting to the Co-operative Department agricultural graduates and giving them the necessary training in co-operative technique so as to be of special value in connection with the work of supply and sale societies. Madras may well follow the lead of Bombay in the recruitment of such specialists, instead of endeavouring to interest senior co-operative administrators in the technique of new agriculture late in life.

5. R. H. Montgomery, *The Co-operative Pattern in Cotton*, p. 221.

6. In Madras an abortive attempt was made to create a special provision in Co-operative law fixing a charge on the crop for loans advanced to raise the same. Vide *Indian Central Banking Committee Evidence*, Vol. III, p. 630.

7. H. Belshaw, *The Provision of Credit with special reference to Agriculture*, pp. 201, 293—99.

Objections to grading and particularly pooling, there would be in every country to start with, but these have been overcome in part in the cotton sale societies of the Tamil Nad and Karnatak and in entirety in Gujerat. It is partly a question of time, partly a question of initial success. Even in Germany the corn-selling co-operatives were failures at first due to the difficulty and the unprofitableness of grading the various kinds of wheat harvested in one and the same place. Thanks to the work of propaganda inaugurated by the Chamber of Agriculture and carried on by the co-operatives, there are now only two or three grades of wheat, and of each kind larger quantities are offered for sale by societies.[8]

BETTER STORAGE FACILITIES.

A serious handicap to safe financing is the lack of proper storage facilities, though indigenous bankers and even some commercial banks lend on produce badly stored but in the possession of persons in whom they have confidence. The soundest security would be the receipts of *pucca* warehouses, licensed for the purpose, which could be discounted by any bank and rediscounted by the Reserve Bank, which in its Agricultural Credit Section is expected to discount paper of even nine months' duration, though the commercial world is accustomed only to three months' bills. But the programme of this Section of the Reserve Bank is yet in the stage of deliberation. There was in Madras a craze for the construction of godowns with the help of Government loans at 5½ per cent to be repaid in equal instalments over 20 years. Not many were actually built, however, as it was found that there were already too many godowns which were empty for a large part of the year and in the season could not earn enough to pay interest charges. The new offer of the Madras Government to grant loans, even at the lower rate of 3½ per cent is not likely to evoke more enthusiasm. For one thing villagers do not care to take the crops all the way to the market centre—the headquaters of the sale society—where the modern structure is usually put up. The suggestion has been made by some co-operators that *pucca* brick built houses in important villages in the jurisdiction of the sale society might be improvised as godowns and entrusted to a Local Director, who would be answerable to the society and supervise the working of the godown. Rigid adherence to the rule that all produce should go to the headquarter's godown might be stifling the new venture by excessive caution. Granted an honest and earnest personnel of management distrirbuted over the entire area of the sale society, it ought not to be difficult to manage a number of cheap local godowns, well insured. But such a

8. *Indian Central Banking Committee Evidence*, Vol. IV, p. 944.

course may not inspire the confidence of the financing bank all at once. But success in the long run has induced not only co-operative, but commercial banks abroad, to lend to societies without tangible securities when the management was allright. It is noteworthy that in Germany local corn-selling houses aided by Government were not found to be profitable. A cheaper method—declared to be much more successful—has been devised in that country, of asking the growers' societies to haul their produce to the railway carriage, which is the cheapest warehouse, on some specified days in the week—to be taken to the market and sold to a miller or wholesale dealer. Sometimes more than one society might be required to make up a consignment.[9] It is difficult in Indian conditions to hope for such an amount of enlightened co-operation among producers, but it is possible to license a large number of local warehouses, if we are assured of a dozen dependable directors in and around each market centre and a good field staff.

NEED FOR A GOOD FIELD STAFF.

There is need for a good field service, which is not yet appreciated in our country. The members of a sale society, even if concerned with one crop, are widely scattered and are not a homogenous class, though there are rare exceptions as in the Koilpatti cotton sale society whose success is attributed to the communal solidarity of members. The distant society with its circulars, contracts and other legal forms is a shadowy sort of thing to the average member, who needs to be educated to an appreciation of what the Society stands for. There is need to attract more members in addition to satisfying existing ones. There is plenty of work to be done in the multiplication and distribution of better seeds, in the purchase and use of manures, in the scrutiny of the utilisation of loans by members for the above and other purposes, in the watching of the growth of crops and the prevention of cure of pests, etc., and above all, in securing proper deliveries of surplus crops. The last of these services is very well done for the commission merchant by his agents in the interior. The sale society ought to do this if it is to survive the competition of middlemen ; as a public institution, it is bound to guard against risks ; as a co-operative society, it should be even more interested in the welfare of individual members. All this means high overhead costs, which can be reduced only with the growth in the number of members and of transactions on the one hand and in the loyalty and co-operative spirit of the ordinary member on the other. But the day is far distant when we can reach the level of Denmark, where the very concept of field service is said to be alien.

9. Ibid. p. 945.

PERSONNEL OF MANAGEMENT AND LOYALTY OF MEMBERS.

One of our most formidable difficulties is to find the proper personnel for managing sale societies, local or central. It is hard to get as office-bearers men who are both efficient and disinterested. It is not uncommon to find mandi-merchants, rice-millers, gin-owners and insurance agents in charge of sale societies. While they may be useful up to a stage, is it natural to expect them to make of their society a great success if it cuts at the root of greater gains to themselves ?[10]

Perhaps the generality of members of our sale societies get the management they deserve. Lack of loyalty to the society is the besetting sin of the majority of members. Produce is often sold outside either due to lack of confidence in the management or to external pressure which could not be resisted. The power to penalise disloyalty is not enforced and is not enforcible in the circumstances. It is all a vicious circle. While on the one hand the disloyalty of members is winked at, on the other hand services are rendered as freely to non-members as to members on the score that more transactions would reduce overhead charges. Admission to membership is not refused to merchants or village traders who could call themselves producers, because they are landowners, but exploit small producers. We have come across traders going round to threshing floors and *shandies* collecting or buying produce and pledging the same in the loan and sale society for loans on terms easier than those available from indigenous bankers. Strict refusal of admission of such persons can alone put an end to this flagrant abuse. But how can this be done, when on the management are found merchants of influence, who secure loans for themselves or their close relations ? The co-operative conscience of those at the top is at as low an ebb as the co-operative spirit of the masses of members. The situation calls for a vigorous policy of co-operative education all round, as well as a mild measure of compulsion of members to fulfil contracts, failing which it would be better to wind up the show of co-operative marketing.

10. The history of the Cotton Sale Societies in Bombay Karnatak should not be forgotten. Mr. Collins, the Registrar, said: 'The merchant members become the enemies of the Society, when its business begins to extend, and they find their own business curtailed." *Co-operation in Bombay.* Ed. by H. L. Kaji, p. 132.

REVIEWS

YEAR BOOK OF AGRICULTURAL CO-OPERATION, 1936 : Edited by The Horace Plunkett Foundation (P. S. King & Son, London. 15s. net).

The current Year Book of the Horace Plunkett Foundation, indispensable to workers and students of agricultural co-operation, maintains its high level of excellence. The Movement as it worked in 1935 in as many as 35 countries, situated in different parts of the globe, is surveyed in the course of about 350 pages by contributors, the names of some of whom should be familiar to regular readers. Besides these brief surveys of varying interest and importance, we have two contributions of permanent value ; one by H. P. Norman on the late George Russel (A.E.) that ' seer of rural community ' and ' Rupert of written retort ' ; the other is by Dr. N. Barou on Agricultural Co-operative Insurance, which is a monograph on the subject running to 130 pages well worthy of being published separately. Co-operative insurance in India takes up 6 pages ; the failure of cattle insurance and the absence of special forms of insurance suited to agriculturists are noteworthy by contrast. Barou blesses the scheme to co-ordinate the work of existing societies. A Digest of Co-operative Legislation of the year (1935) covers 40 pages. It is followed by short critical reviews of recent books, surveys and reports, dealing with agricultural, economic and co-operative topics. The select Bibliography of Co-operation is brought up-to-date for the benefit of the advanced students of the subject. We wish the price of each publication were also given.

From the accounts given of co-operative activities in about 15 European countries, the reader gets the impression that the Movement is quite strong and healthy and has on the whole weathered the crisis, severe as it has been in the last six years, particularly in the grain and butter exporting countries. While a few countries like Sweden could boast of expansion, several claim to have achieved consolidation. Outside Europe, adjustment has not been so easy. The marketing of surplus cereals and milk products has been checked on account of depression in consuming countries, and the pursuit of a policy of high protection to their own agriculture. It is not really the co-operative system that has failed but the ill-balanced rural economy, which had resulted from over-specialisation in manufactures in some of the Western European countries.

The growing intervention of the State in economic life, especially in the recent creation of Marketing Boards with vast compulsory powers, has been condemned as a menace to the Movement by orthodox co-operators, especially the leaders of the Consumers' Movement which does not seek nor stand in need of State aid. But the passion for economic planning by State control or the delegation of it to co-operative bodies is shared by the leaders of producers' organisations. This difference in attitude between the two phases of the Movement cannot long continue; attempts are already being made to bring about reapproachment between the two, in National and International co-operative circles. Some settlement is bound to be arrived at before the International Congress meets next year at Paris.

We, in India, are however far too backward in building up any producers' or consumers' organisations to have anything but an academic interest in such giant conflicts. India, rather South India, comes in for a share in the brilliant account of a tour, made last winter in India and New Zealand, by Dr. C. R. Fay, the Chairman of the Trustees of the Horace Plunkett Foundation. This versatile Cambridge economist may be said, in his own language, to have studied India's problems " through spectacles made in Canada " where he had been a Professor for some years. He saw the working of the English and Scottish Joint Co-operative Wholesales' cultivation and purchase of tea in the Wyanad plateau for export to Britain and noted the scope for the return traffic from Britain of goods saleable in India, particularly of those made in the Wholesales' factories. We are glad to be told that if the Consumers' Movement were to develop further in India, "the Wholesales would stretch out the same willing hand that they are extending to similar efforts in New Zealand." He has correctly diagnosed our main difficulties in developing. the store: credit-trading and low standard of living. He believes, however, that " India stands to-day more in need of Rochdale than of Raiffeisen ". This might bring some cheer to the few champions of Consumers' Movement in this country, though it runs counter to the findings of several committees of enquiry and the considered opinions of several co-operators. A rude shaking is given to our orthodox leaders' faith in co-operative credit. In view of the importance of the subject as well as of the author, it is worth quoting at some length:

" The idea with which Indian Co-operators set out over thirty years ago—namely that the Government by temporary assistance, would educate the Indian peasant to credit autonomy—has not been realised and shows no sign of being realised. One might know this without going to India; for co-operative credit has failed just as uniformly among the advanced farmers of the New World, and it has been altered out of recognition under the stress of events in Germany itself."

Calculating Indebtedness of ryots in Madras on the basis of conjectures of the Banking Committee and on the assumption that a ' crore is

100 millions ', while it is only 10 millions, Dr. Fay concludes: " from the magnitude of the case, co-operative credit cannot replace private money-lending. It is simply a few clean drops poured in the murky bucket of credit....Since the depression of 1930 onwards, where not before, the Movement has on a large scale stagnated and fallen into financial embarrassment." This is, to be sure, an alarmist picture of conditions prevailing in most Provinces. The financial soundness of the co-operative credit structure has been seriously questioned only in a few Provinces and States. A recent Committee which enquired into conditions in Mysore, with which Dr, Fay came into closest contact, has reported as follows: " The solvency of the Movement has been all along beyond dispute....There is indeed, much in the present aspect of the Movement which requires correction....But the Movement itself is sound at the core. The monies invested in it at present are generally speaking safe.. ....the immediate outlook is not by any means discouraging or such as to cause despair to those to whom its welfare is primarily entrusted."

Dr. Fay grants that without co-operative credit, " the condition of the peasant, bad enough as it is, would be far worse." His positive suggestion is of greater value: " Co-operative credit in the future may get further than in the past by setting itself a more limited task—the making of loans to the selected few who have qualified for such loans by association for some other purpose in the sphere either of supply or sale." His advice to co-operators in towns is in tune with the spirit and saying of the great founder, Sir Horace Plunkett. Addressing the townsmen in Mysore, Dr. Fay said: " Rural co-operation will never reach a stable position unless it is accompanied, if not preceded, by some form of co-operation in the towns. The town sets the pace of modern life alike in India and in Europe. How can the peasant achieve a discipline which the townsmen declares is impossible for himself ? Surely the two must go hand in hand." This is an advice needed even more in North India than in South, because of the deliberate estrangement between town and country, preached and to some extent brought about by some politicians and even administrators in the former. Our only regret is that Dr. Fay could not stay long enough to study conditions in the rest of India.

K.C.R.

NEW CONSTITUTION OF INDIA: By S. K. Lahiri and B. N. Bannerjee. (The Politics Club, Calcutta.) Price Rs. 4-4 (9s.).

We welcome the above publication which in a small compass of about 400 pages gives a very clear idea of the circumstances that led up to the passing of the New Government of India Act 1935 and also serves as a commentary on the new enactment. The most important topic of the present day in which every Indian is vitally interested is the new Constitution of India. One who has not been closely following its evolution from the enquiry of the Indian Statutory Commission and its report, the proceedings of the three sessions of the Round Table Conference, the issue of the White Paper embodying the proposed scheme of Reforms and the proceedings of the Joint Parliamentary Committee down to the introduction and the final passing of the Government of India Act will be unable to follow the new constitution by a mere reading of the Government of India Act which is the longest Act in the history of Parliament. To such persons we can confidently recommend the above book which gives a clear and lucid exposition of the whole subject so as to be followed without any difficulty.

The book commences with a brief historical introduction dealing with the important constitutional changes from the beginning of the British Territorial Sovereignty in India in 1765 down to the new Government of India Act, 1935. The learned authors have dealt with the several features of the new constitution like the position of the Crown, the Provincial Government, the Federal Government, the Judicature, the Services, etc., in all its bearings and aspects. The learned authors have also as far as possible given references to the sections of the new Government of India Act in the marginal notes. The printing and get up of the book leaves nothing to be desired. The price is also moderate. We commend the book to those desirous of having a clear understanding of the new constitution.

T. S. V.

CO-OPERATION IN SIND: By N. M. A. Siddiki, B.A. (Hons.), Deputy Registrar, Co-operative Societies, Hyderabad (Sind). Published by the Sind Co-operative Institute, Hyderabad. Pages 80. Price Rs. 2 Cloth bound, Rs. 1-8 Paper bound.

Mr. N. M. A. Siddiki is to be congratulated on the production of his nice little book on 'Co-operation in Sind,' which gives all essential facts at the same time avoiding overburdening itself with prolific detail which makes co-operative literature dull.

The book opens with a description of the Co-operative Movement as it stands to-day in Sind. We are told that the total number of societies on 30th June, 1935, was 1,050, with a membership of 65,543, working capital of Rs. 2,86,10,000 and a reserve fund of Rs. 21,59,954. Roughly half the members belong to agricultural credit societies and half to urban banks, housing societies and other non-agricultural societies. 34 per cent of the villages are affected by the agricultural movement. The second

chapter details the schemes for training members of the co-operative societies. Methods suggested include (a) Radio Broadcasting, (b) Cinema Propaganda and (c) Departmental Meetings. The Co-operative Movement is already using all the three methods in some Provinces and States in India and Sind will do well to adopt these schemes.

Chapter VI deals with Land Mortgage Banks. It is suggested that one primary land mortgage bank should be started in each district with a Central Land Mortgage Bank at Karachi. The question of recoveries of arrears of societies is discussed in the next chapter. Chapter VIII deals with the special types of societies, such as salary earners, better living, arbitration and human brotherhood. The human brotherhood societies are a novelty in this country and are meant to kill the spirit of communalism which is playing the part of a canker and eating up the very foundation of human brotherhood.

In the next chapter an attempt has been made to answer the critics of the Co-operative Movement. But the replies given in some cases do not appear to be convincing. We learn from Chapter X that it is proposed to appoint a paid group secretary for every five societies. This system has proved a failure wherever it has been tried and has been condemned by every authority on Co-operation. The system is dangerous and leads to misappropriations and embezzlements and deteriorates the working of the societies. Therefore it would be advisable not to adopt it.

The financial position of the Agricultural Co-operative Movement in Sind and of the Provincial Co-operative Bank is examined in Chapter XI. The examination shows that the Movement in Sind is sound. The last chapter contains a brief survey of the future of Co-operation in Sind.

'Co-operation in Sind' is a creditable production. It is complete without being crowded. In style it has presonality and verve. This book should prove a valuable contribution to the literature of the Movement.

BASHIR.

CO-OPERATIVE SOCIETIES AT WORK IN INDIA

BENGAL

Extracts from the Report of Khan Bahadur A. M. Arshad Ali, Registrar of Co-operative Societies in Bengal, for the year ending 30th June 1935.

SUMMARY OF GENERAL PROGRESS

The year continued to be gloomy though the Movement was able to maintain its ground without any serious set back. On account of reduction in the rate of interest on deposits with the consent of the depositors it was possible for some of those central banks to meet their obligations to their depositors, which hitherto could not do so. The measures relating to the revision in the rates of borrowings and lendings were not introduced and utilised in full in all places during the year. The result of the revision is being carefully watched.

Owing to unfavourable seasonal influences, the outturn of money crops was generally below expectation. The prices of the crops also maintained the same low level throughout the best part of the year. Although the price of jute and paddy looked up a bit towards the close of the year, the producers could not reap the benefit thereof as they had already parted with their commodity by that time. The repaying capacity of the members of the societies, therefore, still remained crippled and, in spite of encouragement given by the department for taking up other occupations allied or supplemental to agriculture and for raising profitable subsidiary crops as also of other measures of relief such as remission of and reduction in the rate of interest from apex to base, no improvement in repayment was noticed. The main reason for less collection of interest than last year can be attributed to extensive damage of crops in the areas of some of the important central banks. The position of the central banks in respect of meeting their annual expenses out of the income realised appears to be slightly improved.

The central banks generally gave preference to the individual depositors in the matter of repayment of their interest in view of their agreeing to accept a lower rate of interest. It was therefore, not possible for the central banks to pay to an appreciable extent the interest due to the Provincial Bank which could not reduce its rate of interest to the extent the depositors of central banks did, on account of the difficulties of securing a corresponding reduction in the rate of interest from its creditors. The Provincial Bank has, however, reduced its rate during the current year and has granted facilities to the central banks to pay the arrear interest by instalment. The result of these steps is being watched.

Various steps were taken for improving collection of the dues of the central banks both by the Department as well as by the central banks. Of the departmental measures, the most important was the creation of audit circles with about 100 societies forming a charge. Partly due to the insufficiency of the numbers of auditors and partly due to employment of extra auditors on collection work in difficult areas it was not possible to place an auditor in each circle during the year. It will also take some time for them to settle in their new stations and to be intimately acquainted with local conditions. One of the most important duties of the circle auditors will be to examine the assets of the members and their

repaying capacity and to assist the central banks in the collection of their dues as much as possible.

The policy hitherto followed by the Department was one of consolidation which involved reconstitution of bad societies and weeding out hopeless ones. Considerable difficulties were experienced in carrying out this policy with regard to both of these methods. With regard to reconstitution, attempt was made to realise heavy outstanding dues of the office-bearers of village societies, to reconstruct the panchayat boards and to infuse fresh blood into societies by taking in good and solvent cultivators as members. Great stress was laid on the collection of dues outstanding from the office-bearers and this has been successful in particular areas but the change in the personnel of the panchayat board has not been possible to any fair extent due to dearth of competent men who could take charge of the management of the societies. It was also not possible to induce good and solvent cultivators to become members of bad societies as they generally preferred to have a new society of their own. The liquidation of hopeless societies and the speedy realisation of their assets were also beset with various difficulties.

It is rather unfortunate that most of the central banks could not reduce their establishment cost in proportion to the fall in the percentage of collection. A large number of central banks have reduced the salary of their permanent staff but as most of them had to maintain the temporary additional staff during the collection season, the additional cost incurred thereby almost equalised the savings effected by percentage reduction in the salary of the permanent staff. During these years of economic depression there are pressing demands on the slender resources of the cultivators from the landlords and the Mahajans. The big landlords generally maintain a large number of extra collection guards and consequently the central banks have also to maintain additional collection agents. The policy of "first come first served" being maintained by the cultivators, the central banks could not manage to collect their dues leisurely through their permanent staff only, the strength of which might be considered sufficient only for normal duties.

With the growth of the Movement to its present size and its attendant complexities, it has been found extremely difficult to control the entire co-operative superstructure with the meagre and ineffective provisions of the Co-operative Societies Act II of 1912. Legal difficulties which the Act is not potent and extensive enough to handle are multiplying. The time has therefore come to recast the Act entirely according to the needs of the hour and in the light of experience gathered. Almost all the major provinces, viz., Bombay, Madras, Burma, Bihar and Orissa, have already introduced their own provincial Acts. I therefore propose to submit very shortly a draft of the Co-operative Societies for consideration of Government.

AGRICULTURAL SOCIETIES

Land Mortgage Banks:—As considerable spade work is necessary in order to give the land mortgage banks a fair start, the experiment had to be carried on cautiously. The total working capital of the banks at the close of the year stood at Rs. 30,820. Out of the total number of 266 cases accepted, for a loan of Rs. 1,04,297 loans to 65 members amounting to Rs. 23,435 could only be issued. Out of the amount of loan issued, Rs. 16,822 was for the redemption of prior debts and the balance for payment of arrear rents and cesses, etc.

It may be mentioned here that the consensus of opinion in the districts where these banks have been established, is that the rate of interest chargeable on individual members is a bit too high in view of the prevailing commodity prices and the easy state of money market and the rate should be reduced to 7 per cent maximum. Two difficulties, however, stand in the way of such a reduction. Debentures can be issued only at a comparatively high rate of interest in the absence of a Government guarantee of the principal and of a provision that they shall be a floating charge on the Provincial Bank's assets; and the rates payable by the land mortgage banks must allow for this and also for the Provincial Bank's expenses. Moreover, the inevitable running costs of the banks are so high that, unless the authorised capital is increased and there is a very considerably larger volume of business than has been calculated the margin between borrowing and lending rates must necessarily be high.

It has not yet been possible to float the debentures as at the suggestion of the financing bank the form of trust deed and debenture had to be sent to the Solicitor to the Government of Bengal for opinion on the suitability of the forms and also to revise the form on certain points so as to clearly bar the claims of the debenture holders on the general assets of the financing bank and also to avoid complications in the account keeping.

In order to give the banks a start the Bengal Provincial Co-operative Bank was approached and the Directors of that Bank accommodated the land mortgage banks with short term cash credit advances on condition of repayment of the loan as soon as the debentures are floated. The Bengal Provincial Co-operative Bank has decided to charge 1¼ per cent interest over and above the rate of interest payable on the debentures for meeting its working expenses. The land mortgage banks have decided to charge an extra 3% per cent over their borrowing rates from individual borrowers in order to meet establishment charges.

Unlimited liability societies:—In view of the extreme necessity of exercising proper caution and discrimination in the direction of further expansion, no new societies were actually organised during the year. The total number of agricultural societies therefore declined from 19,895 to 19,807 and the number of members from 457,083 to 452,756. The working capital however rose from Rs. 5·73 to Rs. 5·84 crores but the paid up share fell from Rs. 55·88 lakhs to Rs. 55·44 lakhs. Deposits from members also depleted to Rs. 18·61 lakhs as against Rs. 19·78 lakhs of the previous year. The reserve fund further improved to Rs. 165·26 lakhs and other common funds created out of profits amounted to Rs. 27·72 lakhs as against the total reserve amounting to Rs. 150·45 lakhs of the preceding year. It may be mentioned here that under orders of Government, the statutory reserve fund and other special funds created out of profits, hitherto shown together have now been indicated separately. The internal capital also further increased from Rs. 226·13 lakhs or 39·4 per cent to Rs. 239·60 lakhs or 41 per cent, while borrowings from Provincial and Central Banks amounted to Rs. 328·52 lakhs or 56·2 per cent of the working capital as against Rs. 328·72 lakhs or 57·3 per cent of the previous year. Loans issued to members during the year further decreased from Rs. 32·74 lakhs to Rs. 24·72 lakhs and actual repayment by members also fell from Rs. 36·36 lakhs to Rs. 29·79 lakhs. Overdues at the close of the year, however, have been reduced to Rs. 310 lakhs or 74·7 per cent as against Rs. 340 lakhs or 79·9 per cent of the last year.

Agricultural Purchase and Purchase and Sale Societies:—The number of these societies increased from 74 to 80, their membership from 9,365 to 13,693 and their total working capital from Rs. 5,59,304 to Rs. 7,94,395. The Central Paddy Sale Society in Calcutta handled 112,102 maunds of paddy and rice against 98,637 maunds of the previous year. The society earned a profit of Rs. 1,447 against Rs. 5 of the last year and has been able to pay Rs. 1,370 as interest charges due to the Bengal Provincial Co-operative Bank on account of the closing of the Chetla Branch. The Gosava Jamini Rice Mills continued to do good business and earned a profit of Rs. 3,623 against Rs. 3,669 of the previous year. The Bakarganj Sunderban Sale Society earned a profit of Rs. 13,360 and the Danovan Rice Mill attached to it continued to do well.

Agricultural Associations:—At the close of the year, the number of these associations rose from 37 to 40. The Bengal Home Crofters Association continued to do useful work, though there was no marked improvement in its activities. The Lalgarh Krishi Samiti in the district of Midnapore which installed a sugarcane crushing machine at a cost of Rs. 6,000 has suffered a loss as the factory worked only 3 months during the year. The Naogaon Agricultural Association also worked its sugar factory at a loss. It is hardly possible for these open pan sugar factories of small type to be successful unless they are exempted from sugar (excise) duty and the mill can be kept engaged through the year with other work than merely crushing of canes which takes up only four months in the year. Some of the agricultural associations distributed seeds of subsidiary crops such as hemp, groundnut, linseed, etc., to their members, and gave them relief from the distress caused by the failure of jute and paddy.

Production and Sale Societies:—There was a further fall in the number of milk societies from 264 to 247 during the year. The primary societies affiliated to the Calcutta Milk Societies Union supplied milk valued at Rs. 2,05,378 against Rs. 1,49,928 of the preceding year and the profit earned by them rose from Rs. 5,785 to Rs. 6,868. Due to low price of milk, the milk societies in the Dacca and Chittagong Divisions are working unsatisfactorily. The Malda Sugar Mill started work during the year and earned a profit of Rs. 833 after meeting heavy expenditure in plants and machinery. Sixty five per cent of its members grow sugarcane and sell their produce to the factory. The mill, however, has been handicapped owing to the imposition of sugar (excise) duty.

NON-AGRICULTURAL SOCIETIES

Credit Societies:—The number of non-agricultural credit societies rose slightly from 531 to 532, their membership from 202,163 to 211,102 and their working capital from Rs. 401 lakhs to Rs. 443 lakhs. Loans amounting to Rs. 263 lakhs were issued to members as against Rs. 291 lakhs of the last year and Rs. 228 lakhs were recovered against Rs. 229 lakhs of the previous year. The overdues at the end of the year were Rs. 48·63 lakhs, or 12·7 per cent as against Rs. 44·75 lakhs or 12·6 per cent of the last year. The total profit earned by these societies rose slightly from Rs. 11·66 lakhs to Rs. 11·69 lakhs. In respect of efficient management and steady progress the Calcutta Urban Banks and those in Chittagong group held the lead. The assistance rendered by these societies in providing easy credit facilities and encouraging thrift amongst wage-earners, small traders and other persons of limited means, has been very considerable and some of the important banks have actively helped in popularising instruments of credit and financing small industrialists and cottage workers. Party factions are unfortunately assuming prominence in some of the big banks in recent years.

Stores and Supply Societies:—The number of these societies fell further from 53 to 43 and their membership from 9,202 to 5,208. The total sale also decreased from Rs. 3·39 lakhs to Rs. 2·61 lakhs, but the total profit increased from Rs. 1,703 to Rs. 2,196. The Bagerhat Trading Society in the district of Khulna is doing good business and has created a good name, and the Railway Stores at Kanchrapara is steadily improving. In the Burdwan Division, the United Trading Co-operative Society worked well and is becoming popular though it earned less profit owing to heavy cost of management. The other stores in the division are in a bad way. The Sardah Police Training College Store in the Rajshahi Division did good work.

Fishermen's Societies :—The number of these societies remained stationary and their membership fell from 3,970 to 3,846. In the Presidency Division, the Captain Bhery Society, did better business than in last year.

Weavers' Societies :—The Weavers' Societies fell in number this year from 330 to 325 but their membership increased from 5,887 to 5,908. The Bagerhat Weaving Union has maintained a steady progress against competition and trade depression and has earned a small profit. The weavers societies in the Burdwan Division sustained loss and their financial condition was generally unsatisfactory as a result of competition with mill-made products. Acute distress prevailed particularly among the weavers of the Bankura district and a scheme was mooted to give them relief by providing work and paying wages therefor out of funds allotted for this purpose by Government. There was no actual improvement in the working of the weavers' societies in the Dacca Division, and those in the Rajshahi Division worked on credit basis. In the Chittagong Division, only the Mainamati Tantubai Samity worked at a small profit, the other societies having particularly suspended operation or worked on credit basis.

Silk Industries :—The number of these societies remained at 77 as in last year. The working capital fell from Rs. 91,913 to Rs. 91,764. The profit, however, rose slightly from Rs. 295 to Rs. 475. The Jangipur Industrial Association worked steadily but could not show much progress though it has promise of development. The societies in the Burdwan and Rajshahi Divisions continued to deteriorate owing to the fall in the price of silk due to foreign competition.

Anti-malarial and Public Health Societies :—The number of these societies fell during the year from 940 to 931 though their membership rose slightly from 18,268 to 18,280. Many of these societies are at present working indifferently due to paucity of funds but where properly worked have been successful in combating malaria and in effecting considerable improvement in the general health of the areas served by them by clearing jungles and erradicating water hyacinth. These societies which are being run on small contributions from members are languishing for want of adequate capital.

Bengal Co-operative Insurance Society :—The Society after reconstitution has been working well. The volume of its business increased by nearly 25 per cent and it has accumulated a surplus of Rs. 6,048 against Rs. 4,191 of last year. The policyholders' fund has also increased from Rs. 12,863 to Rs. 22,815. The benefits of the society are gradually being more and more appreciated by the middle and poor classes both within and outside the Movement.

HIGHER CO-OPERATIVE ORGANISATIONS

Milk Unions :—The Calcutta Milk Union continued to suffer from the effects of the general depression and could not compete successfully with private enterprise in view of the prevailing low price of milk and the extra cost of pasteurisation, as also persistent underselling by the small dealers. There was less demand for its milk, and the Union could not purchase the entire produce of its members. The total sale of milk during the year amounted to Rs. 3,31,444 for 34,040 maunds as against Rs. 3,58,556 for 35,800 maunds of the last year. The average quantity of milk handled by the Union was about 93 maunds a day against 106 maunds of the preceding year. Half of these sales were accountable to hospitals, clubs and hotels and even these bodies insisted on a reduction of rate before renewing contracts. There was therefore, further fall in profit from Rs. 283 to Rs. 256. The cost of management, however, was further brought down to Rs. 1,11,023 from Rs. 1,16,701 of last year. The reserve and other funds at the end of the year amounted to Rs. 1,15,260 which has not yet been separately invested. The Dacca Milk Union could not do good business, though its profit increased from Rs. 120 to 470. The Darjeeling Milk Union has suffered heavy loss, and possible steps are being taken to save it from total collapse. The Chittagong Milk Union has not yet been able to make itself popular and could not develop its business.

Industrial Unions :—The Bengal Provincial Co-operative Industrial Society has, since the removal of its shop to College Market Street, been able to double its sales during the year in spite of the growing competition with cheap mill-made textiles. It had, however, to sell goods at a small margin of profit in order to survive competition and the profit earned was not commensurate with the volume of business done. The total sale proceeds amounted to Rs. 76,570 as against Rs. 36,546 of the last year. There was, however, a sharp decline in the value of yarn and raw materials supplied by the society from Rs. 1,67,634 to Rs. 66,553. The decrease in the supply is due to the fact that the Dacca Industrial Union stopped its yarn business altogether and the Alamdanga Yarn Depot could not requisition for adequate supply. The society earned a gross profit of Rs. 7,164 in the trading account as against Rs. 5,945 of the preceding year but sustained a net loss of Rs. 1,678 against Rs. 3,285 of the last year, owing to overhead charges and increase in trading charges such as insurance premium, cost of advertisement, etc. The Bankura Industrial Union continued to work at a loss amounting to Rs. 368 as against Rs. 643 of the last year. Since 1925 the Union could not earn any profit and the year under review brought on increased difficulties due to acute distress prevailing in the district, necessitating relief work for the weavers. The Union has set off its accumulated reserve and building fund against all previous losses. The share capital held by the societies has also been reduced by half for making provision for bad debts. The total paid up share capital, therefore, fell from Rs. 15,894 to Rs. 11,252 of the last year and the working capital from Rs. 63,621 to Rs. 59,854. The Dacca Industrial Union went from bad to worse and had to close down its yarn branch. The dispute with the conch shell societies could not be compounded. Collection from affiliated societies was extremely unsatisfactory and a large amount of assets is likely to be irrecoverable.

Central Banks :—The number of Central Banks stood at 118 as in last year. There was also a further decrease of their affiliated societies from 20,054 to 19,937 and of the working capital from Rs. 519·14 lakhs to Rs. 517·45 lakhs. The paid up share capital also declined from Rs. 53·59 lakhs to Rs. 53·33 lakhs. The reserve funds, however, rose from Rs. 45·65 lakhs to Rs. 50·73 lakhs of which Rs. 26·44 lakhs represent the statutory reserve and Rs. 24·29 lakhs other common funds created out of profits. The total amount of owned capital was 20·1 per cent of the total working capital as against 19·1 per cent the previous year. Deposits from individuals and other sources further declined from Rs. 289·95 lakhs to Rs. 282·83 lakhs, while loans from the Bengal Provincial Co-operative Bank and other banks amounted to Rs. 122·71 lakhs against Rs. 122·57 lakhs of the last year. There was a slight decline in the amount of loans issued to affiliated societies from Rs. 79·43 lakhs to Rs. 53·65 lakhs. Repayments by societies by societies came down to Rs. 62·92 lakhs from Rs. 87·72 lakhs, i.e., to 16 per cent of the outstanding amount at the beginning of the year as against 22·2 of the last year. The total profits however appreciated from Rs. 7·31 lakhs to Rs. 7·72 lakhs. The cost of management was reduced slightly from Rs. 6·88 lakhs to Rs. 6·83 lakhs.

In the Presidency Division, the work of the Gosava, Khulna, Berhampore, Raruli and Nimta Central Banks was on the whole satisfactory. In the Burdwan Division, the majority of the Central Banks have been able to reduce the rate of interest on deposits without suffering in public confidence. The Midnapore, Burdwan, Hooghly and Birbhum Central Banks are still saddled with idle surplus capital for which there is at present no scope for investment within the Movement. The Vishnupur, Asansole and Arambagh Central Banks are too small to become self-supporting institutions. The question of expansion is engaging the consideration of these banks. The Viswabharati Central Bank has been carrying out its programme of rural reconstruction and has introduced a system of small deposits by collecting doles of grains (*musti*) to create a common granary.

In the Dacca division, the continued economic distress has seriously depleted the fluid resources of many central banks. The persisting slump in the price of jute coupled with the damage done to crops during the year by flood in the areas of some of the most important central banks seriously interfered with collection which considerably decreased in those banks. The Barisal and Dacca Central Banks, however, continued to be the best managed central banks in the division. Considerable difficulties were experienced by smaller central banks, to meet their expenses out of the income. These banks had to come into line with the bigger and more established central banks in giving effect to the general reduction in the lending and borrowing rate but as they lacked in owned capital and depended mostly on borrowed capital for their productive investment they were under a greater disadvantage than the bigger banks to make both ends meet.

In the Chittagong Division, the Feni Central Co-operative Bank is the most well-managed central bank. The Chittagong and the Noakhali Central Banks worked well and could have fully met their expenses out of income if dividend were not paid. The collection of the Malda Central Bank suffered on account of the low price of mango, lac and silk while the Rajshahi Central Co-operative Bank, though a well-managed bank, could not meet its expenses out of its income on account of heavy cost of management.

The Bengal Provincial Co-operative Bank, Ltd.:—There was no increase in the number of members which remained at 156 as in the last year. The working capital fell slightly from Rs. 227·88 lakhs to Rs. 227·42 lakhs and the paid up share capital from Rs. 16·91 lakhs to Rs. 16·68 lakhs. The reserve fund increased from 4 lakhs to 4·21 lakhs and the other funds including special reserve fund increased from Rs. 10·08 lakhs to Rs. 11·71 lakhs. Deposits from members and others fell from Rs. 196·88 lakhs to Rs. 194·79 lakhs. There was a contraction in the amount of loans issued to and recovered from the members, being Rs. 20·03 lakhs and 19·21 lakhs, respectively, as against Rs. 60·04 lakhs and 56·45 lakhs of last year. As in previous years, the bank maintained adequate fluid cover and had sufficient surplus to keep down the rate of interest on deposits. The Bank, therefore, had no necessity to operate on the cash credit of Rs. 30 lakhs granted by the Imperial Bank of India on the guarantee given by Government.

The Bengal Co-operative Organisation Society, Ltd.:—The number of societies affiliated to this society increased from 18,762 to 18,792. The society continued to carry on propaganda and publicity work during the year. Three radio talks were broadcast by the Assistant Secretary from the transmission station and lectures on matters of general co-operative interest were delivered by the publicity staff who made intensive tours. The society also participated in various exhibitions in the province and continued to publish two periodicals—one in English and another in Bengali.

THE UNITED PROVINCES

Extracts from the Report of Mr. Vishnu Sahay, I.C.S., Registrar of Co-operative Societies in the United Provinces of Agra and Oudh for the year 1934-35.

CO-OPERATIVE TRAINING

1. *Supervisors and Inspectors*:—The problem of getting the right type of Supervisor is a curious one. The United Provinces Co-operative Union's rules emphasise the importance of a "rural bias" but the country lad who applies is often a yokel and remains one, while the smart city lad is wide awake and knowledgeable but lacks sympathy. Selection is made from the nominees of banks and Assistant Registrars, but quite often their nominations are based on insufficient knowledge of the candidate, and the task of the Selection Committee of choosing 40 out of some 200 after a two minute *viva voce* is a very difficult one. Even then, after so much selection and weeding in the training class, not more than half the men turn out to be reasonably suitable. Recommending authorities have been requested to nominate men after search and not on last minute applications.

The Supervisor's work calls for unusual qualities. He has not to do things himself so much as to inspire others to do them, he has to make the co-operative spirit grow, to introduce ideas of better living among peasants who do not want it, to know a little of many things, from poultry-keeping and soap-making to manure pitting, and above all to show good collections without being bailiff: he gets none of the amenities and perquisites which are traditionally associated with service and his pay and prospects are small. No wonder the annual casualties by resignation or removal are 7 or 8 per cent of the cadre. It is true that a large number of them in spite of training, refresher classes and supervision are still incompetent or negligent, but considering the nature of the work, the prizes for the really deserving should be increased and the selection of 13 of our Supervisors as Inspectors under Government's new Rural Development scheme has, therefore, been a welcome incentive for the rest, just as it is a tribute to the rural reconstruction done under co-operative auspices.

The number of trained and approved candidates for the posts of Inspectors and Auditors was sufficient and there was no fresh recruitment and training for these posts. The usual training class for supervisor candidates of the United Provinces Co-operative Union started at Partabgarh in November 1934 with 49 men. The syllabus of training is a comprehensive one. The first six months are spent on agricultural training at the Government Farm, together with teaching in hygiene and sanitation and the principles of co-operation, the remaining six months are spent on practical training in villages, on organisation methods and on co-operative practice and accounts. The Partabgarh Training Institute ran a successful co-operative store for the men under training.

2. *Rural Teachers and Workers*:—The Department was also utilized in the training of village school teachers under a separate scheme which aims at making the village school, the centre of the welfare movement, the teacher acting as the guide. There were three training centres, Partabgarh, Gorakhpur and Bulandshahr, where advantage could be taken of the Government farms for giving agricultural training to the teachers. The training lasted three months and two batches of 30 teachers each were trained at each centre. A co-operative inspector trained them in village organization—the method of approach—as well as in certain specific items of the programme of improvement, items relating to agriculture, public health and cattle being dealt with by officials of the other departments concerned. The Education Department was in general charge of the training and the further working of the scheme is also the responsibility of officials of that department.

Towards the close of the year, the Department was entrusted with the training of Rural Development Organisers. There were three centres, Benares, Fyzabad and Bulandshahr, and there were 40 to 50 members in each class. The first batches have gone back to the districts after three months' training in methods of organization and in a full programme of improvement ranging from silo-pits, line-sowing, seed preservation and green manuring, to parapetting of wells, construction of windows, use of quinine, running village cubs and scouting. Officers of the Agricultural, Public Health and Veterinary Departments were in charge of the training relating to their work and their willing assistance is acknowledged with thanks. The Seva Samiti and Baden-Powell Scout Associations are also to be thanked for deputing scout trainers to these classes.

3. *Women Workers*:—A training class for *women workers* was held at Lucknow and illustrated the difficulties of the work. The class was widely advertised, stipends were offered, the educational qualification was only the Vernacular Upper Middle and that too was relaxed, women's schools were approached, managing directors and our staff looked round and canvassed, instead of applicants coming to us we went to the applicants; even then only 31 candidates who were at all suitable could be found and most of them were unduly young. Of these, some found the mental strain of uplift teaching too heavy, a few others hankered after home and husbands and joined them, one or two had children in between—and only 18 candidates lasted the course. The syllabus included domestic economy, child-welfare, home treatment of common ailments, elements of co-operation with special reference to thrift and better living societies, laundry, tailoring, knitting, basket-making, soap-making and adult education. At the end there was a fortnight's course in girl guiding. The whole training lasted eight months. The problem now is how best to utilize these workers.

CREDIT SOCIETIES—CENTRAL

Financing Agencies:—The number of Central Banks remained the same, viz., 71. Of these 36 are District Banks, 26 are other Central Banks and 9 are Banking Unions. I am not a supporter of the system of having central banks in small out-of-the-way towns; with one or two exceptions they have all done much worse than their neighbours at district headquarters and the cause is invariably the same—mismanagement. These banks began and rested on some single prominent zamindar, they have been completely one-man shows and trouble has come when the inevitable need arose for a substitute or a successor. New co-operators of business capacity are rare enough to get in district centres, they are almost impossible to raise in small moffusil towns.

Deposits:—Societies' deposits rose from 4·73 lakhs to 5·91 lakhs. The increase is due mainly to the automatic growth of owned capital of societies, which naturally tends to be passed on to banks in the shape of deposits, there being no corresponding increase in the lendings of societies. Deposits from individuals went down from 39·92 lakhs to 37·42 lakhs, not for lack of depositors but because the banks had plenty of idle money. Banks still enjoy the confidence of the investing public and with some the problem was how to avoid taking the unwanted money of old clients. The drive for lowering of deposit rates has borne fruit and there was a welcome reduction in most banks. The usual rates in the stronger banks are now 3½ per cent. for one-year deposits and 4 per cent. for two-year deposits and there are few banks which still pay more than 4½ per cent. on new one-year deposits. The legacy of old high-rate deposits is however still large and has contributed to the inability of many banks to earn profits or to make the much-needed reduction in their lending rates. An apex bank would cheapen borrowing still further, but the project is hanging fire, as on account of idle balances and lack of avenues for investment, it is difficult to see where the working expenses of such a bank will come from.

Loans and Repayments:—Advances to working societies and repayments by working and liquidated societies were 18·62 and 19·80 lakhs respectively, an increase of 3·52 and 0·40 lakhs over last year's figures. Recoveries exceeded advances by 1·18 lakhs. The total outstandings are 40·28 lakhs against working societies and 7·27 lakhs against liquidated societies. Of the total demand 41·7 per cent. was collected as compared with 38 per cent. last year and 37 per cent. in 1932-33. The same encouraging improvement is noticeable in the percentage of overdue principal on outstandings in working societies; from 65 in 1931-32, it came down to 61 in 1932-33, to 57·8 in 1933-34, and this year it is 52·9. Relief measures were taken towards the end of the year, their full stimulating effect will take time to come in evidence, but given reasonable crops, further improvement in repayment may be looked forward to.

Financial Position:—The strength of the banks in general is reflected in the owned capital which is now 46·03 per cent. of the working capital. It is when one comes to particular banks that the weaknesses become apparent. Of the 71 banks in the Province, 31 could not distribute dividend, which is depressing for urban preference shareholders who judge by dividends alone and forget the nature of a co-operative rural bank and its dependence on the depressed agricultural industry. Nine banks worked at a loss. If overdue interest be excluded 22 banks had no distributable profits. In 19 (the number has come down from last year) interest on deposits and expenses exceeded receipts from interest. In 13 the gross loss exceeded gross profits. Briefly, while the good banks have improved, the weak ones are where they were.

There are two parts of the problem—one is that of over-dues and the other that of balancing budgets. Overdues are the result of poor crops, low prices and defective co-operative education. In the matter of budgets, reduction in expenditure must inevitably lag behind reduction in income. Cheaper deposits become effective only when the old and expensive ones mature. Retrenchment on staff has its limits—it is impossible to have accountants in fractions and there is a natural disinclination to cut down salaries. On the other hand, income is going down on account of necessary reductions in lending rates, and on account of contracting investments. Membership of societies is not increasing, new societies are sparingly organized, credit limits have been rightly curtailed and the old societies are steadily accumulating their own capital. The answer must be—banks must seek fresh avenues of investment. There is a tendency to take the line of least resistance and seek profitable outlet in the only form of investment which is well known, viz., village credit societies. There is plenty of demand for them in the sense that the villager would welcome easy credit now that other sources are getting drier but, as experience has shown, while lending is easy, recovery is painful, depending as it does on the arid and slowly-acquired virtue of thrift. Thrift is a matter of education and for that one needs workers. Till we have more funds for expenditure on supervision, it would be a mistake to increase the number of small village credit societies, for our existing staff has quite enough on its hands with the debris of the past. From the point of banks' budgets what is needed is not more small village credit societies with their small borrowings and large expenditure on supervisional staff but societies which will absorb large investments without disproportionate obligations for supervision. One opening would be societies of salary-earners at headquarters of banks—of teachers, clerks, municipal employees, police officials and the like. When arrangements for deduction of instalments at the source can be made, these are bound to succeed, as the experience of police societies has shown. Another opening would be societies of traders like the Biswan grain merchants society. These could be managed by the existing staff provided the right men were forthcoming to take the lead.

Repayments in kind:—Marketing facilities are commonly prescribed as one of the remedies for the ills of rural credit co-operation, there has been little development of the marketing of ordinary crops—the success achieved with special products like sugarcane, cotton, gur and ghee will be dealt with elsewhere. The Moradabad Bank which is the pioneer in the experiment of grain repayments lost on it in 1932-33, and in 1933-34 its business in the agricultural produce of members dwindled from Rs. 64,000 to Rs. 14,000 and again there was a small loss. This year, however, an attempt was made to revive the business which rose to Rs. 34,000 and there has been a profit. There is a certain element of risk in grain purchase and sale, the work is new, the proper method of organisation has not yet been evolved and the immediate gain is not apparent, but there is bound to be ultimate advantage in collections and in any way it is only by experience that the correct method of linking up credit marketing can be perfected. That is how all co-operative work began. Incidentally, as illustration of what good management and supervision can achieve, it may be stated that this bank collected 61 per cent of its demand as against 35 per cent last year, societies' overdues against members fell from Rs. 91,942 to Rs. 57,620 and their percentage on total outstandings from 61 per cent to 30 per cent.

CREDIT SOCIETIES—PRIMARY

Agricultural unlimited liability societies:—419 new societies were registered and 45 were liquidated, the total being 5,470. The number of new members was 11,877 but the net increase was only 5,530 showing that considerable weeding is still going on. The average membership was 20 as last year. This is a very small figure, for even allowing for the small size of our villages it is impossible to believe that the rest of the average village consists only of dishonest or minor tenants. Supervisors are asked to encourage admission of desirable members but that means labour, which they would rather devote to collections, collections being the striking statistical test by which their work, rather naturally, tends to be judged.

As a measure of relief, 1622 societies reduced their lending rate from the usual 15 per cent. In some societies, organised during the last six years, members paid 22½ per cent. of which 7½ per cent, was placed in deposit on their account, the rest being interest. In the new societies that are now registered, members pay 15 per cent, 12 per cent being the rate of interest and 3 per cent being placed in their deposit account.

Advances and Repayment:—Advances to members increased by 3·71 lakhs to 23·12 lakhs. Repayments amounted to 24·51 lakhs, exceeding last year's figure by 3·85 lakhs and this year's advance by 1·39 lakhs. Outstandings have gone down from 73·74 lakhs to 71·91 lakhs. The percentage of recoveries to demand including the previous year's overdue was 36·1 as against 30 last year. Overdue loans decreased by 4·51 lakhs to 44·36 lakhs. Overdues including postponements were 45·50 lakhs or 63·3 per cent of the outstandings, last year's percentage being 67·6. On the other side of the account, overdue interest increased from 17·51 lakhs to 17·90. Recoveries are first credited to interest and then to principal and the explanation of this curious fact is that while good members are endeavouring to pay, the worst elements does not pay at all. It may be that the recent measures of relief will produce some improvement next year but the main reason appears to be, apart from overloaning and poor co-operative education, the ineffectiveness of execution proceedings. Wholesale stagnation has come about in the societies of some half a dozen banks, mostly of the precarious Agra tract, where scarcity and six years of crop failure have led to old loans becoming excessive in relation to the present day resources of the borrowers. All credit has been stopped, the only business being debt collection. Where the resources of the banks permit it, they are being advised to adopt a policy of further though cautious finance, for the consequence of stoppage of all credit is certain to be wholesale liquidation. A strong Provincial Bank would have been of immense help at this juncture, it could have shared the risk with these afflicted banks and helped them patiently to nurse the societies and their semi-bankrupt members.

Non-agricultural limited liability societies:—The number of such societies rose from 73 to 94 mostly among officials. One superintendent spoke enthusiastically of them as "fool-proof." They are not. No co-operative society is. Faction, mismanagement, lack of interest, lack of education in thrift and in the importance of honouring one's obligations and embezzlements are all potential dangers. That there is need for such societies is shown by the alacrity with which the idea is taken up, but there have been cases where enthusiasm has waned when it came to paying. There is the case of a Bar Association Society which started with a flourish of trumpets, raised 40,000 rupees and constructed a much needed building for the offices of members. The bylaws were perfect, the promoter as sincere and honest a co-operator as one could wish to see. All went well for a couple of five years, then some defaulted with their share contributions, the managing committee lacked the courage to lock them out, default became general and now the society cannot raise enough even to pay its matured deposits. Pressed to do something, the committee said the law was a depressed industry. And yet all the members are educated and understand that if the society goes, they will have to sit under the kutchery *peepul*. Prudence and business capacity are a matter of cultivation; otherwise overdues in such societies would not have increased as they have done from Rs. 88,028 to Rs. 1,15,139. Most of the societies, however, worked at a profit and did a distinct service to the members.

A notable registration was that of a society for co-operative employees—those who teach co-operation must also practice it; 327 out of about 600 possible members have joined it. The society gives credit, is contemplating house-building and mutual assurance and has already taken over the fidelity bond business hitherto done by the Co-operative Union Employees' Fidelity Guarantee Society which has been merged in it.

PRODUCTION AND SALE SOCIETIES

Cane Supply:—There has been a good deal of development in these. Co-operative marketing of sugarcane has been taken up in five districts, Dehra Dun, Meerut, Muzaffarnagar, Sitapur and Gorakpur. Dehra Dun has one society for the district and contracted with the only factory there for supplies. There is natural zoning in Dehra Dun and there was no difficulty in organization. Individual growers are members, as also is the factory, and management is with representatives of both. Three and a half lakh maunds of cane were supplied at prices fixed in advance and Rs. 3,419 were earned in commission. There was no friction; the society has some grower-members of capacity and a good deal of work was done by the members themselves, the staff being very small. A very promising society with a high standard of cultivation.

The Meerut and Muzaffarnagar societies have a similar constitution to the one at Dehra Dun, but since their clients were several factories, there were more difficulties. The quality of the cane supplied was poor and expenses on staff were high. Nearly Rs. 20,000 were earned in commission and it is satisfactory to note that the growers have volunteered to set apart that part of the profits which they could get as bonus for works of improvement.

The Sitapur societies are the 132 primary societies affiliated to the Biswan Co-operative Factory, which paid the cost of organisation, some interest free "dadni" advances and also a small commission. No bonus to the growers' societies was given, and there was some friction over the price but the growers were saved the harassment which disorganized supply involves and some attempt has been made to improve the quality of the cultivation.

Gorakhpur has two central societies—the Ghugli Union and the Cane Marketing Board, Deoria, which have 134 primary village societies affiliated to them. Factories are not members and separate contracts are made with them. The market price was paid. Over Rs. 12,000 were earned, contracts were kept on both sides, and the good work done is reflected in the vastly increased membership this year and in the requests which I myself have received from several factories for the co-operative organization of supplies to them. The Cane Marketing Board has now a separate building for its office and has made a promising beginning. It, however, employs a large low-paid staff and the danger is from corruption and embezzlement. A running audit besides annual audit is needed but I find it difficult to find the staff required.

Advances for cultivation were made by the Marketing Board, their financier being the Deoria Bank, which also gained an additional source of investment. Difficulties over prices and contracts there will be for some time: what the cane supply societies ought to do to strengthen their position even more is to undertake the supply of good seed and manure and to inculcate better agricultural practice.

Biswan Sugar Factory:—There was mechanical trouble for three important weeks but even then 70,000 rupees were earned in profit resulting in dividends at 6 per cent to shareholders—almost all of whom are preference shareholders.

Rab-making societies:—These societies are in effect co-operative khandsals, making gur or sugar whichever is more profitable. Of the three societies, the Malauli society did not work, selling the cane being more profitable to the members; the Kheri society had a small loss, the third, the Bastia (Lucknow) society had a good year. Profits were Rs. 1,188, growers got a rebate, a local panch has been trained to work a "bel" and the right spirit has been created; the credit societies in the component villages, it may be observed, have also livened up; they were tottering three years ago.

Ghee-sale societies:—The Chaubon-ka-purwa ghee sale union with 35 primary societies increased its membership from 661 to 977, sold ghee worth Rs. 44,046, maintained its reputation and made good profits.

Cotton-sale societies:—Of the two societies of this type, Iglas is at a standstill, while Bilgram nearly doubled its membership and made a profit of nearly Rs. 12,000. The organisation is, however, loose, the members being scattered over a number of villages. Primary societies are now being organised. The society is the result of the collaboration of the Agriculture and Co-operative Departments. It produces C.402, keeps it pure and then gins and sells it.

RURAL RECONSTRUCTION

The idea of rural reconstruction is steadily gathering volume and in most districts one comes across better farming or better living societies or societies which have adopted the ideas of better farming and better living. Concentrated work has, however been done so far in only four districts—Partabgarh, Masondha (Fyzabad), Benares and Lucknow.

Partabgarh:—There are 171 villages grouped round nine centres. Twelve Persian wheels, 166 sugarcane crushers and 245 Meston ploughs are in use. Two hundred and fifty wells were sunk in which the members joined with their labour. Two hundred wells were bored and 108 parapetted. Two tanks and four embankments were jointly repaired. Manure is commonly pitted and, thanks to the better bulls, there is a slight improvement in the new calves. Some goats were imported from across the Jumna, but they did not like the local grass or the local climate and their milk has gone down. In 58 societies village-aiders have been trained. The number of scouts has risen from 230 to 426; their knowledge of scouting may be small but they have done useful work in improving village sanitation. There are 20 reading clubs and 12 small village libraries. Most of the books are of the useful type but the villager seems to have the same disinclination for heavy literature as people in cities; for, one centre reports that the most popular book was Chandrakanta the well-known detective story.

Masondha:—There are 72 villages now and there is a many-aided scheme of development. There are 19 schools of adults and the teacher is expected to be the village guide in addition. Twenty embankments were jointly constructed and 109 village wells were improved. The area under improved crops has increased and green-manuring is getting known. Five hundred and seventeen windows have been put in, 219 pits filled up, 79 new wells constructed, 65 parapetted, 27 bored and 29 repaired. There are 57 *akharas* and the reported savings on ceremonies are Rs. 7,000. All these are figures which cannot be fully checked but the improvement in the mentality is more easily verified.

Benares:—In Benares, the organisation is similar and there is a wide programme of sanitary improvement, physical culture, education and communal recreation. Here also the area under improved seed and the number of implements have increased. A pleasant example of communal enterprise is the *bund* at Chandauli which is being constructed by the villagers themselves. Every village has an *akhara* and there are 30 adult schools. Scoffers at rural reconstruction are advised to visit the Chiraigon Society near Benares. The society was on the verge of liquidation seven years ago—it was then a credit society only, now there are flourishing groves, paved paths, a girls' school and indebtedness has been more than halved.

Lucknow:—In order to popularise three-roller sugar-mills arrangements were made with a firm of suppliers to open an agency. They employed a mechanic who goes round and the arrangement is working satisfactorily. A good deal of educational work for cleaner villages, pitting, windows and the like has been done.

RELIEF MEASURES

To encourage societies a comprehensive circular regarding relief was issued in the beginning of March. Broadly speaking the proposals dealt with postponement of the current demand and overdue instalments of shares, adjustment of some of the paid share capital of members and societies against overdue loans, adjustment of deposits of members against overdue loans, extension in the period of repayment, writing off of bad debts of members against profits, bad debt funds and reserve fund of societies, reduction in the rate of interest chargeable from members and payment of rebate on punctuality. Some of the concessions to members were such as could be given by the societies themselves while others were dependent on like concessions being available from the creditor banks. The response to this circular was varying. Most banks, I am glad to say, which could adopt these measures have adopted them. The result will be visible next year.

HYDERABAD

Extracts from the Report of Mr. S. Fazalulla, H.C.S., Registrar of Co-operative Societies, H.E.H. the Nizam's Government for the year 1342-43F. (July 1933 to July 1934).

Summary of Progress:—There were 2,739 societies as compared with 2,554 of last year. Apart from the Dominion Bank and the Co-operative Union, they consisted of 39 central banks, 2,272 village credit societies, 400 non-agricultural societies, and 26 societies in the British Administered Areas. The membership of the Movement as a whole increased by 7,414 from 75,596 to 83,010, and the working capital rose from Rs. 231,18,93 to Rs. 239,72,996, showing a net increase of Rs. 8,54,062. The policy of the Department of conserving the profits with a view to increase the reserves has once again resulted in strengthening the Movement financially, and it is satisfactory to note that surrounded as the Movement has been with forces of a devastating and crippling nature, the reserves have mounted up from Rs. 34,34,204 to Rs. 39,19,235. The paid up share amount of the Movement rose from Rs. 48,65,594 to Rs. 50,97,630. On the whole the owned capital increased from Rs. 82,99,798 to Rs. 90,16,865.

The Central Co-operative Union:—The Co-operative Union worked with 117 individual and 1,177 society members. Rs. 4,716 was collected from societies by way of subscription during the year. The Union employed seven propagandists who delivered magic lantern lectures on co-operation and allied subjects in 150 villages. They held classes of society panchayatdars and members at 38 different centres. The annual co-operative training class was held as usual at the Union Office in Hyderabad and was attended by 18 officers of the Department, 9 accountants of central banks and 24 private candidates. The Union is giving attention to the successful co-operation in different districts of the rural reconstruction scheme at a few selected villages. The supervision of the societies was carried on by the Union through a field staff of 81 Supervisors each of whom was in charge of a circle consisting of 20 to 30 societies. Rs. 43,424 was raised from banks and societies by way of supervision fees. The total amount which was spent by the Union on the maintenance of supervisory staff amounted to Rs. 51,125. The amount spent by the Union on office establishment and its educational and propaganda activities came to Rs. 24,699 during the year.

The Hyderabad Co-operative Dominion Bank:—The owned capital of the Bank went up from Rs. 9,67,494 to Rs. 10,74,018 and if the appropriations made to the various reserves out of the profits of the year, which was Rs. 1,07,038, are taken into account, the owned capital of the bank is enhanced by another three-quarters of a lakh and stands at about Rs. 11½ lakhs, which approximates to 25 per cent of its total working capital and 30 per cent of its outside borrowings. It received deposits of Rs. 27,58,904 and repaid them to the extent of Rs. 25,95,473, leaving Rs. 33,78,455 outstanding at the end of the year.

The bank advanced Rs. 63,708 to individuals on the security of their deposit money and collected Rs. 54,169 out of the amounts so advanced leaving Rs. 35,605 outstanding at the end of the year. Advances made to central banks and societies amounted to Rs. 3,87,940 while recoveries made during the year from them totalled Rs. 5,51,212, the outstandings with them at the end of the year being Rs. 23,97,058 as against Rs. 25,60,330 of last year. The amount financed to primary societies direct by the bank totalled Rs. 99,485 while recoveries from them amounted to Rs. 2,26,696. Amounts owed by societies to the bank aggregated to Rs. 5,06,027. Thus in all the bank advanced Rs. 4,51,648, while recoveries effected during the year amounted to Rs. 6,05,371. Interest received by the bank during the year totalled Rs. 1,76,797 while that paid by it was Rs. 1,25,711.

Central Banks:—That the central banks are brick and mortar of the banking pyramid there can be no two opinions about. The Department therefore concentrated all its attention and effort on increasing their power of resistance to the disputing forces of the present day economic system. With a commendable urgency, the Directors are building up the resources which will enable them to wipe off bad debts, which in the case especially of the older banks threaten to assume large proportions.

Deposits received from individuals and societies totalled Rs. 10,72,419 while repayments of them amounted to Rs. 8,65,536. The banks succeeded in tapping deposits at the low rates of 3 to 5 per cent as compared with the 7 and 8 per cent of a few years ago. Amounts borrowed from the Dominion Bank and other banks totalled Rs. 3,10,755 while repayments to them totalled Rs. 4,57,766 with Rs. 19,06,974 outstanding at the end of the year. They did not borrow anything from Government whom they repaid Rs. 36,252 as against Rs. 21,825 of last year. Loans advanced to societies totalled Rs. 2,69,272 as against Rs. 2,60,885, while recoveries from them in principal amounted to Rs. 5,47,818 as against Rs. 3,93,963 and the amount of interest collected amounted to Rs. 4,04,327 as against Rs. 7,03,821. The fall in the amount of interest received was due to the fact that in the case of several societies which were financially unsound, the amounts repaid by them were credited on the advice of the Department in the first place to their principal account. This was in strict consonance with the orthodox principle of banking that in all doubtful cases precedence should be given to the liquidation of principal debt over appropriation towards interest. In cases where such action was indispensable owing to the insolvent state of societies, the banks stopped charging interest.

Agricultural Credit Societies:—Their number at the end of the year stood at 2272 as compared with 2130 of the preceding year. The net increase in membership was 1434 with a total of 45,065 members as against 43,631 of the last year. On an average the membership of a society was limited to 20, for by experience it was felt that if it exceeded 30 members the management and control became slack and disruptive. The working capital of societies showed hardly an increase and remained at Rs. 88,23.099 as against Rs. 88.13,145 giving an average of Rs. 200 per head. The bank loans decreased from Rs. 48,91,166 to 46,36.928, a reduction of Rs. 2½ lakhs. Except for this amount and a sum of Rs. 42,513 which was owed to Government the remaining sum of Rs. 41,43,658 was owned by the societies. The societies borrowed Rs. 2,11,667 from central banks and repaid Rs. 4,67,986 principal, Rs. 3,99,484 interest and Rs. 20,268 shares, a total of Rs. 8,87,738 as against Rs. 2,39,783 borrowings and Rs. 9,24.889 repayments of last year. Advances to members amounted to Rs. 2,45,829 as against Rs. 2,47,628 of last year: while collections from them totalled Rs. 4,75,529 principal as against Rs. 3,11,375; Rs. 6,36,906 as against Rs. 7,41,608 interest and Rs. 66,467 as against Rs. 54,817 shares aggregating to Rs. 11.78.902 as against Rs. 11,07,790 of last year. Loans outstanding with members at the end of the year were smaller than last year and amounted to Rs. 61,70,824 principal and Rs. 29,74,037 interest a total of Rs. 91,44,861 as against Rs. 64.03.474 principal and Rs. 28,38,350 interest, a total of Rs. 92,41,824. There is no denying the fact that the societies working under most of the older central banks are of practically no help to their members. In fact what is going on in societies is in the nature of a process of liquidation with the object of recovering the outstandings of banks as quickly as possible. For, in the majority of the older societies the indebtedness of members is so heavy and their repaying capacity is so low that there is practically no margin left for rendering the societies to be of any help to them.

Salary Earners' societies increased in number during the year from 221 to 227. Their membership increased from 12,634 to 15,485. Their working capital was Rs. 24,43,520 as against Rs. 23,07,286. The societies borrowed Rs. 1,33,573 as against Rs. 1,86,242 from banks, and repaid Rs. 1,94,598 consisting of Rs. 1,60,986 principal and Rs. 31,829 interest. Outstandings of bank loans at the end of the year were Rs. 2,40,217 principal and Rs. 8,427 interest as against Rs. 3,12,630 principal and Rs. 20,655 interest. This together with their diminished borrowings indicate that the societies are becoming increasingly independent of the central banks. The societies helped their members to the extent of Rs. 18,45,733 by way of fresh finance. Loans repaid by members during the year totalled Rs. 21,95,357. They were made up of Rs. 16,75,580 principal, Rs. 1,70,671 interest and Rs. 3,49,106 shares. Outstandings of loans with members amounted to Rs. 22,18,950 principal and Rs. 1,36,027 interest.

Weavers' societies:—These remained 72 in number, the same as last year with a membership of 1,700. Their working capital stood at Rs. 2,39,012, while their owned capital was Rs. 1,05,161. They borrowed Rs. 1,735 from central banks and repaid

Rs. 10,509 and were left with outstandings of Rs. 70,187 principal and Rs. 21,859 interest. Advances to members during the year totalled Rs. 4,477 as against Rs. 1,338 while collections from them amounted to Rs. 29,157 leaving outstandings of Rs. 1,70,584 principal and Rs. 80.412 interest.

Urban Banks:—The number of urban banks went up from 12 to 29. Their membership increased from 1188 to 2380. The working capital more than doubled itself from Rs. 1,04,673 to Rs. 2,11,665. Similarly the owned capital also increased by more than three hundred per cent from Rs. 34,634 to Rs. 78,429 and consisted of Rs. 73,898 shares as against Rs. 31,050 of last year and Rs. 4.531 reserve fund. Their borrowed capital was Rs. 73.352 deposits and Rs. 59.884 banks loan. Loans advanced to members during the year amounted to Rs. 1,50,208. Loans recovered from members totalled Rs. 55,974 principal and Rs. 14,093 interest. It is gratifying to note that urban banks are becoming popular, specially in the Gulbarga Division. Their progress so far is very encouraging and they give good promise of making themselves really useful to small traders and persons of limited means living in towns.

Agricultural Sale Societies:—An agricultural sale society proves an ideal meeting ground for the Departments of Agriculture and Co-operation which together can make use of the sale society to promote the interests of the cultivator. Thanks to the interest taken by officers of the Agricultural Department, agricultural sale societies were started during the year at Jalna, Raichur, Yadgir, Gulbarga and Sailu. They had a membership of 284, and a working capital of Rs. 71,840, while their owned capital consisted of Rs. 3,070 paid up shares and Rs. 455 reserve fund. The value of their shares was kept low in order that even the smallest cultivator may take avantage of them. The societies at Gulbarga and Yadgir did not start work because of plague.

Cotton Sale Society, Sailu:—The society was able to collect 135 cds. of seed cotton, and after getting it ginned and pressed sold 54 bales of cotton at Nanded by auction. It gave its members a total premium of Rs. 493 on the market rate for the local variety. The profit earned was Rs. 1,000 which after the close of the year was distributed among members in proportion to the quantity of cotton which was brought by them to the society.

Cotton Sale Society, Jalna:—Nearly one hundred cultivators brought to the society their produce which was raised from the Banilla cotton seed distributed by the Agricultural Department on taquavi. The society sold 124 bales of cotton and earned a profit of Rs. 633.

The abovementioned two societies made a small beginning by the sale of improved agricultural implements which they obtained on consignment sale arrangement from the manufacturers.

Cotton Sale Society, Koppal:—The society worked with 284 members. It sold 639 docras of seed cotton weighing 280 lbs. per docra. It specialised in the Jaiwant variety of cotton which was introduced by the Agricultural Department as the strain suitable for Raichur district. Over and above this the society sold 148 docras upland cotton and 27 docras of upland kappas. In all, cotton and kappas of Jaiwant and upland varieties which were auctioned by the society totalled 940 and 981 docras respectively. It may be noted here that Jaiwant cotton which was auctioned by the society fetched from Rs. 10 to Rs. 15 per nug of 168 seers more than the local variety called jawari. The society is increasing its business year by year and it is hoped that very soon it will almost monopolise the trade of Jaiwant cotton raised in the abovementioned talukas.

Among other non-agricultural societies the one which deserves special mention is the Implement Sale Society, Parbhani. Although it was started only two years ago, it is giving more and more evidence of its usefulness. During the year under report it sold agricultural implements of the value of Rs. 17,346 and made a profit of Rs. 2,612.

Conclusion:—In a country like ours the Co-operative Movement cannot run away from the limitations imposed by capitalist economy. The latter is based on the sanctity of contracts made in terms of money, and in case a country is so conditioned as to make its policy with regard to money inflexible and wooden, it is the debtor class which has to shoulder the heaviest burden. That is exactly what has been happening to our village credit societies during the last six years. The fall in the money value of commodities has brought about a correspondingly large contraction in the volume of money in circulation and this in turn is progressively precipitating the monetary insolvency of the agriculturist, who, as is very often the case, has had the misfortune to contract debts. With the scarcity of money combined off and on with the scarcity of produce dependent on seasonal conditions it does not take very long to reduce him to such straits that resistance thereafter becomes impossible, and no alternative is left but to sacrifice his all in order to maintain the inviolability of the monetary contract with his creditor. That is at the root of the failure of so many credit societies and the bankruptcy of their members. Society may sympathise with them in their misfortunes, but constituted as it is economically, it can do nothing to save them from being stripped of all they possess.

It is as delusive as it is delightful to put off ugly facts by mouthing pious hopes of turning the corner. In the existing economic system there are no corners to turn. Money has none. It is only a vicious circle. To say that credit societies can solve the difficulties of the peasant is to pay lip service to him. They can only serve him in a limited sense by restricting credit and stopping him from borrowing heavily. It is in this sense only that credit societies can serve the peasant class by helping him to put off the evil day. A movement which is simply static and restrictive does not help society to grow. It must develop a dynamic and progressive force. Agricultural co-operation must seek it in better farming and better marketing. It is only by concentrating on this positive pole of the Movement that it can bring some hope to the small farmer. All else must be subordinated to the realisation of these two aims. Co-operative marketing, which includes in its scheme the distribution of improved seeds, manures and implements and the advancing of short term money before and after the crops are ready, envisages the two objectives of better farming and productive finance. The present village credit societies must gradually be reorientated and made to serve as distributing and collecting agencies of central marketing societies. Only then will the co-operative societies help to bring enlightenment and develop business acumen in the agricultural community. It will learn to honour its monetary contracts in a way consistent with the spirit of the prevailing economy and at the same time the development of collective marketing will in time pave the way to a system of planned production and distribution of wealth, which is the declared goal of the Co-operative Movement.

BIHAR AND ORISSA

Review of the Government of Bihar and Orissa of the Report on the working of Co-operative Societies in Bihar and Orissa for the year 1934 by Mr. Y. A. Godbole, I.C.S., Registrar.

The year under report is memorable on account of the terrible earthquake which occurred soon after its commencement. In the sphere of co-operation the effects of this great calamity were severely felt for the reason that many of the pioneer central banks and flourishing societies lay in the affected areas. Notwithstanding the devastating effects of the earthquake which accentuated the difficulties of the economic depression 77 new societies were registered during the year against 95 in the previous year. The total number of working societies of all classes was, however, further reduced from 8,901 to 8,882. The fall in number of societies owing to the weeding out of bad and hopeless societies is in itself no great loss to the movement as a whole, but it is a serious matter that the classification of the remaining societies recorded a further deterioration, the percentage of bad and hopeless societies being 17·4 and 3·7 against 15·5 and 2·9, respectively, in the previous year. In existing conditions the policy of consolidation and cautious finance had to be continued and the Registrar lays great stress on the importance of fresh finance, if the movement is to be saved from stagnation. The main difficulty of the movement is the growing accumulation of overdues. During the year under report the overdues of principal payable by affiliated societies to Central Banks and Unions rose from Rs. 117 lakhs to Rs. 131 lakhs, while the corresponding amount of overdues payable to affiliated societies by their members increased from Rs. 121 lakhs to Rs. 130 lakhs. It is most disappointing to note that in the former case the amount of overdues on account of interest also increased from Rs. 19 lakhs to Rs. 26 lakhs at the end of the year whereas the corresponding figure in respect of overdues of interest payable to affiliated societies by their members is Rs. 53 lakhs as against Rs. 42 lakhs in the previous year. The figures show a definite deterioration which requires bold and decisive action. In so far as the increase in overdues is due to genuine inability to pay, concessions within the means of Central Banks and affiliated societies may legitimately be granted as an inducement for the liquidation of debts. The matter is now receiving the consideration of the Registrar and it is hoped that a solution will be found which will help to liquefy frozen assets. It is necessary also to guard against wilful default and attempts to defraud the legitimate claims of central banks and affiliated societies, which unhappily still persist.

The percentage of collections of Central Banks in respect of principal fell from 6·6 in 1933 to 5, which is the lowest level on record. Only one bank achieved a percentage of collection over 48. It is very disquieting that the percentage in the case of as many as 36 Central Banks was below 5 while that of 19 banks was between 5 and 10, and only 11 banks attained percentages above 10. The collection on account of interest was equally unsatisfactory. Out of a total demand of 37·71 lakhs the realization amounted to Rs. 12·14 lakhs only. The combined percentage of collection on account of principal as well as interest was 10·8 as against 13·3 last year. The expedient of putting the bank staff on a commission basis, which was mentioned in last year's report, has resulted in reducing the cost of establishment, but has not yet produced the desired effect on collection. The profit and loss statement shows that the total calculated profit for 1934 for all Central Banks amounted to Rs. 18·53 lakhs while the total calculated loss was Rs. 17·86 lakhs. Actual recoveries against calculated profit were, however, Rs. 2·23 lakhs only while actual disbursements on account of estimated loss worked out at Rs. 8·46 lakhs including cost of management amounting to Rs. 4·89 lakhs. It is gratifying to note that the cost of management has been reduced by TRs. 63, but Government hope that Central Banks will make further endeavours in this direction so as to extricate themselves from the intolerable position of having to live on their capital. The deterioration in collections was also accompanied by a decline in the loan business of Central Banks. The total advances made to societies fell from Rs. 7·52 lakhs to 5·99 lakhs. Until adequate steps are taken to effect an improvement in recoveries and a reduction of overdues, the movement cannot be expected to make any headway.

The Provincial Bank passed through another year of strain and difficulty. It completed the twenty-first year of its existence. The policy of caution in the matter of fresh loans to Central Banks and societies was pursued but this has resulted in a big fall in the total amount of loans which fell from Rs. 12·67 lakhs in 1933 to Rs. 3·58 lakhs in 1934. Such a policy was, however, justified as repayment by Central Banks amounted to Rs. 2·18 lakhs as against Rs. 3·85 lakhs in the previous year on account of principal and Rs. 1·85 lakhs as against Rs. 1·54 lakhs on account of interest, the total demand being Rs. 36·43 lakhs and Rs. 4·68 lakhs respectively. The total overdues amounted to Rs. 37·08 lakhs against a total demand of Rs. 41·11 lakhs. This reflects the disappointing progress in collections. The accumulation of overdues gives rise to serious anxiety, but it is hoped that the two loans of Rs. 16 lakhs and Rs. 4 lakhs which were given by Government during the current year to the Provincial Bank will help in bringing about a re-circulation of frozen assets of Central Banks and will enable them to repay their dues to the Provincial Bank. Government would again impress on all concerned that the prime need of the movement at the present moment is a determined effort to shake off the heavy load of overdues even if this involves a lowering of the rate of interest and a rebate on the amount already due to societies, Central Banks and the Provincial Bank. This is a matter which requires serious consideration. A policy of leniency in regard to the prompt repayment of overdues combined with vigilance and strictness in dealing with those who wilfully default or attempt to defraud should help to bring about a material improvement.

The affairs of the Bihar and Orissa Co-operative Federation continue to cause the gravest concern. The earthquake followed by heavy floods in some parts of Bihar accentuated the financial difficulties of the Federation. The main sources of its income are contributions from co-operative banks and societies for audit, development and training and subsidies from Government. The total dues from banks and societies amounted to Rs. 3·70 lakhs of which Rs. 1·74 lakhs represented the arrear from the preceding year. The amount realised during the year was Rs. 1·35 lakhs only. The Federation, therefore, failed to collect a sum of Rs. 2·35 lakhs of its dues. It received during the year a total sum of Rs. 2·61 lakhs including the Government subsidy of TRs. 67 and spent Rs. 3·16 lakhs. The deficit of Rs. 54,561 was met by an overdraft from the Provincial Co-operative Bank. It is obvious that the Federation will have seriously to consider ways and means of making both ends meet. It is satisfactory to find that retrenchments have been made in expenditure and that the constitution is being revised with a view to increasing the efficiency of the executive and reducing the cost of annual meetings. During the year Government sanctioned a special grant not exceeding TRs. 37 to cover the cost of remissions of contributions from co-operative societies in the earthquake-affected areas. It is hoped that with the exercise of the strictest economy the Federation will show an improvement in the management of its affairs. The grant promised by the Government of India for co-operative training and education should enable the province to continue essential activities for which adequate finance would not otherwise be available.

The number of societies under liquidation increased from 979 to 1,044. The amount due from liquidated societies also increased from Rs. 25·82 lakhs to Rs. 27·85 while realisation only amounted to Rs. 1·71 lakhs as against Rs. 2·12 lakhs in the previous year. The earthquake following in the wake of the general economic depression, further retarded the progress of liquidation proceedings. It is, however, hoped that the provisions of the Bihar and Orissa Co-operative Societies Act, 1935, which came into force with effect from the 29th May 1935 and the rules to be framed under the Act will facilitate the speedy disposal of liquidation cases and the realization of dues.

The Registrar has again drawn attention to cases of malpractices, such as embezzlement, collusive rent sales and attempts to defraud a society of its dues or to thwart award and liquidation proceedings, although the number of such cases has shown a decrease during the year under report. Government hope that with the help of the penal provisions of the new Act and of the subordinate inspecting staff which they hope to sanction under the reorganization scheme combined with the growth and development of the true co-operative spirit among members, it will be possible to purge the movement of these evils.

The report does not justify a spirit of optimism, but Government are satisfied that there is no reason for despondency or despair. The circumstances have been unfavourable and the Movement has undoubtedly suffered, but there are already signs of an improvement in the general economic depression. The manner in which some Central Banks and primary agricultural societies have weathered the storm gives hope that with sound management the movement will overcome its present difficulties. The reduction in borrowing rates and the forbearance shown by depositors should enable the Registrar to consider the possibility of introducing schemes for the rehabilitation of Central Banks whose financial position is not altogether sound. Legislation has already been undertaken to give a legal basis to such schemes of rehabilitation. On the non-agricultural side, the Bihar Weavers' Co-operative society, which supplied goods worth Rs. 31,296 to the Cottage Industries Institute and earned a profit of Rs. 4,692 on a working capital of Rs. 5,026 is an outstanding example of the possibilities of the movement, if it is run on right lines. It is also a healthy sign that the importance of rural reconstruction and other non-credit activities is receiving increasing recognition. Government are endeavouring to assist the Movement in several directions and to the utmost of their ability. Apart from the loans given to the Provincial Bank and the legislative measures undertaken to place the movement on a sounder foundation, a reorganization scheme of the Co-operative Department will be introduced involving an annual recurring expenditure of about Rs. 50,000. In addition, grants are expected from the Government of India for developing co-operative organization among cane-growers and for co-operative education and training. In spite of the many depressing features of the report there is still much that is hopeful. Given patience and a determination to overcome difficulties on the part of those responsible for management, the chances of recovery and future progress should be bright.

Concluding portion of the Report of Mr. Y. A. Godbole, I.C.S., Registrar :—

I am afraid the picture drawn in this report is by no means rosy but my faith in co-operation remains unshaken and I see no reason why other co-operators in Bihar and Orissa should give up hope. What is essential is to abandon the policy of defeatism and drift. Even very poor or newly-sprung nations in the west are making co-operation a success, and I refuse to admit that co-operation will not succeed in Bihar. It is my honest opinion that there is more cause for optimism to-day than there was about a year ago. Depositors have displayed a wonderful spirit of forbearance. The fact that they have not rushed matters and forced banks into liquidation is not wholly due to the consciousness that they do not stand to gain much thereby. To some extent at least it is due to the desire to give the banks a chance and to sympathy for the members of societies who will be the worst sufferers in the event of wholesale liquidations. Conscious of the efforts that Government and the Department are making to help the Movement. they are now expressing readiness to accept schemes which will mean substantial reductions in their claims. Borrowing rates have gone down and there is a general anxiety to see that the benefit reaches the members of primary societies. The Provincial Co-operative Bank and Central Banks realize the need for immediate lightening of the burden of overdues and are prepared to go to the utmost possible length in granting remissions and concessions. The Government loan of Rs. 16 lakhs referred to in a preceding paragraph has had a steadying effect and to some extent arrested the growing loss of confidence. New deposits are trickling in the Provincial Co-operative Bank. The Government grant of Rs. 37,000 to the Federation to enable remissions being granted in the earthquake area as well as the Government of India grant of Rs. 75,000 for repairs of co-operative buildings, mention of which have been made elsewhere, have demonstrated that Government is entirely sympathetic. The recent announcement of a special grant by the Government of India for improvement of co-operative training is a God-send. Similar is the effect of the organization set up for hand-loom weavers. And the general awakening of interest in schemes of rural reconstruction has brought hope to many a dispirited worker. Prices of some commodities at least have risen so that the hope of better collection is growing and a serious effort is being made to reduce the cost of management. Even now there are Central Banks which are managing their affairs successfully and very often one comes across first class societies which are free from outside debt and are doing real good to the members. In one bank (the Chota Nagpur Christian) 69 out of 209 societies were non-borrowing and worked with their own capital amounting to TRs. 92. The new Act will enable the Department to check abuses and correct the erring and pull up recalcitrant societies and banks. In the midst of so much that is hopeful, it will be utterly unjustifiable and unwise to say that Co-operation is doomed.

CO-OPERATION AND SOCIALISM *

By

MR. V. RAMADAS PANTULU

Up to the middle of the last century, Co-operation as used by Robert Owen and the French and British social reformers like Charles Fourier and their followers was more or less synonymous with Socialism or communism. But after 1848 when Marxian Socialism appeared on the scene, the divergence between the two movements became more pronounced. Marxian Socialism was a conscious class movement of workers based on the necessity for class war supported by the plea, that the surplus wealth created by labour was absorbed by capital without any justification and the slogan "Right to the whole produce of Labour." Co-operation at that time concerned itself with workers as consumers and not as producers and made no sharp distinctions between the two classes because the notion of exploitation of consumers with which they were mainly concerned was common to all classes.

*Substance of Inaugural Address delivered at the Economic Association, Maharajah's College, Mysore—July 1936.

There had always been a close connection between the two movements. In certain countries, especially in Belgium, the co-operative societies enlisted members for the Socialist organisations and also contributed funds to Socialist parties for their election work and in times of strike, the consumers' co-operative societies provided the workers on strike with bread and other articles of food. But the leaders of the Co-operative Movement did not like this position of co-operative societies becoming the milch-cows or hand-maids of Socialism and feeders to the Socialist organisations and there was a cry for independence as a separate movement for co-operation by pursuing its own methods and objects. But this insistence for independence on the part of the co-operative societies and Socialist organisations did not prevent their working together on matters on which they agreed. The common aims of co-operators and Socialists were the abolition of profits on capital, organisation of production to supply the wants, and not to make profits; and transfer of control of industries and mass production from the hands of capitalists to those of consumers.

Socialisation of production was explored by co-operators also but on the basis of "associated consumers" being the "controlling authority" and not the State. Co-operators did not consider that the working classes were the only classes exploited but held that all the consumers were exploited by the capitalist producers and distributors. The co-operators' programme of building up the new capital and replacing capitalist production by co-operative production was believed to be sufficiently effective to cripple the existing capitalistic system in course of time and to make capital now in the hands of the capitalists valueless.

In regard to Socialisation of Land, as new land could not be created indefinitely, as new capital could be, there was greater difficulty. One section of co-operators conceded the claims of Agrarian Socialism and admitted that Socialisation of Land could not be achieved through co-operative organisations while another section believed that the property in the land could be gradually transformed by agricultural co-operative societies into collective property and by bringing the agricultural productive societies under the control of consumers' societies, in other words that Socialisation of Land could be accomplished in course of time on a purely economic plan without recourse to acts of forcible expropriation.

With the co-operators, political neutrality was a main principle. But this doctrine has of late been steadily losing ground and co-operators felt that unless they organised themselves to protect their Movement from the attack of capitalists and by Governments which were dominated by capitalists, the Movement might suffer a serious setback. In Europe, except in the present day U.S.S.R., generally speaking, there was not much collaboration between co-operative producer societies and the consumer societies. On the contrary there was a certain amount of conflict between them. In the system of co-operation in Russia, productive co-operative societies through their three branches of trade unions, industrial co-operative societies and the collective farms and through their own system of consumers' co-operative societies had demonstrated how the producers' and consumers' organisations could be made to merge into the general economic structure of the nation.

Capitalism, Co-operation and Socialism had all been undergoing important modifications in recent times and they were likely to undergo many more in accordance not only with the changing socio-economic conditions of the several countries in which they are in operation but also in tune with International Movements. None of these systems might be completely replaced by another. But it was fairly certain that Capitalism was incapable of being transformed into an acceptable socio-economic system, for its fundamental doctrine of profit on capital and competition are unsuited to modern world conditions and would go out sooner or later. A better solution would be found by the reformation of the co-operative and Socialist systems. Something more rational and more powerful than either of them in their present form might emerge for the good of mankind. The students of Indian Universities ought to study economics with a definite aim and evolve a solution which would help our national reconstruction according to the traditions and genius of India and the best interest of her masses, her peasants and workers.

RECONSTRUCTION OF CO-OPERATIVE SOCIETIES IN BURMA[1]

BY

U. TIN GYI, A.T.M.

Registrar of Co-operative Societies, Burma.

The reconstruction movement is a bold attempt at clearing the wreckage as quickly as possible and saving from the debris the good elements in them for the raising of a new structure on firmer foundations one that will, it is hoped, overcome the many pitfalls of the past. The history of the Co-operative Movement in Burma from the year 1928 onwards affords dismal reading, for it is nothing but a record of liquidations, attachments and sales of the properties of the members and of the intolerable burden of debt which could not be discharged despite the fact that the members had willingly or unwillingly given up all their possessions. The easy financial comfort which the members enjoyed by loans from the District and Provincial Co-operative Banks prior to the liquidations formed a striking contrast to the conditions which soon followed.

Dispossession of Lands. The inevitable result of the liquidation process was the dispossession of all the members' lands through the application of the unlimited liability principle by which every member was held liable for the entire debt of the society to the Co-operative Bank. It became the unpleasant duty of Co-operative Officers in their role of liquidators to investigate into all possible sources of recovery and it was even said that the agents of the liquidators were for ever spying on the members and were ready to pounce on any assets that came to their notice. The Departmental officers soon realised that though they were received before with open arms as friends, guides and benefactors of the people, they were now treated everywhere with suspicion and even as public enemies. But for the tact displayed by them, the relations of the Department with the societies might have been more strained than at present. The condition of things in fact soon developed into a running sore. It created a feeling of uncertainty and of intense irritation amongst the villagers. Government therefore considered it advisable to bring this state of affairs to an end as quickly as possible and has therefore approved of the principle of reconstruction which aims at clearing the liquidation mess in a manner which will appease the feelings of the members after the sore trials they had undergone in being deprived of all their possessions consisting of surplus cattle, carts, houses, gardens, paddy and "ya" lands. At the same time it is an attempt to save some of the more deserving societies and to put them on their feet again.

1. Paper read at a meeting of the Burma Economic Society, July 1936.

It must not be forgotten that the living societies which had practically ceased to function ever since the trade depression started, were equally in need of this reconstruction treatment. They were all suffering from the same complaint of overdues and overfinancing and a quick cure had to be found to arrest the growth of the cancer which was slowly but surely eating its way into the vitals of the Co-operative Movement in Burma. I shall therefore try my best to explain to you how it is proposed to apply this treatment to the moribund societies of Burma.

The Present Position. The present position of the Co-operative Movement may be briefly summarised thus. There are 2,037 societies still living of which 1,387 are agricultural credit societies with unlimited liability. The number of societies under liquidation is 1,890 of which 1,749 belong to the rural credit type. These 2,037 societies are all that survive of the 6,163 societies registered under the Act since the beginning of the Movement. The bulk of the liquidations was in Upper Burma where 1,559 societies were still in liquidation against 596 societies classed as living. The financial position of the living societies up to the end of June 1935 was as follows. The working capital of Rs. 80·86 lakhs was made up of sharecapital Rs. 14·71 lakhs, deposits from members and non-members Rs. 2·96 lakhs, loans from societies Rs. 0·82 lakhs, loans from Provincial and District Central Banks Rs. 21·05 lakhs and Reserve Fund Rs. 41·32 lakhs. The loans due by the members amounted to Rs. 58·85 lakhs of which Rs. 54·47 lakhs were already overdue. The sum of Rs. 6·81 lakhs only was repaid during the past year 1934-35, but a considerable portion of it consisted of book adjustments and values of land surrendered by members in satisfaction of their outstanding loans.

With regard to societies undergoing liquidation their liabilities amounted to Rs. 68·05 lakhs and of this the insignificant sum of Rs. 3·23 lakhs was discharged during the year 1934-35. Here again the recoveries included the value of land which had been bought in by liquidators at auction sales. These figures show that the position of the living societies was hardly better than those already put into liquidation. Though termed living, the majority of them had ceased to carry out their usual functions ever since the collapse of the District and Provincial Co-operative Banks in Upper Burma and the stoppage of all credit from similar Banks in Lower Burma. Some societies made no further collections of outstanding loans from the members if no Bank loans existed while the majority which owed money to the Co-operative Banks were making feeble attempts to discharge their loans by small annual collections. These collections were gradually diminishing each year and it was clear that the financial anaemia from which the living societies suffered owing to the stoppage of credit from District and other co-operative institutions, must soon lead to their final extinction, were no remedial measures applied to stem the tide of slow disintegration that was taking place.

In Upper Burma. The position of liquidated societies in Upper Burma was in a worse plight because the work of liquidators had ceased to be fruitful of results.

Though the members had given up all their land, its sales did not bring in any money because no one had cash in hand to bid when the Township Officer conducted the auction sales. The result was that the liquidator of the society was invariably the only buyer and was forced to take the land himself at a small price in satisfaction of the outstanding loans. Up to the end of June 1935, the area of land which had passed into the hands of the liquidators amounted to 70,334 acres having an estimated value of Rs. 12·19 lakhs. Of this large area, the societies affiliated to the Burma Provincial Bank in liquidation contributed no less than 41,588 acres.

In Upper Burma the collapse of the societies came with the fall of the Burma Provincial Co-operative Bank. At one time it dealt with 2,300 societies in 22 districts and had a sufficiently imposing balance sheet. But it had probably never been a sound institution and could not possibly have supervised carefully the issue of its loans to the societies scattered in many districts including some from Lower Burma. It is unnecessary for me to enter into the causes of the failure of this bank as the Calvert Committee on Co-operation has examined them at length and has already recorded its findings in the Report submitted to Government. This Committee found in 1928 that the Bank was clearly insolvent. Of the Rs. 89 lakhs deposits received from outsiders, it was found that only 38 per cent were covered by securities. Government therefore came to its aid and made a grant of Rs. 34·60 lakhs before it went into liquidation. After its winding up, a further sum of Rs. 23½ lakhs was issued as a loan in order that its obligations to depositors may be fully met. The entire amount of the deposits has therefore been paid off and Government is the sole creditor of the Bank. To cover this Government loan of Rs. 23½ lakhs, the only tangible assets which seem to exist consist mainly of the 41,588 acres which are now in the hands of the official liquidators of societies. The great problem therefore was how best to get rid of the large area of land and at the same time to recover a reasonable portion of the loan which the Burma Provincial Bank owes to Government.

The Reconstruction Scheme. The main features of the scheme are the speedy disposal of the accumulated land to members of societies who could afford to purchase them by yearly equated instalments of payment spreading over a period of 10 to 15 years, the reduction of old debts by setting them off against shares, deposits and reserves of the society and the revival of the working of these societies under a new set of by-laws known as the model by-laws of a co-operative credit and marketing society. Thrift will receive greater encouragement than it ever did before and for the first time in the history of the Movement in Burma, co-operative marketing will be linked with credit and all repayments of loans will in future be made mostly in kind.

The scheme has been put into operation in Upper Burma only for the present as it was felt that until some experience was gained, it would be unsafe to launch it in Lower Burma where the conditions of the societies are dissimilar and may require a different treatment. In Upper Burma most of the societies are indebted to the Burma Provincial Bank in liquidation and despite the recoveries made by liquidators during the past 7 or 8 years, the total indebtedness of the societies to this Bank still remains at the very high figure of Rs. 52·39 lakhs, and the societies in liquidation contribute to this figure the sum of Rs. 43·53 lakhs. As I have already stated above, the recoveries from all liquidated societies amounted to Rs. 3·23 lakhs only during the past year and it is clear that not much more might be expected. With a large area of over 41,588 acres of land on their hands, the liquidators have practically come to the end of their efforts for whatever small sum is now recovered in cash is swallowed up in liquidation expenses and liquidation work has ceased to be of any profit. On the other hand the possession of these large areas of land has been a considerable source of trouble and worry and an increase of work. The renting out of scattered holdings all over the district and the subsequent collection of the rent are no light tasks and the increase of work in this connection has had an untoward result—the considerable neglect of the living societies whose operations were clearly going from bad to worse.

The Vexed Problem of Lands. The vexed problem of administrating these lands efficiently was one which needed early attention and a way out of the difficulty was found by giving back the land to the original owners on the instalment plan by which its current market value will be recovered in small repayments spread over a period of 10 to 15 years. The total recoveries which might be expected must therefore depend largely on the value of the land now in the hands of the liquidators. If paddy prices continue to remain at the present low level, probably not more than Rs. 10 to Rs. 15 lakhs will be recovered. It might appear paradoxical to say that these lands which at present are unsaleable, should be disposed of to the original owners or their heirs on the instalment plan. It should be noted that the liquidators have not succeeded in getting the best lands in the village but despite the poor fertility, the owners, especially in Upper Burma, have a strong attachment to the land which they and their forefathers tilled in the past and the experience of the past 7 or 8 months has shown that this view is correct because there was no difficulty whatever in getting rid of the land in this way. The original owners have shown much eagerness to obtain re-possession of their lands and the scheme has everywhere been favourably received. It has been introduced at an opportune time, for the people had become worn out by the continual anxiety of mind caused by attachments and sales of their property. They were only too glad to find some means of escape by which they would be enabled to repay their debts in driblets, over a long term of years. That this attitude of mind existed may be seen from the fact that wherever the scheme was introduced, no difficulty was experienced in making members who had still some property left, to surrender the same to the liquidator on the promise that they will be allowed to regain possession of their property on the rent purchase instalment plan which will be described later at some length. The number of recalcitrant members has so far been very small and only against a few has the liquidator taken up action under the Revenue Law.

Debt Conciliation. It would appear from the above that the main idea was to convert the value of this area over 41,588 acres into long term loans which would be used for the repayment of part of the Government loan of Rs. 23½ lakhs, but this is not entirely true. The two objects underlying this system of recovery are, first, to counteract the demoralising effects of a wholesale setting off of loans of members and second, to revive the working of the societies on new lines on the basis of the new by-laws of a co-operative credit and marketing society. The members must be shown that though it was possible to write off a considerable portion of their outstanding debts to the society they must at least pay the current market value of the lands they wish to obtain possession.

In practice the loans due by members are written off at percentages varying from 50 to 80. Except for small amounts treated as long term loans, the repayments now fixed are based on the present market value of the land. The financially unsound, that is, those with little or no repaying capacity are expelled from the society and if necessary, new members having sufficient repaying capacity are drafted in so as to enable all the lands in the society to be disposed of on the rent purchase plan. In almost all cases the overdue interests of members are entirely written off as the Burma Provincial Bank in liquidation has arrived at the conclusion that the overdue interests of societies are now irrecoverable. This sum will amount to about Rs. 33 lakhs. The balance of the outstanding loans of members which are considered irrecoverable are then written off against share subscriptions, deposits and the reserve fund of the society which in most societies has accumulated to a considerable sum. An attempt is made to arrive at the true repaying capacity of each member by conducting an elaborate inquiry into his income and expenditure for the past year somewhat on the lines of a cost of living inquiry in a settlement party. The reconstruction movement is therefore a debt conciliation process by which the member's financial position is so adjusted that he will be in a position to repay his debts by annual instalments spread over a long period and at the same time it is a process of elimination of the financially unsound whose continued stay in the society would be a source of weakness and trouble to all concerned. The scheme in sifting the good from the bad during the process of cleaning up, will achieve its principal object of resuscitating the Movement on altogether new lines which will be explained below. The weak societies which cannot survive the acid test of reconstruction, must of course be wound up and disregistered, but those that have been reconstructed will acquire a fresh lease of life and Co-operation will be given another chance to help those who need its aid most.

The Rent-Purchase Plan. The manner in which the societies will repay the value of the lands is an important consideration. The liquidators will transfer the lands to the Provincial Bank which will in turn transfer them to Government. The idea of giving the lands outright to the societies and to treat them as under mortgage was abandoned because there was a considerable risk of a sale or a second mortgage to another party and it was felt that Government in the role of landlord had a better hold on the land than as a mortgagee. Two rent-purchase agreements were therefore drawn up—one between the society and Government and the other between the society and the members. Under this form of agreement, the member undertakes to work the allotted piece of land on a specified rent per annum for a fixed number of years and if no defaults have occurred during this period of time, he has under a clause in the agreement the option of buying the land for the sum of one rupee. The rent fixed is of course the equated repayment of the principal amount which is the market price of the land plus a small interest of 3¾ per cent to cover the working expenses of the society. Government has been good enough to forego not only a large amount of interests overdue but has also promised not to charge any interest on the rent purchase loans payable to Government in settlement of its loan of Rs. 23¼ lakhs. The number of years and the amount of this instalment are arrived at by calculating his repaying capacity on a prescribed form and in no case more than 15 instalments are allowed. The land revenue on the land is payable by the member in addition to the instalment fixed. If the member dies before completing the payments, his next of kin has the right to continue payment and obtain complete possession of the land at the end of the fixed period. If defaults occur, the member forfeits all previous payments and is liable to be evicted in favour of another member who agrees to work on the same terms as the previous tenant. The object of selling the land at the price of one rupee at the termination of the allotted number of years is to dissociate from the jungle Burman's mind the idea of purchase price from the instalments he pays in every year. If treated as rent, and nothing else, he will understand that he cannot ask for the return of his previous payments should he default. Unless these measures are adopted, members are liable to default on the flimsiest pretexts and extensions might be asked for whenever the rainfall does not come up to their expectations. Care is however taken in fixing the instalments to allow for bad seasons and they are always lower than the sums arrived at as repaying capacity. An agreement with similar provisions is also drawn between the society and Government. As care is taken during reconstruction process to leave a sufficient margin (about 20 per cent) between the amount due to Government by the Society and that due by the members to the Society, there should be no defaults as any deficit due to a member not paying in his dues will be made up by recoveries from the other members.

The New By-Laws. The new model by-laws are an adaptation of the Raiffeisen and *Luzzatti* types and are the outcome of conditions peculiar to Burma. They are based more or less on the results reported by the Committee on Co-operation presided over by Mr. Calvert in 1928-29 and aim at overcoming the inherent weaknesses of the old societies by measures designed to avoid the mistakes of the past.

Hasty organization, expansion without consolidation, inadequate supervision, defective audit, lack of care in lending, inattention to repaying capacity, tenderness in collection, excessive reliance on honorary work and the blunder of using short term deposits for long term loans have all contributed to the downfall of the societies and the new by-laws are an attempt to overcome these difficulties by a greater attention to the business aspect of the problems which usually confronted the old *Luzzatti* type of societies in this country. The new by-laws are known as the model bylaws of a co-operative credit and marketing society and as its name indicates, its object is to combine marketing operations with the credit side of the society's activities. Sale societies for paddy, groundnut and other produce have been formed in the past but all have proved failures owing to the disloyalty of the members. In the provinces of India, such societies have also failed owing to the same cause, the desertion of members by the offer of trifling concessions by rival interests. In spite of the bylaws framed by them, these societies have not dared to enforce loyalty on pain of fine or expulsion. But in other countries outside India, co-operative marketing has made tremendous strides and has done much to improve the condition of members of co-operative organizations. Encouraged by the excellent results achieved elsewhere, a modest attempt is therefore made to introduce co-operative marketing on a small scale in Burma. The Indian Central Banking Inquiry Committee's report says, "The question of organised marketing is of greater national importance than that of rural credit. To supply the credit requirements of the ryot is important but not so much as it is to cure the disease from which the indebtedness arises. One of these is the low average production. Production can never be stimulated until the ryot can secure a free and sure flow of his surplus produce to the world's market." It is therefore very desirable that the Burman cultivator should realise the benefits to be derived from co-operative marketing but from the failures of the past it has been learnt that without an obligation on the part of members to sell their surplus produce through the society, it is next to impossible to enforce compliance. Until he has learnt the benefits of combined sales, it is essential that this obligation should be imposed upon him and how this will be done is explained below. This is the first attempt at linking co-operative credit with sales, for hitherto it had been an axiom of the Co-operative Movement in Burma that each society should have but one object only in view. Co-operative marketing must make slow but sure progress for it cannot be forced upon the people. It must be born of a real consciousness of its benefit to cultivation in securing better prices for the produce of the country.

Credit and Marketing Combined. The first step in the process is to impose a condition in the issue of loans that the repayment of both principal and interest must be made only in kind immediately after harvest. The crop will be collected and sold by the Committee in two or three lots during the selling season and the amounts due by the member either as borrower or surety will then be deducted from the sale proceeds. The surplus, if any, will next be returned to the member concerned. There are four objects in view in making the members repay their debts in kind. The first is to secure the prompt repayment of the loans. It has been found that if the crop is allowed to be sold on the threshing floor, the member usually satisfies his outside creditors first and disburses his debt to the society last. This will now be prevented by making the member sign a marketing agreement bond as a precedent to the issue of a loan to him and the debt to the society will therefore become the first charge on his harvest. The second object is to enable the member to obtain a better price on his crops. The society can well afford to wait for a rise in prices, if necessary, because the member has already brought in a quantity of paddy or other crop more than sufficient to meet his debts to the society. As the member gets back the surplus after the discharge of his dues he cannot but realize that the marketing of his crops through the agency of the society at prices higher than what he would ordinarily have obtained by sales on the threshing floor, is to his distinct advantage and once he has appreciated the true significance of combined sales, it is anticipated that he will not hesitate to bring his entire crop to the society for sale. Only then will the societies become true marketing societies. The compulsion to sell a portion of the crop through the society, will for the present be placed on borrowers only but this is merely the thin edge of the wedge which will eventually make every member sell his entire harvest through the agency of the society. In this way it is hoped to fulfil the third object which is to impart the necessary education to the members on the value of co-operative marketing and to teach them the correct methods of organised sales. The fourth and last object is to overcome the present practice of fictitious repayments which had been widely prevalent ever since the societies were first formed in Burma. The repayment of a loan together with interest and then taking out perhaps a larger loan on the same day was a method widely adopted in order to avoid the repayment of the principal amounts due. It taught members and secretaries of societies in particular that book adjustments of this nature were part of the system. Their skill in making such book adjustments was little short of marvellous. The present by-laws however make the members repay in kind and after a short interval fresh loans are issued in cash for use during the ensuing cultivating season.

Reserve Fund. At present this fund exists only on paper as it has been the practice to utilise the reserve fund in the business of the society. The result has been the locking away of this reserve in loans to members which have now become practically irrecoverable. The disastrous results of many of the liquidations in Upper Burma are in no small measure due to the absence of a real reserve fund. There is little doubt that the effects of the liquidations might have been minimised, had a real

reserve fund existed in a form easily realizable in the event of a society's dissolution. The people of Upper Burma have now fully learnt the dire effects of a liquidation. Little did they imagine when they took out the enormous loans they did from the Burma Provincial Co-operative Bank that one day they would be sold out lock, stock and barrel. The present by-laws therefore aim at robbing some of the terrors of unlimited liability by the creation of a reserve fund which must be kept intact in the Post Office Savings Bank or in gilt-edged securities. The system of using the reserve fund of a primary society as part of its working capital has been the subject of much controversy in the past. The wisdom of investing one's own money in the Post Office at a low rate of interest and then borrowing at a higher rate elsewhere in order to provide the necessary working capital, has been much questioned, but the answer to this lies in the great safety factor. The difference in the rates of interest represents the price paid for safety. This system has moreover received the approval of banking experts and is one well worth a trial in Burma.

Unlimited Liability. Section 10(B) of the Burma Co-operative Societies Act, 1927, requires that the liability of societies which deal with the financing of agriculturists shall be unlimited. The present by-laws have been framed to conform to this law but an attempt is made to provide safeguards by insisting on the provision of sufficient security for all loans issued. However much the theory of unlimited liability may have been extolled in the countries of the West, it has proved but a frail support in time of need amongst the co-operative societies of Burma. Amongst a poor peasantry, unlimited liability can have little meaning unless the members are all thoroughly honest. Take away this factor and no one will deny that the security of a band of beggars can have little or no practical value. In Burma, the education of co-operative societies was never seriously considered and the result has been either dishonesty or self-interest. Cases are not uncommon of members who took good care to have transferred all their property, movable and immovable, to others, often fictitiously, when they thought that a liquidation was inevitable. The result of a liquidation generally meant nothing but the writing off either the whole or a large part of the loans due to the Bank or to outside depositors since there was little property left worth attachment and sale. Relying on the theory of unlimited liability, the banks have in the past lent money freely to primary societies and the members in turn obtain large loans without the necessity of mortgaging their property to the society. The result can be imagined. The members obtained more money to spend by mortgaging their property to outside moneylenders and when they defaulted in their repayments, there was little hope of recovery as their lands were generally mortgaged to others up to the hilt. Thus unlimited liability in practice meant nothing.

Secret Ballot. Dishonesty and disloyalty have contributed largely to the failure of the unlimited liability system in Burma. Even in the countries of Europe unlimited liability societies have slowly given way to those of the limited liability type because of these traits in the human character. Human nature is the same everywhere and the Burman is by no means worse than his fellows in other parts of the world, but two traits in his character seem to be more pronounced and they have probably led to his undoing. One is his inherent dislike to do any act which involves unpleasantness to others and other is his unbusinesslike methods in putting things off without much thought of the morrow. This reluctance to do the right thing or to say the right word, merely because of the unpleasantness it might create, has been a stumbling block in the path of progress and an attempt is made in the new by-laws to remove this feeling, called "anade" amongst the Burmese, from the deliberations of all society meetings by the introduction of the secret ballot by which every member is provided with two marbles, one black and one white, and he is asked to exercise his judgment without fear or frown from any other member in the society. We must remember that silence has not always meant consent in meetings amongst the Burmese.

The new by-laws also aim at making the Burman cultivator more businesslike in his methods of work. Some of the provisions may appear to the outsider much more stringent than they should be, but they have been framed with the sole idea of making the member follow the straight and narrow path in his dealing with the society. They leave him no loophole for evasion of his duties, because supervision will be stricter than ever before. Too much official control is admittedly undesirable in democratic institutions like co-operative societies, but at the present stage it is a necessary evil and is absolutely essential under the existing conditions of the co-operative movement in Burma.

Thrift. Thrift will be actively encouraged by making each member keep a savings box in his home for saving small sums from time to time. The key of the boxes will of course be kept by the Chairman of the Society. Provision is made for cattle insurance by making the member subscribe annually a small sum of money for each head of plough cattle so that this saving may be utilised in insuring his cattle in a cattle insurance society or for use in the replacement of cattle, should he prefer not to adopt the former kind of protection. The *Luzzatti* system of share payments of ten rupees a year has given place to share subscriptions of one rupee per share, no limitations being placed on the amount which a member may subscribe each year. In the *Luzzatti* type, the shares are of the value of one hundred rupees each payable in annual instalments of ten rupees returnable every tenth year whereafter a furthr series of instalments must begin. It was found that this payment of ten rupees a year did not represent the real savings of the member because it was the prevailing practice to deduct the share payment from the amount borrowed during the year. Such fictitious savings went on every year for ten years and in the eleventh year the member had his share subscriptions returned to him, not in cash of course, but by book adjustment which reduced his outstanding loan by the sum of one hundred rupees. It will thus be seen that the share subscription was fictitious from the beginning to the end and members placed little value on their share capital. As a means of encouraging thrift, it had little educative value. The proposed by-laws aim at building up a substantial sum as share capital, so that in time the society may eventually be self-sufficing in the matter of its requirements for the issue of crop loans to members. In the *Luzzatti* type the share capital could never assume large proportions for the simple reason that the entire amount was returned to members every eleventh year and a fresh beginning had then to be made.

Hopes for the Future. An earnest attempt has been made to profit by the lessons of the past and it is sincerely hoped that the new societies after the reconstruction period will be in a better position to overcome the defects pointed out by the Calvert Committee on Co-operation in Burma. How much of the objects aimed at in the reconstruction movement, will eventually be achieved is a matter Time alone can show. Co-operation in Burma has undoubtedly received a set back but my faith in the Movement remains unshaken in spite of the reverses of the past. For the fault

lies not with co-operation but with co-operators—not with the principle itself but with the men who work it. To the educated people of Burma, I would make an earnest appeal for their help and interest in the Co-operative Movement. Officials can only show the way but non-officials can do much to educate the masses and by precept and example become leaders to guide the Movement on true co-operative principles. For Co-operation if rightly guided and properly worked can still achieve wonders by replacing uncontrolled and wasteful credit and by preventing the steady growth of indebtedness amongst the poor cultivators.

—Extracts from the *Rangoon Gazette, July* 25, 1936.

RURAL RECONSTRUCTION IN BOMBAY KARNATAK*

BY

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Why Rural Reconstruction is receiving great attention is evident. Our land is composed mainly of villages which number 7 lacs. Towns, many of which are big villages, are only about 3 thousand in number. The Bombay Karnatak claims 4700 villages and only 39 towns. The very sources of life, of trade and commerce come from the villages, and the weal or woe of the villagers is that of our country at large. The average villagers' life falls far short of the average standard of comfort and amenities of life. Illiteracy is common, insanitation rampant, and diseases and death have their large annual toll. Many of the evils could be lessened, if not removed, by the spread of education, dissemination of knowledge about the scourges and their prevention and cure and affording the Rural Public ordinary comforts of life through organisation and proper facilities (Slides 1 to 6). To effect these things eminent thinkers and philanthropic workers have been striving in the land. Names of Sir Rabindranath Tagore, the late Messrs. K. T. Paul and G. K. Devadhar, of Mr. Brayne, the famous Punjab Civilian and of Messrs. N. Satyanarayana and Ramadas Pantulu are closely associated with such attempts. These attempts have held high the beacon light of method and organisation. To rouse wide spread interest and effect continuity of effort, however, State-aid and direction are necessary. These are being made available of late, and as may be expected, there has been a sufficient rousing of the educated classes and the masses in combining effort to bring about the desired effect.

As is agreed on all hands the first need is to bring home to the villagers' mind the insanitary condition of the house, want of cleanliness of the surroundings, the general spread of rubbish around—which if properly stored could add to the quantity and value of manure so needful for the proper raising of crops. The resulting ill-health and disease caused by flies and mosquitoes could be materially lessened, if these insects are not allowed to breed. The means and methods for this are easy. The trouble of the Guinea-worm is great in a large number of villages where the main source of water is the stepped-well. This worm breeds in the water and its eggs and young ones enter the intestines by people drinking such contaminated water and the worm grows long enough to come out at the extremities, especially the foot. So too, the Rural Public has to be assured that small-pox

*A lantern lecture given under the auspices of the Historical and Economic Association, Karnatak College, Dharwar.

and plague can be kept away by vaccination and inoculation. Next to the preservation of health and care of the body we must show them the importance of proper cultivation, good seed, helpful manure, and protection against pests, and last but not least the proper disposal of their produce. (Slides Nos. 7 to 32).

Most of these can be secured to the villagers through active propaganda and through co-operative effort. For, the use of improved implements, procuring of seed and manure and even the supply of house-hold necessities can be arranged through Consumers' Co-operation whether in the form of Seed and Implement Societies, Co-operative Stores, or Buying Clubs. For impressing on the mind of the villagers these and other things, education is a great help. (Slides 32 to 48). This can be made available to the grown-ups by starting night schools (Slide No. 35) and by influence and pressure for enlisting their children in Day Schools. Then comes the question of adding to the income of the villager. Subsidiary Industries have been advocated for this in the form of fruit and vegetable growing, stock rearing and poultry breeding (Slides 50 to 57). It is not enough if we look to the physical and economic improvement alone. Moral toning is equally necessary. The villager often falls a prey to drink (Slide No. 58) and litigation. These have been two great evils which have impoverished many a family and efforts are afoot to wean the addict of these habits. Anti-drink propaganda is carried on on a large scale. In a number of villages arbitration has been resorted to. Measures at conciliation with regard to debts have to be attempted. A God fearing and virtuous village community, mindful of economic and intellectual improvement is the goal of these attempts I have enumerated. And if we could help in attaining this by whatever influence and knowledge that may be at our command we may claim to help in the regeneration of our land. May we be enabled to exert in this manner as the true sons of our Mother Land. *Good Night* (Slide No. 59).

LIST OF SLIDES USED IN THE LECTURE

1. Map of India.
2. Map of the Bombay Karnatak.
3. Chart of Rural Population.
4. Quotation about Rural Reconstruction.
5. A Karnatak Village.
6. A batch of villagers.
7. A poor and sickly man.
8. A healthy man.
9. Sources of disease.
10. An ill-ventilated house.
11. A properly ventilated house.
12. A dirty back-yard.
13. Eggs of a house-fly.
14. Stages of growth of a fly.
15. How it spreads disease.
16. Diseases carried by flies.
17. A village sweet-meat seller.
18. A water-logged plain.
19. Mosquitoes.
20. Larval stage of mosquitoes.
21. The Proboscis of a mosquito.
22. A bomber of malaria.
23. A man with Guinea-worm.
24. A fully grown Guinea-worm.
25. Where it breeds.
26. A cyclops.
27. A proper well.
28. Why well-water smells.
29. Small-pox.
30. Vaccination.
31. A Palgue Rat.
32. Anti-Plague inoculation.
33. Illiteracy Chart.
34. An illiterate man.
35. A Night School.
36. A market place.
37. Sale of cotton—organised.
38. Cotton Improvements.
39. An ordinary sugarcane crop.
40. A good crop of sugarcane.
41. A wall to protect the crop.
42. A proper field embankment.
43. A good crop in a bunded field.
44. Waste land.
45. A garden raised in it.

46. A good cow.
47. A cross-bred Calf.
48. A prize hen.
49. A Poultry Yard.
50. Weaving.
51. Subsidiary Industries.
52. Individual purchases.
53. Joint purchase.
54. Permanent improvement, and need of long-term finance.
55. A proper house.
56. The drink habit—its evil effects.
57. A happy farmer and his family.
58. A pair at work.
59. Good Night.

THE MADRAS CENTRAL BANKS' CONFERENCE — 15TH SESSION

Held on the 21st and 22nd March 1936 at the Madras Provincial Co-operative Bank.

Dewan Bahadur T. A. Ramalingam Chettiar was voted to the chair. The Session was attended by about 50 delegates of Central Banks, besides the members of the Executive Committee of the Madras Provincial Co-operative Bank. Mr. M. Giriappa, Mr. G. H. Cooke, and Mr. K. Subramaniam of the Co-operative Department were present on invitation.

SUPERSESSION OF COMMITTEES OF CENTRAL BANKS

Mr. V. Ramadas Pantulu moved the following propositions of which he had given notice :—

"A. This Conference is of opinion that the provision for supersession of Committees of Central Banks by the Registrar without the concurrence of the Provincial Bank and even without an appeal to the Local Government is highly prejudicial to the progress of the Co-operative Credit Movement in the Province and that Section 43 of the Act should be repealed in the interests of the Movement.

This Conference emphatically protests against the rule framed by the Government empowering persons appointed under section 43 of the Act to nominate themselves or others to the Committees of financing banks and requests the Government that the rule should be repealed or so modified as to merely remove the representation of a superseded society on a financing bank so long as the supersession order is in force or to empower the General Body of the society concerned to elect the delegate.

B. This Conference further resolves that it is inadvisable and financially inexpedient for the Madras Provincial Co-operative Bank to give fresh accommodation to a Central Bank during the period of supersession of its Committee.

If societies affiliated to a central bank, whose committee is superseded, require financial accommodation, it is desirable, in the opinion of this Conference, that the Provincial Bank should finance them direct with the Registrar's permission, if forthcoming, during the period of supersession, and transfer all such new business to the central bank as soon as its committee is restored."

In moving the above resolutions, Mr. Ramadas Pantulu explained the need for adopting them. He briefly traced the history of the legislation regarding supersession of committees of societies and referred to the corresponding provisions in other Provincial Acts. While the other Acts provided for appeals to Government against the order of the Registrar superseding the committee of a society, the Madras Act makes the Registrar's order non-appealable and also completely ignores the General Bodies of societies. The manner in which the section is worked in practice has resulted not merely in the supersession of the committee of management but the supersession of the General Body itself. When section 43 of the Madras Act was originally enacted in 1932, a difference was made between the supersession of committees of primary societies and of Central Banks. In the latter case, it was expressly provided that the previous concurrence of the Provincial Bank should be obtained for the supersession of the committee of a Central Bank. But by a very emergent amendment of the Act, suspending normal rules of legislative procedure, section 43 of the Act was amended by Madras Act II of 1936, dispensing with the need for the concurrence of the Provincial Bank in regard to supersession of committees of Central Banks. In the Statement of Objects and Reasons to the Bill, it is alleged that as the Executive Committee of the Provincial Co-operative Bank consists largely of the representatives of the financing banks, there is considerable delay in obtaining the concurrence of the Provincial Bank and that there is no need for a financing bank to be affiliated to the Provincial Bank. A perusal of the files relating to the supersession of committees of two central banks, the only cases which arose before the Amending Act II of 1936, will show that the allegations contained in the Statement of Objects and Reasons are unfounded and uncalled for. He also referred to the new rules published by Government under the Act and stated that the power given to Managers to nominate members to the Board of Management of the Provincial Bank is highly objectionable. He also pointed out that it is inadvisable and financially inexpedient for the Provincial Co-operative Bank to give fresh accommodation to a Central Bank during the period of supersession of its committee under the present altered circumstances. He commended the adoption of the resolutions set forth above.

The propositions were duly seconded. Several members took part in the discussion.

The President traced the history of the legislation regarding supersession of committees of management of co-operative societies and expressed the view that he could not agree with Mr. Ramadas Pantulu that section 43 should be repealed. Situations might arise in Central Banks which may require the application of section 43. He suggested that if the Government would repeal Act II of 1936, so far as the financing banks are concerned, the Conference might agree to the retention of the existing provisions. He suggested that the following resolutions be adopted on the subject :—

"1. This Conference is unanimously of opinion that there was no valid cause for the amendment passed recently to section 43 of the Co-operative Societies Act, sub-section 5 (ii) changing "concurrence of the Provincial Bank" to "consultation with the Bank" and the reasons given therefore are not correct and that the old state of things should be restored."

"2. This Conference was surprised at the rules framed by the Government under section 65, empowering the manager or his nominee to represent the superseded Bank on the management of the financing bank and requests the Government to delete this provision and provide for the representative to be elected by the general body."

"3. This Conference is of opinion that the supersession of the Committee under section 43 does not involve the supersession of the general body and it should be called in the usual course."

"4. This Conference is of opinion that in all cases of supersession of central banks the agency to take the place of the Committee shall ordinarily be a council of three or five members nominated by the Registrar."

"5. If the societies affiliated to a Central Bank, whose Committee is superseded, require financial accommodation, it is desirable, in the opinion of this conference, that the Provincial Bank should finance them direct with the Registrar's permission during the period of supersession, and transfer all such new business to the central bank, as soon as its Committee is restored."

They were carried unanimously.

BAD DEBT RESERVES

Mr. Ramadas Pantulu then moved the following proposition in regard to bad debt reserves in co-operative societies :—

"This Conference is of opinion that the present policy of the Department in regard to the diversion of substantial portions of the profits earned by the Central Banks to bad debt reserve is not sound and that it operates to the prejudice of the societies which are working well and contribute to the profits of the Central Banks and therefore resolves that where the profits are sufficient to provide a dividend of not less than five per cent, provision should be made for such dividend and the balance alone be diverted to bad debts reserve."

In moving the above resolution, Mr. Ramadas Pantulu said :—

"The policy of strengthening the position of co-operative credit societies and Central Banks in regard to their ability to meet bad debts, especially at this stage of the Movement, is undoubtedly wise and sound. But it should be so worked as not to operate prejudicially to the interests of good societies. It must be realised that when a large proportion of the profits earned by a bank is made unavailable for distribution as dividend, the good societies which have contributed to the profits are penalised along with the bad societies which necessitated the curtailment of dividend. Good societies which are thus penalised may soon pass into the ranks of loss societies. If the societies which work well and earn the profits which a Central Bank declares and the individual share-holders who are not responsible for the bad working of the societies are thus penalised and dividend on the share capital paid by them is either wholly denied or cut down to a very small percentage, the incentive for good working and expansion of the Movement will gradually diminish. The policy of building up bad debt reserve must be pursued with a certain amount of circumspection and with due regard to the interests of good members. I think the time has now come in the light of experience gained in the last few years to lay down definite rules about the diversion of profits towards bad debt reserves and not leave too much individual discretion of the local authorities. In commercial banks and business houses a certain percentage of the outstanding loans is set apart for meeting bad debts. It is desirable to examine the question whether a similar practice can be followed by co-operative banks. In any case, there is need for a rule that diversion to bad debt reserves from the net profits should be made only after allowing a reasonable dividend, say five or six per cent. on the share capital of the members, whenever profits earned permit dividend being given to that extent, except when there are strong reasons to adopt a different course. I am aware that this is being done now by the auditing authorities of Central Banks and wherever possible a dividend of at least five per cent. is allowed to be given, but not always. I have found instances where the caution is carried to an excessive degree.

Another question that may have to be examined in this connection is whether we should not discriminate between the societies working at a profit and which contribute towards the profits of the Central Banks and those which have worked at a loss and have not so contributed to the profits of the Central Bank. *Prima facie*, there does not seem to be any objection to such discrimination. But the way in which it has to be done may require careful examination. Again, the question whether diversion of profits to bad debt reserves so as to cut down the dividend is or is not necessary in cases where the statutory reserve fund of a Central Bank is fairly large in relation to its estimated bad debts or forms a substantial proportion of the borrowed capital of the bank has also to be considered. In one bank, which I have seen and which has a statutory reserve fund of about Rs. 4 lakhs, a further sum of about Rs. 60,000 has been again accumulated in the bad debt reserve. An examination of the bad and doubtful debts made by the auditing authorities shows that they are nowhere near the figure of Rs. 4 lakhs. In such cases, while there may be no objection to bad debt reserves being strengthened annually by a reasonable portion of the profits being diverted to those reserves after a reasonable dividend has been declared, the question whether there should be a diversion compulsorily, sacrificing the dividend is one which requires investigation.

The idea of creating a separate bad debt reserve seems to be that while the reserve fund of a society which is separately invested and which goes on accumulating with the statutory addition of a fraction of the net profits from year to year is a "fund" which remains intact till liquidation, the bad debt "reserve" may be drawn upon from time to time in the course of the working of the society to meet bad debts. It may be so in theory but it seems to mean little in practice. It has to be remembered that the statutory reserve fund is not really a "fund." For instance, take a primary society. If any society which is indebted to a central bank is working at a loss and its loans due to the bank are definitely bad and irrecoverable and the society is consuming its owned capital, to that extent its statutory reserve fund invested in the Central Bank is being automatically reduced from day to day, even if the reserve fund account is not so deducted. The fact that an entry is made in the books of the Central Bank adjusting the reserve fund of the society only on liquidation does not alter the position. The bank is not required to pay out cash to anybody, for most societies indebted to it have no outside creditors and all that it really does is to maintain the reserve account for its constituent societies and does not really possess a "fund" in the sense that any definite sum of money is available as a fund. It is presumably on the assumption that a reserve fund cannot be touched that permission is refused to Central Banks to adjust the accounts of societies indebted to the bank, by debiting their share capital and reserve fund with the bank towards the moneys due to the bank. I think the practice and theory in this respect require re-examination. I am of opinion that the accumulation of bad debt reserves should be regulated with due reference to the volume of the statutory reserve fund, and when the latter is considered reasonably adequate to cover unforeseen losses and estimated bad debts, diversion to bad debt reserve should not be insisted upon to the detriment of good societies by denying them a reasonable dividend on their share capital. The maximum of the dividend may be reduced, if necessary, from nine per cent to six per cent in such cases."

The resolution was duly seconded and carried unanimously.

LOAN AND SALE SOCIETIES.

Mr. Ramadas Pantulu moved the following proposition :—

"This Conference is of opinion that in order to develop loan and sale societies Central Banks should be helped to erect godowns in suitable localities where there is scope for development of business and urges on the Madras Provincial Co-operative Bank the desirability of raising long-term money by the issue of uncovered debentures, if necessary."

The Joint Registrar of Co-operative Societies informed the House that the Government have passed orders proposing to lend funds to loan and sale societies for 30 years at 3½ per cent to construct godowns.

The resolution was duly seconded and carried unanimously.

CONSTITUTION OF BOARDS OF CENTRAL BANKS

Mr. Ramadas Pantulu then moved that :

"This Conference is of opinion that under the present conditions, it is desirable to have uniformity in regard to the method of the constitution of the Boards of Central Banks, and therefore, resolves :

(i) that the proportion of individuals to society-representatives in the Board should be 1 : 2 ;

(ii) that the representatives of individual share-holders should be elected by the individual share-holders themselves at a meeting of their own ;

(iii) that the representatives of the societies shall be elected by the General Bodies of unions or groups of unions as the case may be."

Mr. Pantulu briefly explained the present position. He stated that in several places the relations between the individual shareholders and the society shareholders were not quite happy. The idea with which the Townsend Committee suggested the changes has not materialised in practice. Instead of harmonising the differences, they have been accentuated in several places. He therefore suggested that in the interests of the Movement the directors representing individual shareholders should be elected by themselves.

Several members took part in the discussion, some speaking in support of and some against the proposition. The President put the resolution to vote and it was declared carried by a majority.

The following resolutions were also passed by the Conference :—

At present Central Banks are not assessed to profession-tax on a uniform basis. Some banks are assessed on the net profits and others on the interest earned on certain items of the investments and miscellaneous income such as commission, entrance and transfer fees. It is therefore resolved that a uniform procedure of assessing Central Banks, only on the interest on securities held by them and miscellaneous income, may be recommended to the Local Government.

As per recent G. O. on the subject, Central Banks should not treat the undrawn portion of cash credit granted by the Provincial Bank as fluid resource to meet the liabilities due to the public. It is a great handicap to central banks. Most of the Central Banks fail to maintain the requisite standard of fluid resource in part A of the (financial) statement on account of this restriction. It is therefore resolved to request the Local Government to revise the order.

This Conference resolves to request the Imperial Bank of India to grant overdraft accommodation to Central Banks on the security of the debentures of the Central Land Mortgage Bank.

Resolved to request the Local Government to increase the limit of the deposits that Central Banks may accept from Local Bodies to one-half of the total borrowings. Further resolved that the Registrar be requested to remove the restrictions imposed by him viz., that no fresh investment exceeding Rs. 5,000 be accepted by the central banks without his previous sanction.

Resolved that the Government be requested to reduce the audit fees payable by the societies by 25 per cent. and that power be given to the Registrar to reduce the amount still further in fit cases.

This Conference views with concern the whittling down of the concession of free transfers by narrow interpretation of the rules governing issue of free remittances and requests the Registrar to see that a broad interpretation is given to the rules governing the same.

Resolved that where the societies have no dues to financing banks and when the Registrar and the Committee of the financing bank agree, a portion of the share capital may be refunded to such societies.

Resolved that the Registrar be requested to increase the staff available for non-credit work and distribute their services according to the number of societies and transactions in each area.

The following two resolutions were referred to the Board of Management of the Provincial Co-operative Bank :—

(1) Resolved to request the Madras Provincial Co-operative Bank, Ltd., to grant loans to Central Banks for the repayment of deposits after taking valid collateral securities.

(2) Resolved that the Madras Provincial Co-operative Bank, Ltd., be requested to sanction subvention at the rate of Rs. 1,000 for each Loan and Sale Society.

The Conference adjourned at this stage and met again on Sunday the 22nd March 1936 at 12 noon, to consider Mr. Satyanathan's report on Agricultural Indebtness. In this connection, the memorandum prepared by Mr. Ramadas Pantulu and circulated to the delegates was discussed. The Conference resolved to adopt the memorandum and to communicate the same to the Registrar and the Provincial Economic Council.

THE COMMITTEE ON CO-OPERATION IN MYSORE (1936)
MAIN RECOMMENDATIONS

Area of rural societies.—Membership in rural societies should be confined to the inhabitants of a single village if sufficiently large, or of one village and its hamlets, or of a number of villages within a radius of about three miles in the Maidan or five miles in the Malnad.

Duplication of societies.—As a rule, there should be only one bank or other specific type of society for the same compact area. But where the area is too large to be adequately served by a single institution, separate societies may be permitted to be formed with different jurisdictions. Where there are more societies than one working in the same limited area, either they should be amalgamated or the members should be suitably re-distributed.

Multiple membership.—No member of a credit society with unlimited liability should be admitted into a second similar society until he has withdrawn from membership of the former ; and no person should be allowed to pledge his unlimited liability in more societies than one. With a view to limit the present unrestricted freedom to borrow in credit societies generally, a rule may be made that no person, being a member of a credit society, except a land mortgage bank or a central financing bank or a house-building society shall be a member of any other credit society without the general or special sanction of the Registrar.

Exclusion of political and religious activities.—The Registrar should have power to rescind any resolution or action of a society or its committee or any of its officers, which may contravene the principle that the discussion or propagation of controversial opinions of a political or religious character are to be entirely excluded from the activities of the movement.

Liability. Unlimited liability is best adapted for small village societies which do not require much capital, and in which membership is restricted to a small area. In non-agricultural societies, liability should, as a general principle, be limited. In special cases, where members are prepared to take adequate reserve liability on their shares, an agricultural credit society may be permitted to be formed on a limited liability basis.

Powers and responsibilities of Committees.—It is important that the committee of management should not be placed beyond the control of the general body. It is necessary, on the one hand, to affirm and safeguard the position of the general body as the supreme authority in all matters affecting the administration of the society, and, on the other, to see that adequate powers of executive management are delegated to the committee. The allocation of functions in the by-laws should be quite clear and definite in these respects.

Period of office.—The by-laws of societies should provide for the compulsory retirement by rotation of a ceratin proportion of committee members every year, and their replacement by new members. An exception to this may be allowed in the case of societies where the needful facilities for change do not obtain.

Service on several Committees.—No person should ordinarily be eligible to serve simultaneously on the committees of more than one society of the same type without the sanction of the Registrar. A central financing institution and a primary urban bank may be taken to be of different types for the purpose of this rule.

Limit of membership in Urban Banks.—Where the membership of an urban bank exceeds a general limit of 1,500 (or, with the special permission of the Registrar, 2,000), further admissions must be stopped, the needs of new applicants being served by the formation of an additional bank, and the sphere of operations of the two institutions defined so as to avoid overlapping.

Communal Societies.—There are various theoretical and practical objections to the formation of purely communal societies. But provided their activities are confined to the promotion of the economic interests of their own members and do not overflow into anti-social channels in relation to other communities, there is no reason to place any particular restriction on their working.

Societies for salary earners.—In societies for salary earners, subscriptions to provident funds may well be made compulsory, and the advantages of co-operative insurance secured for members.

Government servants.—The scope for indiscriminate borrowing on the part of Government servants will be curtailed by a rule imposing stringent restrictions on multiple membership. A Government servant ought to be prohibited from borrowing from any outside source, so long as there is a departmental or office society of which he is or can be a member, and which is prepared to give him sufficient and reasonable credit for his current requirements up to the maximum limit of his borrowing capacity.

Joint marketing.—For the purpose of extending the marketing facilities in the State, societies may be formed for the marketing of commercial crops and industrial products. Liberal help from Government will be needed in the shape of grants for initial expenses, and advances for the building or hiring of warehouses or godowns in trade centres. A beginning may be made by way of experiment in selected areas where the conditions are favourable and the necessity is greatest as in the case of the areca-growing tracts of the Malnad, such as Sagar, Tirthahalli and Koppa.

Dairying.—With a view to the supply of pure milk to the residents of the cities of Bangalore and Mysore, dairy societies of distinct type may be organized, one consisting of the producers of milk in the neighbouring villages, and the other of the consumers. Initial help will be required in the shape of dairy equipment, and charges of management for the first few years, as well as an assurance of purchase of the milk requirements of medical institutions.

Stores.—In stores societies regard should be had in fixing prices to the current market rates, from which they should not ordinarily vary to any marked extent, and allowance must be made from time to time for fluctuations in prices. Co-operative stores must buy wholesale, and buy more directly from the sources of production than they do now. Cash sales should be the rule for all; but where credit is allowed, it should be restricted to members and to the extent of their paid-up share or other assets in the society. The profits derived from stores should, after the prescribed allotment to reserve and after paying a reasonable preferential rate on shares, be disbursed entirely on custom in the shape of rebates to members.

House building societies.—House building societies may with advantage take direct and active part in constructional work. Societies of the kind should help members with type designs as well as assist in the preparation of plans according to individual tastes and requirements. They should be able to procure building materials cheaply, and where possible they should join with other societies in ordering or manufacturing them. They should also in time take up the work of construction for their members. Where they have adequate funds and proper expert help, and especially where they have themselves undertaken the supply or manufacture of house building materials, they may well build a certain number of model houses at their own cost on well-considered type-plans and either lease them to members or sell them on the instalment system.

Repayments of house-building loans.—The equated system of repayment should be generally adopted. A rebate of half per cent below the rate charged should be granted to members, and by Government to societies, for payments made in advance. Repayments should be allowed either monthly or annually.

Future policy as to financing of Primary Societies.—There being no present necessity for District Central Banks, the Mysore Provincial Apex Bank should be able to carry on as sole financing agency for the primary societies in the State, with the aid of branches to be established by it in the more important centres (beginning with the Mysore City) as the need arises. The absence of local knowledge and the necessity of having to devolve responsibility on agents are no doubt disadvantages; but they may be minimized by associating local advisory committees with the work of the branches. The local committees may be invested by delegation with powers of supervision, including the power to sanction loans up to a limited extent.

Loans to be confined to societies.—The Provincial Apex Bank should leave individuals to obtain their requirements from primary urban and other societies, which already exist for this very purpose, and confine itself to the financing of the

primary societies. It is unnecessary and inexpedient to permit the Apex Bank to lend money to non-member depositors on the security of their deposits.

Directorate of Apex Bank.—It is necessary to raise the strength of the Directorate of the Apex Bank from thirteen to fifteen. Five places should be reserved exclusively for representatives of rural societies, and five for representatives of urban societies, both credit and non-credit; and two for representatives of individual share-holders. This will leave—besides the President, who will be elected by the general body—two places, both of which should be filled by nomination by Government. One of the Directors so nominated may with advantage be the Comptroller. The services of trained bankers on the Directorate should, where possible, be secured by co-optation, if not by election.

Banking facilities. What is chiefly needed is an arrangement with the Mysore Bank for giving adequate accommodation to the Apex Bank, in the shape of cash credit on the security, and up to 75 per cent of the amount, of the pronotes of rural societies backed by their endorsements. It is desirable, at the same time that the Apex Bank should have the moral backing of Government in the shape of a promise of a definite advance of 2 lakhs of rupees whenever required.

Period of Loans.—Co-operative institutions should be required to confine their business to short-term credit, that is, for periods not exceeding five years and, with due circumspection, to credit for intermediate periods between five and ten years. Credit for periods over ten years must be treated as long credit, and altogether eschewed by the ordinary co-operative institutions.

Assessment of credit.—Loans granted by societies to members should be based not so much upon the value of their property and assets as upon their capacity to repay out of the proceeds of their crops or other incomings in the case of short loans, and out of their savings in the case of other loans.

Margin of interest.—The rates of interest charged by the Central Financing Banks on loans to societies must, on the one hand, be materially lower than those charged in the bazar to persons of the class from whom the members are drawn, and yet must be substantial enough to provide the large margin necessary for maintaining adequate fluid resource, building up a reserve, and meeting working expenses. The rates will, at the same time, vary on a definite system with reference to the character of the borrowing society and the length of the loan. 2½ or at most 3 per cent may be taken in the average as a safe and reasonable margin. The maximum rates charged by societies to members should not depart widely (that is, by more than one or one and a half per cent) from the current market rates.

Taking over lands of defaulters.—Societies may be permitted, in the absence of bidders for the lands of defaulters, to take them over for a nominal bid, administering them like trust properties on behalf of the defaulters and returning them to the latter whenever the liability is liquidated.

Employment of Reserves.—In societies of unlimited liability, the bulk if not the whole of the reserve fund may be used in their ordinary business as working capital; so also in societies which have no deposits. But in other societies a moiety of the reserve fund should ordinarily be invested outside.

Investment of Reserve Fund.—In case of the Apex Bank, one-third of the reserve fund should ordinarily be invested in gilt-edged securities, including redeemable Government securities or Land Mortgage or other debentures guaranteed by Government, and the remainder permitted to be employed as working capital. Reserve funds of primary societies should be either invested in gilt-edged securities or guaranteed debentures as aforesaid, or deposited with their central financing institutions.

Urban Banks and Banking Business.—There is no objection to urban co-operative societies doing all kinds of banking business to meet the requirements of their members; but they should be debarred from entering into forward delivery contracts in any market either on their own account or on account of their members. The granting of cash credits, dealing in cheques, and clearing and remittance business, should be encouraged. The discounting of inland bills may be permitted in the case of urban banks. Urban banks may also be permitted to advance money on the security of gold and silver ornaments, on the former up to 75 per cent and on the latter up to 50 per cent of the value.

Concessions to Co-operative Institutions.—Co-operative societies may also be exempted from payment of income-tax and super-tax on earnings from investments in public securities or land mortgage debentures, to the extent of such investments as are necessary for the purpose of their fluid resources and for investment of reserve funds as prescribed by the rules.

Land Mortgage Banks and Short-term Cultivating Loans.—While land mortgage institutions should as a rule confine themselves to long-term finance, leaving the ordinary credit societies to undertake short-term credit, it is not unreasonable that, when a land mortgage bank lends money on the security of land, it should also provide a small margin for working expenses in the shape of a floating advance which will be a first charge on each year's crop.

Limits of Land Mortgage Loans.—The minimum limit of Rs. 500 for loans tends to shut out many persons whose needs are more moderate, and may be lowered to Rs. 300 in the interests of the smaller agriculturists, provided the minimum period is also reduced to twenty years.

Rate of Interest on Mortgage Loans.—The rate of interest charged on loans, namely, 8 per cent, is too high under existing conditions, and far beyond the capacity of the ordinary agriculturists. The rate charged should not, as a rule, exceed six per cent. The concession asked for by the Land Mortgage Bank, in the matter of the continuance of the annual grant of Rs. 5,000 for working expenses for two or three years more, may be granted on the understanding that immediate effect is given to the lowering of the rate of interest. Even without such extraneous aid, and under normal conditions, allowing a margin of one and a half per cent for meeting expenses, it ought not to be difficult for the bank to lend at six per cent the money it is able to get at four and half per cent or less.

Valuation and investigation.—A paid staff for the investigation of loan applications seems quite necessary in addition to the local committee members. The cost will have to be borne by Government for the next few years, after which the Central Land Mortgage Bank should bear it, the affiliated societies contributing from the realizations under appraising fee.

Machinery for Conciliation of Debts.—Any measure of general debt conciliation, if it is to be effective, must, in the first place, provide an impartial tribunal some at least of whose members have had judicial experience, but all of them

inspired by the desire to deal justly and equitably with all parties, while unhampered as a board by technical rules of law and procedure. Settlements must as a rule be based on mutual agreement or compromise, not on compulsion; the Board may advise and persuade, but not coerce, the parties. In cases where parties are themselves unable to reach a voluntary agreement but are not opposed to a decision on equitable grounds being given by the Board, there can be no objection to the latter exercising functions in the *nature* of final arbitration. Since the debtor is not always in a position to make a "fair offer," the Board may be empowered to frame a fair and reasonable scheme for the consideration of the parties.

Payment of conciliated debt.—Provision has also to be made for helping the debtor to pay off the conciliated debt immediately. No organization save Government can command resources adequate for debt conciliation on an extensive scale; but where the amount involved is likely to be very large, and the number of cases to be dealt with is quite considerable, direct liquidation by Government agency is impracticable. The help of the Land Mortgage Bank may be utilized in all cases where the debtor can offer adequate security and has sufficient surplus income from which to pay the instalments of the debt according to settlement.

Credit requirements of large proprietors.—The requirements of the class of large landed proprietors, among them owners of the bigger Indian Coffee estates in the Malnad, whose debts exceed Rs. 10,000, cannot be adequately met by the ordinary co-operative societies or by the co-operative Land Mortgage Bank, owing to the nature and extent of the financial assistance required. The needs of these large owners can only be met by the formation of a special type of Mortgage Bank.

Takavi Loans.—It will be an advantage to utilize the services and local knowledge of co-operative and land mortgage societies for the distribution of Takavi and Land Improvement Loans. In fact, it is advisable that loans to members of such institutions should be generally made through them and not directly. But societies must in that case be given the same rights of priority and same privileges as to recovery of dues as are applicable to the case of loans granted direct by Government.

Audit Unions.—A scheme for the formation of Audit Unions,—while it may make for uniformity in the system of audit and provide for co-ordination of the closely allied functions of audit and supervision—is not at present practicable in the absence of a strong and efficient co-ordinating Institute at the centre.

Supervision. The present arrangements for supervision are unsatisfactory and defective, especially in the case of rural societies. The powers of control now vested in the Registrar are sufficient for all practical purposes, and do not require to be amplified. It is in the scope for the exercise of these powers that some discrimination seems to be required. So far as urban societies are concerned, barring gross and exceptional cases of mismanagement or financial breakdown, there should be little occasion for interference on the part of departmental officers beyond the discharge of their ordinary functions of audit and inspection. Any advice required of them will be technical rather than administrative. In fact, in the case of the Central institutions and of the well-established urban banks, interference should be exceptional; and in every case where this is found necessary, a report of the circumstances should invariably be made to Government for information with a copy of any representation submitted by the institution concerned.

In the case of rural societies the supervision that is required has to come largely from departmental officers. But even here, the ultimate aim should be to entrust the work of supervision as far as possible to non-official agency where this is available, preferably to persons chosen by the societies themselves, either individually or in groups or federations.

Education and Training. Any serious attempt at the improvement of co-operative societies must include a proper organisation for giving suitable training, as well to the office-bearers of societies, as to the Inspectors. Auditors and Assistant Registrars of the Co-operative Department. The present arrangements for instruction and training are inadequate.

There is a real necessity for the establishment of a Central Co-operative School at Bangalore. Its control must necessarily vest in Government, but may be exercised through the agency of a small Committee nominated by Government and including non-official representatives of the co-operative movement as well as the heads of the Departments of Finance, Agriculture, Industries and Co-operation.

The cost of the Central Co-operative School and of the occasional classes will have to be met partly (and in the earlier years for the larger part) by a Government grant, and partly by contribution from societies not exceeding five per cent of their net profits, according to resources.

Teaching of Co-operation in Schools. Co-operation may be dealt with as part of Civics in High Schools, and lessons illustrative of its benefits included in the text books in Middle Schools. The subject should have a more prominent place in the teaching of Economics in Colleges as well as in the University curriculum. Co-operative Law, Finance and Practice should be included among the subjects for Local Service and Pleaders' Examinations, and an examination in that subject made compulsory for certified auditors.

Periodical Conferences. In addition to the Provincial Co-operative Conference at the Capital, District and Taluk Conferences may also with advantage be held occasionally.

It is desirable that the Registrar should at least once a year arrange for a periodical Conference, attended by selected officials of the Department and by non-officials interested in the working of co-operative bodies, for the discussion of important matters connected with the movement.

Urban institutions should be encouraged and helped to hold special Conferences (either separately or as sections of the Provincial Conference); so also house-building, stores and other special types of societies.

Subordinate Controlling Staff. Men who are markedly inefficient or have no aptitude for co-operative work should be weeded out by retirement or by transfer to other duties. Recruitment should hereafter be confined to graduates preferably those who have taken up Economics as their subject, and have had training in Book-keeping and Auditing. Selected candidates must undergo training in Co-operative Law, Finance and Practice. Every Inspector should be able to do audit work as part of his duties.

Participation by Government servants. The restriction recently imposed, by which Government officers and officials are required to obtain the previous sanction of Government (through their Departmental Heads) before even standing for election or re-election to committees of Central and urban societies, may be removed and the earlier rule reverted to.

EXTRACTS

CROP PROTECTION SOCIETIES

There is no reason to allege, as is sometimes done, that the opinion of a section of co-operators is always hostile to Government. A drastic piece of legislation to amend the Bombay Co-operative Societies' Act was adopted at the last session of the Bombay Legislative Council. Not only was it not opposed either inside or outside the Council, but it was welcomed everywhere, and in fact at co-operative conferences repeated demands had been put forward in the past that Government should enact legislation to compel minorities to fall in line with a three-fourths majority where schemes of communal improvement were otherwise likely to be obstructed and abandoned. The amending Bill passed by the Council applies only to "crop protection societies," but if the procedure prescribed proves sound in working it may well be extended later on to purposes like consolidation of holdings, joint schemes of land improvement and even co-operative farming. The object of the legislation is to secure that where the majority of the owners of land in an area agree to have a scheme of crop protection and express their readiness to bear their share of the cost, and if Government are satisfied about the utility of the project, the remaining land-owners should be compelled to contribute towards the cost of the scheme. In order to see that in the enforcement of this measure of compulsion, the recalcitrant minority do not receive unfair treatment, an elaborate procedure is prescribed which provides for the constitution of a board consisting of the Registrar of Co-operative Societies and the Director of Agriculture, the submission of applications for registration to this Board, the appointment of inquiry officers by the Board, the conduct of inquiries, the presentation of reports, the sanction of the schemes by the Board, the enforcement of contributions from all persons voluntarily and in default as arrears of land revenue. Due safeguards have been provided to prevent any injustice being done, and it is, therefore, not surprising that the bill had a smooth passage through the Council, intended as it is in the larger interests of the community.—*The Bombay Co-operative Quarterly, June* 1936.

PROGRESS OF CANE GROWERS' SOCIETIES IN BIHAR

It will be remembered that the Government of India had set apart a sum of Rs. 7 lakhs out of the excise duty on sugar for distribution among the sugarcane producing provinces for the purpose of organising co-operative societies among the cane growers or taking such steps which might ensure a reasonable price for cane to the growers. Before this grant was announced, the United Provinces Co-operative Department was already making experiments in the direction and had organised a number of sugarcane supply unions besides a Co-operative Sugar Factory at Biswan. The grant was, therefore, soon taken advantage of and in a short time the Department was able to increase the number of sugarcane societies and unions with the help of an additional staff of Cane Controllers, Inspectors and Supervisors working in close co-operation with the Agricultural Department. Our province being one of the two great sugarcane growing provinces also got its share of the excise duty and a certain part of it was placed at the disposal of the Co-operative Department for the purpose of organising co-operative societies among the cane growers. According to a scheme approved by the Government, there were appointed two Special Officers and ten Organisers a few months back especially to work in North Bihar. One of these organisers has been posted in South Bihar with a view to see if there is scope here as well and if a similar staff can be usefully employed in this part of the province. From the report it appears that the two Special Officers have been able to organise about 80 societies in all with the help of the organisers and that the work is proceeding briskly. One Organiser working in South Bihar has been able to organise about thirteen societies all alone and it is reported that there is a demand for such societies in larger numbers but it cannot be met as there is no adequate staff for the purpose as in North Bihar. It must, however, be noted in this connection that the work of organisation is proceeding very cautiously and after our experience of the credit organisation, every effort is made to see better societies and not more societies. We hope it will be possible to have a net work of sound sugarcane societies all over the province in a few years, provided adequate funds are forthcoming to maintain and strengthen the staff and the co-operation of the factories and central banks in the amelioration of the economic condition of the agriculturists is well assured.—*The B. & O. Co-operative Journal, June* 1936.

INCENTIVES IN A CO-OPERATIVE ORDER

WHY MEN WORK.

In the old days, most inventors did free lance work. They became possessed of an idea and experimented by themselves in their garret apartments. If they invented anything, they might make a fortune out of it, or they might die in poverty.

Most inventors died poor. Among American inventors who did great things for society and ended their days practically penniless, we might mention John Fitch, inventor of the steamboat; Charles Goodyear, discoverer of the vulcanizing process; Christopher Sholes, originator of the typewriter and Tom Davenport, builder of electrical motors.

Many of these had little thought of profit. When they began their experiments, they could not be induced to stop until they had achieved their ends. And after the inventor had given birth to his brain child, we frequently found him impatiently turning to other ideas, leaving it to others to make a profit.

Sholes, inventor of the typewriter, for instance, seldom thought about money, because as he said, it was "too much bother." Most of the money went to the Remingtons, who bought the patent. Sholes merely received a small sum of money and the joy of creating. But that proved to be sufficient. Edison strove for fame more than for money.

A NEW ROLE FOR THE INVENTOR.

To-day, the free lance inventor is being displaced by the salaried employee in the large research laboratories. Representatives of the Bell Telephone Laboratories scour the country for the bright minds in the universities, put these boys into the laboratories, give them a salary and start them at work. If these employees invent anything, they will get a larger salary, perhaps, but the profit goes to the corporation. Under a Co-operative order, these salaried inventors could be depended upon to work for a salary in a socialized laboratory as they are now working for a salary for a private corporation.

So much for the inventor. What about the administrator, the business man? Does he require the profit incentive, the chance to make a fortune to keep him efficiently at work?

At the present time, I must admit that many business men are working hard with an eye to big profits. They want riches partly because of the comfort and the power that wealth will give to them. They want wealth for another reason: The gaining of a fortune is regarded by most people as an indication of success in business.

"That man is a great success," you will hear people saying. "Why, he entered business a poor boy. And now, look at him, he is a millionaire! That's success for you." And a man wants to be regarded as successful in whatever line of effort he enters.

TEACHING WITHOUT PROFIT.

If there were other measures of success, however, you would find that same man working just as hard for those other goals. Take, for instance, the teaching profession. There are probably not more than a handful of the million odd teachers in this country who hope, as a result of teaching, to become millionaires. But does that keep them from doing good work? No. Thousands of our teachers are among our hardest working people. What gets them to work? Well, they receive a fair salary. They are more secure in their jobs than are most workers for private corporations. They have the satisfaction of seeing their pupils develop under them, of being well regarded by the community; of increasing their knowledge in cultural and scientific Studies. And these and other non-profit incentive are sufficiently powerful to keep them hard at work.

Or we can go to the great consumers' co-operative movement of the world. I was speaking a while ago with the very efficient manager of the Swedish co-operative. He was showing me around the imposing headquarters of the wholesale in Stockholm. He was the head of a concern that was doing a business of millions of dollars a year, and yet neither he nor any other administrator was getting a profit from managing this co-operative enterprise.

I asked him what induced him to do his best work, and he was doing magnificent work. He smiled at the question. There was such a thing, he said. as a feeling of loyalty to a great movement. He was spurred on by the knowledge that he had been selected by his fellows as the head of this big enterprise. He received a moderate salary. He was comparatively secure in his job. He had the satisfaction of doing a good administrative piece of work. He was anxious to excel among the administrators of the co-operative movement in the country. He wanted the movement to grow in its battle with private industry. He didn't need the profit incentive to induce him to do efficient work. And he was but one of thousands of administrators in such non-profit businesses in the world to-day.

I have likewise talked with many executives of public enterprises who have done excellent work. I have realized from observing them in action how potent non-profit incentives in industry can become. Many of us disagree with a number of things that are happening in Russia. But one cannot visit Russia as I have twice done and see tens of thousands of men and women from the highest to the lowest rung of industry energetically working without any thought of acquiring fortunes, without coming to the conclusion that industry can be run for use, for service, rather than for profit.

Or go into private industry in the United States. In the days of the small business, the average promoter or manager was also the owner of the firm in which he worked. If the business made profits, he got those profits.

PROFIT WITHOUT WORK.

To-day the situation is a far different one. Most of our business is done by the great private corporations owned by inactive stockholders scattered in different parts of the world. I may own a thousand shares of stock—which I don't—in the United States Steel, or the Standard Oil or the Electric Bond and Share Corporation. I may have inherited those shares or have obtained them by mere accident. I may be a baby in arms or an imbecile. I may live in California or Timbuctoo or Cairo. I may have never seen any of the plants of the corporation. I might know nothing about the concern except that it usually declares a certain dividend every quarter. Because of my ownership, and not because of my ability, I will obtain my cheque whenever a dividend is declared. If I sell my stocks to-day and buy stocks in a competing corporation to-morrow, it will make absolutely no difference with the way the corporation is run. I, with other absentee owners, get the profit. I have nothing to do with the running of the corporation outside of signing a proxy and allowing an officer of the corporation to vote for me.

The operation of the concern is in the hands of the executives, the engineering force, and the ordinary workers, with some financial advice from the Board of Directors. The administrators work, for the most part, for a salary. They may, or they may not, own shares of stock in the corporation. Any profit that may be earned, doesn't go to them but goes to inactive stockholders. In other words, as ownership is becoming separated more and more from management, executives depend less and less upon the direct profit motive for their incentive. They are depending increasingly on the salary incentive, plus such other incentives as pride in their work, the fun of seeing the administrative wheels run round and of witnessing the business growth; the desire to keep their jobs, to get the approval of others and to obtain power. Of course that is not true of those at the very top of the administrative ladder. Many of them obtain huge salaries and bonuses out of proportion to the service they render, rewards that may be regarded as sheer profits, not service income. But an increasing number of executives on the middle and lower rungs of the ladder obtain, for the most part, a service income only, the profits going to the passive stockholder.

Many an executive who is now working for a salary for a private concern would willingly work just as hard for a salary in a public or voluntary co-operative industry. In fact, under social ownership of the right type, they would have far greater security than at present and would not be continually interfered with by financiers intent on speculative profits.

SERVICE NOT PROFIT.

This is shown by the achievements of such public servants as Colonel George W. Goethals, the able builder of the Panama Canal; of William Maxwell, president for 27 years of the great Scottish Co-operative Wholesale and J. T. W. Mitchell, chairman for years of the Board of Directors of the English Co-operative Wholesale. The last two served for years on salaries of a couple of thousand dollars or less, at a time that the gross business done by their respective organizations amounted to from forty million to more than a hundred million dollars.

So much for the inventor and administrator. Under social ownership, the average worker would, of course, have far more incentive to do his best than at present. He would not be compelled to give great tribute to a small owning class. Under a co-operative system, he would be part owner of the socialized industries. He would be represented in the management. He would know that every invention, every economy in the industry, would redound to the interests of the worker—would mean higher pay or more leisure. Now the more he produces, the sooner he often finds himself out of a job. The worker under a co-operative order would be far more secure in his job than now, and his compensation would be based on his worth to industry, not on the accidental fact of ownership.

REWARDS UNDER CO-OPERATION.

A socialized order would, therefore, I believe, furnish a far finer incentive to administrator, inventor, and ordinary worker than does the present system. It would provide the incentive of a comfortable salary, a secure living, a chance to have one's say in the conduct of the corporation, an opportunity for advancement in position and pay, a chance to express one's self, to do a good job, to do in many instances creative work and to serve one's fellow men.

Finally, we must not lose sight of the fact that, while the profit incentive at present drives men on to energetic work, much of this activity is injurious to society. The profit motive is a driving force to adulteration, child labour, low wages, long hours, the suppression of labour's rightful activities, racketeering, insecurity and war itself. It is time that we should strive to put industry on a non-profit, on a service basis, and to go forward to a co-operative civilization where not the almighty dollar, but the development of human personality, is the chief goal of our industrial life.—By Harry W. Laidler, Ph.D., in *Consumer's Co-operation* (U.S.A.), June 1936.

GERMANY: RATIONALIZATION OF THE MILK INDUSTRY

All the interests in the German milk and milk products industry have been fused into a single organization for regulating supplies and marketing. The main provisions of the decree, which was promulgated on April 17, (1936) are as follows:—

The competent authority is the Central Union of the German Milk Industry. All persons concerned in the production, processing or distribution of milk must be members of the associations incorporated in this Union. The objects of the fusion are the regulation of the marketing of milk and milk products and the assurance of supplies to the consumer. The Union has full powers to regulate the production, supply, sale, processing, manufacture, and distribution of milk and milk products; to issue regulations as to marking and packing, deliveries, acceptances and warehousing; to fix the scale and scope of manufacturers' operations; to lay down the minimum turnover for distributors; and, temporarily or permanently, to eliminate unnecessary undertaking; to fix equitable prices and price margins; to create an equalization fund and impose contributions to this fund, in addition to suitable levies for overhead expenses; to prosecute those who contravene the regulations.

Provision is made for the payment of compensation to undertakings suffering loss as a result of measures taken under the decree, e.g., when a concern is closed down or is unable to continue in business. No compensation can be claimed for losses due to the fixing of prices or margins, or of the scale and scope of operations. Provision is made for arbitration in cases of dispute. The establishment of new undertakings and the erection of new processing plant are subject to the approval of the Central Union. Hotels, restaurants, hospitals and similar institutions are not considered to be distributors of milk in the sense of this decree.

An order dated April 25, 1936, in connection with the Milk Law of July 31, 1930, lays down that after October 1, 1936, the technical direction of creameries or farm dairies will only be entrusted to persons who can produce evidence that they are technically qualified, in the form of a master's or similar diploma from a suitable institution and at least two years' successful technical direction of a creamery or farm dairy. (*Note by the Market Supply Committee*). - *The Journal of the Ministry of Agriculture, London, July* 1936.

THE CO-OPERATIVE MOVEMENT IN CHINA*

The Co-operative Movement in China has had its most rapid development during recent years, even though it was introduced some ten years ago by the China International Famine Relief Commission in the famine provinces of the North, as a medium of relief.

The following statement shows the rapid progress of the Movement during the last three years:—

Year.	*Number of Societies.*	*Members.*
1933	5,335	184,587
1934	14,649	557,521
1935	26,224	1004,402

In addition to 26,224 societies, there are 5,332 junior societies and mutual aid societies not formally registered. The average number of members per society now is 38. 9,956,674 Chinese dollars were advanced by these societies as loans in 1935 or on average of approximately ten dollars to each member.

Classified according to their function, 59 per cent of the 26,224 co-operatives existing by the end of 1935 are credit societies; 9 per cent marketing societies; 9 per cent. production societies; 4 per cent. utility societies; 3 per cent. supply societies (including purchasing and consumers' societies); and 16 per cent integrated societies having multiple functions. Integrated societies are organized primarily as credit societies but they function also as marketing, production, utility, or purchasing societies. When the members are considered, the percentage distribution is not the same as for the societies. Of the 1,004,402 members enlisted, 42 per cent belong to credit societies, 12 per cent to marketing societies, 11 per cent to production societies, 7 per cent to utility societies, 7 per cent to supply societies, and 21 per cent to integrated societies.

Essentials for the proper development of the Co-operative Movement in China are, first, mass education with emphasis on co-operation. It is necessary for the members to comprehend the real meaning of co-operation and to take an active part in the society; secondly, sufficient organizing institutions and competent organizers for promoting co-operatives; and thirdly, sufficient financing institutions for a free circulation of capital.

The co-operative society in China is handicapped by its loose organization as well as by its poor management. As the figures indicate, about one-third of the hsiens reported that the societies are unable to pay back their loans at the specified

* This note is based on 'Crop Reports', February 15, 1936, issued by the National Agricultural Research Bureau of the Ministry of Industry, Nanking, which contains interesting and instructive statistics about the Co-operative Movement in China and should be studied by every co-operator in India.

time on account of famine, banditry, etc. Of these cases, 23 per cent. are due to poor management, selfishness of the staff, and misuse of the loans, and all such weaknesses must be very carefully considered by co-operative workers in their future undertakings.

BASHIR.

CO-OPERATIVE EDUCATION IN U.S.S.R.

Special mention must be made of the extensive network of educational organisations maintained by the consumers' co-operative movement. Whilst elementary education is left to the schools everywhere maintained by the soviets, the co-operators apply themselves to providing the additional education required by an active co-operator, and still more by every committee man and employee in the service of the Movement. There are, accordingly, a whole array of vocational classes and even schools, devoted to subjects which every co-operator ought to know. These were reported, in 1933, to have some 60,000 pupils. In every oblast there is at least one co-operative "technicum" (institute of secondary grade) under the supervision of the co-operative Union of the oblast. These co-operative technicums have now something like 10,000 students. At Moscow there is a co-operative academy, and at Leningrad a co-operative institute, both of them claiming university rank, and restricted, by entrance examinations, to students over 18 qualified to enter on advanced studies. Each oblast or rayon in the U.S.S.R. has the privilege of nominating its quota of students to these co-operative universities, paying for them in fees covering all the instruction, and in stipends meeting the cost of maintenance of each student. From the graduates of these two institutions are drawn an increasing proportion of the principal officers of Centrosoyus, and the managers of many of the more important primary societies. The system of co-operative education in the U.S.S.R. is by far the most extensive in the world. —*Soviet Communism* (1936) by Sidney & Beatrice Webb.

CO-OPERATIVE NEWS

A meeting of the Central Committee of the International Co-operative Alliance will be held at Warsaw on the 24th and 25th September 1936. Among the subjects that will be discussed at this meeting are :—

1. Arrangements for the next I. C. A. Congress at Paris to be held in September 1937.
2. Co-operation in U. S. S. R.
3. Scope and methods of Planned Economy and their effects on co-operative development.

* * * * *

The Government of Bihar have deputed Rai Bahadur Akhauri Gopinath Kishorelal, Special Officer for Land Mortgage Banks, to study the working of Land Mortgage Banks in the various provinces in India where such banks are working, and to formulate measures for the formation of Land Mortgage Banks in Bihar.

* * * * *

A Debt Conciliation Bill drawn up on the lines of the Central Provinces and Madras Acts has been introduced by the Government of Mysore in their Legislative Council.

* * * * *

The Government of Bengal, it is understood, will set up about 300 Debt Conciliation Boards in 16 districts, under the provisions of the Bengal Agricultural Debtors' Act. There are about 3 million indebted families in these districts, and it is expected that before the end of the year 684 Boards will be established.

* * * * *

The Assam Debt Conciliation Bill, which is largely modelled on the C. P. Act is being considered by a Select Committee.

* * * * *

In the vacancy caused by the death of Sir M. Ramachandra Rao, Dewan Bahadur T. A. Ramalingam Chettiar has been elected President of the Madras Co-operative Central Land Mortgage Bank, Ltd. The general election of the Board of Directors comes off in the month of October 1936.

* * * * *

Under the auspices of the Punjab Rural Reconstruction Department, a three months' course in rural reconstruction will commence in August. About 20 panchayat officers are expected to join this course, in which instructions will be given in various aspects of rural reconstruction. They will be taken to different parts in the province, where they will have opportunities for studying at first hand field work, consolidation of holdings, etc.

* * * * *

The Madras Government have authorised the setting up, as early as possible, of a District Economic Council for rural reconstruction in every district for the purpose of co-ordinating the work of several departments of Government and for regulating and promoting the activities of the nation-building departments, with a view to improving the social and economic conditions of the people of the villages. The Council will consist of the Collector of the District as ex-officio Chairman, the President of the District Board, the Revenue Divisional Officer, the Executive Engi-

neer, the District Board Engineer, the District Forest Officer, the Deputy Collector, the District Health Officer, the District Medical Officer, the District Panchayat Officer, the District Veterinary Officer, the District Educational Officer, and the Deputy Registrar of Co-operative Societies.

It is not proposed to finance the Council from public funds as Government are of opinion that funds could be raised locally, whenever necessary, on the principle that self-help is the best help.

The Council will ordinarily meet once a month and the Collector, as Chairman, is required to make a quarterly review of the work done and to forward his review to the Government. Heads of departments can consult the Council through their local officers.

* * * * *

In the August Session of the Local Legislative Council, the Madras Government will ask for a vote to finance the scheme for the establishment of a Provincial Marketing Society. The Government consider that the formation of a Central Marketing Society especially for the sale of perishables is desirable and that it should be assisted in its early stages. The help consists (1) in the provision of a minimum staff of one Sub-Deputy Registrar, one Senior Inspector, one clerk, one typist, two peons, and (2) in the grant of a subsidy of Rs. 2,800 to enable the society (*a*) to rent an office and two fruit stalls ; and (*b*) to employ two godown keepers and two peons for work in the godowns. The Government will employ the staff and make it available to the society and grant the society in addition, a cash subsidy of Rs. 2,800 per annum to cover the expenditure on rent, etc., referred to above.

* * * * *

Mr. V. Ramadas Pantulu delivered the Appu Rao Endowment Extension Lecture on "Co-operation in India" at the Mysore University on 1st August, 1936, extracts from which will be published in our next issue.

* * * * *

Re : Proceedings of the Joint Session of the Standing Committees of the Indian Provincial Co-operative Banks' Association and the All-India Co-operative Institutes' Association, held at Fyzabad (U. P.), on 11th and 12th April 1936.

The following resolution of the Joint Session of the Standing Committees of the Indian Provincial Co-operative Banks' Association and the All-India Co-operative Institutes' Association, which met at Fyzabad (U. P.) in April last, is communicated to all Provincial Co-operative Banks, Co-operative Institutes and the members of the Standing Committees, for information. We regret it was omitted in the proceedings published in our last issue.

"*This Committee is of opinion that the condition of rural population in India can only be improved by improving the rural mind and recommends that Village Welfare Societies whose aim is to improve the condition of the village and its people by improving or reconstructing the mind of the village people, be organised in each and every village in India within ten years and that the Local Governments be requested to appoint sufficient number of Honorary Organisers and Supervisors to organise and supervise Village Welfare Societies in each and every village in their respective provinces within the said period and that the Local Governments be also requested to utilise their share of the second instalment of the Government of India grant for rural uplift for this purpose.*"

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