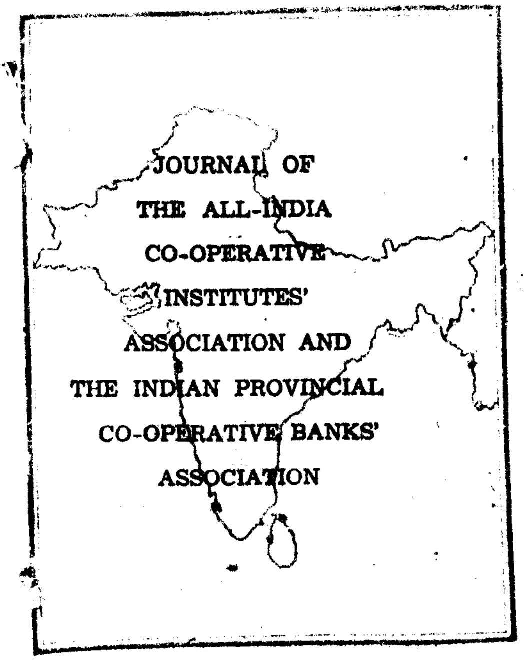
APRIL—JUNE, 1938

The INDIAN CO-OPERATIVE REVIEW



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Journal of the All-India Co-operative Institutes' Association and The Indian Provincial Co-operative Banks' Association

PUBLISHED QUARTERLY

EDITED BY HON'BLE V. RAMADAS PANTULU

Publishes articles on Co-operation by writers of standing and authoritative position in India and foreign countries.

Comprehensive and detailed surveys of co-operative activities covering the whole of British India and Indian States.

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THE INDIAN CO-OPERATIVE REVIEW

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Vol. IV **APRIL—JUNE, 1938** **No. 2**

EDITORIAL NOTES

CO-OPERATIVE AUDIT.

This number of the *Review* is mainly devoted to a discussion of the problem of audit of co-operative societies in India. Readers will see from the contributions by eminent writers that there is a lack of uniformity in the systems adopted and that nowhere is there satisfaction with the prevailing system. Everywhere experiments, conscious or unconscious, seem to be made and policies are modified or abandoned.

In countries more advanced co-operatively, audit has not been a big problem. In Great Britain the law compels co-operative societies to be audited at least once in every year by a *Public Auditor*, a Chartered or Certified Accountant recognised by the Treasury, but not a government servant nor an office-bearer in the society. A Public Auditor may carry on his work independently or as an employee in a firm or a co-operative organisation. The Co-operative Wholesale Society has recently built up an Audit Department employing qualified accountants, for the use of its affiliated societies, most of them consumers' societies; but more than half the farmers' supply societies, which are now affiliated to the C.W.S. benefit by its auditing service. Certain firms of Public Auditors specialise in co-operative accounts, take a genuine interest in their welfare and give valuable advice. In most of the European countries, by law the State has the right to impose and carry out the audit of societies, but generally delegates the function to the Co-operative Unions, which are autonomous and not controlled or guided by the State. Co-operative audit by such bodies means much more than what it does in England; it includes inspection, consultation and the fullest advice on business and co-operative policy. It includes meetings with the staff, and the committee and often the members too. The Union provides for the training of co-operative auditors, as it does for various other forms of co-operative education. This is surely an ideal to which we should work up, if we believe in co-operative democracy.

The Registrar of an Indian Province has to discharge the duty imposed by Statute of auditing societies either by himself or his staff or by authorising other persons. The bigger institutions have no difficulty in getting their accounts audited by public accountants or professional auditors subject to the approval of the Registrar. We have, however, in this country few public auditors, who specialise in co-operative accounts as in England. Canvassing of votes of the general body members in some of the big institutions does, on the other hand, lead to a certain loss of independence of auditors. Audit federations of big societies, if they are confined to a small area, like a district, as have been tried in Madras and are recommended in Bombay, are likely to suffer from a lack of adequate finance and competent staff and from the possibility of interference by representatives of societies concerned on the Board of Management of the Federations, by whom the auditors are appointed and promoted.

If we are to have a voluntary and autonomous Audit Federation, it must be on a provincial scale and it is best associated with the Provincial Co-operative Union or Institute, which may pool the audit fees levied on all societies in the Province, appoint a graded and competent staff to audit the various classes of societies, big and small; not only to audit but to offer every advice on the lines of Continental co-operative auditors, who themselves educate or work in harmony with the educational advisers of the Union. This is, perhaps, crying for the moon just at present, when all non-official enthusiasm has been chilled by the depression and its disastrous consequences.

It is natural that in such an atmosphere audit by a purely, or thinly veiled, official agency must dominate. Apart from the loss of democratic ideals which co-operation is expected to foster, there are other grave defects associated with Government audit. Recruitment of co-opertvative staff, in recent years in particular, has not been made on grounds of general efficiency or proficiency in auditing work, but on communal and other irrelevant considerations. A Government Inspector is expected to be a jack of all trades in turns or even simultaneously. Not only the work of supervision but even administration is often combined with the work of audit. Independence of audit is impossible where the auditor is but a petty clerk subordinate to the district co-operative official who is in a way responsible for the proper conduct of societies in the district. There are now a number of big societies and even financing banks in administrative charge of co-operative officials, specially lent by the Department. Departmental loyalty is sure to stand in the way of a frank and full exposure of defects in the working of such institutions. We have personally come across cases where obvious and glaring defects in the working of financing banks have not been brought to light by departmental auditors.

If the investing public and the members of societies themselves still have more faith in Government audit than in any other, it is time the Government audit staff is divorced from the administrative staff and something like the system of audit of Local Bodies by an independent Government staff is set up. The recruits should be fully trained in co-operative theory and practice as well as in the technique of audit, so as to be of some service in setting right and improving the affairs of societies in an advisory capacity. The scale of fees prescribed should have regard to the time and labour involved in audit and to the ability of the societies to pay, which does not depend merely on their turn over. A separate department or section presided over by a Chief Auditor or Auditor General of Co-operative Societies is certainly preferable to the existing anomalies of audit.

RELIEF OF AGRICULTURAL INDEBTEDNESS IN MADRAS

The Madras Government have provided in the last budget a sum of Rs. 50 lakhs for the relief of indebted agriculturists by way of direct loans from the Government. We believe that this is by way of supplementing the work of the land mortgage banks and helping debt conciliation schemes. So far, no loans seem to have been advanced from this fund; nor has the Government issued a communique setting out its programme for the distribution of this fund and the agency proposed to be employed for such distribution. In the pre-provincial autonomy period, a scheme of loans under the amended provisions of the Agriculturists Loans Act was worked through special officers of the rank of Deputy Collectors appointed by the Government in selected areas. It is said that the administrative cost of the scheme was heavy. The normal agency for the distribution of takavi loans, viz., the subordinate revenue officialdom, is generally considered to be a a very unsatisfactory one; there have been loud complaints about the delay in the disposal of the loan applications and the levy of illegal gratifications both in the process of disbursal and collection of loans. We beg to invite attention to the large volume of evidence that was tendered in this behalf before the Royal Commission on Agriculture and the Banking Enquiry Committees. Therefore, a great deal of the success of this scheme depends on the suitable agency that is selected for administering the fund. Among other agencies which the Government may think of, we suggest the employment of the co-operative institutions like the co-operative central banks and primary land mortgage banks for lending this sum. There are about 30 central banks and about 100 land mortgage banks working in Madras. These are well distributed all over the province and have fairly adequate staff for the purpose of disbursing the loans. Officers of the Revenue and the Co-operative Departments may be asked to help these institutions in this task. The staff of these institutions is not, however, sufficient either to watch the utilisation of the loans or to effect their recoveries. This business must be undertaken by the Government. But such assistance as the staff of the central banks and land mortgage banks can give will be made available. The zamindari areas will, however, present some special difficulties, because, there are very few efficient co-operative institutions in those areas. So, some special agency may have to be employed by the Government in the zamindaris.

We are not suggesting the lending, out of this fund, money to the institutions themselves, to be relent by them to the agriculturists. We are only suggesting the using of the institutions named above as mere agents for distribution. There are advantages in employing this agency and the Indian Central Banking Enquiry Committee endorsed this view.

As for the manner of utilising this fund, we suggest that a maximum limit of Rs. 1,000 should be fixed for the loans and that preference should be given to small agriculturists whose debts are scaled down under the Madras Agriculturists Relief Act, so that the available money may go round to as many agriculturists as possible. Providing one per cent for bad debt reserve and another one per cent for administrative charges, we feel that loans may reasonably be made available to the ultimate borrowers at five per cent, on the asssumption that Government will be able to get money at three per cent. The period of the loan shall be 20 to 30 years.

ALL-INDIA CO-OPERATIVE COMMITTEES AT VIZIANAGARAM

We publish in this issue the 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 Vizianagaram on the 16th and 17th April 1938.

Before taking up the agenda, a general survey of the Movement in the various provinces was made. There was a general agreement on the need to improve the economic position of the agriculturists—their income and purchasing power—if co-operative movement was to make headway among them. In other words, the integral relation between the general rehabilitation of the masses and the spread of the Co-operative Movement was pressed by more than one speaker. While schemes for rural uplift, promotion of cottage industries, development of the countryside and general social amelioration have been receiving attention at the hands of the autonomous provincial governments, very little use has so far been made of the principles and methods of co-operation in the economic planning of the governments, as was pointed out by the President and others.

Prof. V. G. Kale criticised the action of the Bombay Government in depriving the Provincial Co-operative Institute of Bombay of all its powers, except that of education. Even here, in regard to co-operative training of members and panchayatdars of societies, under the Government of India subsidy scheme, the Provincial Government did not consult the Provincial Institute but employed their own machinery for the purpose. He exhorted the co-operators of various provinces to strive to regain for the institutes, the position which they had lost, and expressed the hope that the Congress Governments in the seven provinces would not stand in the way of co-operators organising themselves through their institutes. As for the new bills of a radical character like Tenancy and Moneylenders' bills, Prof. Kale said that while co-operators extended their sympathy and support to the Government in

their effort to bring about social amelioration, they should be alert to see that no damage was done to the Movement by the new legislation.

Khan Mohammad Bashir Ahmed Khan explained clearly the system of audit in the Punjab. He said that every society, central and urban bank, paid 10 per cent of its net profits as audit fees subject to a minimum of Rs. 10. He also said that the progress of land mortgage banks in the Punjab practically came to a standstill, and that the existing banks merely devoted their attention to the recovery of old dues and that no new loans were being given through land mortgage banks.

Rao Bahadur Khare of the C. P. and Berar Federation drew attention to the fact that in Berar there was reckless borrowing among members and reckless lending by the central banks, and in the wake of depression central banks and societies were forced to buy up the lands of the members, as there were no other purchasers. He said that central banks in Berar had then in their possession about 46,000 acres of land so purchased, on which they had to pay a sum of about Rs. 1·5 lakhs as land revenue, lest the lands might be lost to the societies and banks by sales for arrears of revenue. He said that land revenue even on some of the lands mortgaged to the societies had to be paid by the central banks, in order to prevent their being sold for arrears of land revenue, and this amounted to about another 1·5 lakhs. This burden of land revenue demand was a great problem in Berar. The salvation of the Co-operative Movement in Berar lay in the evolution of a scheme for the disposal of these lands and for the rehabilitation of the societies.

Mr. S. K. Lahiri was evidently so keenly dissatisfied with the increasing official control over the Co-operative Movement in Bengal that he advocated the organisation of new societies on co-operative principles and their registration under the Indian Companies Act instead of the Co-operative Societies Act so as to liberate the Movement, rather to extricate it, from the control of the Government.

Mr. V. M. Thakore narrated the sad plight of the Movement in Bihar and traced the origin of their trouble to the practice of granting loans to members for repaying old debts from out of short term deposits. He gave an indication of the nature of the help which the Provincial Government of Bihar were likely to give to the Movement by way of long term funds raised on debentures issued by the Provincial Bank and backed by Government guarantee of principal and interest.

Mr. T. A. Ramalingam Chettiar, speaking of land mortgage banks in the Madras Presidency, explained why the lending rate to the ultimate borrowers was recently raised from 5 to 5½ per cent. He deplored that the Madras Provincial Co-operative Union, unlike the Institutes and Unions in some other provinces, was very much in the background and practically did nothing, beyond running a monthly journal in English—the *Madras Journal of Co-operation.*

A comprehensive resolution was passed dealing with the various questions of reform of the Movement discussed in the bulletins issued by the Agricultural Credit Department of the Reserve Bank of India—more or less on the lines we have commented already.

The Indian Provincial Co-operative Banks' Association sanctioned a sum of Rs. 1,000 for the conduct of the *Indian Co-operative Review* for the current year for which our grateful thanks are due to the Association. The President, in concluding, appealed to the members to popularise the *Review* and secure at least a hundred more subscribers to make it pay its way.

BIHAR AND ORISSA CO-OPERATIVE FEDERATION CONGRESS

The twentieth session of the Bihar and Orissa Co-operative Congress, which met this year at Patna on the 6th and 7th of April and the proceedings of which we publish elsewhere in this issue, attracted more than usual attention. It is mainly due to the fact that the Congress met at a time when the Co-operative Movement in the province was practically in the melting pot and that His Excellency Sir Maurice Hallet, the Governor of Bihar, and the Hon'ble Dr. Syed Mahmud, Minister in charge of Co-operation, not only attended the Congress but delivered weighty speeches and stayed on till the opening session on the forenoon of the 6th April was concluded. They evidently did so in order to dispel the gloom that hung heavily over the Movement, by delivering their messages of hope personally to the co-operators assembled. Dr. Sachchidananda Sinha, the well known lawyer and eminent publicist of Bihar, was the Chairman of the Reception Committee.

Dr. Sinha, in a vigorous speech, pointed out that public confidence in the Movement was thoroughly shaken and that there was a belief in the public mind that the Government were indifferent to the fortunes of the co-operative institutions in the province, and laid considerable stress on the responsibility that lay on the Government to restore public confidence by taking adequate and speedy measures for the rehabilitation of the Movement. His Excellency the Governor courageously endorsed the view point of Dr. Sinha in these words: "The main point which Dr. Sinha has made was that Government was responsible for the development of the Co-operative Movement: the Government must therefore be responsible for its rehabilitation. With that view I entirely agree. With that view my Ministry also agrees......My Government are going to adopt with as little delay as possible a practical policy for the rehabilitation of the Movement." The Hon'ble Dr. Syed Mahmud also expressed himself in equally clear and emphatic language.

He said: "On behalf of the Government, I would reiterate our confidence in the future potentialities of the Movement and would declare that Government have decided to rehabilitate the Co-operative Movement as early as possible and to take adequate steps to ensure its future expansion on sound lines, so that it may in time develop into a truly national organisation, capable of making rural life richer and fuller in every way." It must, however, be said that the Hon'ble Minister did not give any clear indication of the direction and extent of the help which the Government were prepared to give to the Movement. Perhaps, it was not possible for him at that stage to adumbrate any definite scheme of rehabilitation. But that he was earnest about it, there could be no doubt.

The Hon'ble Mr. V. Ramadas Pantulu, President of the Congress, delivered a lengthy address dealing with the causes that led to the deterioration of the Movement in the province, and suggesting remedial measures. The liabilities of the Movement as a whole were estimated to exceed its assets by about Rs. 50 to 55 lakhs. The Provincial Bank and most of the central banks worked at a loss and many of the central banks were not in a position to meet their obligations to their depositors and creditors. The ultimate solution, according to him, lay in the Government helping the Movement to find adequate long term funds by means of loans and subsidies. His Excellency the Governor generally endorsed the views of the President of the Congress and said that the practical policy which the Government proposed to adopt would "in all probability follow, in many respects, the advice given us to-day by the Hon'ble Mr. Pantulu."

The Registrar of Co-operative Societies, Mr. Bakshi, I.C.S., who was present throughout the proceedings and actively participated in the discussions, evinced considerable enthusiasm in the scheme of rehabilitation. In fact, he had already submitted to the Government a scheme for a thorough and careful investigation of the assets and liabilities of the central banks and other institutions in the Province as a necessary preliminary to the inauguration of the rehabilitation scheme.

The Congress, as might be naturally expected, devoted considerable portion of its deliberations to the rehabilitation scheme and appointed committees consisting of experienced co-operators to submit detailed schemes for the consideration of the Government. It is gratifying to note that the Government and the Registrar are utilising the experience and knowledge of non-official co-operators in the province to rehabilitate and reconstruct the Movement. An important resolution passed by the Congress related to the system of audit in the province. So far, audit was in the charge of the B. & O. Co-operative Federation. In the peculiar condition of the Movement in the province, the Federation temporarily decided to hand over that function to the Government with a request that, until the societies were able to pay for their audit, the Government should make arrangements for the free conduct of audit by a competent staff of auditors. We are aware that there is a strong section of co-operative opinion in the province against the Federation being deprived of the important function of audit, for the performance of which it was mainly organised. At the same time we are of opinion that the decision of the Congress is a wise one at the present juncture. We hope and trust that soon after the rehabilitation of the Movement, the system of audit will undergo radical reform and once more the B. & O. Co-operative Federation will be associated with audit.

This session of the Congress banished the feeling of helplessness and put optimism into the minds of co-operators, thanks to H. E. the Governor and the Hon'ble Minister, who rightly observed, "the benefit of co-operative organisation cannot be estimated in terms of money alone; there is a more abiding and far-reaching gain in the way of self-help, training in business methods, unity and brotherly association for a common purpose." We wish the co-operators of Bihar god speed in their endeavour to reconstruct their Movement for the benefit of the millions of Bihar.

THE LATE RAI BAHADUR DURGA PRASAD.

The Co-operative Movement in India in general, and Bihar in particular, has suffered an irreparable loss by the death of Rai Bahadur Durga Prasad, an ex-Registrar of Co-operative Societies. He was unable to attend the session of the Congress owing to serious illness and his presence was greatly missed. Towards the close of his long and successful administrative career, he was called upon to lead the Movement at a very critical period of its existence. As the *B. & O. Co-operative Journal* rightly says, "His tenure of office as Registrar was marked by various measures calculated to remove the basic deficiencies of the Movement and to give it a new lease of life. After his well-earned retirement, he rendered equally useful service to the Co-operative Movement in Bihar as the Managing Director of the Bihar and Orissa Provincial Co-operative Bank, and it may be truly said of him that he was in co-operative harness till the last day of his life." He was also a member of the Standing Committee of the Indian Provincial Co-operative Banks' Association, representing the Bihar Provincial Bank, and took an active part in the activities of the Association. We hasten to offer our heartfelt condolences to the members of the bereaved family.

THE LATE RAI BAHADUR DURGA PRASAD

expended in order to obtain the necessary amount of village leadership, and to make available the requisite skill to the collective farms. In the absence of these two necessary things the collective farm system almost collapsed. With their gradual improvement and the consequent increase of production, the whole seems to have passed beyond the critical stage and is now likely to become a permanent feature of rural economy in Russia.

I have not time in the present article to discuss the extent to which any similar scheme of collective farming is suitable for India. There are many difficulties in addition to those which have been met in Russia. Some of these are the intense pride in land ownership and all that this involves, the absence of undeveloped areas to anything like the same extent as in Russia into which the excess population could be drafted, the absence of industrialisation of the country to anything like the same extent as has been attempted in Russia, and finally, the existence of a large "middle man" class whether existing as landlords, private merchants, money-lenders, etc., all of whom had to be "liquidated" in Russia before the collective farm system could be a success. Unless these difficulties can be met and got rid of I do not think that the success of any collective farm system in India is likely to occur. Whether they can be got out of the way, except in a revolutionary period, is a matter on which opinions may differ. But if these hindrances *can* be met, I think there is something to say for the collectivisation of agriculture as a means of improving the standard of life of the rural population in India, and the raising of the rural communities out of the abyss of bankruptcy in which they now lie.

DEBT RELIEF FOR WAGE-EARNERS IN MALAYA

BY

J. P. BRANDER, I.C.S. (RETD.)

A remarkable feature of economic and social life in Malaya, which warrants consideration with a view to adoption of similar measures in India, is the legislation passed in 1936 for the relief of the debts of wage-earners. Government servants of all classes, both clerical and menial, and bank and other clerks, are often heavily in debt to so-called " Bengalis ", generally Sikh moneylenders, and are pestered by these on paydays, and cannot do their work properly owing to worry. These moneylenders, as in India, take acknowledgments for several times the sum actually lent, and take fresh acknowledgments which include huge sums of capitalised interest; so the debts become colossal and impossible of repayment. The debtors from shame or fear of losing their jobs are unwilling to go through the regular bankruptcy procedure. So the Governments of the Federated Malay States and the Straits Settlements have introduced a system which provides a thorough inquiry into the debt, without the stigma of a public inquiry, or the debtor being declared a bankrupt. The debt is reduced to its true dimensions. For instance, a paper debt of some thousands of dollars will on investigation be found to be about four hundred dollars only. Interest is allowed only at 8 per cent, and up to the date of settlement only.

A bank manager whom the writer met was enthusiastic about the success of the measure. He personally examined the affairs of two hundred members of his staff in three branches of the bank. He got some cleared of debt by advising them on their affairs. Others he induced to go through the new procedure. Only two refused. Even the bank peons have taken advantage of the procedure.

The new procedure has been grafted on to the ordinary Bankruptcy one. It is administered by the Supreme Court of each State, and is set forth in the appended Enactment No. 14 of 1936. It applies to wage-earners not earning more than Rs. 544 per mensem. The Official Assignee, a senior officer of the Malayan Civil Service, first inquires, and if satisfied that none of the debts was contracted in trade or business, issues the applicant a certificate that he is a wage-earner, and that a Wage-earners' Administration Order may properly be made by the Supreme Court. The Registrar of that Court hears the case in chambers in a summary fashion. He consults the head of the debtor's department or other employer as to what the debtor can pay monthly, and also take

ble to the State, have first to be set aside. In fact, the order in which the produce is disposed of will normally be as follows :—

(1) Delivery of a fixed quantity of grain or other crop per acre amounting to about one-sixth of the average yield to the State. This might be considered as a form of land revenue, but it is rather in the nature of a forced sale at a price which is only a fraction of that obtainable in the market. In the great grain-growing area of the Ukraine the amount of grain delivered under this arrangement amounts to about one to one and a half maunds per acre. It is a fixed amount based on the average yield.

(2) The payment to the Machine Tractor Station for supplies of the manure, seed and advice, together with the hire of implements during the growth of the crops.

After these two payments have been made the rest of the produce belongs to the collective farm. Such a proportion of it as is necessary to pay the cash requirements is sold in the market collectively, and out of the money so obtained the following items are paid for (1) the subsistence wages of the members of the collective farm which have been paid during the growth of the crop, or other wages due to the workers. I will deal with these wages later ; (2) the agricultural tax payable to the State and amounting to about one-fortieth of the cash income; (3) all costs of production other than those due to the Machine Tractor Station; (4) the administrative costs of the collective farm which must not exceed 2 per cent of the cash income; (5) the purchase of equipment designed to increase the production of the collective farm, and (6) any other expenditure for the improvement of the collective farm which is decided upon by the general meeting.

The whole organisation is simple except so far as concerns the wages payable to the workers on the collective farm during the production of the crops. To subsistence wages paid during the growth of crops, is added the amount which is earned by the worker according to the quality of his work, so that a small amount will be payable to each worker during the growing season and, it may be, a larger amount at the end of the year when the produce has been sold. The calculation of the amount due finally to any individual worker is one of the most interesting features of the collective farm system. All farm labour is divided into seven groups according to the quality of the work done. In the highest of these groups, which includes the best workers on the farm, each day's work is counted as two "labour days." In the lowest grade, on the other hand, a day's work is only counted as half a "labour day." This unit of labour represents the amount which might be expected from the garden attached to his own house. Membership, however, is not a *right* of any inhabitant of a village and members can be expelled by the general meeting of the collective farm and new members likewise admitted even from other villages.

Such a collective farm as I have described is now a legal constituted body and will have received grants of land from the State, which are to be devoted to its use for ever. Its property includes the arable land and the common grazing ground of the village, central farm buildings, work animals, implements and the common herds of cattle, pigs, sheep or poultry.

The collective farm is governed by a small committee elected from their own members for two years. The land is worked without reference to its previous ownership in the most economic way and the actual work of the farm is carried on by "brigades" each under a leader appointed by the Committee. These "brigades" contain both men and women, while the care of livestock is usually a matter for the men.

But it must be clearly understood that the cropping of such a collective farm is not entirely at the option of the Committee. Each collective farm receives each year from the Government a plan specifying how much grain and similar crops is to be grown, while for cash crops they are expected to grow a definite minimum of each of the products for which the place is suitable, for sale to the State factories. In fact, a contract has to be entered into at the beginning of each year with the State factories specifying the minimum amount for which any individual collective farm will be responsible.

An agricultural expert appointed by the State is usually, though not always, attached to a collective farm and his advice will normally be taken, though the Committee are not compelled to do so. Further, in a greater part of Russia the State has established what are called Machine Tractor Stations, and, from these, implements and tractors can be hired which are beyond the capacity of each collective farm to purchase for themselves, and seed and manures can also be obtained from them. The use of all the implements for the production of a crop, including the use of tractors, will usually be charged at about one-sixth to one-fourth the normal yield of the crop grown and this will be paid for in kind.

The crops are, therefore, grown by the members of the collective farm with the assistance of seed, manure and implements as well as advice obtained from the nearest Machine Tractor Station. When each crop is ready for harvest the whole is reaped and remains at the disposal of the Committee of the collective farm. From the products so obtained the charges incurred in its production, including the land revenue paya-

THE COLLECTIVE FARM SYSTEM IN RUSSIA

BY

DR. HAROLD H. MANN
(Formerly Director of Agriculture, Bombay)
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The story of co-operation in Russia has been different, both in its history and in the final form which it has now reached, from anything that has happened in any other country in the world. It began about the end of the last century on lines similar to those in other countries and although it was distrusted by the Government of Imperial Russia, yet it developed very rapidly. Before the great world war the co-operative societies numbered at least 27,000, chiefly for the supply of agricultural credit. The Communist Revolution in 1917 destroyed almost the whole of the previous structure, especially so far as credit societies were concerned, and what was left became for the time being practically a State Department.

A reaction took place in 1921 with the re-creation of the Co-operative Movement. So far as agricultural co-operative societies were concerned at this period, the members were individual peasants, and they were very largely used for the purpose of combined purchase or combined sale. In the palmiest days of the 'New Economic Policy,' as it was called, the number of members of such societies became over eleven millions or about half the peasant population of the country.

A new epoch, however, opened in 1928, and, since that time, while ordinary co-operation, as we have known it elsewhere has tended to decline, the organisation of communal agriculture has gone further than in any part of the world and has been conducted on co-operative lines. The extent to which other forms of co-operative work have declined can be judged by the abolition of the urban consumers' movement in 1935—a form of co-operation which, when I first went to Russia in 1930, seemed universal and seemed likely to absorb all shopkeeping in the country.

But rural co-operation, centred round the collective farm, has developed marvellously,—though with many changes of policy, many setbacks, and at one stage a narrowly-avoided collapse,—till it has become almost universal, either in the form of the collective farms themselves or in the rural consumers' movement which acts as a buyer of agricultural produce. In the present article I will limit myself to an account an ordinary good labourer without special skill. If the amount of work done or the quality of work improves, a worker will be advanced to a higher group. If, on the other hand, it declines a worker may be put down to a lower group. The whole decision in this matter being made by the Committee of the collective farm.

After the payments which have been mentioned have been made the whole of the remaining produce is divided among the members of the collective farm, who can store it or sell it or use it at their own free will. Most of it is, I fancy, sold to a rural co-operative society and this is the method which is generally favoured by the State authorities. Though there is no restriction on private sale of produce, yet it must be understood that this cannot lead to the growth of a private merchant's business because any such business is not permitted. If the sale, in fact, is not made to a co-operative body, it can only be made, at least in theory, to an actual consumer.

The general system which I have described has not been reached all at once, and it is quite possible that the organisation has not reached its final methods. Up to the present there has been such a demand for labour in connection with the new industrial development in Russia that there has been no pressure of population in the villages but, on the other hand, the tendency has been for the number of members of any particular farm to decrease. This may not always be so and if the amount of land per member decreases it may bring back poverty again where the collective farm system has temporarily removed it. The safeguard against this is represented of course by the enormous undeveloped areas in Russia, to which any excess population can go and will be able to go for many years to come, where every assistance will be given to new colonists who try to make an agricultural country from an undeveloped waste.

It will be seen that the system, if properly worked, should lead to the most efficient working of the land within the area of a collective farm, and as a result the actual production from the land is now tending to rise quite rapidly. To obtain this result, of course, means an enormous State organisation to assist the collective farm to make the best use of its land. Experience in Russia, as elsewhere, has shown very clearly that there is no magic in the conversion of a large number of small scattered individual holdings into a collective farm. In fact, experience has shown that the production of such a collective farm *may* be less than that obtained by the members working each on his own holding. It is only where there is good leadership and satisfactory knowledge that the desired end can be achieved. And it would astonish anyone who has not been to Russia to see the amount of energy and training which has been

He was encouraged to have a milking cow of his own; to possess chickens and small animals of similar kind; to have a cottage and surrounding garden which belonged to himself; while at the same time the general agriculture of each collective unit continued to be run on a communal basis. The result is that at the present time it is estimated that four per cent of the rural land in Russia (1935) form the private gardens and other lands belonging, individually, to the members of collective farms.

From 1933 the organisation has become fairly stable, and I think it may be said that the collective farm system of Russia is now well understood by the peasants, and works (at any rate in a fairly successful season) with no more friction or trouble than is the case with the agricultural organisation of a more old-fashioned country. This result has, however, only been achieved by a very close co-operation between the State and the collective farms. Unless the State had been prepared to invest an enormous amount of capital in making it easy for the collective farms to work, and unless it had, moreover, been prepared to make the success of the collective system one of its primary purposes, I am sure that the present organisation could not have reached success. In fact, I feel (as a result of my Russian observations) that, if any country wishes to develop a collective agricultural system, *its Government must make this a primary purpose of its existence and must be prepared to invest capital and energy in the struggle to make it a success, which is far beyond anything which seems to have been realised by any Government in the world outside Russia.*

Let me now try to describe the organisation of a typical collective farm in Russia at the present moment. The area of such a farm may include one or more villages and its area may run from say, 200 acres up to 12,000 acres, though over a greater part of the main corn-growing tracts of South Russia a collective farm will usually contain somewhere from 2,000 to 6,000 acres. Usually the collective farm is made so as to include one or more villages and there has been very little cutting up of the old villages in order to make more convenient collective farms. In 1934 the average area *per household* in collective farms amounted to nearly 16 acres of which it was stated that nearly 13 acres were under grain or similar crops. Naturally this figure would vary enormously over different classes of cultivation and over different parts of the country, but the figures I have given give an idea of what is aimed at in these farms. Owing to the demand for labour in the rapidly developing industrial system in the towns and also for extending agriculture into new tracts in Siberia and elsewhere, the area per household has tended to increase since the collective farm system was first organised about 1928. It must be realised at once that in a collectivised village a peasant *must* either join the collective farm or cease to hold any land at all beyond of the organisation and working of the collective farms themselves, both as recorded in published reports, and also as I have seen it myself in the country.

It is well known that the ownership of land in Russia has been in some sense communal throughout the whole of its history. It was only in the second half of the 19th Century that the idea of peasant ownership came to the front. This being the case the transformation to a collective system, though full of difficulty, was not nearly so revolutionary as it would be, for example, in India, where individual possession of land has a very long history and is very deep-seated in the minds of the rural population. All the same, one of the first results of the Communist Revolution in 1917 was the seizure of almost the whole of the agricultural land by the peasants. The large estates of the landlords were split up and, in spite of Communist theory, it looked as if the whole land would become a mass of individual peasant holdings, though of course the community, as represented by the State, demanded a much greater share in the produce than the State had ever taken before.

This continued, as I have already said, until 1928, when a genuine attempt was made to reconvert the mass of individual holdings in a village or similar area, into a communal holding. At this time, however, there were a good many different views as to what the nature of the communal holding should be, how far it should go in taking account of all the possessions of each peasant, how far the area should be treated as one, and also how far the management should be unified. There were some, in fact who wished that everything possessed by the peasants should be communalised, that is to say, should be treated as belonging not to individuals but to the community as a whole. Some went so far as to consider that no peasant should hold individually even his house, his poultry, or a milking cow. There was a time when it appeared as if this view was likely to dominate the situation, but it was always resisted by the peasants over the greater part of the country, and the result of attempts to enforce it led to the slaughter of a very large proportion of the livestock in the country in 1932 and the early part of 1933. I fancy, indeed, that the whole Soviet system came more nearly to a breakdown at this time than at any other period of its history,—largely owing to the resistance of the peasants to the complete collectivisation of property which was demanded.

As has so often happened during the re-organisation of Russia since the Revolution, the authorities realised the dangerous position of things in the early part of 1933, and a very famous decision was made at this time, largely under the inspiration of Stalin, whereby individual ownership was recognised over a very large part of a peasant's possessions.

the opinion of the Official Assignee. The Registrar makes the order. The applicant is referred to as "debtor", not as a " bankrupt ".

The writer was informed that the procedure is working very well. Since 1936 over a thousand cases have been dealt with. Care is taken to protect creditors as well as debtors, for often there are honest creditors and dishonest debtors. Sometimes a man borrows all round, viz., from friends and relations, then from moneylenders, and tries to defraud his friends and relations. The interests of these have to be protected.

Some problems are still to be solved. For instance, creditors such as grocers and other tradesmen who have supplied the debtor with commodities would obviously be ruined if awarded say only fifty per cent of their debt, whereas moneylenders, whose debt is so much a paper one, would be overpaid if given fifty per cent. So these two classes of creditors will have to be treated differently.

The danger of letting the debtor off too easily has to be avoided. This is said to have occurred in one part of Malaya. Creditors would thus be treated unfairly, and thriftlessness encouraged.

Active propaganda to popularise the new procedure is to be carried out. The following paragraphs from the Official Assignee's Annual Report of the Bankruptcy Department of the Federated Malay States for 1937 illustrate the nature of the debts, and the propaganda about to be set on foot.

" 26. There are still indications of the existence of great indebtedness amounting in many cases to practical insolvency among Asiatic wage-earners who for reasons presumably of fear or shame are not bold enough to make a clean breast of their financial difficulties by seeking protection under the new legislation. To bring home the advantages to this type of wage-earners, periodic tours to towns and villages in each State are to be carried out to explain the provisions of the law and also to save the debtors and creditors the expense of coming to Kuala Lumpur to attend meetings and enquiries, etc.

"27. The general features noted in Wage-earners' Administration Orders are :—

(a) that approximately 80 per cent of the creditors are Punjabi moneylenders. The interest charged is invariably exorbitant, and is generally capitalised and shown as principal. In the majority of cases it is difficult to ascertain what is principal and what is interest, because the debtor can offer no definite evidence nor does he keep records of his transactions to counter the statements of the moneylender.

(b) the causes of indebtedness are usually—

(i) sickness in the family and more faith in private treatment than in Government hospitals and dispensaries;

(ii) going surety for friends, often a mutual arrangement;

(iii) the heavy burden of maintaining a large number of relations, e.g. adult brothers unemployed for years;

(iv) the heavy burden imposed by Asiatic family custom of bearing the costs of family events, e.g., expensive wedding of sister, funeral of grandfather etc.;

(v) rash borrowing without security and readiness to sign for any amount with complete disregard of the ability to repay in the future;

(vi) capitalised unpaid interest and new I.O.Us given to replace old ones in order to put off the evil day of reckoning."

In Malaya as in India attempts to curb moneylenders by legislation, and, in the case of Government servants, to restrict their borrowing have done more harm than good. Government servants continued to borrow, and the creditors had an additional grip over them, as they threatened the debtors with exposure to their superiors. The following paragraph in the 1929 Report of Mr. C. F. Strickland I.C.S. is significant. " Neither the Usurious Loans Enactment nor the Public Servants Liabilities Enactment appears to have conferred real benefit on the persons whom they were intended to help. The former, as in India, is practically a dead letter, while the latter is economically unsound. The remedy for usury is not to enhance the rate of interest by rendering recovery of the debt precarious, but to provide the debtor with controlled credit and a means of practising thrift. "

Debtors not only are cleared of debt, but for the future controlled credit and practice of thrift are provided by the Thrift and Loan Societies for salary earners. These are very flourishing. They number 71 with a membership of 28,610 and a paid-up capital of 82½ lakhs of rupees. Many Government servants have joined these societies. The Official Assignee keeps in close touch with the Co-operative Department.

Incidentally, in Malaya rural co-operative credit appears in a much sounder position than in India. Whereas in India and Burma societies were founded in vast numbers and financed mainly by loans and deposits from outside sources, in Malaya societies were established very carefully and gradually, and at once cancelled if not satisfactory; and the capital was mainly raised by the members taking shares and paying for these by instalments. They thus learnt thrift. Also, when the slump

of 1931 came and repayments perforce stopped for two or three years, there were no outside creditors to press for repayment. The result is that the societies weathered the storm successfully, and there has been no debacle of the co-operative movement such as has occurred in most Indian provinces. Co-operation has been built up on the lines laid down by Raiffeisen, and not from above downwards as occurred in India and Burma. It is thought that India, which is now trying to resuscitate her co-operative movement, might profit by studying Malayan co-operative methods.

The moral for India of the Malaya Wage-earners' legislation would seem to be as follows. Great attention is being given in India to remodelling and extending the co-operative credit and general welfare movements and arranging debt conciliation for the cultivators. Little however seems being done to try to remove or reduce the heavy debt burden of the wage-earning classes. This burden is undoubtedly severe, judging, to take one instance only, from the swarms of Pathan moneylenders who infest the cities and recover their extortionate demands often by intimidation and violence. It is recommended that consideration of debt relief measures for wage-earners, and of the promotion of Thrift and Loan societies for millhands and other industrial workers be made by the provincial governments in India, and that the advisability of adopting the system found so effective in Malaya be fully examined.

CO-OPERATION AND THE FISHERMAN

By

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In Great Britain and in other countries the Minister of Agriculture is also the Minister of Fisheries. Such an alliance is not unreasonable. Farmer and fisherman work under economic conditions which are not only similar but are found in few other industries to-day. Both work for a return which is precarious as much from the vagaries of the elements as from those of markets. Both apply their own bodily labour in their calling and yet both require a certain capital equipment. Both are, in name at least, their own masters. Both deal in perishable produce, which means that they are in a weak position as sellers, or that their produce must undergo processing before it can be put on the market. Neither as a rule has much time or aptitude for business. For all these reasons, it would seem that the fisherman might find as much benefit as the farmer in co-operative action, and in fact, more than a score of countries can show some form of co-operative organisation among fishermen.

What are the conditions on which such organisation must be imposed ? Fishing, like farming, is carried on on a varying scale and with consequent variations in the economic unit. There is the family boat as there is the family farm. There is the capitalist-owned ship as there is the capitalist estate. This type covers much of the deep-sea fishery of the world and is as little adapted to the ordinary co-operative organisation as its agricultural counterpart. It is therefore principally, though not exclusively among inshore fishermen, the " smallholders of the sea ", as they have been called, that co-operative organisation has grown up. River fishing, too, provides some notable examples of joint enterprise run on essentially the same lines as those devised for the industry at sea.

The problem of the fisherman is not an easy one. His occupation is hard, dangerous and precarious. Fish come and go incalculably, weather is unfavourable ; capital must be invested which may bring in no reward or at worst may be suddenly and completely swept away. The very hazards of the fisherman's calling make for a certain recklessness and irresponsibility. He has not the peasant stability, patience and shrewd money sense. Frequently the economic problem is from one point of view

solved, from another intensified, by the growth of a class of fish merchants. These men supply the capital and consequently reap the profit of the industry. The exact method varies. In Newfoundland, a well-wooded country, the fisherman has probably built himself his own boat, but he wants sails and gear, or, alternatively, a motor and petrol, paint, anchors, nets, lines, bait, salt for curing, food for himself and his family while he is waiting to sell his fish, heavy clothing, boots and oilskins while he is at sea. For all these he goes to the merchant, to " his " merchant, as it is significantly put. He has no money, so he buys on credit. He does not receive an invoice or, if he does, he probably cannot read it. With his borrowed supplies, he begins the season's work. What fish he catches, he brings ashore to be salted and dried in the sun by his wife and children. At the end of the season he delivers his salt fish to the merchant who has supplied him, hoping that it will pay off his debt and enable him to get in a supply of food for the winter, when the sea is frozen and fishing impossible. He cannot bargain over the price, he cannot take his fish to another merchant, because he is discharging a debt. Very often he is told that he is still in debt or that his summer's work has just enabled him to " break even ". If there is a small balance in his favour, he does not receive it in cash ; he takes it out in goods at the merchant's store. Probably he overspends his small credit and thereby sets up new debts which he cannot discharge till the next fishing opens. In fact, he never discharges them, but lives in debt, dies in debt and hands on his debts to his sons.

With minor variations, this evil system obtains or has obtained in many countries. In Iceland it was general until co-operative organisation grew strong within the last few years, although there the curing of the fish was undertaken by the merchants employing paid labour.* In Russia, before the Revolution, the system was, if anything, more oppressive, since the merchants also owned all the boats, and though the fishermen were paid something in cash for the catch, they were in fact wage labourers, paid not according to their labour, but according to results. The fish merchants, except perhaps on the Arctic coast, were not, however, also sellers of foodstuffs and clothing ; so one source of usury and fraud was closed. In other countries again, notably on the west coast of France, a formidable drink problem was introduced, the merchants habitually inducing or even compelling the fishermen to accept liquor in payment for fish. In England conditions have never been so bad, but even there the fish merchant may also be a supplier of gear, or may hold a mortgage on the boats of those who deal with him.

* For a powerful description of the Icelandic fishing industry and the first co-operative attempts see Halldor Laxness' novel, *Salka Valka.*

To meet these evils, co-operative organisations have been laboriously built up among a population often migratory, illiterate, careless or suspicious. Every branch of agricultural co-operation finds its fishery counterpart. There are credit societies granting short term loans for the purchase of gear and long term loans for the purchase of boats ; supply societies selling nets, gear, anchors, tar, paint, sea clothes and sometimes household supplies ; marketing societies which may grade, pack and dispatch, sell by auction or process more or less elaborately either by freezing, curing or canning ; insurance societies covering boats, more rarely gear, sometimes the lives and limbs of fishermen ; joint ownership societies holding a boat or boats in common ; better living societies or, more frequently, better living departments of some other type of societies combating illiteracy, disease or alcoholism. Such societies exist at least in the following 25 countries :—Algeria, Belgium, Brazil, Bulgaria, Canada, Chile, Denmark, England, Finland, France; Germany, Iceland, India, Italy, Japan, Latvia, Malaya, Newfoundland; Norway ; Roumania, Scotland, Spain, U.S.A., U.S.S.R. and Yugoslavia.

The experience of some of these countries may be examined individually. In Iceland the truck system was brought to an end by three things—a government decree permitting the banks to lend money on the security of " the fish in the sea ", that is, on the fisherman's will and ability to catch them, the collapse of a number of the less efficient merchant houses, and the formation of co-operative societies. The Icelandic co-operative movement started about 1880 among the farmers who had read of English and other experiments and had the means to capitalise the new venture on a modest scale. They began with co-operative supply both of agricultural and domestic goods, and later took up marketing. From the first they accepted fishermen members, who joined in large numbers. One large society in the North includes most of the fishermen of the district and supplies all fishery requirements, credit being allowed up to one-third of the estimated value of the estimated catch. The society also buys and cures fish, and runs a small herring packing plant and a cold store for bait. Some fishing villages have their own consumers' co-operative societies but the most important development of unaided fishermen's co-operation is in the ownership of fishing vessels. In one port nearly all boats were owned by fish merchants. A number of these merchants went bankrupt and the boats passed to the creditors, usually the banks. A co-operative society with unlimited liability was formed among the fishermen ; share and loan capital was raised and boats were bought. Skippers, mates and engineers were appointed by the committee of the society, fishery requirements were bought wholesale and preparations were made to cure and market fish. Some 50 per cent of the takings were allotted to the boat, to cover oil, gear, bait, repayment of loans, etc., and the remainder divided among the crew, the shipper getting two shares, the mate 1½ and so on. Other societies of the same type have been set going elsewhere, nearly always with success. Some own not a fleet of small boats but a single large vessel, usually a steamer up to 50 tons and carrying 18 men. Sometimes the wives and children of the fishermen are included in the society and work on the curing of the catch.

In England co-operation among fishermen owes its existence to a body called the Fisheries Organisation Society, founded in 1914 on the model of the better known Agricultural Organisation Society, and on the recommendation of two Government committees. The work of the Society has been limited to the inshore fishing carried on by the independent small man. The organisers of the society found him " reticent, conservative, independent and distrustful of his neighbours ", but " an honest and steadfast co-operator when he has taken the plunge ". To-day there are between 50 and 60 societies round the coasts of England and Wales, with a membership of about 2,000. These societies cover the greater number of ports from which this type of fishing is carried on. The work of societies falls into two main branches—supply and marketing—and most but not all carry on both. Supplies are for the fisheries, not for the household, and are obtained as far as possible from the makers. Usually a small store is opened. Fish is sold " green " or untreated, usually packed by the society and dispatched to commission agents on the large markets. Some societies merely pool their fish and sell it locally. One large Scottish society runs an auction on the quay ; one English society has a pickling factory. Organisation for the supply of credit to individuals has not been attempted, though the indebtedness of fishermen has been a frequent bar to co-operative organisation. Especially where engines have been fitted, they have frequently been acquired on the hire purchase system, payments being made in fish and the whole business complicated by transactions in oil. In other cases boats are mortgaged to dealers in fish or gear. A few societies give some additional service such as the provision of a motor-winch or the running of a lorry service. More recently a form of co-operative organisation has been introduced by Government for the deep sea herring fisheries. These are carried on by large vessels owned by companies, and the whole industry is now controlled by a public board on which the shipowners, fish merchants and fishermen are all represented.

A particularly fine organisation is that of the Spanish fishermen. 1,50,000 persons are engaged in the Spanish fishing industry which is principally carried on in small vessels. Here again there has been the problem of middlemen's usury. It was met by the formation of *positos maritimos*, a name taken from the communal granaries, from which, in the middle ages, loans in kind were made to needy farmers. According to the law of 1919, a fishermen's *posito* is defined as "a co-operative society set up by fishermen to promote their economic emancipation by the spreading of education among its members, the organisation on their behalf of various branches of insurance, and the direct carrying on of the fishing industry ", other aims being the elimination of intermediaries, the purchase of the means of production and the use of profits, apart from those devoted to social insurance, for the reduction of the price to the consumer. There are to-day some 177 societies with a membership of nearly 50,000. Some are consumers' societies supplying fishing and household goods. Others supply credit, frequently with the provision that loans must be expended in the co-operative store ; others again market fish. Much educational work is carried on. With the help of subsidies from the Marine Social Institute, 118 schools have been opened which teach both children and illiterate adults. These schools are often later handed over to the Ministry of Education. There are also special childrens' co-operative societies for thrift, handicrafts and co-operative training. Personal insurance of fishermen has been initiated, also with the help of the Marine Social Institute, covering sickness and accident, old age and widows' and orphans' pensions ; employment exchanges have been opened and hostels built to save fishermen from the clutches of unscrupulous boarding house keepers. All these societies are organised in nine district federations and a National Secretariat, to which the Spanish Federation of Owners of Deep Sea Fishing Vessels and the Federation of the Fish Transport and Maritime Trades (a trade union) are also affiliated. The Secretariat has departments dealing with the different branches of work and works in close collaboration with the older Marine Social Institute, an official body set up in 1919. It carries on propaganda, grants subsidies and loans and is the link between the *positos* and the various departments of State interested in fisheries or fishermen. It has made possible much of the insurance both of persons and vessels which has gone so far to neutralise the risk of the fisherman's calling.

In Italy there are about 100 fishermen's societies, mostly among sea fishermen, but a few confined to river fishermen. Their principal work so far has been in the marketing of fish. Some of them manage the principal wholesale market of their town, others sell in bulk to large inland markets. Other societies have been formed for the building and running of fishing vessels. In Algeria the most interesting development has been

in co-operative factories for preserving sardines and anchovies, the fishermen being the shareholders and their wives and families the workers in these factories. In France there is a special Institute of Maritime Credit, but societies do not merely make loans to members, they also act as supply societies and some undertake such mutually useful services as stocking oyster beds and reservoirs. In Norway there is a State fishery bank and a semi-state, semi-co-operative organisation selling herring, of which all fishermen are members. In Denmark, preparation and marketing are the most usual co-operative activities, both carried on by local voluntary societies. There are also societies for the insurance of fishing vessels which, in Denmark, is compulsory. Fishery co-operatives exist on both the Atlantic and Pacific coasts of Canada and on inland waters. In the east, the movement owes much to the educational work of the St. Francis Xavier College, and is a conscious application of the spirit and principles of Raiffeisen. In Brazil societies known as " fishing colonies " have been established by the State. They appear to have more or less the same scope as the Spanish societies, but are compulsory. Voluntary societies exist in some of the other South American States. In India, co-operation among fishermen exists in several provinces, though it has been somewhat overshadowed by the much more important agricultural movement. Societies in Japan and Japanese dependencies are apparently numerous, and much legislation has been devoted to them.

A different type of organisation has been evolved in Soviet Russia and imitated in Bulgaria. Here the model has been the collective farm. A body of fishermen form a collective and receive from the State fishing rights over a stretch of river, or they may fish in the open sea. The means of production—boats, gear, winches, etc., are the property of Motor Fishing Stations, which correspond to the Motor Tractor Stations supplying tractors to the collective farms. The M.F.S. also supplies skilled engineers and skippers, though pains are being taken to train ordinary fishermen for these posts. The fishermen are organised in " brigades " or crews (as we should say), each having its own leader appointed by the committee and its own fishing station with dormitory, club room (where members hear lectures and are often taught to read and write) field kitchen and quota of hired boats and gear. Each collective also runs certain social services, such as dispensaries and children's creches. The collective pays for the hire of boats and gear from the M.F.S., with 40 per cent of the catch remaining after a stated proportion has been handed over to the State at a minimum price by a sort of forced sale. The balance is sold at a higher price also to the State, which has a collecting point near the collectives land headquarters and a factory ship at sea. Small quantities are divided among members for their own use and in some collectives a part is sold, either green or salted, on the open market of the nearest town or village. The State runs certain factories for curing, preservation or the extraction of caviare. The fishermen get their household supplies from seperate fishermen's co-operatives, which form a group within the general co-operative consumers' movement. On the Arctic coast and rivers where fishermen and trappers lived under conditions of poverty, debt and exploitation, and where the population was too scattered for the 'brigade' system, a slightly different method has been pursued. The private fish buyers have been superseded by State backed co-operative societies, the so-called "integral co-operatives" under the control of the Central Union of Consumers' Societies. These societies receive supplies and outfit as a loan on the joint and several security of the members, and pay back in fish and fur. Gradually the business is to be shifted on to a money basis. The societies have, in form at least, the usual co-operative system of democratic control, and local men are elected to committees, but the people are primitive, and there is inevitably more supervision and "influence" from the centre than in other types of co-operative society. Local presidents, for instance, are in many cases the State appointed and salaried doctors, a system securing at the same time efficient control and economy of personnel in a thinly populated region.

The full records of the co-operative movement among fishermen remain to be written and not all its developments have been even named in the foregoing pages. Enough has perhaps been said to show that it well deserves the attention of fishermen and their advisers, who are ready to learn, as farmers have done, from the experience of their fellows in other lands.

AUDIT OF CO-OPERATIVE SOCIETIES IN INDIA

BY

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The present system of audit of co-operative societies in India has from time to time evoked criticism, and methods of reform have off and on been suggested. Looked at from the point of view of either efficiency or underlying principles, it has been almost universally condemned. But as the mills of Government generally, and especially in this country, grind very slow and exceedingly small, no adequate and proper steps have so far been taken to remedy the defects of the present system.

The Indian Banking Enquiry Committee (1931) stated in their Report that there was evidence before them to the effect that audit in most of the provinces was defective and unsatisfactory and did not conform to the statutory requirements as explained and amplified by the Maclagan Committee on Co-operation. The Foreign Banking Experts who held joint discussions with the Central Banking Enquiry Committee and acted as their advisers also urged the need of reform in their separate report. At the Fourth All-India Co-operative Conference which met at Bangalore in July 1937, Mr. Jamshed Nusserwanji Mehta, who presided over the Provincial Banks' Section, pointed out in his inaugural address the basic defects of the present system of audit and pressed for its reform. And I have before me the remarks of an Assistant Sessions Judge, recently made in the course of his judgment in a case in which a co-operative society was concerned. The Judge says that unless suitable measures are adopted for remedying the present defects, "it would be rather safer for the public that such banks should cease to exist." In the circumstances stated above, the matter came up for discussion at the joint session of the Standing Committees of the All-India Co-operative Institutes' Association and the Indian Provincial Banks' Association, held at Vizianagaram in April, 1938 and the general feeling appeared to be in favour of adoption of measures for tackling the problem.

In a consideration of the various methods of audit of co-operative societies in vogue in the different provinces, the outstanding fact to be remembered at the outset is that the work of supervision and control is combined with audit and is conducted by an agency which is controlled by the Registrar of Co-operative Societies, who assumes the role of an irresponsible and unmitigated autocrat. This gives rise to some very serious defects. In the first place, no independent audit can be expected from officers placed in such an anomalous position—officers whose appointment, promotion, transfer, etc., depend upon the sweet will of the Registrar. In the second place, this combination makes it extremely difficult to evolve an efficient system of audit. In the third place, an arrangement which requires officers to sit in judgment on their own action or of those of their superiors cannot be relied upon to secure an impartial audit. Then again as an effect of the system the work of checking and bringing to book dishonesty becomes a most arduous adventure. As in the general public administration, it has been seen that a combination of judicial and executive functions in the same office violates the first principles of equity, similarly an officer responsible for audit should have no concern whatever with the work of control, supervision and management. When control and supervision are exercised by an officer who is also responsible for a proper audit of co-operative societies, there is the constant danger that the audit staff may be guided by extraneous considerations.

In Bengal, the auditors are appointed by the Government who meet their salaries from the proceeds of a levy made from the societies. The auditors carry out the order of the Registrar, who entrusts them with all sorts of miscellaneous departmental duties. In fact according to a recent arrangement, the Province has been divided into a number of circles each of which is placed under the charge of an auditor who besides carrying on the work of audit has to do almost the entire departmental work of the area in his charge. Between the Registrar and the auditors there are several grades of officers such as the Deputy Registrar, the Assistant Registrars, the Chief Auditor, the Divisional Auditors and the Inspectors. Further in the case of certain societies, they are allowed by the Registrar to have their accounts audited by public auditors, such as firms of Chartered or Incorporated Accountants, Registered Accountants. The auditors in such cases are selected from an approved list of firms or individuals licensed by the Registrar to audit co-operative societies.

In the Provinces of Bihar and the Punjab a different method is followed. In the former province, the Bihar Co-operative Federation and in the latter the Punjab Co-operative Union get the audit of co-operative societies done by officers working under them, the societies contributing to the expenditure according to a fixed scale of rates. We find that in the Punjab the authorities admit the unsoundness of the principle underlying a system of audit with which the work of supervision is combined. "As an experimental measure it was proposed in 1926 to separate audit from supervision. By such a measure it was sought to secure a more skilled examination of the accounts, besides dislodging all suspicions concerning an audit performed by a person who is in a way his own judge. It was hoped, therefore, that besides improved audit it would be possible to detect more readily errors and misconduct of the sub-inspectors." (*The Co-operative Movement in the Punjab* by Ata Ullah).

We are further told that with the approval of the Registrar, the Punjab Co-operative Union started the experiment and in 1930 the position was "generally regarded as an improvement" by him. Two years later however, there was a reversion to the combination of the function in certain areas. The Registrar in his annual report stated then: "The separation of the functions of audit and supervision which now covers over four-fifths of the Province, has been maintained as before. A considerable body of persons is, however, now veering round to the conclusion that the disadvantages attending such separation are greater than the undoubted advantages attaching to it. Under the old system the interest of the sub-inspectors was, or would be, fully engaged in all respects of a societies work. With separation a measure of intimacy is lost, though the efficiency of audit is strengthened. There have been odd reversions to the old system in circumscribed areas where the volume of work threatened to be too heavy for the existing staff to cope with."

As both the Punjab Co-operative Union and the Bihar Co-operative Federation are presided over by the Registrar who exercises extensive powers of control and supervision in both the Provinces it does not appear to the writer that there is any difference of a material nature from the point of view of principle in the methods followed in Bengal on the one hand and Bihar and the Punjab on the other. As regards audit in other Provinces although the existing arrangements vary from province to province, all that needs be stated is that they violate the essential conditions of a sound system of audit, namely, that the auditing authority should be separate from the agency which is entrusted with the work of management, control and supervision. The same defect is to be noticed in the arrangement which allows public auditors to be selected by the Registrar.

The Central Banking Enquiry Committee after an examination of the position in the different provinces recommended a scheme of audit somewhat on the lines of the systems that had been found to work efficiently in certain European countries especially Germany and Austria. The Committee recommended that "for the due discharge of the statutory functions of audit special district unions should be formed to carry out audit, supervision and inspection of the societies. The district need not necessarily be an administrative (revenue) district, but it may be an area with a conveniently manageable number of societies which can be affiliated to the District Union." "The District Union may be federaed into a separate provincial (apex) union or may be affiliated to the existing Provincial Co-operative Institutes as a special branch thereof according to local conditions." The Foreign Banking Experts also suggested an almost identical scheme. While, however, the Central Banking Enquiry Committee recommended a non-official representative co-operative body for the purpose, the Experts recommended a constitution which would make it for all practical purposes a Government concern. The Committee urged that there should be no interference by the Registrar in the internal management of the union. The Experts insisted that the Provincial Union as the apex of the District Unions should be run, as well as the latter, by Government officials with the Registrar at the top.

The scheme of the Central Banking Enquiry Committee envisages a non-official registered body manned and controlled by representatives of co-operative societies. To entrust the audit of co-operative societies to such a body would afford opportunities to representatives of societies, whose accounts are to be audited, to interfere with the work of audit in various ways, as the staff are to be employed by them and their future prospects determined by them. The Foreign Banking Experts recommended the creation of a body which, as has already been shown, for all practical purposes becomes a *benami* government concern. It has the same defects as the present methods of audit by officers employed and controlled by the Co-operative Department.

In the circumstances stated above, I would suggest that non-official co-operative workers, who desire that the audit of co-operative societies should be efficient, that dishonesty be properly checked, and that public confidence in the work of co-operative societies be restored, should put their heads together with a view to devising a proper system of audit divested of the objectionable features of the present system. So long as the present departmental control continues, the best thing to do is to withdraw the work of audit from those who have any connection with management, control, supervision and inspection. In view of the widespread illiteracy that prevails in the country, especially among a very large number of members of village societies, and the prevailing ignorance of co-operative ideals and knowledge along with the absence of the spirit of co-operation among members of societies and as it is of essential importance that auditors of co-operative societies should be able to educate as well as investigate, should not only be able to point out mistakes but also be able to explain how these could in future be rectified and avoided and indicate always their desire to assist in all possible ways, no effort should be spared to train up such a body of men before they are put to work. It is quite possible to train up such a body of

auditors for co-operative work, by retaining the services of such among the present staff as are capable and honest and by securing the services of newly trained recruits, with the funds available from the societies and the Government, and then place the audit staff under a separate department of Government. The co-operative audit staff may, for instance, be placed as a separate section under the Auditor-General.

CO-OPERATIVE AUDIT IN THE PUNJAB

By

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The Punjab is still governed by the All-India Co-operative Societies Act II of 1912. Section 17 of this Act reads as follows :—

"(1) The Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf the accounts of every registered society once at least in every year.

(2) The audit under sub-section (1) shall include the examination of overdue debts, if any, a valuation of the assets and liabilities of the society.

(3) The Registrar, the Collector, or any person authorised by general or special order in writing in this behalf by the Registrar shall at all times have access to all the books, accounts, papers and securities of a society, and every officer of the society shall furnish such information in regard to the transaction and working of the society as the person making such inspection may require."

Under the first Act (1904) no charge was to be made in respect of any audit made under this section, but now rules may be framed under section 43(b) regarding the levy of audit fees.

Under this section the Registrar has appointed the Financial Adviser to the Co-operative Department, all Assistant Registrars, all Inspectors and all persons employed by the Punjab Co-operative Union as Auditors, Sub-Inspectors or Supervisors as auditors of co-operative societies and have authorised them to have access to all books, accounts, papers and securities of societies within their respective circles.

Primary Societies.—The audit of all co-operative primary societies in the province is done by the Punjab Co-operative Union, Lahore. For this purpose it employs a staff of over 600 Sub-inspectors. Originally the Sub-inspector was responsible for both audit and supervision of societies. But this amalgamation of duties in one and the same person resulted in some abuses. As the Sub-inspector was his own auditor, sometimes he did not disclose his own defects noticed during audit. So in order to improve the quality of audit, it was proposed in 1926 to

separate experimentally the duty of audit from that of supervision and propaganda in two circles. This experiment proved successful and brought to light many embezzlements. Therefore it was decided in 1927 to separate the functions of audit and supervision. The Sub-inspectors were divided into two categories: Auditors and Supervisors. Their duties, however, are interchangeable. An Auditor was after some time appointed as Supervisor and vice-versa. The experiment was extended to three-quarters of the province in 1930 and was generally regarded as an improvement. In most of the areas, where separation has not taken place, the backward condition of the region, the number of societies and the large areas concerned make separation unsuitable. The condition at present is that in over four-fifths of the province the duties of audit and supervision are separate and in the remaining part they are combined. A few years ago, doubts were sometimes expressed about the advisability of this system and it was stated that the disadvantages attending this separation of functions were greater than the undoubted advantages attaching to it. Under the old system the interest of the Sub-inspector was or should be fully engaged in all aspects of a society's work; with separation a measure of intimacy is lost, though the efficiency of audit is strengthened. There have been odd reversions to the old system in circumscribed areas where the volume of work threatened to be heavy for the existing staff to cope with. The passage of time however appears to have set at rest all the doubts about the benefits of this scheme and it is now realised that separation of duties has conferred untold benefits on the societies. Where audit and supervision are separate, every Sub-inspector acting as a Supervisor, has to audit at least five societies each year. These societies are allotted to him by the Inspectors. A Sub-inspector acting as an Auditor is not necessarily given the same societies to audit every year.

The primary duty of an Auditor is to audit the societies in his circle. An Auditor is given 100 to 120 societies for audit where the duties are separate. Where the functions are joint, the Sub-inspector has to audit and supervise 50 societies. Each society must be audited at least once a year, but the period between two audits is not allowed to exceed 18 months. Urban societies are, however, audited twice a year. Every new society must be audited within six months of registration. This gives a very useful opportunity to the Auditor to teach the members and ensures correct book-keeping. There are separate printed audit note forms for rural and urban societies. The Auditor has to fill this form with care. No one can be considered to be a good auditor whose audit work is not accurate and thorough.

The co-operative year in the Punjab begins from 1st August and ends with 31st July. The audit of societies of limited liability which distribute profit is done for the period from the 1st August to 31st July, each year. Unlimited liability societies are audited up-to-date during the first ten years of their life, but in the tenth year audit is done upto 31st July. In subsequent years, societies with indivisible profits are audited up-to-date; but in the case of societies with divisible profits, the audit on the conclusion of eleventh and each subsequent year, when the declaration of dividend is permissible under the bylaws, is done for the co-operative year. An accurate balance sheet with profit and loss statement (not merely a statement of capital account) is prepared on the occasion of audit. Every society is advised to postpone the declaration of a dividend until a true balance sheet and profit and loss account have been duly audited, and suitable allowance has been made for bad and doubtful debts.

High Standard of Audit.—The standard of audit in the Punjab is high. In 1935 out of 21,577 societies due for audit only 114 societies could not be audited. In 1936 only 47 societies remained un-audited out of 22,353. In 1937 the position improved further and out of 23,060 societies due for audit only 32 were not audited. The main reason for not auditing these societies was that the books were not available as they were in courts in connection with civil and criminal cases.

Re-audit.—As a precaution against superficial audit, Inspectors (who are paid by the Government) are required by the Registrar to re-audit a certain number of societies audited by the Sub-inspectors (Auditors).

(1) Where supervision and audit have not been separated the Inspector is required to re-audit three societies in each Sub-inspector's circle. If the Sub-inspector is new to his work, the number should be four.

(2) Where audit and supervision have been separated, five societies in each Auditor's circle, unless the Auditor is new to his work, in which case the number should be six.

Ordinarily an Inspector has to re-audit 20 societies in a year.

Re-audit note is treated in the same way as audit note. One copy is given to the society and the other is sent to the Central Bank concerned. Out of 23,060 societies, 1,584 were re-audited by Inspectors in 1937.

Audit of Central Banks.—There are 49 Central Co-operative Banks in the Punjab. 46 of these banks have a working capital of above

Rs. 4 lakhs, the remaining three are under Rs. 4 lakhs. All these banks used to be audited twice a year. But since 1932 all the banks with a working capital of Rs. 4 lakhs and above are audited only once a year.

The three with working capital below Rs. 4 lakhs are audited twice a year. The annual audit of 29 banks is conducted by Professional Auditors and of 20 by the Senior Auditors of the Punjab Co-operative Union, Lahore. There is an approved list of 12 firms of Professional Auditors. Addition or alteration is made in this list by the Registrar when necessary. The Punjab Co-operative Union allots the annual audit of Central Banks to these Professional Auditors once a year with the advice of the Financial Adviser to the Co-operative Department and the approval of the Registrar.

The auditor is usually allowed to audit a bank continuously for three years. After three audits, the auditor is changed. Professional Auditors audit these banks for the period from 1st September to the 31st August. They have to finish their audit work by the end of December each year.

Audit Fees.—The audit fee to the Professional Auditors is paid on the following basis :—

Old Rates.

Working Capital of a Central Bank or Union.		Rate.
1st 10 lakhs (Rupees)	..	8 annas per Rs. 1,000
2nd 10 lakhs "	..	4 " " "
3rd 10 lakhs "	..	3 " " "
Balance	..	2 " " "
Minimum	..	Rs. 300
Maximum	..	Rs. 1,600

New Rates.

Working Capital of a Central Bank or Union.		Rate.
1st 5 lakhs (Rupees)	..	7 annas per Rs. 1,000
2nd 10 lakhs "	..	5 " " "
3rd 15 lakhs "	..	3 " " "
Balance	..	2 " " "
Minimum	..	Rs. 250.
Maximum	..	Rs. 1,600.

Old rates are paid to the old firms which have been auditing co-operative banks for the last ten years or more. These rates are given to 4 out of 12 firms. Others are given new rates. The annual amount of audit fee paid to the Professional Auditors is about Rs. 22,000.

Provincial Bank.—The Punjab Provincial Co-operative Bank, Lahore, was audited twice a year in the beginning. The half-yearly audit was done by the P.C.U. Auditors and the annual audit by the Professional Auditors. The half yearly audit was abolished about five years back. It is now audited once a year only by the Professional Auditors. The audit is concurrent and done on monthly system. The audit fee is Rs. 800.

P.C.U. Auditors.—There are four qualified Senior Auditors in the Province. They possess high academic and technical qualifications. They are wholetime employees of the Punjab Co-operative Union. Their grade of pay is Rs. 150-10-350. They are paid travelling allowance according to the Government Fundamental Rules. They have a camp clerk and a peon each. When they audit big Central Banks, they are given an additional assistant each. They conduct the annual audit of about 20 big Central Banks once a year. Their main work, however, is the audit of smaller Central Banks, all banking unions and mortgage banks. They also audit some big primary societies. Their programme is prepared by the Secretary, Punjab Co-operative Union twice a year. Their annual cost to the Union is Rs. 20,000.

Banking Unions.—There are 66 Banking Unions in the Province. Four of these have a working capital of more than Rs. 4 lakhs. These four are now audited once a year only by the Professional Auditors. All the other Banking Unions are audited twice a year as on 28th February and 31st August. The February audit of almost all these Unions is done by the P.C.U. Auditors. Those which they cannot audit (and these are only a few) are done by the Government paid Inspectors. The August audit is also conducted by the P.C.U. Auditors and the Inspectors.

Mortgage Banks.—There are 12 Co-operative Land Mortgage Banks in the Punjab. They are audited twice a year. About half of these are audited by the P.C.U. Auditors and half by Inspectors.

Commission Shops.—There were four special Auditors for the audit of 22 Co-operative Commission Shops (sale societies). They were selected out of the Sub-inspectors and given some allowance for this special duty. But now these posts have been retrenched and the audit of the shops is done by the ordinary Sub-inspector (Auditor) of the Circle.

Urban Societies.—A few big urban societies are also audited by the Professional Auditors. There are 4 of these in Lahore. They are The Model Town, The Icchra Bank, The Telegraph Society and The Railway Society. The audit fee is settled with the Professional Auditors in each case separately. A few important primary societies are audited by the P.C.U. Auditors also.

Charges.—There is no separate charge for audit from societies. The Punjab Co-operative Union charges contribution from every credit society for audit, supervision, training and propaganda. The rate of this contribution is 10 percent of the annual net profit of a society with a minimum of Rs. 10. If a society makes a profit of Rs. 300 in a year, it has to pay Rs. 30 as contribution to the Punjab Co-operative Union. If it earns a profit of less than Rs. 100 or is running in loss it has to pay Rs. 10 only. The rate is the same for rural and urban societies and for limited and unlimited liability societies. Central Banks and Banking Unions also pay the contribution at the same rate. A Central Bank making a profit of Rs. 12,000 will pay Rs. 1,200 as contribution to the Union. The annual income of the Punjab Co-operative Union from contributions from societies and Central Banks is Rs. 5½ lakhs. Central Banks or Banking Unions do not pay the audit fee for their audit to the Professional or the P.C.U. Auditors. The fee is paid by the Punjab Co-operative Union out of the contributions received from them. There are instances (happily a few only)—where the contribution received from a bank is less than the amount paid to the auditors as audit fee by the Union.

Rs. 22,000 were paid as audit fee last year by the Union to the Professional Auditors for the audit of the Central Banks and the expenditure of the Union on its own Senior Auditors was Rs. 20,000. Thus the Union spent Rs. 42,000 on the audit of Central Banks and Unions last year. It paid this amount out of its own funds.

Professional Auditors are paid by the Union at a certain rate of working capital of a Central Bank, Union or a society with a minimum of Rs. 250 and maximum of Rs. 1,600.

The audit of Central Institutions is under the general control of the Financial Adviser to the Co-operative Department. His advice and guidance has been of incalculable value in bringing the audit to the present high level, which can be hardly improved upon.

The amount spent annually by the Union on the audit of primary societies is roughly Rs. 3½ lakhs. It is about Rs. 50,000 on Central Banks and Unions, so that the total spent for audit is about Rs. 4 lakhs.

The audit of both primary societies and Central Institutions is complete and thorough and commands the confidence of the officials and non-officials and co-operators and the general public alike. The system is working smoothly and efficiently. This is proved, if proofs were needed at all, by the success achieved by the Co-operative movement in the Punjab.

SUMMARY OF THE SYSTEM OF AUDIT

Kind of Society.	Who Audits.	How many times audited in a year.	Remarks.
(1) Primary Societies (about 23,000).	Auditors of the Punjab Co-operative Union.	Rural societies are audited once a year and urban societies twice a year. A few societies in each circle are re-audited by Inspectors.	A few big primary societies (5) are audited by Professional Auditors. P.C.U. Auditors also audit some difficult primary societies.
(2) Central Banks (49).	(1) Professional Auditors (29). (2) Senior Auditors of the Punjab Co-operative Union (20).	Central Banks with a working capital of Rs. 4 lakhs or over are audited once a year. Below four lakhs twice a year. There are only three banks below Rs. 4 lakhs.	
(3) Banking Unions (65).	(1) Senior Auditors of the Punjab Co-operative Union. (2) Inspectors (Government Paid).	Twice a year.	
(4) Mortgage Banks (12).	(1) Once by Senior Auditors of the Punjab Co-operative Union. (2) Once by Inspectors.	Twice a year	
(5) Provincial Bank.	Professional Auditors.	Once a year.	The audit is concurrent and done monthly. Audit fee Rs. 800.

AUDIT OF CO-OPERATIVE SOCIETIES IN THE UNITED PROVINCES

BY

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Audit of co-operative societies in the U.P. is carried on mainly through a staff of departmental auditors, working under the direct control of the Registrar and paid by Government. Auditors are exclusively meant for audit work and have no connection either with the day-to-day administration of societies or with supervision and organisation. Non-official co-operators have nothing to do with the recruitment, training, appointment, promotion or punishment of auditors.

Powers and duties of an auditor.—Under the law an auditor has access to all books, accounts, papers, returns and securities of the society he is auditing and every officer of the society is required to furnish such information in regard to the transactions and working of the society as the auditor may require. An auditor has to certify the balance sheet of the society he audits and bring any amendments (additions, alterations or corrections) necessary in the returns to the notice of the society and request it to make them. If the amendments suggested are carried out the auditor certifies the balance sheet, if not he mentions the points which, in his opinion, require amendment either by adding necessary remarks (i) in the audit certificate itself or (ii) incorporating them in a subsidiary note and making a reference to this note in the audit certificate. An auditor is expected to carry on audit without fear or favour and to present in the audit note a true picture of the institution audited. He is expected to see that accounts, books and vouchers are properly maintained, to point out errors and mistakes, to rectify them and to take steps to prevent their recurrence. He is, however, not to confine himself to the examination of accounts only but is expected to acquire such an intimate knowledge of the inner working of the society as to be able to suggest useful and constructive measures for its improvement and explain them to members (when possible). He is to confine himself to facts and avoid airing personal opinions. He is on no account to criticise any honorary or paid worker. Audit is to be conducted at the head-quarters of the society and any dislocation of work is to be avoided. Auditors are advised not to keep the supervisors hanging round about them during audit but to conduct it as far as possible without their assistance. The arrangement enables the auditor to form a better and independent judgment of the society.

Systems tried in the past.—Up to 1913 there was no regular system of audit. Government Inspectors and the staff of Central Banks checked the accounts of societies and recorded inspection notes (under a few broad heads) which were considered sufficient for the purposes of audit.

A system of regular audit was introduced in 1914. Audit note forms were prescribed and auditors were required to certify the balance sheets. No special whole time audit staff was appointed and Government Inspectors and selected members of the honorary and paid staff of Central Banks were authorised to audit societies in addition to their other duties. It was, however, soon found that honorary non-official auditors could devote very little time to the work, that paid staff of Central Banks could not be depended upon for efficient audit of societies which it had to supervise and that Inspectors alone could not cope with the work. Central Banks were, therefore, induced to bear the cost of audit of such societies as could not be audited by Inspectors and a few wholetime auditors were appointed at the expense of Central Banks. Some qualified auditors working on piece-wage system were also entertained, mainly for the audit of Central Banks, and their remuneration was fixed by the Registrar in consideration of the quality and volume of the work done. This arrangement resulted in heart-burning among Central Banks. Those in which audit was done by Government Inspectors paid nothing while others had to pay for the work done by non-Government auditors. To make the burden even on all Central Banks, Government Rules were amended in 1919 and the Registrar was empowered to assess co-operative societies for audit at a uniform scale. The Government undertook to appoint sufficient staff for audit and to make good any deficiency between the cost of audit staff and the amount realised as audit fee. The scheme was enforced in 1920 and auditors were recruited in 5 grades ranging from Rs. 50 to Rs. 100. Auditors in the last two grades were meant for the audit of primaries while those in higher grades audited all types of societies. Even after the enforcement of this scheme, Government Inspectors were not entirely relieved of audit work. Five of them were reserved exclusively for this work and others had to audit one Central Bank and 40 primary societies every year. The Oakden Committee, however, objected to the Government Inspectors doing primary audit and since 1927 all primary audit is done by auditors while Government Inspectors have to reaudit at least 10 per cent of the societies. Government rules, however, permit the Registrar to appoint persons, whom he thinks fit, to audit particular societies and on several occasions Chartered Accountants were appointed for the audit of Central Banks and big primary societies. The arrangement, however, did not prove as satisfactory as that of departmental audit mainly on account of the peculiar system of account keeping (a combination of single-entry and double-entry systems) of Central Banks. Supervisors are at times required to certify the accounts of societies which have worked for less than one year, but the departmental auditor when he goes for his first regular audit audits accounts from the very start.

Present system of recruitment.—Auditors belong to the U.P. Subordinate Co-operative Service and are governed by Rules notified by Local Government in April 1936. No one above the age of 27 can be recruited directly to the post and a certificate of Intermediate examination in Arts, Science, Commerce or Agriculture is the minimum academic qualification for selection. The selection is now made by the U.P. Public Service Commission. Supervisors of co-operative societies are eligible for promotion to auditorship. Most of the auditors recruited in the last 10 years are graduates.

Present system of Training.—Selected auditor candidates have to undergo training at their own expense for a period of 12 months. About half the time is devoted to theoretical and the rest to practical training. Theoretical training includes a thorough grounding in general principles of Co-operation, Law, Banking, Book-keeping, Audit, Rural Economics, Rural Administration and Civics. Some lectures are also given on first aid, sanitation and hygiene. During practical training candidates have firstly to go out with selected supervisors to see the practical working of primaries. After that they are attached to selected auditors for being trained in the method of audit of primaries. At first the auditor shows the candidates how to audit societies and then gets some audited under his direct supervision and finally allows the candidate to audit independently and checks the quality of the work so done. Candidates are also trained in the system of account-keeping of Central Banks by being attached with bank accountants who train them in the method of posting various registers and preparation of working statements. The method of audit of a Central Bank is then explained by a selected auditor and finally the candidates are required to audit a Central Bank independently. At the end there is an examination and the names of those who qualify are enlisted as those awaiting employment.

Pay and Prospects.—As already said auditors were at first recruited in five grades ranging from Rs. 50 to Rs. 100. On reorganisation these grades were done away with, a new cadre of Rs. 70-2-100 was created and the whole of the old staff in grades above Rs. 60 was transferred to the new time-scale. Some of the auditors in grades of Rs. 50 and Rs. 60 were, however retained and are to be gradually replaced. Recently the scale of pay for new entrants has been revised and new recruitment is made on time scale basis of Rs. 50-2-70. Auditors get a fixed T.A. and a peon, on the consolidated pay of Rs. 10-8-0 per month. The post of auditors is still non-pensionable and without benefit of Provident fund. Auditors are eligible for promotion to Inspectorship and four of them were so promoted last year and are officiating as Inspectors.

Leave and Rest.—The Government leave rules are applicable to auditors but as they have to remain out in villages for the major portion of the year and cannot enjoy Sundays and other holidays properly they are allowed 6 days rest per month and can enjoy it whenever they like. Permission of the Assistant Registrar is necessary if rest is taken outside the circle. Rest must be enjoyed during the month and cannot be accumulated.

Annual distribution of work.—At present there are 52 departmental auditors who for administrative control have been placed under the various Assistant Registrars. Soon after the close of the year every Assistant Registrar takes stock of audit work to be done in his circle in the ensuing year and distributes it among his auditors. As far as possible one auditor is allotted one Central Bank plus 120 primaries (working or liquidated) and is expected to audit them within the year. The allotment is, however, varied in the light of the amount of work to be done. From the beginning of July up to the middle of August auditors generally audit primary and liquidated societies. Under the Rules audit of central societies is to be finished within 2 months of the submission of annual returns to the Registrar; auditors, therefore, take up this audit from about the middle of August and finish it by the middle of October at the latest. The audit of special societies (limited liability societies and stores) is then taken up and when finished the primaries are again taken in hand. If any societies were left unaudited in the previous year they are taken up first and audited for 2 years. Generally societies to be audited for one year are not taken in hand until all the 2 years societies have been finished. Societies of one and the same group are audited at one and the same time so that unnecessary touring may be avoided. Auditors are required to inform supervisors of their intended visit to the area at least a fortnight in advance so that necessary papers may be arranged and made ready for audit.

Auditors and their relations with Inspectors.—In the U.P. the Co-operative Inspector is the chief representative of the Registrar in the

District. He has to guide and supervise all co-operative institutions in the District and has to work as their friend, philosopher and guide. Under the circumstances it is not possible to take auditors quite independent of the control of Inspectors especially because Inspectors have to review the audit notes and reaudit societies already audited by auditors. Auditors have (in the majority of cases) to send their programmes and tour diaries to the Assistant Registrar through Inspectors. The audit notes are also similarly submitted but the auditors are allowed to deal directly with the Assistant Registrars in all important matters of an urgent or confidential nature. No doubt there are some drawbacks in the system, but inspite of these shortcomings the scheme has worked without friction. In two Assistant Registrars circles, auditors have been made independent of Inspectors and the system has worked quite well.

Period of audit.—The Registrar is under a statutory obligation to audit the accounts of all registered societies "once at least in every year." He has also to arrange for the audit of societies under liquidation. Societies are, therefore, audited generally for one full year but all accounts and registers are checked up-to-date and questions in the audit note answered accordingly. If a society remained unaudited in the previous year, it is audited for two years together. Up-to-date checking of accounts, however, results in some duplication of work but this can hardly be avoided. As already mentioned elsewhere the audit of a Central Bank has to be completed within 2 months of the submission by it of the prescribed annual returns to the Registrar, while that of a primary society during the course of the year following that to which the accounts relate.

Levy of audit fee.—Under the Government Rules every society is liable to pay on or before the 31st December of each year audit fee at the following rates calculated on its working capital as it stood at the close of the preceding co-operative year:—

1. Six annas per hundred rupees subject to a maximum of Rs. 200 in the case of a Central Bank.

2. Three and a half annas per hundred rupees subject to a maximum of Rs. 100 in the case of a society other than a Central Bank.

Audit fee is assessed in case of:—

(a) a Central Bank against the bank concerned, (b) a society which is a member of a Central Bank, (i) against the society itself if the owned capital is 75 per cent or over of the working capital and (ii) against the Central Bank concerned if the owned capital of the society is less than

75 per cent of the working capital, and (c) a society which is not a member of a central society against the society concerned.

Societies of less than a year's standing are exempt from the payment of audit fees and the Registrar, can, at his discretion, remit either wholly or in part the audit fee payable by or on behalf of any society in any year.

The Registrar can ask a society working with a capital of Rs. one lakh or over to bear the total cost of its own audit, but in that case the society is not to be assessed for the payment of audit fee according to the usual scale. Arrears of audit fee are recoverable as arrears of Land Revenue.

The above scale of levy has remained unchanged since 1919 when it was first introduced. Under the rules all Central Banks with a working capital of over Rs. 53000 have to pay the maximum amount of audit fee of Rs. 200 and this is resented by medium-sized banks (those working with a capital of .55 to 1.5 lakhs are medium-sized for U.P.) who have to pay the same amount as that paid by the biggest banks in the Province. The question of suitably amending the rule is under consideration.

Audit and audit notes.—Separate forms have been prescribed for the audit of Central Banks, primary credit societies and liquidated societies. Since these do not suit the needs of non-credit institutions, forms for their audit are being devised. The basic principle underlying these forms is not to ask the auditor to answer a set of questions but to require him to look into the various aspects of the working of the society and leave no room for anything of importance escaping his attention. With this view the main body of the audit note contains a large series of points which must be looked into if the audit is to be thorough and complete. About the unobjectionable points the auditor has to make only short remarks in the body of the audit note while all objectionable matter is noted separately in an "objection statement" which is the real audit note. For the present the retention of these points in the audit note seems necessary and desirable but the ultimate aim is to remove them entirely from the body of the audit note and convert them solely into a set of general instructions for the guidance of auditors.

Audit Note of Primaries.—The audit note is divided into 7 parts viz., (1) meetings, (2) scrutiny of the ledger of Central Bank, (3) comparison of registers, (4) scrutiny of members' ledger, (5) scrutiny of other registers, (6) financial statements and (7) oral enquiries.

A statement of financial condition and a ledger abstract of members have also to be appended.

Oral enquiries form an important part of the audit of primaries and the auditor has to devote a fairly large portion of his time to them. No audit is considered satisfactory unless two-thirds of the members have been interviewed and their accounts checked. After making oral enquiries from members and finishing the mechanical part of audit, the auditor prepares 3 copies of the "objection statement" and holds a meeting to explain the defects found and to rectify them as far as possible. Most of the objections are thus complied with without delay and only a few objections are left over for future compliance. Notes about the defects rectified are made on all the 3 copies of the "objection statement" by the auditor against the objections to which they relate. After this the auditor prepares in duplicate a general note in English under the following broad heads:—

(1) Financial condition, (2) Membership, (3) Meetings, (4) Administration, (5) Accounts and Registers, (6) Supervision, (7) Co-operative Education, (8) Improvements. (9) General

He also leaves a short note of his impressions of the society in its inspection book. One copy of the "objection statement" is left in the society, one copy of the general note and the " objection statement " is sent to the Central Bank and one copy of the general note and " objection statement " together with the main body of the audit note is sent to the Government Inspector.

Audit of Central Banks.—The audit note of Central Banks is drawn up on the same lines as that of primaries and is divided into 5 parts viz., (1) The cash balance, (2) Vouching, (3) Examination of registers, (4) Examination of returns, and (5) Administration. Several appendices relating to financial condition, demand, collections, fluid resources, monthly cash balances and meetings have also to be appended. Two copies of the general note and two copies of the "objection statement" drawn up on the lines prescribed for primaries have also to be prepared. One copy of the general note and the "objection statement" is sent to the Central Bank concerned and the original audit note together with the other copy of the general note and "objection statement" is sent to Assistant Registrar through the Inspector.

Audit note of liquidated societies.—In U.P. Co-operative Inspectors are also liquidators of most of the liquidated societies. Besides keeping separate records of each society, liquidators maintain some registers (Joint cash book, Register of cost of liquidation, Register of executions, Register of warrants issued etc.,) showing their dealings and transactions as liquidators. The auditor has, therefore, to see these office accounts before proceeding to audit individual liquidated societies. Part I of the audit note, therefore, deals with the work of the liquidation office while Part II deals with the transactions of individual societies. The auditor has, therefore, to prepare one report on liquidation office and a separate report for each liquidated society. These reports are prepared in duplicate. One copy is handed over to the liquidator while the other is sent to the Assistant Registrar.

Audit Classification.—The classification of primary societies at audit into the following 5 classes forms one of the chief duties of an auditor :—

A (good), B (fair), C (indifferent), D (poor) and E (bad). Central societies are not classified. No hard and fast rules can be laid down for classification which is left to the discretion of the auditor. An auditor must give his reasons for classification and base it on the personal knowledge of the inner working of the society. The following principles serve as the basis for decision :—

Class A (good). It should be a real village bank in which members deposit all their money and draw it as need arises. Besides having all the qualities of a B class society it should be able to raise most of its capital locally and should require no inspection to point out and remedy defects.

Class B (fair). It should be able to maintain its accounts, advance loans chiefly for productive purposes make recoveries from members, and take coercive action on its own motion in cases of default, which should be rare. Its members should practise thrift and take practical steps to liquidate outside debts if any. There should be no borrowings from outside and attempts should be made to improve the moral, social and economic condition of members.

Class C (indifferent). Such a society must be co-operative in something more than name, the majority of members should take interest, act up to the elementary co-operative principles and should realise that they form a corporate body and be imbued at least to some extent with the co-operative spirit.

Class D (poor). In such a society there would be no indications of a serious break down although there may be some apathy, lack of interest and co-operative education. Such a society would be a collection of needy and greedy borrowers. There would be some default accompanied by lack of initiative in dealing with the same. There would also be some misuse and monopolisation of loans and recourse to outside borrowings.

Class E (bad). Such a society would be fit for liquidation unless it could be promptly reorganised. Members would have little or no co-

operative spirit or education and necessary interest and sense of responsibility would be lacking. There would be heavy overdues, monopolisation and misutilisation of loans, without necessary action by the Panchayat. Sometimes such a society would owe more to the financing bank than its own outstandings against members; and at others it would have had no transactions for some time past.

Review of audit notes and their compliance (a) *Primary Societies.* On receipt of an audit note the Inspector is required to review it and prepare four copies one of which is sent to the supervisor for necessary action, the second to the Central bank for removing the defects relating to it, the third to the Assistant Registrar along with the audit note and the fourth is retained by the Inspector for his own use.

On receipt of the review the supervisor places it before the society, gets the defects removed and reports compliance to the Inspector leaving the review in the records of the society. The authorities of the Central Bank similarly deal with the points relating to them and inform the Inspector and the society concerned of the action taken. If the Inspector finds that full compliance has been made, he reports the fact to the Assistant Registrar and encloses the compliance reports received from the supervisor and the Central Bank. The Assistant Registrar if satisfied with the compliance files the audit note.

(b) *Central Banks.* As soon as the audit note of a Central Bank is received the Inspector makes a brief note of the points requiring special attention of the bank and forwards the same to the Assistant Registrar. The Assistant Registrar, if he finds nothing objectionable in the Inspector's note, forwards it to the bank for necessary action. He also fixes suitable dates for visiting the bank and calls a meeting of the Directors about the close of the visit. At his visit the Assistant Registrar carries out a thorough inspection and sees to what extent the objections have already been complied with. He also looks into the good as well as the bad points of the bank and records an inspection note containing concrete proposals for improvement and discusses the same with directors and asks them to take necessary action. After the meeting a copy of the inspection note together with a supplementary note showing the points on which further action is necessary is submitted by the Assistant Registrar to the Registrar for information.

(c) *Liquidated societies.*—Since Government Inspectors are usually the liquidators the preparation of the review becomes unnecessary and only a compliance report by the Inspector is required for submission to the Assistant Registrar. If the Assistant Registrar is satisfied with this report, he gets the audit note filed in his office.

Inspectors are responsible for seeing that the compliance of audit reviews is promptly made. If a supervisor delays the compliance report necessary action is taken against him, while the Managing Director is requested to expedite if the delay is due to the bank staff.

Reaudit.—Inspectors are required to reaudit at least 10 per cent of the societies audited by auditors in order to test the quality of the work and to see that it was done properly and on right lines. The choice of societies for reaudit is left to Inspectors but generally a few of the recently audited societies in each supervisor's circle are selected for the purpose. Reaudit is conducted on the spot and covers the same period as that of the original audit. The audit note prepared by the auditor accompanies the Inspectors at reaudit. The Inspector (a) rechecks and initials every entry checked by the auditor, (b) carefully checks entries (if any) left un-initialled by the auditor, (c) particularly scruitinises all suspicious entries such as those with cuttings, erasures etc., (d) interviews as many members as possible, especially those whom the auditor could not meet, (e) examines all the entries in the objection statement as well as the items on which no objections have been raised, to see that there are no futile objections or omissions, (f) goes through the general remarks and points out errors and omissions therein and (g) checks the classification at audit changing it where necessary. In short the reaudit note deals with all the points on which the Inspector disagrees with the auditor or on which he finds that the audit was inaccurate or incomplete. At the end the Inspector holds a meeting of the society so that suitable action may be taken to remove the defects and improve the society.

General.—On the whole the quality of the outturn by auditors is satisfactory ; but on account of the insufficient strength of audit staff, the recent increase in the number of societies and the heavy work involved, about 10 per cent of the societies remain unaudited every year and the need of more auditors is keenly felt.

The prospects of auditors, who enjoy neither pension nor provident benefits, and have to lead a nomad life throughout the year require improvement. Inspite of their difficulties auditors have generally done well.

AUDIT OF SOCIETIES IN BIHAR

BY

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Audit of societies atleast once a year is the statutory function of the Registrar both under the Co-operative Societies Act II of 1912 and under the B. & O. Co-operative Societies Act VI of 1935. The audit under both these Acts includes an examination of overdue debts and valuation of assets and liabilities of each society. The audit is therefore to include a very searching inspection of such societies and could only be conducted satisfactorily by a special staff appointed for the purpose. Since the inception of the movement in Bihar and Orissa the audit of societies was conducted by a special staff of auditors under the Registrar of Co-operative Societies appointed by the Government at its own cost. No charge for audit was made to the societies till the year 1918. By the year 1915, however, the number of societies had increased to 1100 of which 18 were central banks and it was expected that by the year 1923 there would be about 5,000 societies in existence with about 2 lacs of members. It was also calculated that at the rate of Rs. 15 for audit and Rs. 13 for inspection per society, the total cost of audit to Government at the end of the year 1923 would be over Rs. 1,40,000 per annum with a tendency to increase. This cost with the limited resources at its command the Local Government could not bear. It was, therefore, decided by the Registrar to start an Audit Union with the primary object of transferring the major part of the work of audit of the societies. The function of the Union was to employ a suitable audit staff to audit the societies atleast once a year on lines similar to those of the Audit Union of the Central Provinces then in existence, which was reported to have been working satisfactorily. The preliminaries regarding the organisation of the Audit Union for Bihar and Orissa and the transfer of necessary powers could be completed only three years hence in the year 1918, when the Bihar & Orissa Co-operative Federation was formally established.

At the time the cost of audit of each society was, as has been mentioned before, estimated at Rs. 15 and it was calculated that this cost could be met if societies annually contributed 6 annas per each hundred rupees of their working capital, and the central banks contributed 2½ annas per each hundred rupees of their working capital to defray a part of the cost of the audit of their affiliated societies to the Federation. Bihar and Orissa, to my knowledge, was the only province which accepted the principle of the financing agencies partly paying for the cost of audit of their affiliated societies since the year 1918. The reason for this departure from the usual practice of each institution paying for the cost of its own audit was that as the central banks were charging a high rate of 12½ per cent on their loans to societies in this Province and thereby making good profits, they should not grudge bearing part of the cost of the audit of their affiliated societies. This system has continued since the year 1918 to the present day, when most of the central banks have reduced their loan rates and are financially too weak to have an adequate staff of their own. The total amount raised by these contributions from both societies and central banks for the audit of societies was not considered to be enough for meeting the cost of the audit of agricultural societies. The Local Government therefore agreed to pay one-fourth of the estimated cost of audit of a society or Rs. 3-8 per society of more than 2 years' standing and also agreed to bear the cost of audit of new societies of the standing of 2 years or less by an annual grant of Rs. 15 per society to the Federation. In addition it was also decided that the cost of all societies situated in backward areas should be entirely borne by the Government and the Government agreed to make an annual contribution of Rs. 15 per each such society. On the basis outlined above the Government of Bihar & Orissa made an annual contribution to the Federation of more than Rs. 50,000 per annum, which is continued even to the present day.

For the audit of central banks it was originally proposed that a charge of Rs. 5 per day, subject to a maximum of Rs. 75, be made to each bank. This practice continued for only a few years when it was decided to increase the charge to Rs. 10 per day with an enhanced maximum. This system was also found not to bring in enough income to cover the cost of audit of these banks and it was therefore decided to levy a charge of 2 annas per each Rs. 100 of working capital of a central bank annually. The income derived from this levy was also not found to be sufficient and it was subsequently raised to 4 annas per each hundred of working capital of each central bank. Even to the present day a contribution of 4 annas per each hundred of working capital of each central bank is made for its audit. This scale of fee for audit applies not only to central banks but to all non-agricultural societies excluding the Provincial Bank. Had this levy been made applicable to the Provincial Bank also, it would have been compelled to pay annually a sum of over Rs. 25,000 to the Federation for the audit of its accounts. Such a charge for the audit of the accounts of the Provincial Bank with a

working capital of about a crore of rupees would have been obviously preposterous.

As the working capital of societies, due to the dearth of members' and non-members' deposits has consisted mainly of loans from central banks, this system of levy on working capital of both central banks and societies resulted in practice of a double charge on the same capital. Besides the definition of working capital was also changed about six years back. Originally for the calculation of audit levy the working capital mentioned in the annual returns was taken as the basis. Subsequently some more items of the assets were also included in the definition of working capital in addition to those already included in the annual returns of each society. This had the result of slightly enhancing the total amount payable by each institution. The total audit charge to agricultural societies was at 6 annas on the working capital while the total audit charge to central banks was 6 annas, 6 pies; 4 annas for itself and 2 annas, 6 pies for its affiliated societies. In addition till the year 1935, 9 pies per Rs. 100 of working capital was charged to societies as well as to central banks for the training establishment of the Federation, and another 2 annas for the Development Staff of the Federation. The total cost of audit, training and development activities of the Federation on working capital to societies was 8 annas, 9 pies per Rs. 100 per annum and the total cost of the same on the working capital of central banks was 9 annas, 3 pies per annum. The whole cost ultimately fell on the borrowing members of societies in the shape of an enhanced rate on loans, the net enhancement amounting to Rs. 1-2 per annum to the borrowing member. The total income from the audit levies to the Federation till the year 1935 from the agricultural societies roughly amounted to over a lac of rupees per annum, and from non-agricultural societies roughly amounted to Rs. 1,20,000 per annum. In addition the Federation obtained an annual grant of over Rs. 50,000 per annum from the Government. Before the year 1935 the average annual income of the Federation was Rs. 2,70,000 per annum. In the year 1935, however, due to the economic depression and the bad state of the finances of both the central banks and societies and due to the receipt of a grant for Training from the Government of India, it was found inadvisable to continue the Training and Development activities of the Federation. Both these activities therefore were suspended for the time being and the levy made for these on the agricultural and non-agricultural societies was also stopped.

There are at present four classes of auditors for conducting the audit of both the agricultural and non-agricultural societies, namely (1) the Chief Auditor, (2) Asstt. Auditors, (3) Junior Assistant Auditors, and

(4) Local auditors. The Chief Auditor is a whole-time gazetted officer of the Government. His duty is to examine all audit notes of non-agricultural societies, to guide the auditors and generally to see that the quality of audit does not deteriorate. Every year he test audits some central banks and societies in order to satisfy himself about the work of the audit staff. All the other auditors are the employees of the Federation and therefore the Chief Auditor, who is a Government servant, does not exercise any administrative control over them; but in technical matters his decision is final.

All the other auditors are the employees of the Federation and no auditor can be employed by the Federation who does not hold a license from the Registrar, as ex-officio Governor of the Federation. In this way the Registrar exercises control over the selection of the auditors. The Assistant auditors are required to do the annual audit of central banks and important limited liability societies. They are also required to do the test audit of 5 per cent of the societies in the areas of central banks audited by them. The junior assistant auditors examnie every two months the day to day accounts of all the central banks and important limited liability societies audited by the assistant auditors. In practice the junior auditors are assistants to the assistant auditors. Small limited liability societies are audited by the junior auditors.

The local auditors are entrusted with the work of auditing agricultural societies, each such auditor being allotted 120 societies to be completed in one year. 10 per cent of the audit of local auditors is test audited, 5 per cent by the local Assistant Registrar and 5 per cent by the Assistant Auditor.

Apart from the statutory annual audit of both agricultural and non-agricultural societies, the auditors of the Federation have some times to undertake audit of transactions under a particular account spread over several years under the special orders of the Registrar. Besides societies under liquidation are also required to be audited within one year of the order of liquidation and again on the close of the liquidation proceedings. For this special audit the Federation charges special fees of Rs. 3 or Rs. 5 per day work done by a local or a junior auditor respectively.

Barring the heavy cost to the ultimate borrower and the occasional inefficiency of an auditor, the system of audit in Bihar leaves little to be desired. The success of the scheme of audit prevalent in this province must largely depend on the recovery of audit fees from the societies audited. The agency for the collection of audit fees from societies has

so far been primarily the central bank. The Registrar till recently had no special staff of his own in direct touch with the primary societies which have so far been organised, supervised and financed by the local central banks; and the auditors of the Federation have no control over the funds of the societies audited by them. It was therefore the duty of the inspecting clerks of the central banks to recover the Federation fees from societies together with the dues of the central banks which employ them. As long as recoveries from societies in central banks were satisfactory, this system also worked fairly well. With the economic depression, however recoveries of central banks' dues from societies decreased considerably and the staff of central banks being compelled to show good recoveries at the cost of their jobs recovered as much as they could from the central banks, leaving aside the demand for audit fees of the Federation. The Registrar, as the ex-officio Governor of the Federation then passed an order that central banks should pay the total audit fees of their societies in advance and recover this subsequently from the societies. It was also directed that audit contribution should be considered a first charge on the recoveries of societies and the assets of the central banks. Due, however, to the extreme difficulty of recovering from societies even an amount sufficient to enable a central bank to meet its pressing liabilities and expenses connected with its administration, none of these orders could succeed in accelerating recoveries of the Federation dues.

During the last few years the funds at the disposal of the Federation have remained at a dangerously low level and there have been occasions when the Federation has been compelled to postpone payment of the salaries of its staff. It was therefore decided that in order to have an efficient and contented staff of auditors, it would be advisable to retransfer the function of audit from the Federation to the Government. This decision was arrived at the last Annual General Meeting of the Federation, held in April this year, and the proposal is at present under the consideration of the Government.

CO-OPERATIVE AUDIT IN CENTRAL PROVINCES AND BERAR

BY

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It was not until 1931 that any systematic arrangement for the audit of primary credit societies in the Central Provinces was made. The audit of these societies was conducted partly by Government Auditors and partly by the staff called Federation Auditors, paid for from the funds of the Federation. A sub-Committee was appointed by the Federation Congress held in 1928, and the recommendations of the Sub-Committee, as are summarized below, were approved by the Federation Congress, which met in 1929.

(a) One auditor, to be called a Society Auditor, should be placed in charge of 90 societies.

(b) The scale of pay of Society Auditors should be Rs. 40-2-60-3-90.

(c) The estimated cost on account of audit should be met by a levy of 34½ p.c. on the profits of societies.

(d) The Registrar should pool the contributions from the whole of the Central Provinces.

(e) The Society Auditors should be solely responsible for auditing the accounts of societies; and

(f) The Society Auditors should be under the control of the Registrar.

The audit contribution of 34½ p.c. was accordingly calculated on the gross profits of societies and recovered from profits of societies for the year ending the 30th June 1931 for the first time. Shortly after this, a certain amount of discontent was expressed in some quarters at 34½ p.c. of profits being levied for the audit and it was represented that the percentage was too high and that some banks would be contributing far more than the amount spent on the audit of their societies.

In 1931-32 the whole scheme of audit contribution was further examined and it was ascertained that on the basis of 90 societies per auditor the average cost of the audit of one society worked out to Rs. 10/8/- and it was proposed to recover cost at the rate of 10/8/-

per society for all the societies of each Central Bank. The total amount of cost worked out on this basis was to be distributed amongst all the societies of a bank in proportion to their profits. This was considered essential in order to afford some relief to the comparatively new societies with low profits.

The fund thus created is called the Registrar's Audit Fund and the audit of primary co-operative societies in the Central Provinces is conducted by Society Auditors appointed by and under the control of the Registrar. The expenditure on the society auditors is met out of contributions made by societies. Rules have been framed for the receipts to, and expenses to be incurred from, this fund and these are called 'Registrar's Audit Fund Rules'. These Rules are reproduced below to give an exact idea as to how the audit fund is constituted.

"1. The Registrar's Audit Fund shall consist of the following items:—

(i) Contribution made by societies.

(ii) Interest earned on the fund.

(iii) Contributions levied on other kinds of societies by the Registrar for their audit through the agency of Society Auditors.

(iv) Diet money (?) paid to Society Auditors by courts for giving evidence.

2. The following charges shall be met out of the Audit Fund:—
Charges on account of :—

(a) Pay and travelling allowance of Society Auditors.
(b) Pay and travelling allowance of Society Auditors' Peons.
(c) Liveries to peons of Society Auditors.
(d) Postage, Stationery and other contingencies.
(e) Provident fund contribution.

The Audit Fund shall be invested in the Central Provinces and Berar Provincial Co-operative Bank, Limited, Nagpur, or in such other banks as are approved by the Local Government.

All receipts on account of the Audit Fund shall in the first instance be credited to the Registrar's Audit Fund as herein provided, and no expenses shall be incurred except as hereinafter provided.

The scale of contribution by primary societies shall be fixed by the Registrar from time to time. Until further orders the audit contribution shall be calculated as follows:—

Each Central Bank will in the first instance credit to the Registrar's Audit Fund at the commencement of each co-operative year contribution calculated at the rate of Rs. 10/8/- per society not under liquidation. The contribution so made shall then be distributed by the Central Bank between the societies affiliated to it, and not under liquidation, in proportion of the profits earned by the societies during the previous year.

The Assistant Registrar of each circle will submit a budget estimate of receipts and expenditure for the ensuing year by the end of the March of the previous year. The Registrar will then make an allotment to each circle. This allotment to each circle will be communicated to the Manager of the Provincial Bank, who will, on this authority, transfer the necessary funds to the accounts of each of the Assistant Registrars and the Assistant Registrar will be authorised to draw upon the same from time to time. The Assistant Registrars can incur expenditure according to the sanctioned allotment without further reference to the Registrar, but no re-appropriation from one head to another shall be permitted without the Registrar's special sanction. The Assistant Registrars will be personally responsible to the Registrar for the expenses incurred by them, for maintaining proper accounts, for observing strict economy, and for seeing that expenditure is in accordance with the scale sanctioned by the Registrar.

No money will be drawn by the Assistant Registrars unless it is actually required for disbursement and the Assistant Registrars will be responsible for seeing that the money is paid to the proper persons. The Registrar's office will maintain a register of receipts and will be responsible for keeping a watch on the contributions made by central banks and bring cases of default to Registrar's notice. The Registrar's office will also keep an account of the total expenditure incurred by each Assistant Registrar from month to month without going into the details of the expenditure. Each Assistant Registrar will maintain detailed accounts of the expenditure incurred by him.

The accounts in the Registrar's office and in the Assistant Registrar's office shall be audited by the Chief Auditors every year in accordance with the instructions of the Registrar. The Chief Auditors will furnish the audited statements and the necessary certificates and shall bring to the notice of the Registrar all cases of irregularities that might have been committed.

The provident fund account of each Society Auditor will be maintained by the Assistant Registrar to whose circle he is allotted. On the transfer of a Society Auditor to another circle the amount of his provident fund and the account thereof shall be sent to the Assistant Registrar of the new circle. The Provident Fund of the Society Auditors will be reinvested by each Assistant Registrar in the Provincial Bank in his official name."

The primary societies in Berar are being audited by the Government Auditors and no audit fee is charged.

As for the audit of Provincial and Central Banks and other independent societies, the system is as follows:—

Type of Society	Audit conducted by	Remarks.
1. Provincial Bank, C.P. and Berar.	Chartered Accountants and Auditors.	The audit fee is settled directly by the Bank with the Auditors.
2. Central Banks, Land Mortgage Banks, Federation and Institutes in the C.P. and Berar.	Circle Auditors (Government).	No Audit fee is charged.
3. Primary Societies. (a) in Berar	Circle Auditors (Government).	No Audit fee is charged.
(b) in Central Provinces.	Society Auditors paid from the Registrar's Audit Fund (these are not Government servants).	The Audit Fund is raised by the levy of a contribution of Rs. 10-8-0 per Society. These Society Auditors are appointed by and are under the control of the Registrar.
4. Independent Societies, (Agricultural and Non-Agricultural) other than primary credit societies.	(i) In Berar the Audit of these societies is conducted free of charge by the Government circle Auditors. (ii) In the Central Provinces there is no uniform system. Some societies are audited by the Chartered Accountants and Auditors and the audit fee is directly settled by the societies with the Auditors. Some are audited by the Society Auditors and in that case the audit fee is generally recovered at 4 annas p. c. of the loan outstanding against the members on 30th June last and the fee is credited to the Registrar's Audit Fund. Others are audited by the private auditors with the approval of the Registrar—the audit fee being directly settled by them with, the societies concerned. In a few exceptional cases the audit is conducted free of charge by the Government circle Auditors.	

Due to depression and other causes the primary credit societies are not making real profits for want of cash recoveries and the audit fee at the present rate of Rs. 10-8 per society is being felt as a heavy burden. This has created discontent in some quarters and the system is being attacked. With a view to give some relief to these societies, the question of charging all the independent societies that are at present enjoying free audit in order to supplement the receipts of the Registrar's Audit Fund and reducing the cost of establishment, if possible, is under scrutiny. It is proposed that the audit of a primary society should be biennial, i.e., once in two years, instead of annual. In this way it is expected to reduce the levy of Rs. 10-8 per society to Rs. 5 per society which in these days of depression and dwindling profits is said to be a reasonable charge.

In Berar also, where all the societies, both primary and independent, are at present audited free of cost by Government circle auditors, the introduction of a system of audit by Society Auditors and the levy of audit charges as in the Central Provinces are under the consideration of the Department.

AUDIT OF CO-OPERATIVE SOCIETIES IN THE BOMBAY PRESIDENCY

BY

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"Public registration followed by official audit constitutes a minimum of Government interference which may be expected to be in demand for many years to come," wrote Mr. C. S. Campbell, Registrar of Co-operative Societies, in his administration report for the year 1907-08. Public registration being the *sine qua non* of a co-operative society no one cavils at it. But about official audit different views are held, and it is proposed in this article to give a historical resume and describe the present system of audit of co-operative societies in the Bombay Presidency.

During the early days of the Co-operative Movement dating from the passing of the Act X of 1904 to Act II of 1912 the Movement was practically confined to rural credit societies and Government assumed the entire responsibility for their well-being. In those spacious days audit partook also of inspection and supervision. The first appointments of auditors were made in 1908 and of them Mr. Campbell wrote: "They have done some good work and have entered keenly into the spirit of the thing. As long as the mechanical audit is not neglected at all, it is great assistance to the Registrar to have auditors (like mine) who co-operate with him; or even outrun him in zeal for the cause." The Societies were few, audit was thorough and Government paid for it. The number of auditors was increased with the number of societies and good care was taken to see that societies, though they had naturally outstripped the "annual Registrar," did not outstrip the "annual auditor."

With the expansion of the sphere of co-operation consequent on the passing of Act II of 1912 things began to alter. First there came into being Central Banks for financing the primary societies as Government discontinued the policy of giving loans to primary societies to set them going, which had been followed in the first decade for want of a suitable financing agency. Then various types of non-credit societies came to be registered such as housing societies, co-operative stores, purchase and sale societies and others. Simultaneously, throughout the country, particularly in the Bombay Presidency, there was great development in urban co-operative banking. Mr. Otto Rothfield, Registrar of Co-operative Societies, was very enthusiastic about this branch of the Movement which he invested with the halo of national service.

The audit of these new types of societies created its own problems. Consumers' societies with a working capital exceeding Rs. 50,000 were given the option to arrange for their own annual audit independently. In his letter submitting the proposal to Government Mr. Rothfield said, "this exemption is absolutely necessary if Government is to divest itself in the eyes of the public of responsibility for the good management of stores societies." Very few societies exercised this option; it was not extended to urban banks or central banks or housing societies. However, the fact that they stand in a class very distinct from rural and petty urban credit societies was recognised and for their audit superior officers, called Special Auditors, were appointed. These Special Auditors rank equal with the Assistant Registrars, under whom the other auditors work, in the co-operative hierarchy. The audit of consumers' societies, excluding such as availed themselves of the option referred to above, was entrusted to an officer designated Auditor, Purchase and Sale Societies. Though ranking below Assistant Registrars and Special Auditors, he also works directly under the Registrar and is not subordinate to any Assistant Registrar or Special Auditor.

Under Act X of 1904 audit was free, but in the new Act power was taken to frame rules whereby societies could be called upon to pay for their audit by the Co-operative Department. Accordingly in 1914 central banks, urban banks, housing societies and consumers' societies which availed themselves of Government audit were called upon to pay audit fees. The scale of audit fees was later revised in 1920 according to the recommendations of a Committee appointed by the Bombay Provincial Co-operative Conference the previous year, consisting of the Hon'ble Mr. J. P. Mead, Sir Chunilal Mehta, Sir Lalubhai Samaldas, Dr. H. H. Mann, Mr. G. K. Devadhar, Mr. R. B. Ewbank and Dewan Bahadur A. U. Malji. The scale underwent another revision in 1928 and to-day the incidence of audit fees is as follows:—

FOR URBAN BANKS & CENTRAL BANKS.

		Urban Banks.	Central Banks.
First Rs. 50,000 of working capital	..	1/4%	1/8%
From Rs. 50,000 to 100,000	..	1/8%	1/8%
„ Rs. 1 lakh to 3 lakhs	..	1/8%	1/16%
„ Rs. 3 lakhs to 5 lakhs	..	1/16%	1/32%
„ Rs. 5 lakhs and above	..	1/32%	1/32%

With a maximum fee of Rs. 1,500.

FOR HOUSING SOCIETIES.

First Rs. 50,000 of turnover	..	1/16%
From Rs. 50,000 to 100,000	..	1/16%
„ Rs. 1 lakh to 3 lakhs	..	1/32%
„ Rs. 3 lakhs to 5 lakhs	..	1/64%
„ Rs. 5 lakhs to 50 lakhs	..	1/64%

An extra fee of Rs. 100 is charged for the audit of the first branch in a district and Rs. 50 each for other branches in the same district.

An idea of the system followed by Government Auditors in their work may be had from the following extracts from *A Manual of Co-operative Societies in the Bombay Presidency* by Mr. R. B. Ewbank, Registrar of Co-operative Societies.

Scope of Audit.—In section 17 (2) of the Act (II of 1912) it is laid down that audit shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society. Also of course it includes a complete check of the society's accounts which should extend back to the last date of the previous audit. The audit should extend beyond the bare requirements of the Act and should embrace an enquiry into all the circumstances which determine the general position of a society.

Classification and Conclusion.—At the conclusion of the audit a society should be classified as A good, B fair, C poor, D bad, according to its general character. A meeting of the Committee should always be called and all the defects brought to light at audit carefully explained to them. They should be informed of their classification and told exactly what action they must take if they wish to be promoted to higher class. The duty of an auditor is remedial as well as critical, and a good officer will always do his best not merely to find fault with a society but to put it on right lines, to teach the Secretary and Committee what is expected of them, and to settle factious disputes before leaving the place.

Audit Memo.—The auditor will make his report within seven days of the audit to the Registrar in the prescribed form and will always at the same time furnish a vernacular copy of it to the society audited. If the society is affiliated to a Union the vernacular copy should be sent through the Chairman of that Union. This copy should be carefully preserved on the society's record.

The levy of audit fee itself was not objected to as it was recognised that the audit of such institutions as central and urban banks should be self-supporting; but it gave rise to a grievance—a very legitimate grievance—that the banks were called upon to pay twice, once to their own auditors and again to Government for the official audit. What the Maclagan Committee said about the Government audit of primary societies is equally true in the case of Government audit of co-operative banks also, namely, that it is primarily for the satisfaction of Government and secondarily for that of their members and depositors. The only responsibility Government took in return for the payment it received, was that the bank would be audited once during the year.

But the Co-operative Societies Act requires, all societies to hold their general meetings within three months of the close of the co-operative year. As the work of the Government Auditor is spread over twelve months it naturally follows that the audit of only a few co-operative banks would be finished by the time of their general meeting. The Urban banks and Central banks, therefore, had perforce to appoint their own auditors and they naturally came to regard the audit-fee as an unjust impost; and protest was loud and frequent, especially in Bombay. It took the form not of a request for remission of audit-fees but for an arrangement whereby the Government auditor could be replaced by an auditor selected by the bank out of a panel of qualified non-official auditors nominated by the Registrar himself. Their demands are partly met by the Co-operative Enquiry Committee consisting of Messrs. V. L. Mehta and M. D. Bhansali, recently appointed by the Government of Bombay and Government's orders on the same. The relevant portion of Government Resolution No. 7363|38 dated 15th March 1938 on the Report of the Committee runs as follows:—

" **Audit Federation.**—The report suggests the formation of an Audit Federation of urban banks and societies in Bombay with a view to its extension to other areas. The Federation is to appoint an audit staff and be responsible for the audit and inspection of urban banks in C and D class and all urban societies with the exception of salary-earners' societies in A and B class and is also to inspect urban banks in A and B class. An important body like the one proposed should have its constitution, duties and powers clearly defined. The Registrar is, therefore, requested to submit detailed proposals showing how the Federation will be constituted, what will be its duties and powers and how the funds required to meet its expenditure will be raised."

Though the Government Resolution expects Bombay to give a lead in the matter it may be pointed out that Gujarat has already got a federation of urban banks working satisfactorily for the last ten years. Its audit, however, is not recognised by the Department. When the new scheme is implemented it should be permitted to function as an audit federation for Gujarat.

The Mehta-Bhansali Committee has also recommended that the audit of urban banks—classed A and B—and central financing agencies should be carried out by professional auditors appointed by the Registrar, though Government have not yet issued orders on this recommendation. A similar recommendation has been made about certain types of non-

credit societies, including co-operative housing societies that are not indebted to Government.

In recent years instances have occurred of societies and banks remaining unaudited throughout a co-operative year and the levy of audit fee under such circumstances was rightly resented by co-operators. The Government Resolution referred to above removes the ground for complaint by conceding the right to any society, if the statutory requirement regarding its audit in any co-operative year could not be complied with, to claim a refund of the audit-fee levied under the rules.

Audit-Fees on other societies.—In 1925, the Registrar first expressed the opinion that the older societies with large capital should be called upon to bear a part of the cost of audit and accordingly proposals were submitted by the Registrar which were sanctioned by a Government Resolution dated 22nd February 1928. The scale of audit fees sanctioned under this resolution was as below:—

(a) *Agricultural Credit Societies.*—Four annas per cent of the working capital, subject to the proviso that, if a society already paid supervision fees to a supervising union the total amount payable on account of the audit-fees and the supervision charges combined should not exceed ten annas per cent of the working capital. The minimum fee was fixed at Rs. 5 and the maximum at Rs. 50.

(b) *Agricultural Non-credit Societies*:—

(1) For the first Rs. 1,00,000 of the turnover	.. 1/16	per cent.
(2) For a turnover between Rs. 1,00,000 and Rs. 3,00,000—		
for the first Rs. 1,00,000	.. 1/16	"
for the rest	.. 1/32	"
(3) For a turnover above Rs. 3,00,000—		
for the first Rs. 1,00,000	.. 1/16	"
for the next Rs. 2,00,000	.. 1/32	"
for the next Rs. 47,00,000	.. 1/64	"
(4) For every lakh over Rs. 50,00,000	.. 1/128	"

The minimum audit fee was fixed at Rs. 50 and the maximum at Rs. 1,500.

(c) *Non-Agricultural societies*:—

For the first Rs. 20,000 of the working capital	.. 1/4	per cent.
For working capital exceeding Rs. 20,000 up to Rs. 49,999	.. 1/8	"

These proposals were later modified and the final scale of audit-fees sanctioned by Government in a resolution dated 29th December 1930 is as follows:—

(a) *Agricultural Non-credit Societies* of at least three years' standing :—The same rates as those fixed for societies of this type by the Government resolution of 22nd February 1928.

The minimum fee was to be Rs. 50 and the maximum fee Rs. 1,500 as before, but subject to the proviso that in no case should the fee exceed ½ per cent calculated on the working capital as it stood at the close of the last preceding co-operative year.

(b) *Non-Agricultural Societies* of at least three years standing :— The same rates as those sanctioned by the Government Resolution of 22nd February 1928.

(c) *Agricultural Credit Societies.*—An audit fee at the rate of ten annas per hundred rupees of working capital, as it stood at the close of the last co-operative year. Those agricultural societies that paid supervision charges to the supervising unions or to Taluk Development Associations of not less than eight annas per cent were to pay an audit-fee of two annas per cent only. Under this Resolution, the Registrar was authorised to grant exemption from payment of audit-fees where necessary, in the case both of agricultural and non-agricultural societies.

These societies are audited by a staff of auditors and sub-auditors working under the Assistant Registrars. Two hundred societies are allotted to a team consisting of an auditor and a sub-auditor, who, however, usually tour separately. Government now propose to have only one auditor in a district with the requisite number of sub-auditors working under him. This is expected to lead to some economy in the expenditure on the audit staff. Auditors are mostly graduates and about half of them are B. Coms. possessing the G.D.A. qualification. They begin as clerks on Rs. 50 and are then posted as sub-auditors and afterwards promoted as auditors. They have to pass the G.D.C.A. examination within three years of becoming auditors.

Out of the subsidy received from the Government of India for co-operative education, the Co-operative Department have, for the last three years, been conducting classes of four months' duration which all existing auditors and sub-auditors have attended. No arrangements for the training of auditors existed prior to these classes and it is not known what arrangements are contemplated for the training of future recruits.

The present audit staff of the Department consists of 4 Special Auditors, 36 Auditors (including Auditor for Purchase and Sale societies) and 34 Sub-auditors.

Figures showing the total cost of audit are not available; but according to the Review of the Co-operative Department published by the Government in 1933, the cost of the staff for the audit of urban banks and housing societies in 1931-32 was Rs. 52,768 while receipts were Rs. 53,418.

The levy of audit fees on agricultural societies was objected to by the Institute on practically much the same grounds as those on which the urban banks based their protest, namely, double payment, at any rate, excess payment. The Presidency is now covered by a network of Supervising Unions. They, in a way, conduct the primary audit of societies affiliated to them, though technically it is not called audit, and for the maintenance of the Supervising Unions the societies contribute annas 8 per cent on their working capital. As Mr. V. L. Mehta said in a note submitted by him to the Bombay Provincial Co-operative Conference held in March 1929, "If the system of Supervising Unions covers the whole of the Presidency, the function of the auditors will be merely to conduct super-audit and act as the local representatives of the Registrar in the districts for the purpose of general superintendence and guidance. Co-operators urge that it would not be proper to recover from agricultural primary societies the cost of a staff employed by Government for such duties." In fairness to Government it may, however, be mentioned that out of the amount collected every year by way of audit fees from agricultural societies, they retain Rs. 25,000 only and the balance is made over to the Movement by way of grants to Supervising Unions.

AUDIT OF CO-OPERATIVE SOCIETIES IN MADRAS

BY

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The Objects of Audit.—The ordinary purpose of an audit of any company or society is, in the words of the Madras Co-operative Manual, "to see that the accounts are properly kept and to present to those interested a correct statement of the concern's financial position." Audit is defined as "such an examination of the books, accounts and vouchers of a business as shall enable the Auditor to satisfy himself whether or not the balance sheet is properly drawn up, so as to exhibit a true and correct view of the state of affairs of the business, according to the best of his information and the explanations given to him and as shown by the books; and if not in what respects it is untrue or incorrect." It is not enough for him to compare the balance sheet with the books in order to see that it agrees therewith. "He must do this but he must also by exercise of reasonable skill and diligence satisfy himself that the books themselves contain a proper record of the transactions entered into as far as his information and explanations given to him extend. This will involve an examination more or less complete of the whole of the transactions of the business and the manner in which they are recorded. The two principal reasons for which audit is instituted are the detection of fraud and the detection of errors." I shall indicate in the appropriate places below how far these observations of the authors of the standard books on Audit are borne in mind in doing the audit of co-operative societies in Madras.

Who should do the audit ?—To create confidence in the people who deal with an institution, its audit should generally be entrusted to persons who are in no way connected with its management and who are competent to do the work. So a class of public accountants and auditors have come into existence. Generally the audit of business concerns is entrusted to these persons. The Companies Act requires that every institution registered under it should appoint an auditor at a General Body meeting. If for any reason the General Body fails to appoint an auditor, the Board of Management cannot appoint him but only the local Government can do so. The Act thus emphasises the necessity of the appointment of an Auditor not controlled by the management. So far as co-operative societies are concerned, the Auditor is always an inde-

pendent person. He is not appointed by the Board of Management or the General Body of a society. The audit is a statutory duty imposed upon the Registrar and he arranges for the audit of all societies under his control. It was even thought at one time that he should not delegate his power in this respect to any one else. The old Act of 1904 prescribed that the Registrar should audit the accounts of every society once at least in every year. Very soon after the first societies were started a question arose as to whether the Registrar should *himself* personally audit the accounts of every society or whether it would be sufficient if any person authorised by him, say a subordinate of his, did the audit and the Registrar passed the accounts by accepting his audit. The Board of Revenue who controlled the Registrar at the time was of opinion that the Registrar should himself do the audit of every society. The Local Government however ruled, taking into consideration the practical difficulties, that the provisions of the Act would be complied with if a subordinate officer of the Registrar did the audit and the Registrar accepted it. This rule led to the practice still followed in Madras of issuing an audit certificate by the Registrar along with the Audit Report by an Inspector. When the Act was amended in 1912, the aforesaid difficulty was removed and the Section relating to Audit provided that the Registrar shall audit or cause to be audited by some person authorised by him by a general or special order in writing in this behalf the accounts of every registered society once at least in every year. The present Act of Madras contains a similar provision. The Registrar of Madras has, in accordance with the provisions of this Act, invested all the Inspectors under him by a general order with power to audit the accounts of co-operative societies. The audit of societies in Madras is thus in the hands of an officer of Government who has nothing to do with the management of societies. The point has, however, been raised in some quarters whether the Registrar, who is in practice responsible for the good working of the societies, can be in charge of audit also. A prominent witness who gave evidence before me in my recent enquiry in Orissa suggested that the audit should be taken away from the Registrar and entrusted to the Controller of Accounts. There is some force in this suggestion. But if the Registrar should, however, merely confine himself to the duties imposed upon him by the Act, no harm will result if the audit remains with him. As the movement is admittedly a non-official one, and as the aim is that the Registrar should not do any other work except the statutory duties—the sooner this is achieved the better it will be for the healthy growth of the movement—and perhaps some of the statutory duties should also be transferred to controlling societies—the Registrar may continue to be in charge of audit. Even if other statutory duties are taken away from him, audit should not, in my opinion, be taken away from him at any time. During the transitory period, however, the auditors may not be placed under the control of the district officers who are responsible for the good working of the societies in their charge. Some reform has already been done in this respect. In the early years, the Inspector did both audit and supervision of societies. A district was divided into a number of circles and each circle was in charge of an Inspector who was made responsible for both audit and supervision. As the Inspector had to rectify the defects noticed, it was found that the defects were not always faithfully recorded in the audit reports. This led to the separation of the Audit staff from the Administrative staff. If, as pointed out above, the controlling officer, is also different from the district officer, audit may become more efficient but there may be administrative difficulties in this suggestion. It is however worth a trial.

METHOD OF AUDIT ADOPTED IN MADRAS

A. **Provincial and Central Banks.**—The business of the Provincial and Central Banks does not differ very much from that of any Joint Stock Bank. The banks deal in current and savings accounts, time deposits, the purchase and sale of Government promisory notes and other valuable securities, grant of loans and over-drafts etc. The audit therefore does not differ very much from that of a Joint stock Bank. The Auditor adopts the method generally suggested in the standard books on audit. In the matter of certifying to the correctness of outstanding balances, all affiliated societies send annual returns noting the balances as they were on the last day of the year in respect of all their transactions. Certificates from other customers are also obtained as far as they respond to the call. The audit of the Provincial Bank is entrusted to a Certified Public Accountant and Auditor. The audit of a Central Bank is done by a Senior Inspector trained for the purpose. The continuous or concurrent audit is done by him and the final closing is done by the Deputy Registrar-in-charge. The Senior Inspector makes the mechanical audit, i.e., compares the entries in one book with those in another, checks the receipts and vouchers, verifies the sanctions for the various transactions and finds out whether the business is done in accordance with the bylaws of the bank. The Deputy Registrar tests the work of the Senior Inspector and compares the balance sheet with the books in order to see that it agrees with them. Further the rules framed under the Madras Co-operative Societies Act requires that the net profit of a society should be determined by the Registrar. The Deputy Registrar calculates this

and sends his draft Audit Certificate to the Registrar for approval and issue. The Audit Certificates of all the financing banks are issued by the Registrar. Under the Act not less than one-fourth of the net profit is to be carried to the Reserve Fund and under the rules the Registrar has got power to say where the Reserve Fund is to be invested. So the Audit Certificate gives directions in regard to these. Audit is continuous and under the existing orders the accounts relating to a month should be audited before the close of the succeeding month.

B. **Urban Banks and Store Societies.**—These societies are under the existing order, audited continuously so that the accounts of a month do not remain un-audited after the end of the succeeding month. The method of audit adopted is similar to that in regard to Central Banks. A trained Inspector is put in-charge of two or more Urban Banks or stores societies and he does the audit from day-to-day. The Sub-Deputy Registrar-in-charge verifies the balance sheet and issues the audit certificate. Some societies have however formed themselves into a Union and employed an Inspector or other qualified persons to do their concurrent and final audit. They contribute from among themselves towards the cost of the management. There is also another scheme of audit adopted by a few more societies. By an arrangement with the Local Deputy Registrar they employ an Inspector and contribute towards his pay and allowances. This Inspector does the audit of all the societies under the scheme and is controlled by the Deputy Registrar and not by the societies. The societies which come under these two schemes pay less than the scheduled rates for their audit. These schemes were introduced at a time when it was the policy of the department to encourage societies to arrange for their own audit. Their exclusion now from the general levy of audit fees acts as a burden on other societies.

C. **Other Limited Liability Societies.**—Societies with a working capital of Rs. 20,000 or more are also audited frequently—once in two or three months—and the audit is in-charge of a trained Junior Inspector. The Sub-Deputy Registrar issues the audit certificate.

D. **Village Credit Societies.**—With these societies are also included small societies of other types not included in the above said groups. For every sixty societies, there is one auditor. The audit is divided into two kinds—interim and final. The interim audit of a society is a detailed audit and the affairs of the society are thoroughly overhauled and the results are recorded in the audit note book prescribed for the purpose. The audit is done during the months of January to June. In the case of most of the societies the audit will cover a period of 8 to 10 months.

For the remaining months it is done along with the final audit. Final audit means the closing of the accounts, preparation of the balance sheet and determination of the net profit. The final audit is done after the close of the co-operative year, that is to say, between July and December. As each auditor is not expected to do the audit of more than ten societies in a month a period of six months is given with a view to see that the audit is thorougly done. A perusal of the forms of audit notes prescribed both for interim and final audit will show what detailed and careful work an auditor has to do in a village credit society. An influential President or Secretary may commit a fraud and the members may not reveal it. There were instances in which the members would not reveal the fraud even when awards were passed against them for loans alleged to have been taken by them though the moneys were actually misappropriated by the Presidents or Secretaries of societies. It was therefore found necessary that the Auditors should spend sufficient time in each village to verify the genuineness of all transactions by sending for the parties and making enquiries of them and also of others. To verify the transactions a general-body meeting is generally held and the list of outstanding loans or other moneys due is read before it. If any body denies the truth or the correctness of any transaction an enquiry is immediately started. Further along with the final audit report the auditor submits a list of liabilities of each member signed and acknowledged by him as correct. The most common method of misappropriation adopted in village societies is to receive money and not to issue receipts or to give receipts in unauthorised forms or return the loan bonds with an endorsement. These frauds can be detected only by systematic enquiries. The most important and difficult work of an auditor in a village credit society is the valuation of its assets and liabilities. The records will not in any case show whether each loan stands on good security or not. If land is mortgaged as security its value is not always given specifically either in the resolution of the Panchayat sanctioning the loan or in other records. The property statement register is supposed to give this information but it does not always do. If a a loan is secured on sureties, their credit-worthiness is not specifically noted anywhere although the property statement register may give a general idea. There is also the doubt as to how far the information given in the books, if any, can be relied upon. The Auditor has therefore to make an independent enquiry and satisfy himself whether each loan stands on adequate security and if not to what extent security is insufficient.

E. Land Mortgage Banks.—The Audit of the Central Land Mortgage Bank is done from day to day by a Senior Inspector and the accounts are closed by a Deputy Registrar and the Registrar issues the Audit certificate. The audit of a primary bank is done twice—both interim and final—as in the case of village credit society.

F. The South India Co-operative Insurance Society.—The audit of this society is done by a certified auditor and accountant as it requires technical skill and as the Indian Assurance Companies Act requires the auditor to be a Registered Auditor.

G. Liquidated Societies.—The transactions of societies in liquidation are also audited once a year by Inspectors not connected with them.

Valuation of assets and liabilities of societies.—The Co-operative Societies Act, unlike the Companies Act, specifically mentions that the audit of a co-operative society shall include an examination of overdue debts and a valuation of its assets and liabilities. Every society prepares a periodical overdue list and the last list for the year is examined by the auditor. The list is of some help to the auditor in valuing the assets of the society. The valuation of the assets and liabilities of the Provincial Bank is a simple matter. The bulk of its assets are at present invested in G. P. Notes or other valuable securities. It finances only Central Banks although in recent years it has given loans to one or two primary societies. The Central Banks keep up their obligations and pay regularly (although one or two have defaulted in recent years.) The valuation in Urban Banks too is not difficult. Most of the loans are regularly repaid in monthly instalments. Where payment is regular the auditor naturally presumes that the loans are good. Further when a loan is given on mortgage of property, a surveyor's report giving the nature, extent and value of the property is always available in the records. There is also the periodical valuation report on the immovable properties mortgaged. Even in regard to the loans given on sureties, an enquiry report as to the status of the borrower and his sureties is available. Where doubt arises the auditor makes an enquiry. The auditor sits with a well informed Director or Directors or others and goes through the items of assets and finds out whether they actually exist and what they are worth. In regard to store societies the valuation presents no trouble. The stock is valued at cost price or market price whichever is lower. Fixed assets in the case of all societies are valued at cost price less depreciation. The valuation of the assets in the case of Central Banks and their affiliated societies is, as already said, very difficult, particularly after the fall in the value of land and commodities. The financial condition of a Central Bank depends mostly on the soundness of each of its affiliated societies. Owing to the enormous growth of overdues in village societies and owing to the fall in the value of land and commodities the Registrar suggested in 1933 that an enquiry might be made to find out whether every loan in every society was adequately secured or not. Most of the Central Banks have made this enquiry. Verification of assets is an important duty of an Auditor. He verifies cash balances, title deeds investment receipts, loan bonds etc.

Certain wrong impressions about Co-operative Audit.—There is an impression among certain ill-informed co-operators that Co-operative Societies are more or less philanthropic concerns and need not be subject to strict business rules because, if they subject themselves to such rules, they cannot be useful and therefore the auditors of such societies have to overlook certain defects which are due to relaxation of business rules for the benefit of the members. The sooner this impression is removed the better it will be for the societies. A co-operative society is as much a business concern as any other body. It cannot afford to ignore the principles of business and the present difficult situation in which some of the societies have been placed is due to the non-observance of these principles. The audit of a co-operative society does not differ from that of any other business concern. On the other hand, there are certain additional features about the audit of a co-operative society. A joint stock bank cannot be described as unsuccessful if the shareholders lose no money by it. A co-operative society can be described as unsuccessful even if the members lose no money by it but fail to gain any advantage from it. It is hardly an exaggeration to say that a proper audit is more important in a co-operative society than in a joint stock company. The auditor of co-operative societies is bound to see that not only the accounts are arithmetically correct but also the affairs of the society are being conducted on true co-operative lines, otherwise the Registrar may feel bound to cancel such a society and it is the duty of every auditor who audits the accounts of co-operative societies to bring to notice whether the society has ceased to be co-operative. This needs a more detailed scrutiny into the policy of the acts of the society than is required of an ordinary auditor. But at the same time his duty does not admit of any interference with the method of management of a society or the control of its officers and employees.

The qualification of Government Auditors.—No one who has not undergone training in a co-operative institute for the prescribed period and who has not passed the following tests are appointed Inspectors in the Department: (1) Book Keeping, (2) Auditing (3) Co-operation and (4) Banking. Only those who have gained practical experience in audit work for some years are entrusted with the audit of Central and Urban Banks and store societies.

Scale of Audit fees.—One other point I wish to touch before I close this article. There is an agitation at present going on in regard to the audit fees collected by Government from certain types of societies for the audit done by them. The present scale of fees levied is very high and was prescribed at a time when the policy of the Department was to encourage the audit of certain types of societies by Certified Auditors. When the Registrar could not get enough staff to do the audit of Central and Urban Banks and Stores societies, he had to induce these societies to arrange for their own audit through non-official auditors. The rule enacted for the purpose therefore provided for the levy of heavy audit fees. When the Government decided later on that the audit should be in their hands, they should have reduced the high scale prescribed with a different object. The scale of fees is very heavy when compared with the rates charged by private auditors. Under this scale, societies have to pay a disproportionate amount compared with the profits or with the work done. When societies are compelled to accept Government audit they should not be called upon to pay more than the market rate. If the State agency is more costly than private agency it is reasonable that the difference should only be met by the State. Societies should not therefore be crippled to satisfy the requirements of Government. The scale of audit fees should be reduced by atleast 50 percent. Whatever method of calculation is adopted, this limit should not be exceeded. If for any reason Government cannot reduce the scale, option should be given to societies to get their accounts audited by private auditors.

AUDIT OF CO-OPERATIVE SOCIETIES IN ASSAM

By

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The figures below show the position of the number of different types of societies in the province at the present time:—

Provincial Bank ..	1
Central Banks ..	18
Milk Unions ..	2
Agricultural credit societies ..	1,303
Agricultural Purchase and Sale ..	20
Agricultural Production & Sale ..	1
Non-agricultural credit ..	129
Non-agricultural Stores ..	11
Non-agricultural Others ..	14
Total ..	1,499

The progress and development of the movement cannot be considered to be satisfactory. Special difficulties peculiar to the province, lack of keenness and interest of the educated classes, want of general education of the masses specially with regard to punctuality, diligence, thrift and honesty, periodic failure of harvests, repercussions of the world-wide economic depression, inadequacy of the departmental staff to deal with the growing needs of the movement are some of the causes which are attributed to the slow growth of the movement and its present critical situation in the province.

Co-operative audit, being a state-controlled audit, plays a very important part in the development of the movement. Section 17 of the Co-operative Societies Act II of 1912 makes the Registrar responsible for the audit of all societies, at least once a year. There is no separate audit staff in the province. The present co-operative staff in the province consists of two Assistant Registrars for two Divisions, one Provincial Auditor for the whole province and 15 Co-operative Inspectors in 15 circles. Audit of all societies in each circle is conducted by the circle Inspectors, except of special types of societies, bigger Central Banks, the Provincial Bank, milk unions and milk societies, urban societies and stores which are all audited by the Provincial Auditor and Assistant Registrars.

The co-operative year in the province begins on the 1st April and ends on the 31st March. Immediately after the close of the financial year officers take up audit of the societies and these are all completed by the end of August. Owing to paucity of staff, the departmental officers have to make strenuous efforts to complete the statutory audit within the prescribed time as the annual report to be submitted to the Government is based on the audited figures.

Now to deal with the system of audit of different types of societies, it may be pointed out that the forms of Registers to be used by the societies are standardised and supplied free to the societies. Circle Inspectors usually audit and are responsible for the submission of the annual reports of all rural credit societies within their areas. Fortnightly programmes are made out by them at least a fortnight ahead and societies are accordingly instructed to ask all the members to appear with their respective pass books at the time of audit. The auditor begins by vouching the entries in the prescribed cash book which forms the basis of all original entries in a co-operative credit society. Columnar form of cash book is used in agricultural credit societies showing different heads of receipts and expenditure. Receipts are issued in all cases, in prescribed form, to members and non-members for any money received from them and taking up the receipt items first, the auditor verifies if all the amounts received have duly been brought to the cash book. Similarly the vouching of the payments items is taken up from the entries of the payment side of the cash book. After checking the postings in subsidiary ledgers—the ledger of loans, ledger of deposits and borrowings, register of shares, dividend register—a detailed list of assets and liabilities is generally made out by the audit officer. Register of members and *Haisiya* Register (register containing the property and debt statements of the members) are thoroughly scruitinised and defects remedied on the spot as far as possible. Loans are actually verified by reference to the members present and pass books are also checked to satisfy that their respective accounts are correct. Great emphasis is laid on the actual verifications of the loans. Overdue loans are shown separately both in the balance sheet and in the detailed lists. Understanding orders of the Registrar, statements of accounts between the financing banks and the rural societies are supplied to the audit officers concerned which facilitate verification of the society's accounts with those of the financing banks. The auditor verifies the cash balance and has to note how and where it is kept; other securities if any, are also duly verified. Annual reports of the rural credit societies are prepared in prescribed forms containing the cash account, revenue account and balance sheets together with the detailed lists of assets and liabilities and other particulars. After audit, the auditor records a note in the minute book of the society in vernacular. All defects are enumerated in the note which contains full instructions on the various points to be complied with in future.

Just after completing the audit, the auditor takes up the classification of the agricultural societies. The societies are classified into five classes—A, B, C, D & E. The principles underlying these classifications are based on the standard laid down by the ninth Conference of Registrars. This classification will however give only an approximate idea of the position, as the classification cannot be said to be made strictly according to the principles laid down.

The general principles followed in connection with the audit of the unlimited liability societies are also equally followed in auditing the limited liability primary credit societies. Some of the important banks of this type use single column cash books, all others using columnar form of cash book. The urban banks are generally well managed and some of them have employed salaried staff for account keeping. Members are on an average more advanced than the unsophisticated cultivators of the rural tracts, and as such the verification of the loans and pass books is not so important here. The by-laws of these types of societies usually differ fundamentally from one another and hence the auditor takes special precaution to see the conditions of the by-laws. As most of these societies work on deposits, the auditor has to scrutinise the position of the deposits and insist on adequate provision for fluid resource according to the standard laid down by the Registrar. Separate investment register is also maintained. All urban banks are required to obtain confirmation certificates of the balances of the depositors which have to be placed before the auditor for necessary scrutiny. Special instructions are issued by the Registrar with regard to the custody of the cash balance of this type of societies. Every such society is required to prepare its annual report in the prescribed form as soon as possible after the 31st March every year. There are three statements in this form. The first statement of receipts and disbursements should be compiled from the cash book. The items in this statement are the totals of the year in the different columns of the cash book where the cash book is maintained in columnar form or the total of the receipt and payment items taken from the general ledger. As bank transactions including the post office transactions are passed through the cash accounts, the opening and the closing balances include only the actual cash in hand with treasurer. The second statement is the revenue account or statement of profit and loss. All items of income and expenditure for the year including all outstanding bills and expenditure reasonably chargeable to the account are shown in this statement. The difference between the total income and the total expenditure gives the net profit or loss for the

year. The third statement called balance sheet exhibits the outstanding assets and liabilities of the societies on the 31st March. The figures are obtained from the ledger balance as well as the statements of uncollected assets and unpaid liabilities. Items of loans and deposits (with interests) are to be supported by detailed lists prepared from the ledger of loans and deposits. The reserve fund on the liability side is taken from the reserve fund shown in the last balance sheet plus such part of the net profit shown in the last balance sheet as has been carried to the reserve by a formal resolution of the annual general meeting approved by the Registrar. The correctness of the figures noted against the different items of assets and liabilities is tested by adding or subtracting the last year's outstanding figures as per last balance sheet, to and from the receipts and disbursements as per last balance sheet, to and from investments in building and other stocks are shown after allowance of sufficient depreciation which is shown as an item of loss in the revenue account. The auditor, in this connection, has to satisfy himself that the irregularities and defects brought to light in previous audit reports have been duly rectified. The audit report and certificate by the auditor clearly specify that the assets and liabilities have been verified and full detailed report of all defects and irregularities are noted. The main principles, noted above, are followed in the preparation of balance sheets of all classes.

The Central Banks have both individuals and primary societies as members and they are generally organised on a sub-divisional basis, their sole purpose being financing of affiliated primary co-operative societies within their area of operation. There are at present 18 Central Banks in the province with the Provincial Bank financing these Central Banks and some urban societies. No direct loan is issued to the primary agricultural societies by the Provincial Bank. These financing banks have got two classes of members viz., preference share-holders who are individuals and ordinary share-holders which are primary societies. Central Banks issue loans to primary societies only. Some of the big Central Banks have got their own buildings with regular salaried staff. The Registrar has prescribed minimum qualifications for the Secretary of a Central Bank and he has to furnish cash security. Remittances received by post or otherwise are usually received by the Secretary. Remittances received across the counter in course of business hours are supported by chalan and these are checked at the time of audit. Payment orders are usually obtained for all disbursements and these also have to be scrutinised by the auditor. In addition to the checkings already enumerated, the auditor has to check the overdraft accounts, verification of collateral securities, scrutiny of the fluid

AUDIT OF CO-OPERATIVE SOCIETIES IN BARODA

By

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The work of starting co-operative societies was first begun in our State in the year 1906, and though the number of societies began to increase with a rapidity, no provision was made for their audit in spite of the appointment of an independent Registrar in the year 1909. He used to visit the societies of the whole State in his tour and make necessary inspection. This practice continued upto the year 1911, when in view of the increased burden of the work, the Registrar was given the help of an Assistant Registrar, who was required to make inspection of the accounts of all the societies. Till then neither audit of the accounts was done, nor a separate post of an auditor was found necessary. But the safety of the money granted to these societies by the Government and the efficiency of the Co-operative Movement demanded the provision of a separate officer for the work not of inspection but of audit (in the true sense of the term) of all the societies registered in the State, and the first auditor was appointed in the year 1912 and since then all the societies of our State have been regularly audited once in every co-operative year by the auditors of the Co-operative Department.

In the beginning, the auditor was required to make two rounds in a district and visit the societies in his charge twice in a year—the first visit for supervision and the next for audit. In supervision he was required to make all necessary corrections or completion of accounts, hold general meetings, give necessary education to the members in the fundamentals of co-operative finance, make necessary scrutiny of the loans granted and such other work that helped a lot in the subsequent audit. Generally speaking his work of supervision mostly resembled that of the Supervisors of the Punjab. In the second round, he again visited all the societies and finished the work of audit. This system was allowed to continue for a few years and the good results obtained from it proved it to be the best system ever followed in view of the efficiency of the movement.

But a rapid increase in the number of societies and a consequent increase in the burden of work of the auditors, presented two alternatives for the Co-operative Department. They were either to increase the audit staff or to give up the practice till now followed of visiting every society twice in a year. The Government adopted the practice of

Bombay and ever since the year 1916, every year, the auditors have to begin their work of audit immediately after the opening of the touring season—probably from the month of November—and finished it before the end of July when our co-operative year ends.

The work of audit of all the societies registered under the Co-operative Societies Act of our State has been devolved upon the Registrar, Co-operative Department, and hence all the Societies—primary and central—have to be audited exclusively by the auditors of the Co-operative Department, though before the recent appointment of a Special Auditor of the central and other big societies, even the Assistant Registrars had also to be utilised for the audit of central and urban societies. No non-official agency has ever been tried for the work of audit in our State. Some of the Central Banks do keep Inspectors for the inspection of the societies affiliated to them, but their inspection does not give any real help to or absolve the departmental auditors from the responsibility of their statutory duty of audit. But now most of the central and urban societies have started to get their accounts audited by their own auditors.

All the primary societies are audited by the Departmental auditors, and the central, urban and big societies of limited liability with a working capital of Rs. 20,000 and above are now audited by the Special Auditor—a post recently created in the Co-operative Department. With the appointment of the Special Auditor the work of audit of all the Societies of our State, which numbers about twelve hundred at present, has been systematically divided as under :—

The Special Auditor has to audit all the central and other societies of limited liability with a working capital of Rs. 20,000 and above of the whole State, which generally number from 25 to 30 in a year.

The remaining societies of the whole State are divided for the purpose of audit into 17 different Divisions, each in charge of an independent auditor. They have all to audit nearly 60 to 70 societies on an average in a year, but in addition to this work of audit, they have also to work as arbitrators and liquidators and have also to work for the organisation of new societies and rectification and consolidation of weak ones in their respective Divisions. However, the work of audit of all the societies—primary and central—of the whole State has to be finished every year by the departmental auditors even in cases where banks or big societies get their accounts audited by their own auditors.

As regards the period taken for audit, our practice is to take it from date-to-date in case of all societies. No audit-fees have ever been charged from the societies by the Government for the work of audit done by the Departmental staff.

resources with reference to the demand chart of deposits maintained, special scrutiny of the loan accounts of the societies and administrative check of the supervision work. In preparing the balance sheet, generally, outstanding loans are separately classified into three broad headings: (1) Loans considered good and secured; (2) Loans considered doubtful and (3) Loans considered bad. Special scrutiny of the loans due from societies under liquidation is made in this connection. The method of preparation of the balance sheet and the valuation of the assets are on principle the same in all the societies. In addition to the statutory reserve fund, all co-operative banks or societies shall be required to make such provision for bad and doubtful debts as may be required by the Registrar, or some person duly authorised by him before any dividend may be declared. Unless such provision has been made, or a special exemption (which may be subject to conditions) has been granted by the Registrar, no co-operative bank or society shall take into account unrealised overdue interest for the purpose of paying dividend, or for the purpose of declaring profits. As in limited urban societies, the Central Banks have to obtain confirmation slips from the depositors for the scrutiny of the auditor. A separate register showing serially the number of deposit pass books issued is to be maintained. Separate pass books are invariably to be issued to all depositors and borrowers and no transaction entered in deposit pass book which is not issued under the joint signature of two office-bearers (as the deposit pass books have to be issued under the joint signature of the secretary or manager or accountant with the Chairman or any member of the Board specially authorised for the purpose) will be valid. Specimen signatures of depositors are to be obtained and preserved for necessary verification by the auditor. The balance sheets are usually prepared by the banks concerned and these are placed before the Government Auditor for statutory audit. In preparing the balance sheets the Auditor has to be satisfied that the capital is safe, the financial position is sound and that the investments are good, showing a clear margin of profit.

The audit of the Provincial Bank is mainly conducted on the same lines as those of the Central Banks.

In store societies, the following books are maintained in addition to the other registers except the ledger and register of loans:—

Purchase day book, Sales day book, Stock register and Personal ledger.

Single column cash book is used by the store societies. Some additional registers e.g., adjustment ledger, register for noting the

articles received on consignment etc., are not standardised. The audit of this class of societies requires some special training and the Provincial Auditor is in entire charge of these audits. In preparing the trading account, the auditor checks the entries of the stock Register and has to be duly satisfied that the stock taking was done with all necessary care and precaution. Stock list is usually signed by the Board which certifies that the stock taking as on the closing day of the year reveals the actual stock on the day. Certain percentage of depreciation is usually shown from the stock list and the balance is then taken to the balance sheet. Sales day book is checked with reference to cash book for cash sales and credit chits for credit sales. Credit sales are then checked with the personal ledger and detailed lists of outstandings are prepared for the balance sheet. Cash memos are issued for all cash sales which are also duly checked. Similarly the purchase day book is checked. Invoices are to be produced in this connection. Balances due to the suppliers have to be duly confirmed.

In the early days of the movement, no audit charges were made by the Government for the audit of the co-operative societies. The Local Government made a rule directing audit fees to be realised from societies and the audit fees were assessed from the year 1921-22. The assessment was made on the rules which provided that every society shall pay on or before the 30th September of each year, an audit fee at the following rates calculated on its working capital as it stood at the close of the month of March, immediately preceding the date on which the audit will be due:—

(a) Six annas per hundred rupees subject to a maximum of Rs. 100 in the case of a society other than a Central Bank.

(b) Three annas per hundred rupees subject to a maximum of Rs 200 in the case of a Central Bank.

Provided that no society shall be liable to pay an audit fee until one year and a half has elapsed after the date of its registration.

The above rate is being continued to the present time though the rules amended in 1933 provide an enhanced maximum limit as follows:—

(a) Eight annas per Rs. 100 subject to a maximum of Rs. 140 in the case of a society other than a Central Bank.

(b) Four annas per Rs. 100 subject to a maximum of Rs. 350 in the case of a Central Bank.

Due to the financial difficulties of the province the Department has not yet got a separate audit staff which is a dire necessity for adequate and efficient management of the movement though insistent demand is being made for it.

UNLIMITED LIABILITY IN THEORY AND PRACTICE

By

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Unlimited liability has been idolised by many a writer on agricultural co-operation. Wolff considered it the 'very pillar of the Raiffeisen system'; while it provides an absolute security for the protection of the creditor, there is nothing like it "to sharpen the wits of people concerned, to make them watchful, critically observant, inexorable......" It was an article of faith with Raiffeisen and his followers who thought that without it there could be no 'co-operative spirit.' Schulze Delitzsch valued it for its utility in attracting deposits and putting members on guard, though he saw in it a 'two-edged sword.' Neither of them, however, had at the time of founding their societies any choice, as the privilege of limited liability had not been accorded by law. After this was done in Germany, the followers of Schulze gradually went over to limited liability, which is to-day the prevailing form in urban societies everywhere, each of them drawing members from a far wider circle than a village. On the other hand, agricultural credit societies are still in several parts of the world based on the Raiffeisen model with unlimited liability—the outstanding exceptions being those in Great Britain, the United States, France and recently Japan.

I. **Prevailing Forms of Liability in Foreign Countries.**—It could be seen from M. Digby's *Digest of Co-operative Law* that unlimited liability is a statutory obligation on members of rural credit societies in Austria, Czechoslavokia, Germany, Ireland, Canada, New Zealand, New South Wales, South Africa, Egypt, etc. Though the law in the following countries permits any form of liability, members have actually undertaken unlimited liability in most of the agricultural credit and even non-credit societies in Denmark, Holland and Finland, while multiple or supplemental liability has been undertaken in Hungary, Belgium, Switzerland, etc. It is only in Great Britain and the United States that liability is in all cases strictly limited. The law for a long time in France and recently in Japan has permitted limited liability; but societies where either the members or the managing committee undertake unlimited liability are accorded greater privileges in respect of borrowing from the State or taking deposits from others.

Unlimited liability has not been popular in France. The French peasant proprietor seeks security above everything and shuns every-

thing smacking of risk. He is notoriously thrifty; and savings banks had developed earlier in the countryside than credit societies. Co-operative credit has come into vogue in the post-war period not for paying off prior debts, but for effecting agricultural improvement. The village credit societies which have multiplied more than ever in the last 18 years and are generally based on limited liability, are quite subordinate institutions, not holding cash, nor inviting deposits, and serve more as branches of Regional Banks. The latter look into loan applications of members of village societies before sanctioning them, and send them statements of dues to be collected in instalments from individual borrowers leaving the societies little scope for initiative and management. Otto Rothfield would not commend them for adoption in Bombay 15 years back. "French societies are safe, but do not achieve anything brilliant. Our best societies are revolutionising the countryside economically, socially and morally, but many are still thoroughly unsound and dangerous."[1] The situation has certainy worsened in Bombay, while it has improved in France.

The British farmer has been more averse to unlimited liability than the French peasant. He is more conversant with commercial banks and lives in a business atmosphere. He makes more use of personal credit and the pledge of produce, his immoveable assets not being proportionately high. There is none who advocates unlimited liability for the British farmer. J. R. Cahill who was convinced of the benefits of that liability in most parts of Germany would not recommend it for England in his famous report. "The question of unlimited liability is not a matter of principle but of expediency. It may well be the case in England that unlimited liability having been long abandoned in business, may appear so far-reaching in its possible consequences that to secure its general adoption might present almost insuperable difficulties to the extension of the co-operative movement...... Consideration might be extended to the prevalent disinclination in this respect. The essential point is that members should incur such liability that, in rough proportion to their means and to their utilisation of the services of the society their interest in its success, as well as an adequate basis of credit for the society, should be secured. This object is attained under the system of limited liability in Saxony and Pomerania".[2]

The American farmer who has considerable landed property would not look at unlimited liability. Professor T. N. Carver could recognise its utility only "among very poor and struggling farmers no one of whom owns more than a very few hundred dollars worth of property and all

1. Impressions of the Co-operative Movement in France and Italy, pp. 23, 24.
2. Agricultural Credit and Co-operation in Germany, p. 86.

of whom are about equally wealthy or poor" and he looked forward to the development of co-operative credit associations with limited liability in the United States. J. R. Cahill told the American Commission on Agricultural Co-operation in Europe: "Some members of your Commission have said that if it were proposed to establish an unlimited liability society in America, the first thing to be done with the person making the proposal would be to put him in a lunatic asylum. The question of unlimited or limited liability is not essential. You want to create a security. If you can get together a sufficient number of persons to create a security, then you have created credit".[3]

Sir Horace Plunkett, the founder of the agricultural movement in Ireland, set great store on unlimited liability in credit societies. But such societies have failed more than any other type in that country and their revival is still a problem. The Commission on Agricultural Credit, (1912-14) while recommending their restoration and improvement, noted 'the difficulty in attracting the better off farmers to a credit society with unlimited liability' and proposed that societies should also be formed with limited liability. The Commission, by the way, was definitely against the assumption of trading functions by the credit societies. What even Free State Ireland seemed to lack was 'a large class of persons capable and willing to serve a local credit society with success' like the priests and school masters in some of the Continental countries.[4]

Japan, which adopted in 1900 the pure Raiffeisen model of agricultural credit with unlimited liability felt it necessary later on to convert such societies into limited and more recently into guaranteed liability societies. According to an authoritative publication of 1934, unlimited liability societies formed only 8 per cent. of the total number of societies, though 85 per cent. of the societies had credit as their object, singly or in combination with other purposes.[5]

Unlimited liability is still going strong in some of the European countries where agricultural co-operation has most advanced. It is difficult to speak of the movement in Austria, and Germany at present; but there is no doubt that unlimited liability holds the field in Denmark, Holland and Czechoslavokia. The interesting, rather perplexing, point is that in these countries unlimited liability is the basis of not only credit societies, but of almost every kind of agricultural society: creameries, bacon factories, purchase and sale societies, some of them covering a very large area. It is the form of liability adopted not only by primary

3. Report, p. 848.
4. Agricultural Co-operation in Ireland (H. P. Foundation), pp. 374, 385.
5. Report by the Central Union of Co-op. Societies in Japan, p. 10.

societies but also by central societies and land mortgage banks extending over the whole of a province or even country. Mutual knowledge among members, a *sine qua non* of unlimited liability, is impossible in the nature of things in societies so big, nor is the risk undertaken in a trading or producing society so simple as that in a village credit society. This may imply extreme faith and confidence in the co-operative character and business abilities of fellow-countrymen. In fact, there is said to be practically no case of any member called upon to make good a deficit. But such a liability cannot be taken up by members in less advanced countries with impunity. When members are prepared to pledge their unlimited liability in several societies at a time, its value is obviously neutralised. Attention has been drawn to this caricature of unlimited liability by C. F. Strickland, who considers it unsound in theory and contrasts it with the Indian system which does not, rightly, permit unlimited liability of members in more than one society and in secondary societies.[6] Here is the latest view on the working of unlimited liability in Holland. Dr. C. Weststrate of the Raiffeisen Central Bank, Utrecht writes in the Year Book of Agricultural Co-operation, 1938: "If we have learnt anything in these last years, it is that unlimited liability may be a foundation stone, but that we must do our utmost to let it lie very quietly where it is. To make use of unlimited liability is like taking a foundation stone away to repair the top of the building; it looks all right again, but its solidity has suffered. Use of this liability naturally impairs the support of the members, and the necessary feeling that co-operation is valuable to them. We have learnt, or rather we have realised, that a sound economic purpose, good organisation and good management of the co--operative societies are much more essential to the well being of co-operation than the most complete liability of members."

II. **Early Hopes and Fears of Unlimited Liability in India.**—It is but natural that when India had to copy a foreign model, the early advocates of co-operative credit should recommend unlimited liability, so much more in vogue in peasant-farming countries in those days. The virtues of the system have been sung not only by Nicholson but by one committee after another. The Famine Commission of 1901 insisted on unlimited liability "for under such conditions a few ordinary villagers can readily provide a guarantee to satisfy (creditors)...... The feeling of joint responsibility induces each member to exert himself to the utmost to safeguard the common interest, it compels caution in the distribution of loans to members, and causes them to hesitate over the introduction of any new members likely to cause loss to the association by unpunctuality or backwardness in making payments." The Commis-

6. Studies in European Co-operation, Vol. I, pp. 3, 160.

sion added however : " It remains to be seen whether the principle of limitation by guarantee will not be equally efficient and more acceptable ".[7]

Misgivings were entertained by a few even in the early days. For instance, while the Bill was under discussion in the Imperial Legislative Council in 1903, the late Mr. G. K. Gokhale said that " unlimited liability is a principle which our raiyats in many parts of India can scarcely be made to understand......this is to them an entirely foreign idea and in most parts, it is to be feared, would deter people from joining such association. Responsibility in equal shares on the common partnership principle may be better appreciated and would be enough for a start ....it will be a mistake to aim at too much in the start. Insistence on such a principle would keep away from the new societies those very classes, whose help and co-operation would be very indispensable ".[8]

The Government did not indeed force unlimited liability on agricultural credit societies at first. In fact the societies organised in Madras in the first two years were all on the basis of limited liability. But by persuasion and later examples they gradually changed over to unlimited liability. The first Madras Registrar in his third annual report averred : " The apprehension at one time entertained that people will be generally very unwilling to accept unlimited liability has proved groundless ".[9] This elicited the encomium of the enthusiast Wolff : " Rather curiously there appears to be in India a pronounced predeliction for unlimited liability which one ought not to discourage. The reason for such predeliction obviously is that unlimited liability is of the two forms the most readily understood even by untutored minds. In Madras there are even societies which have deliberately converted themselves from limited into unlimited liability societies ".[10] A few years later when difficulties arose in one district the then Registrar had a fear that " if loans were given liberally in such societies, the civil courts might refuse to enforce an unlimited liability which most of the members had never understood or accepted ".[11]

The Government of India reviewing the working of societies all over India in the first ten years expressed entire satisfaction at the way in which this principle was received by the people even though " many experienced persons anticipated innumerable difficulties on this ground alone. The instinct of association, however, is familiar to the Indian mind, and the principle of unlimited liability has been accepted without demur. It is, indeed, better understood in the villages than limited

7. Report, p. 96.
8. Gokhale's Speeches (Natesan), p. 279.
9. Report for 1906-7, p. 1.
10. People's Banks, p. 526.
11. Report for 1913-4, p. 29.

liability and for rural credit it constitutes the main basis of co-operation in this country.".[12]

Soon after, the Maclagan Committee on Co-operation recommended the retention of unlimited liability in no uncertain terms. " It has been, contrary to the anticipations of many, unreservedly accepted by the people and we have evidence before us to show that it constituted an important factor in the confidence reposed on societies both by the central institutions inside the movement and by the joint-stock banks outside it. Its adoption has not kept out the richer peasants, nor have we met with any demand for the substitution of limited responsibility." The Committee was not quite sure of the exact legal obligations of members under unlimited liability (how much and when to contribute to the dues of the society) ; nor did the danger of alienating assets by members escape its attention. It contended itself with stating that there were no difficulties so far of enforcing the liability ; that it should take the form of ' contributory unlimited liability ' by which the ultimate deficit due by the society to the creditors should be secured by a series of levies *per capita* on members, direct proceedings by any creditor against individuals being forbidden[13]—an understanding not always observed by Central Banks until the law was amended in some provinces.

III. **Recent Experience of the Working of Unlimited Liability.**— Some of the Provincial Banking Committees have devoted some attention to the worsening situation in the co-operative movement and its reaction on unlimited liability. The dissolution of a large number of societies in every Province began even before the depression, and the results of liquidation served to reveal people's understanding of the liability they had undertaken and their capacity for wriggling out of it. But almost all the Committees came to the conclusion that in spite of defective appreciation of the responsibilities involved in unlimited liability by the members it had undoubted value and should not be scrapped or replaced by limited liability. The Bengal Committee was unequivocal. " Joint and unlimited liability has been found from experience to be absolutely essential for agricultural credit ; and as a matter of fact, instances in which one member has been made to pay more than his own dues to the society are so very rare as to be utterly negligible ". But it was admitted that where membership was heterogenous, the richer members dominated and gathered all power in their hands.[14] So, where security was strengthened, co-operative spirit weakened. The United Provinces Committee discovered the same antithesis between security and liberty, but looked to co-operative education to reconcile

12. Resolution dated 17th June 1914, para 14.
13. Report, pp. 27-8.
14. Report, p. 151.

the two and in that hope recommended the continuance of unlimited liability. The Central Provinces Committee while recognising the value of this liability found in the very security that it afforded the cause of reckless advances to members. Indeed it was argued "if members were to be merely borrowers and do nothing else, they could be more effectively drilled and disciplined and made to repay loans by a purely Governmental agency".[15] The Bihar Committee went further and supplied figures as regards enforcement of unlimited liability in liquidation proceedings. Out of a total of Rs. 210,502 realised in such proceedings, only Rs. 4,498 was realised by the enforcement of unlimited liability principle. The Committee recommended the wide publication of these figures in as clear a manner as possible, to reassure the well-to-do who had joined or would be willing to join credit societies. But actually the few cases where the principle was enforced did create a wide-spread uneasiness among the well-to-do.[16]

The Indian Central Banking Committee echoed the opinions of Provincial Banking Committees and held that in spite of the apprehension of alienation of property, the safeguards provided for were sufficient and the protection to creditors was ample, which accounted for the inflow of funds from the public. "Co-operators find that with the observance of these precautions and the restrictions of loans to members selected for their honesty, the unlimited liability is of great practical value in raising and dispensing co-operative credit instead of being a danger and a snare." They had, however, no objection to trying limited liability where co-operative credit could not make headway under limited liability.[17]

But Manu Subedar in his dissenting minute expressed grave doubts of the practical value of unlimited liability as it generally worked in India, though he did not underrate the moral value of the principle wherever it was accepted after an understanding, and enforced by local public opinion among members. He felt that "public opinion among members is not strong enough to compel prompt and regular discharge of obligations to repay. The forces of laxity must have outweighed the forces for enforcement." He was of the view that public confidence in co-operative banks was due not so much to unlimited liability as to the feeling that the moral authority of the Government was behind the deposits, to the Government's action in paying off fully all depositors in a crisis as in Burma and to the statutory audit of co-operative societies by Government agency or Government control.[18]

15. Report, pp. 268-9.
16. Report, pp. 136-7.
17. Report, p. 120.
18. Minority Report, pp. 89-91.

There was indeed room for optimism among creditors—usually Central Banks—as long as the law was not clear as to the stage and the manner of enforcement of unlimited liability. The highest courts of law in Madras and Patna held divergent views on the subject. There was a legal doubt whether creditors could or could not proceed against individual members of societies to collect their dues. The Bombay Act of 1925 specifically laid down that creditors could *not* proceed against individual members, whose liability could be enforced only after the liquidation of a society and on a pro-rata basis. The Madras Act of 1932 followed the Bombay Act and that indeed was the theory propounded by Calvert—Contributory Unlimited Liability—and accepted by the Indian Banking Committee. As a matter of fact, we are told by a high authority that in Madras the Central Banks were able before 1932 to get decisions or awards against defaulting societies executed against individual members of such societies. "Often such decisions or awards were used to induce a prominent member of a society to take interest and collect the dues from the borrowers and pay the dues to the Central Bank concerned." The power to enforce unlimited liability against any one at any stage was itself a mighty weapon, though sparingly used. On the few occasions in which it was used it provoked a lot of local resentment. Charges have been freely bandied against official liquidators and authorities of Central Banks that they used their power to satisfy their private or party grudge against independent individuals, who had not themselves borrowed at all. The legislation of 1932, combined with the acute economic depression, would seem to have turned the tables against Central Banks. Since the depression set in, dissolution of defaulting societies has become common, and the Central Banks have found it increasingly difficult to collect their dues not only from impecunious borrowers but also from the apparently solvent members despite the vaunted unlimited liability.

How thin is the protection afforded by unlimited liability to creditors in several cases has been revealed in the annual administration reports of the Registrar in Madras. It was enforced in 34 cases in 1930-31 and the contributory orders were for Rs. 77,960. It rose to 361 cases in 1933-34 with contributory orders for Rs. 3.2 lakhs. In 1935-36 contributory orders were for Rs. 3.89 lakhs enforced against 2679 persons. The actual amounts collected by liquidation were insignificant by the side of the amounts due. In most cases liquidators have had to purchase the properties of members for values often less than half of the amounts to be recovered. And it was by no means easy for them to realise even the purchase price by the resale of such properties. There was a scarcity of bidders in the village, due partly to the economic depression, but more to the combination among villagers. The Registrar even in 1931 complained of " the obstacles put in the way of the liquidator by seasoned defaulters and an unsympathetic public in the villages ".[19] We have been assured that liquidation itself is not resorted to lightly or hurriedly —perhaps the Central Banks would say, not promptly enough. It is done only "when all methods of recovering arrears from members persuasive and coercive—are exhausted " by which time most of the outstanding debts become bad or irrecoverable. Benami transactions and alienations of properties are reported to take place freely when a society has begun to decline. Supersession of Panchayat by a single Agent is said to be a little more effective than liquidation; but it is unpopular and cases have been reported of such an agent himself abusing his power or winking at members' fraudulent transactions.[20] No wonder the Central Banks ask for powers to proceed against individual defaulters or to appoint a Receiver who can take action as in land mortgage banks.

Such difficulties are by no means peculiar to Madras. The worst had happened in Burma where the drastic action taken to enforce unlimited liability led to " inefficiency and mismanagement by appointed agents of the liquidator and to surreptitious disposal of valuable land by members of societies before the liquidator appeared on the scene ".[21] The Registrar in Bombay has been complaining of the difficulty in disposing of the properties of members. Agriculturists have no cash and a few who have " hesitate to shoulder any odium by purchasing the properties of their fellow villagers in distress ". The liquidator has to purchase them and think of resale outright or by hire-purchase system or of some method of extensive cultivation—all of which present difficulties.[22] The Registrar of the Punjab has reported : "The difficulty of finding good liquidators continues unabated. Whole-time liquidators are now being engaged as an experiment....Liquidators get no help or sympathy and as a general rule the whole village combines to obstruct proceedings in any way they can ".[23]

The enforcement of unlimited liability or the fear of it has surely everywhere scared away the well-to-do ryots from joining a society or continuing in one. In the Punjab " in many societies it is unfortunately the good members who are apt to go, either from the fear of the enforcement of unlimited liability or because owing to the default of the fellow members (over whom they have evidently had no control) the society's credit with the financing bank is reduced and they are unable to get loans which they really need and to which their individual credit should

19. Report for 1930-31, p. 15.
20. Madras Journal of Co-operation, July '37, p. 16.
21. Reserve Bank Bulletin No. 3, p. 11.
22. Report for 1934-35, pp. 34-5.
23. Report for 1934-35, pp. 52-3.

entitle them ".[24] In the Central Provinces " honest and solvent agriculturists are reluctant to form societies on account of the fear of coercive action and enforcement of joint liability " which the Registrar wanted to be counteracted by propaganda. Though he was later on gratified at the effects of education and supervision in removing the fear so far as new societies were concerned, he admitted : " Several non-official co-operators, however, feel that still better results would be achieved if the new societies were allowed to be organised on limited liability basis " and stated that the question of organising limited liability societies was under consideration.[25]

The authorities of the Reserve Bank of India apparently advocate the continuance of unlimited liability in the new type of co-operative village bank or the multi-purpose society they have been recommending. In their latest Bulletin they recommend : " The reconstructed societies must also as in Burma be strengthened by the enrolment of new good members. It has been generally said that the existence of unlimited liability acts as a deterrent to new members joining societies which have not worked well in the past. However, strange as it may seem, in spite of the fact that this liability was so harshly enforced in Burma, no difficulty has been experienced there in inducing well-to-do members to join the societies. It may not be so easy in India, but an attempt must be made to revitalise the societies with the introduction of subsantial people ".[26]

IV. A Plea for a Change in the Form of Liability.—The scheme at Alamuru (East Godavari, Madras) of a multipurpose society for a group of villages, but based on limited liability, is at any rate more logical. Co-operators in this tract have had a bitter experience of the enforcement of unlimited liability on the richer members in a number of credit societies, though it is admitted that loans had been advanced recklessly in some cases, while the depression reduced the repaying capacity of many. The President or Secretary played havoc, while the Panchayat slept on, in a few societies. Transactions in the Union area have fallen from Rs. 9 lakhs to less than Rs. 1 lakh. The well-to-do ryots have been scared away by unlimited liability. There is no prospect of a rapid revival without limiting liability. The Alamuru Co-operative Rural Bank, Ltd., registered last February, offers to grant loans on the pledge of gold upto 75 per cent of its value, on the pledge of produce well-secured upto 60 per cent of its value, and on the mortgage of unencumbered immovable property belonging to the

24. Report for 1932-33, p. 25.
25. Report for 1935-36, p. 9.
26. Reserve Bank Bulletin No. 3, p. 45,

borrower upto 50 per cent of its market value. Cash credits are granted on continuity mortgage bonds which dispenses with the need to renew the mortgage frequently. Encumbrance certificates and legal opinion on titles are, of course, obtained in every case of mortgage. It is significant that loans on personal surety are not provided for. In these respects it runs counter to the orthodox co-operative view which prefers personal surety to mortgage security—though in Madras mortgage security has been in vogue from the early days of the movement and the Central Banks have often insisted on it in the case of larger loans for longer periods.

In spite of such precautions from the banking point of view, the new rural bank has attracted only a limited amount of deposits from individuals, members and non-members, and the Central Bank in the area has so far not advanced any loans to the new society. Is this illustrative of the profound (or pathetic ?) faith of Central Banks in unlimited liability, which in theory offers a wider target for creditors ultimately, and in practice may serve to frighten the solvent members into a sense of their obligation to the creditor bank ?

It is easy to argue that unlimited liability cannot be a danger or a snare so long as the safeguards associated with it are effective: the power to select members, the right to refuse loans and to watch the use of funds and see to the punctual repayment of dues. If all or most members or at least the Panchayat were vigilant, there would be no trouble to members subscribing to unlimited liability. Without such safeguards, even limited liability might not save the society from collapse; only the creditor would have to suffer more and the richer members much less. If the risk of unlimited liability does not act as a spur to vigilance, the assurance of limited liability is less likely to arouse a sense of duty. Sir Horace Plunkett said: "The moment you begin to say—' well, after all, it only costs us so much if the bank bursts '—the bank will burst".

These are no doubt valid arguments, but they have not prevented the Central Banks from lending to limited liability urban societies (with members offering no material security though their repaying capacity can be more easily assured) and to loan and sale societies which have only produce as their security which is no better than the varieties of security including mortgage offered by Alamuru Bank. On the other hand have not Central Banks in the past depended too much on unlimited liability, and granted loans without any enquiry into the human material for management in the village credit societies, once they found one or a few rich men as members? Have they tried to pull them up by proper inspection or supervision—with the new powers the Central Banks now have ?

The Editor of the *Madras Journal of Co-operation* in reviewing the Movement in Japan wrote. "In this respect we think the Japanese are wiser than we have been. Unlimited liability has not yielded, at any rate in our country, the moral and material results that were expected of it. Nor is it easy of enforcement in practice. It has not proved a greater guarantee to the creditor against loss than limited liability. On the other hand, it has the serious disadvantage of keeping out intelligent and propertied men from societies, who would have been invaluable in managing them efficiently. The fact that everywhere in our country limited liability societies are more efficient than the unlimited liability societies should open our eyes to the superstitious regard we have for unlimited liability. Unlimited liability should become the exception and not the rule as is the case in our agricultural credit societies".[27]

This view might appear too categorical. There are surely other factors than the form of liability that contribute to the comparative success of our urban societies and the failure of rural societies. But the Editor has done a distinct service in calling the attention of co-operators to the actual experience of unlimited liability in contrast to the idealistic conception of it. Wherever that liability is properly understood and cheerfully accepted, it is best to leave it alone and pay our tribute to the members. But for the rest, is it not wiser to adopt a less rigorous and less abstract liability with safeguards more concrete than those fondly associated with the old liability ?

27. January 1935, p. 344.

REVIEW

YEAR BOOK OF AGRICULTURAL CO-OPERATION 1938. (P. S. King & Sons, London, 15s. net).

This annual publication of the Horace Plunkett Foundation is the best single source by which we can bring up-to-date our knowledge of agricultural co-operation in the rest of the world. We may invite the special attention of the readers in India to the full length contributions on the movement in the following countries: France by Miss M. Digby, the able Secretary of the Foundation, Australia by Dr. G. L. Wood of the University of Melbourne, China (pre-war) by Mr. W. K. H. Campbell, League of Nations Co-operative Adviser, and India by Dr. C. R. Fay, the distinguished author and Chairman of Trustees of the Foundation. We are glad to find, for the first time, the prices of publication noted in the bibliography supplement.

The introductory survey notes the advance that has been made by the movement almost everywhere in Western Europe. The depression acted only as a pressure; the moment it was removed, the power of co-operation rose like a spring released. In the East, Near and Far, depression dealt a more severe blow, and the need of the day is consolidation rather than advance. The post-war development of agricultural co-operation in Europe, which is the theme of a separate chapter, points to the great part played by land reform, amounting to revolution in some countries, particularly in Eastern Europe, where there was an 'outburst of co-operative legislation.'

There are two interesting biographical notes: one on Count Karolyi who, though a feudal nobleman, was the father of the movement in Hungary, and the other on Albert Thomas, the leader of the French consumers' movement and the first Director of the International Labour Office. In an year-book dealing with agricultural co-operation, this is a fine digression by Rev. C. F. Andrews, who pays a tribute to the services rendered by the late Head of the I.L.O., to factory labourers in India, China and Japan. We only wish to point out here that there have been occasions when the Government of India was reluctant to implement the recommendations of the International Labour Conference.

'Co-operation and Rural Hygiene' is a slight descriptive account of last yea'r Health Conference at Java and of the part played by co-operatives in the better-living of Asiatic peoples. "Co-operation and the Nutrition of Colonial Peoples" is a kindred topic, but deals more with African peoples; the part played by co-operation is insignificant.

Now to India. Dr. C. R. Fay gives in twenty pages 'a view of India from without' of which 'a constructive criticism' is welcomed by the

Foundation. Prof. Fay has some personal knowledge of India, particularly of South India. He has followed the course of our movement closely and his impressions are not at all of the tourist variety. We value highly his comparative studies, born of long and intimate acquaintance with co-operative systems all over the world. Readers will find in this study a neat sketch of the economic background, a clear analysis of the lines of growth and of the causes of stagnation and a sympathetic treatment of the recent attempts at reconstruction. There are acute observations, penetrating criticisms and helpful suggestions all through. We venture to offer a few detailed comments in response to the general invitation.

Dr. Fay recognises that the main malady in our rural economy is the persistent increase of our agricultural population. Labour-saving devices can do little to relieve the situation. But surely, as he says, such an objection cannot be advanced against cultural improvements. The Hindu veneration for the cow (to which may be added the almost universal ban on the pig) would not, it is true, permit the fullest development of animal husbandry in India. But we are afraid he goes too far when he says that bones cannot be used as manure and cow-dung is burnt as fuel. There is no religious injunction against the use of either in agriculture; the use of bones is becoming popular and would increase but for the prohibitive price; cowdung is not burnt, where there is an alternative fuel; its value as manure is amply recognised.

Dr. Fay rightly holds that the greatest achievement of our movement is the reduction in the rate of interest with its wholesome reaction on moneylenders. He treads on difficult ground when he generalises on the financing and forced sale of produce. We may draw his attention to the investigations of the Indian Central Cotton Committee and the criticisms of their reports some years back. His appreciation of urban credit societies is well deserved, though their success is but relative and is due to the superior economic status of members. The greater success of land mortgage banks in Madras is attributed to their start after the depression, when land values had already gone down and to the help rendered by the Provincial Government, whose confidence was won by the leadership of Sir M. Ramachandra Rao. There are, however, land mortgage banks in other parts of India with a similar auspicious start but not doing half as well. The Madras Land Mortgage Bank does not lend to individuals, but only to primary banks, nor has it received any loan funds from Government, except for temporary accommodation before debentures are taken up by the public. We agree with the author that no long-term loan should be granted unless the borrower shows evidence that it will directly or indirectly enable him to improve his land.

Dr. Fay finds in our rural credit structure "not only much dead wood but an over-elaboration of superior organisations". He says 'sometimes the chain is too long and the number too great for the needs of the Province or State'; and he refers in particular to the case of Bangalore Central Bank. But we feel that the size of many a Province and its population warrant the continuance of the village credit society, the district or central bank (the two are not different, be it noted) and the Provincial Bank. It is now the subject of some controversy in India, thanks to the advocacy by the Reserve Bank of smaller banking unions.

Dr. Fay as a great co-operator looks down on 'supervision from with out by enthusiasts (?) attending to other people's business rather than as in Europe, supervision from within by members of themselves'. Our supervising unions, guided and controlled by Provincial Unions, would if they function properly conform to the ideal. The Depression which has resulted in "the general freezing (of credit) not in general bankruptcy" has deadened the democratic instincts of our co-operators.

The inferences on the store movement seem to have been drawn too much from the author's knowledge of the stores in Mysore State. The Triplicane Society (T. U. C. S.) began as a store, pure and simple, and had to tack on a credit section to get registered under the 1904 Act. This section was always a subordinate one and it brought no loss to the Society, whose predominent concern was distribution. The credit section was, however, closed in 1932 due to the sensation created by the default of a few prominent members. Sales have always been only for cash. The assumption that T.U.C.S. buys from wholesalers on credit is not at all correct. There are other causes for the poor show of our stores, which need not be dealt with here. Employees' stores, like those of railway servants, assisted by railway companies, are contrasted favourably with the general stores run by 'the clerical class.' The members are said to be well informed, if also militant, and to have a working class conscience and to make deposits in advance of purchase. We have some knowledge of the heirarchical character of these employees' stores, the ignorance of the generality of members of co-operative principles, their abuse of the privilege of sales on credit at prices markedly higher than in the neighbouring market. By the way, the members of the T.U.C.S. and other Peoples' stores, if we may call them so, are not all clerks or Government servants; all are not in receipt of fixed salaries. Government servants would be 50 per cent. There are teachers, lawyers, employees in business houses and industries, most of whose income is not much above that of the average of the higher working class people in Britain. Our working classes here are incomparably poorer. It is natural that our stores should be more like the Neutral societies of the Continent.

Sale societies, such as those for cotton in Bombay and Madras, are commended as being 'in a healthy and progressive condition.' While it is good to enforce or induce members' loyalty in respect of delivering all their produce for sale to the society, "it would be fatal to expansion" if any attempt were to be made "to use the sale society as an instrument for collecting ancient debt due to local credit societies." But the 'Note on co-ordination of co-operative credit agencies' by Mr. T. Austin, which follows Dr. Fay's contribution, contemplates the collection by the loan and sale society of short-term dues to the credit society and instalment dues to the land mortgage bank towards loans granted for the clearance of prior debts. The organisation by peasants of sugar factories may appear 'highly improbable.' But there are co-operative sugar factories at Biswan (U.P.) and Vuyyur (Madras) run by and in the interests of agriculturists of various grades—though neither of them is working at a profit.

There is an unconscious irony in the suggestion that milk supply might be patronised by the Government, itself a large consumer as in the military contonments. The Madras Milk Supply Society and the T.U.C.S. have had a bad time of it, with the officials in public institutions like hospitals and schools who were more interested in helping private contractors than co-operative societies.

There is, perhaps, a sub-conscious irony in the remark that 'Indian co-operators pass rapidly from one enthusiasm to another—from village bank, to the heirarchy above it, co-operative selling, land mortgage bank, and now to village reconstruction, an appreciative account of which in the Punjab is given. But really, rural reconstruction as a fashion has faded away; the present vogue is multipurpose society, advocated by the Reserve Bank's Agricultural Credit Department. On this Dr. Fay has definite views, which need to be elaborated. "But the last thing to be desired is that India should move on from village reconstruction to multipurpose co-operation as to another craze. Indeed the term multipurpose is misleading; a better term would be 'integrated co-operation' —integration of credit, supply and sale around the production of a particular product or group of products."

Though our author agrees with much of what the Reserve Bank says on co-ordination, he concludes with a broad hit at its general attitude. "It does not seem very helpful to tell a country that 'what is really required is a change in the entire psychology of the people, their modes of thought and manner of living.' This requires the impossible. It is better to take the psychology of the people, attempt tasks which are within the limits of that psychology."

K. C. R.

AUDIT OF CO-OPERATIVE SOCIETIES IN MYSORE

In pursuance of the recommendations of the Chandrasekhara Iyer Committee on Co-operation, the Government have passed an order in October 1937 in regard to the future arrangements for the Audit of co-operative societies with a working capital of Rs. 5,000 and above. According to the existing practice, the provincial and central banks and urban credit societies with a working capital as indicated above are required to get their accounts audited by certified auditors selected by them at the general meeting from a list approved by the Registrar.

This practice of leaving the choice of the auditors to the societies themselves was considered by the Co-operative Committee as not calculated to ensure independence on the part of the auditors. Also it was observed that it was not in strict conformity with the law which requires that the auditor should be a person *authorised* by the Registrar by general or special order. So, in order to improve the system of audit by certified auditors, the Chandrasekhara Iyer Committee recommended as follows:—

(a) The control of audit as a whole and the paid staff therefor must be with the Registrar,

(b) The accounts of societies having a working capital of Rs. 5,000 and above should be audited through certified auditors authorised by the Registrar, *after consultation with the society concerned*..

(c) The Registrar should fix the remuneration of the auditors selected on a sliding scale based on the transactions, working capital and net profits of each society subject to a maximum of Rs. 350. In addition, any out-of-pocket expenses incurred in the way of cost of travelling may be given to the auditor.

(d) Banks and societies must pay the cost of their own separate audits.

The Government accepted these recommendations with one important modification, and that is, agreeing with the view of the Registrar of Co-operative Societies, they held that the Co-operative Institutions concerned need not be consulted in the selection of auditors. These views were embodied in Government Order No. D.-2849 C. S. 11-36-181 dated, Bangalore, the 7th-8th October 1937.

This order is to take effect from the commencement of the year 1938-39 excepting in the case of institutions whose official year corresponds with the calendar year, in which case the order is to be given effect to from the commencement of 1938.

The order of Government has been followed by a departmental notification embodying the terms of the Government Order and further instructions regarding the details of procedure.

The Government Order and the departmental notification have both been subjected to close examination and scrutiny by a few co-operative institutions which are affected by the order. The existing audit arrangements in most co-operative institutions covered by the Government Order consists of two parts. The first is the internal audit or the checking of the daily transactions by members of the paid staff of the institution to facilitate the detection and rectification of the errors immediately. The supervision of this work is usually entrusted to a member of the Board or Committee of Management, who is designated as the Board Auditor. This work is meant to satisfy the management that the transactions are being conducted on proper lines. For this internal audit, some institutions have been

spending annually amounts varying from Rs. 500 to Rs. 1,000. This work has been helpful in keeping the work of the co-operative institutions quite up-to-date and thorough. Instances of these internal auditors having helped even the Management in rectifying unintentional deviations from the rules and bye-laws etc., are not wanting. Thus for the efficient working of any institution with heavy transactions, the system of internal audit has become a necessary equipment.

In addition to this, every year a certified auditor is elected by the general body from the list approved by the Registrar. He is designated usually as the General Auditor. He audits the accounts and certifies the balance sheet. He acts as a watch on the management on behalf of the General Body in regard to the due observance of all the safeguards prescribed by the bye-laws, the Rules and the Act. He presents, if necessary, also a report bringing to notice any important point deserving the attention of the general body. In respect of his work he is responsible not to the management but to the General Body. As an officer appointed by the general body, he is liable under the law to account for any serious remissness on his part in carrying out his duties. In the case of a couple of institutions the accounts are presented half-yearly to the general body and in such cases the General Auditor has to adjust his work accordingly. In a few instances the General body have also utilised the services of the General Auditor to furnish the management with notes and observations on the accounts as a result of audit monthly also, so as to facilitate prompt rectification of any errors and irregularities. This system of close watch also by the General Auditor directly responsible to the general body is really effective in further ensuring efficiency.

The remuneration paid to the General Auditors has varied depending upon the volume of work and the resources of the institutions. In no case, however, has the amount paid exceeded Rs. 300 in recent years. The arrangement is working satisfactorily. There is no reason to think that the general meetings of any well organised institution had to be delayed or postponed on account of the part of the General Auditor. Nor has any difficulty been experienced under the existing system in securing the services of duly qualified and competent auditors with a high sense of their professional integrity and independence. If the present system has been found not to have worked satisfactorily in any instance, it must be attributed to causes other than any inherent defect in the system of selecting auditors.

Whether and if so, how far the existing system satisfies the statutory responsibilities of the Registrar under the Co-operative Act is also a point for consideration. Section 17 (1) of the Act lays down that the Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf, the accounts of every registered society once at least in every year. For this purpose as per Rule 22 under the Act, every society shall be liable to pay such audit fee as the Registrar may prescribe. Under the existing system the Registrar was satisfying himself that the work done by the auditor elected by the general body from the list of auditors approved by him was sufficient to safeguard the best interest of the institutions and it is to be presumed that all these years such audit was deemed adequate for the discharge of the responsibilities laid on the Registrar also under Section 17 of the Act. It must not, however, be forgotten that the Registrar can insist upon a separate departmental audit and also levy the contribution to recover the cost involved. Such a system as is proposed under the revised rule is in vogue in Madras and elsewhere.

Certain difficulties and hardships are apprehended by the co-operative institutions and this accounts for the hesitancy in readily acquiescing in this new arrangement. Of these, the most important is the one arising out of the absence of a clear definition of the scope of the audit proposed. It is doubted whether the institutions could expect this audit proposed under the new arrangements, to replace the yearly or the half-yearly audits that are at present being conducted by the Certified Auditors elected by the general body annually. Also it is not clear whether the new Auditors would also furnish the institutions concerned with a report regarding the results of their audit as also a certified balance sheet in time to be placed before the general meetings of the institutions as required by their bye-laws. According to the views of the Chandrasekhara Iyer Committee the statutory audit of the Registrar is distinct from the audit on behalf of the societies. While the first is held obligatory, the second is considered to be optional. But so far as the business of a co-operative society is concerned, it is the members that share the loss or the profit and naturally it will be their concern to arrange for a satisfactory audit of accounts by a person responsible to them directly. Under the existing system, the General Auditor elected by the general body of members who are the real sufferers in case of a loss is responsible to his masters directly and he could be proceeded against for any serious remissness on his part. Does the new arrangement continue to safeguard that inherent right of the owners of the concerns? If this is open to doubt, as may be presumed by the fact that the auditor is responsible only to the Registrar and the latter cannot be held liable by the owners of the society, it follows that the general body has to continue the practice of electing its own General Auditor, as at present. Thus perforce there will be two audits, the statutory audit of the Registrar and the audit on behalf of the society. Viewed in this light, it is not easy to conceive how the former audit can replace the latter. The G. O. also recognises this fact as it clearly states that banks and societies must pay the cost of their own separate audits.

Next is the question of cost. The scale prescribed in the Government Order leads to heavy expenditure under audit. At present the scale is proportionately less in the case of societies with limited resources. The determination of the fee payable on the basis of working capital without any reference to the earnings of the institution makes the system inelastic. The income of the society is not an obscure factor for the determination of expenditure under this head. The arrangement at present in vogue has not presented any difficulty in securing the services of qualified efficient auditors at a moderate fee. It is yet to be proved that the new system proposed ensures greater efficiency of the audit; but it is certain that the expenditure to be incurred will increase generally twofold and in some cases even threefold. If in addition, any society chooses to exercise the option of electing its own auditor also, the audit expenditure under the different heads will absorb a material portion of the slender income of the institution. The Co-operative Movement is passing through difficulties. The pressing need of the hour is further relief to the borrowers. Such relief has necessarily to be put off as the expenses of management mounts up.

Further, there is the problem of the agency for carrying on the audit. It is contemplated to arrange for audit through *certified auditors* authorised by the Registrar. These certified auditors as a general rule have other work besides co-operative audit. Unless such certified auditors as are selected by the Registrar are compelled to confine their work exclusively to co-operative institutions, it would be difficult to ensure efficient regulation and control of their work. Besides, the demand for the services of the auditors would be concentrated during a particular part of the year and it would be a trying job for the Department to ensure a businesslike relation with the societies clamouring for priority in the audit of their accounts. As the auditor could be got at only through the Registrar, the possibility of friction in this matter cannot altogether be considered remote. A staff of qualified auditors in the employ of the Registrar as part of his departmental staff (which is the system in vogue in some Provinces) would be a different matter and would probably ensure a smoother and more efficient arrangement.

Lastly, the new arrangement proposed has led to the construction in some quarters that the Government have attempted to meet the expenditure that has to be incurred for the proper discharge of the statutory responsibility of the Registrar by means of this levy. In answer to this it may be pointed out that the amendment of the Rule 22 as announced recently gives the discretion to the Registrar to exempt particular institutions from the operation of this order. The Registrar and his Department would no doubt work the rule with great sympathy and extend to co-operative societies whatever consideration is possible under the Rules. It may also be presumed that the proper representations of the particular institutions would be viewed favourably and concessions to the maximum extent possible would be extended.

Yet co-operators in active charge of the management of well established institutions apprehend difficulties and hardships. It is feared that the system newly proposed may not prove to be in the best interests of the institutions.—*The Mysore Co-operative Journal*, May 1938.

CO-OPERATIVE SOCIETIES AT WORK IN INDIA

MADRAS.

Extracts from the report of the Registrar of Co-operative Societies, Mr. T. Austin, I. C.S., for the year ending 30th June 1938.

General Summary.—The economic depression persists and the general position of the ryots has not materially improved. The prices of commodities generally remained steady during the year. Relief to borrowers by way of reduction in the rate of interest on loans and the complete waiver of penal interest was in consequence continued.

Of these 326 societies registered, 147 were for non-credit purposes: during 1934-35 and 1935-36 the number of such societies registered was only 50 and 99 respectively. During my recent tour in the Punjab I was impressed with the rural uplift work done in that province through the co-operative movement. We have now a few better living societies and women's societies and I propose to examine the possibilities of organizing arbitration, consolidation of holdings and cattle breeding societies. I hope much progress can be made in these directions and am particularly keen in societies for the consolidation of holdings as experience elsewhere has shown how greatly consolidation increases a ryot's income. Two societies have been registered since the close of the year but there is much spadework to be done.

In pusuance of the policy of weeding out bad societies, the registration of 195 societies was cancelled during the year, as against 334 in 1935-36. This decrease in the number of societies liquidated was due to the fact that dissolution was resorted to only after exhausting all methods of reformation. The system of appointing agents under by-law 62 in bad and dormant societies is becoming increasingly popular. There were at the close of the year 12,927 societies, excluding the societies transferred to the Orissa Province. At the end of the previous year there were 13,330 societies including 535 societies in the area transferred to the Orissa Province.

Loans.—The loans given by Central Banks to societies and individuals amounted to Rs. 105·88 lakhs and Rs. 10·96 lakhs as against Rs. 109·97 lakhs and Rs. 12·73 lakhs respectively in the previous year. The overdraft transactions with societies increased during the year from Rs. 70·40 lakhs to Rs. 74·64 lakhs while those with individuals fell from Rs. 4·94 lakhs to Rs. 4·62 lakhs. Central Banks are now paying special attention to the development and financing of loan and sale societies—loans at specially reduced rates and other concessions are given to these societies. The Trichinopoly District Central Bank has purchased a building and placed it at the disposal of the Karur Loan and Sale Society free of rent for godown and office, and has also lent to the society the services of a supervisor free of charge. This is remunerative business and deserves to be copied by other banks. The scheme of controlled credit offers a vast field for the investment of the short term funds at the disposal of Central Banks. The results obtained in some of the districts where the system was tried on a limited scale are encouraging and warrant the extension of the scheme on a far wider scale. Another profitable mode of investment will be the financing of subsidiary occupations.

Overdues.—It is gratifying to observe that the progress made last year was maintained during 1936-37. Excepting a slight increase in the overdues under arrear interest in agricultural societies there was a marked fall in overdues in all societies. In Central Banks the percentage of arrears under principal came down from 61·62 in 1934-35 to 57·87 in 1935-36 and to 51·15 in 1936-37. Similarly in agricultural societies the percentage of arrears fell from 68·12 in 1934-35 to 65·35 in 1935-36 and to 58·76 in 1936-37. In non-agricultural societies, however, the percentage rose from 22·72 in 1934-35 to 23·24 in 1935-36 but it again came down to 21·90 in 1936-37. This definite improvement in collection was largely due to the well planned and sustained efforts of both non-officials and the officers of the department. The progress in collection in each district was reviewed by me every week during the last month of the year.

During the process of collection, coercive action had to be taken in several cases but at the same time Central Banks and other societies did not fail to extend all possible relief to the borrowers consistent with their financial interests. Most of the societies have reduced their lending rate to members to 7½ per cent per annum with retrospective effect and the savings to members owing to this reduction was Rs. 3·49 lakhs during the year 1936-37. Many of the societies have also deleted altogether from their by-laws the provision to levy penal interest, and it is estimated that by this the members were benefited to the extent of Rs. 2·84 lakhs during the year. I have also advised Central Banks to credit towards principal first and interest next payments made by the worst societies and several Central Banks have accepted my suggestion. In view of the continued economic depression it cannot be said that the concessions so far granted are adequate. The question as to what further relief should be given to borrowers is under consideration.

Rectification.—It may be said that the first stage in rectification work is over now. Loans have been classified and elaborate statistics have been prepared with a view to find out the probable loss to the creditors. The rectification scheme should now enter the second stage. Central Banks should determine to mend or to end the worst societies. In the process of reviving bad societies, the banks will have to prepare a scheme for repayment and may perhaps have to write off some irrecoverable amounts. But as experience has shown, the surest method of reviving societies and making them more credit worthy is by pursuing steadfastly a policy of consolidation and rectification.

Reserve Funds.—In the report submitted to the Government of India, the Reserve Bank suggested that by enhancing the margin between their borrowing and lending rates co-operative societies should earn bigger profits and build up substantial reserve funds. The importance of creating strong reserve funds cannot be denied but under the present conditions it is difficult to enhance the lending rate. I therefore suggested to societies the following methods for adoption: (1) if in any year the overdues under principal exceeded 75 per cent of the demand, the entire profits should be carried to Reserve Fund and (2) the profits after paying the maximum dividend of 5 per cent on share capital should be taken to reserve fund. The progress in the investment during the year under review is largely due to this suggestion.

Classification of Societies.—The classification of credit societies according to their general working during 1934-35 and 1935-36 is given below. The figures for both years are exclusive of the societies transferred to the Orissa Province.

	Year. 1934-35.	1935-36.
A. Thoroughly good societies ..	271	282
B. Societies with some defaulters and some mistakes in accounts ..	1,556	1,499
C. All other societies that do not come under Class D ..	8,081	8,268
D. Bad societies which probably have to be liquidated should they fail to come under Class C within two years ..	1,727	1,545
Total ..	11,635	11,594

Resources.—The statement given below shows the resources of the various classes of societies on 30th June 1937 :—

Type of societies.	Working capital. Rs. (IN LAKHS).	Percentage of total working capital derived from: Share capital.	Deposits.	Loans from other societies.	Government.	Reserve fund.	Other funds.
Madras Provincial Co-operative Bank ..	198·91	3·34	45·96	39·60	..	8·04	3·06
Central Land Mortgage Bank ..	121·46	4·40	93·56	0·63	..	0·93	0·48
District Central Banks ..	499·79	10·09	49·44	28·10	..	6·47	5·90
Agricultural Societies ..	608·07	10·92	6·37	65·38	0·81	12·65	3·87
Non-agricultural Societies ..	423·70	23·40	49·52	7·23	3·57	9·39	6·89

The working capital of all societies rose from Rs. 1,763·80 lakhs to Rs. 1,851·93 lakhs. The total working capital employed in the movement exclusive of the investments of one society in another amounted to Rs. 1,114·91 lakhs as against Rs. 1,088·14 lakhs in the previous year ; and it is made up of—

	Rs. (IN LAKHS.)
Paid-up share capital ..	227·89
Deposits of individuals and institutions ..	700·77
Reserve Fund ..	166·18
Loans from Government ..	20·07
Total ..	1,114·91

The owned capital in the movement was Rs. 394·07 lakhs (i.e., 35·35 per cent of the net working capital).

DETAILED WORKING OF SOCIETIES

The Madras Provincial Co-operative Bank.—The Madras Provincial Co-operative Bank continued to make steady progress. Though there was an increase in the total deposits held by the bank those from individuals fell from Rs. 61·89 lakhs to Rs. 57·06 lakhs and those from joint stock and other institutions from Rs. 15·75 lakhs to Rs. 15·16 lakhs. The deposits from Local Boards, Municipal and Government contractors, however, rose from Rs. 17·16 lakhs to Rs. 19·19 lakhs.

Loans.—There was a fall in the loans issued by the bank to Central Banks—only Rs. 9·23 lakhs as against Rs. 11·95 lakhs in the previous year. The bank continued to finance the Vuyyur Co-operative Industrial and Credit Society. The loan outstanding at the end of the year was Rs. 15·61 lakhs and the society was in default to the Bank.

During the year the Bank paid out of its common good fund a sum of Rs. 11,000 to the Madras Provincial Co-operative Union for expenditure on co-operative education. It gave also subsidies and subventions to the extent of Rs. 29,200 for the development of non-credit activities and for rectification work in societies.

The Madras Co-operative Central Land Mortgage Bank.—The Madras Co-operative Central Land Mortgage Bank completed one more year of steady and satisfactory progress. The money market continued to be easy throughout the year and the bank was able to float debentures at low rates of interest. Debentures of Rs. 37,21,000 were floated of which debentures of Rs. 6,08,900 were at 3½ per cent while the remaining were at 3 per cent per annum. As there are now no debentures carrying more than 4 per cent interest, there are no loans with interest at more than 6 per cent to ultimate borrowers. During the year, debentures of Rs. 4,81,800 were redeemed. This is exclusive of the debentures for which drawal of lots took place in June 1937 and which were redeemed after the close of the year. The holders of the redeemed debentures were given the option of taking new debentures bearing interest at 3 per cent and a major portion of the amount was re-invested. The debentures of the bank continued to enjoy the confidence of the public. This is evident from the fact that the major portion of the amount of redeemed debentures was re-invested, and that the bank found no difficulty in getting subscribers for the issues floated in the year. These debentures are now quoted and are sold at a premium in the market.

Debenture-holders have objected to the system of drawing lots for redemption of debentures, which is a cause of some uncertainty. With the approval of Government that clause will no longer appear and was deleted in the XXIV series of debentures floated after the close of the year. According to the conditions of issue of this series, the debentures are now irredeemable for a period of ten years from the date of issue, and thereafter only the bank reserves to itself the right to redeem them after giving three months' notice to the debenture-holders. As a sequel to dispensing with the drawal of lots for redemption, the bank is contemplating the purchase of its own debentures and has obtained the general permission of the Trustee. It is hoped that these two measures will make the debentures more popular and more marketable. The question of obtaining all the funds required by the bank by the issue of debentures once or twice a year when the money market is most favourable instead of floating them all through the year is still under consideration. The Reserve Bank of India has suggested the constitution of a Sinking Fund and and if need be, the raising of the rate of interest. The matter is still engaging the attention of the Central Land Mortgage Bank, the Registrar and the Government. As the transactions of the bank developed, it approached Government for the enhancement of their guarantee on the debentures. Government were pleased to increase the maximum of their guarantee from Rs. 100 lakhs to 125 lakhs. This maximum will be reached in the course of a few months. The bank, after the close of the year, applied for a further enhancement by Rs. 50 lakhs. The Legislatures in their sittings in the last week of September have agreed to a further enhancement by Rs. 25 lakhs, the guarantee to be given by Government after deciding upon the scheme to be adopted for ensuring repayment of debentures. The question of enhancing the limits fixed permitting local bodies to invest their Provident Fund and Railway Cess Funds in the 20 year debentures of the Central Land Mortgage Bank without reference to Government is pending consideration with Government.

Central Banks.—There were 31 Central Banks at the end of the year. The number of individual members in the banks rose from 4,216 to 4,248 while the number of society members fell from 11,724 to 11,244. The society members consisted of 205 central societies, 9,835 agricultural credit societies, 900 non-agricultural credit societies and 304 societies of other types.

The following rough balance sheet shows the financial position of the Central Banks as a whole on 30th June 1937 :—

Assets.	Rs. (IN LAKHS)	Liabilities.	Rs. (IN LAKHS)
1. Cash on hand and in Bank	.. 36·32	1. Loans and deposits from—	
2. Investments	.. 133·63	(a) Members and non-members—	
3. Loans due from—		Long Term	.. 119·18
(a) Individuals—		Short Term	.. 127·94
Long Term	.. 1·76	(b) Provincial and Central Banks—	
Short Term	.. 5·45	Long Term	.. 1·63
(b) Societies—		Short Term	.. 8·32
Long Term	.. 227·13	(c) Societies—	
Short Term	.. 93·99	Long Term	.. 105·52
4. Interest due	.. 13·85	Short Term	.. 24·97
5. Other items	.. 10·89	2. Share capital paid up	.. 50·41
		3. Interest due	.. 5·85
		4. Cost of management due	.. 0·14
		5. Other items	.. 5·36
		6. Reserve Fund	.. 32·34
		7. Other Funds	.. 29·63
Total	.. 523·02	Total	.. 511·29

PROGRAMME

The main items to be suggested in the programmes of all Central Banks during the current year are the following :—

(1) Collection of overdues should be undertaken on systematic lines.

(2) All unwanted deposits, particularly of local bodies, should be returned as and when funds permit.

(3) The rate of interest on loans should be further reduced so that 5 per cent should be the rule.

(4) Societies should be strongly advised to invest their uninvested Reserve Fund.

(5) Central Banks should now seriously address themselves to the task of reviving dormant societies. It is most disconcerting to know that there were as many as 3,000 societies on 30th June 1937 that had not borrowed for three years and more. Nearly a fourth of these societies must have cleared all their loans to the financing bank, while the rest are unable to borrow fresh loans as they have failed to repay the old ones. It is obvious that the utility of the banks will be greatly curtailed if they have within their area a large number of such societies in a state of suspended animation. The rectification programme should therefore be carried to its second stage with a view to rehabilitate these dying societies. The special staff should pick out all the "D" class societies and make a fairly accurate estimate of their good assets and liabilities. On the basis of this investigation a scheme of relief to the borrowers should be drawn up. It may be laid down that no member shall be asked to pay more than double the principal; or that no member shall pay more than the principal plus interest at 6¼ per cent from the date of the original loan; or again, that 25 per cent of the amount outstanding may be remitted. Each society will have to be dealt with according to its peculiar difficulties. But if with a generous measure of remission it will be possible to collect the balance, the Central Banks will be well advised to revive societies in this manner. With the clearing up of the debris, new members can be admitted and fresh loans advanced to creditworthy members.

The Madras Provincial Co-operative Union and Language Federations.—The Madras Provincial Co-operative Union continued to do useful work. On 30th June 1937 it had 427 members on its rolls as against 416 members at the close of the previous year. The Union continued to publish the Madras Journal of Co-operation in English. Several books were added to its library and the reading room run by it continued to be popular. The Union paid subsidies for the publication of the Tamil, Telugu and Kanarese Co-operative Journals. The President and other Executive Committee members of the Union inspected societies and did propaganda work in Madras City and in the districts during their tours. Fifty-nine magic lanterns and 11 sets of slides prepared by the Union were sold. The Union was in charge of the training of panchayatdars and education of members of societies under the scheme of co-operative education sanctioned. The Union withdrew its support from the six rural re-construction centres which it was running in the past years. Five of these centres are continuing to function.

Supervision.—Excluding the societies in the Ganjam district there were 272 unions at the beginning of the year. The registration of ten of them was cancelled and at the end of the year, there were 262 supervising unions. The supervising staff consisted of 432 hands. The total amount spent on supervision was Rs. 3·54 lakhs while the total income from supervision fund, grants from Central Banks and other miscellaneous items was Rs. 4·17 lakhs including the balance available at the beginning of the year. Including the arrears of previous years Rs. 2·59 lakhs had to be collected in all districts from primary societies towards supervision fund. Of this, Rs. 1·69 lakhs were collected and Rs. 0·90 lakh was left in arrears at the end of the year.

The Supervising unions continue to be the chief agency for supervision but it cannot be said that their supervision has really been very effective in recent years. The economic depression has curtailed the working capital of the societies and the funds of the unions have suffered in consequence. The last of the Federations was dissolved after the close of the year, and all the Unions are now under the direct control of Central Banks. The administrative sections of these financing banks control the supervisors and direct the supervision. The banks make up from their general funds the deficits in the supervision fund collected from societies. In certain districts, the unions have suspended their activities and the Central Banks exercise direct control over societies. This can only be a temporary arrangement as the financing banks need the advice of a local body of co-operators which the local supervising union alone can furnish. The officers or the department should also keep in personal touch with the unions and persuade them to exercise vigorous supervision.

Primary Land Mortgage Banks.—At the beginning of the year there were 80 primary land mortgage banks. During the year 13 banks were registered raising the total number of banks on 30th June 1937 to 93. One more bank was registered after the close of the year.

9739 villages are covered by existing land mortgage banks and loans have been issued in 2,974 villages. The total number and amount of loans issued by primary land mortgage banks up to 30th June 1937 were 7,983 and Rs. 141·24 lakhs respectively. There is very great room for expansion in the areas of all banks and much propaganda might usefully be done. To supplement the work of land mortgage banks, Government have been advancing loans under the Agriculturists' Loans (Amendment) Act, 1935, in ten districts, generally in areas not served by land mortgage banks. Co-operative societies and Central Banks were advised to accept the offers of the Special Loans Officers wherever possible and help the scheme of debt relief. The power of approval of the amounts fixed by Special Loans Officers in respect of co-operative debts exercised by me was delegated during the year to Deputy Registrars in charge of districts. The amount of co-operative debts scaled down in 1936-37 was Rs. 62,796 under principal and Rs. 5,681 under interest. The total loss incurred by societies on this account was Rs. 19,733. The question of co-ordinating the activities of land mortgage banks and of the Special Loans Officers under consideration at the time of submission of my report last year was dropped this year. Land mortgage banks were advised to scale down debts of their members. Reports received show that banks were able to influence creditors to write off loans due to them to the extent of Rs. 1·56 lakhs as against 0·55 lakh in the previous year. The efforts made to scale down debts vary with the personnel of the directorate, but in many banks genuine attempts are made in this direction.

Credit Societies.—The number of agricultural credit societies fell from 10,989 at the beginning of the year to 10,502 at the end of the year. The fall was mainly due to the exclusion of 476 societies in the Ganjam district. Financial particulars of the credit societies:—

	1934-35. Rs. (IN LAKHS.)	1935-36. Rs. (IN LAKHS.)	1936-37. Rs. (IN LAKHS.)
1. Paid-up share capital	58·33	55·96	52·01
2. Deposits by members	9·37	8·49	8·01
3. Do. from non-members	20·44	16·00	17·11
4. Loans from financing banks and other societies	281·04	279·62	252·72
5. Loans from Government	4·66	3·95	3·32
6. Reserve fund	70·31	73·63	75·09
7. Other Funds	13·52	16·30	21·98
8. Total working capital	457·67	453·95	430·24
9. Net profit	9·30	7·23	6·37
10. Loss	23·48	21·01	19·01

A comparative study of the figures for the last three years shows that there has been a steady fall in the transactions of agricultural credit societies.

Purchase and Sale Societies.—There were at the end of the year 129 societies, as follows:—

	No.
1. Loan and sale societies	111
2. Stores and trading unions	6
3. Marketing societies	2
4. Agricultural improvement societies	5
5. Milk-supply union	1
6. Sugarcane growers' union	1
7. Others	3
Total	129

The value of goods bought or received on pledge by these societies amounted to Rs. 55·71 lakhs while their sales amounted to Rs. 34·93 lakhs. Some of these societies worked at a profit of Rs. 36,609 while the others incurred a loss of Rs. 11,336. Three societies had not started work by the end of the year.

Loan and Sale Societies.—There were 111 societies of this type at the end of the year as against 74 at the end of the previous year. They had a membership of 10,583 individuals and 1,432 societies and their paid-up share capital amounted to Rs. 1·62 lakhs. They advanced loans to members to the extent of Rs. 26·16 lakhs of which Rs. 15·16 lakhs were outstanding at the end of the year. The total value of the stock on hand at the beginning of the year and of that received during the year, either on pledge or for sale, was Rs. 70·72 lakhs of which stock of the value of Rs. 18·56 lakhs was released during the year without sale and produce of the value of Rs. 31·27 lakhs was sold. Some of these societies worked at a net profit of Rs. 27,503 while others incurred a loss of Rs. 7,082.

In my report for 1935-36 I referred to the Government's offer to loan and sale societies of a free grant of 25 per cent of the estimated cost of godowns, provided the remaining 75 per cent of the cost was either taken as a loan from Government or met from the society's own funds. Thirteen societies have so far been given free grants to the extent of Rs. 34,150 by the District Economic Councils out of the subsidy of the Government of India. During 1936-37 loans to the extent of Rs. 12,000 were granted by Government to four societies for the construction of godowns. Since the close of the year seven more societies were granted loans amounting to Rs. 66,200. Recently the Rasipuram Trading Society in the Salem district completed the construction of its godown which was declared open by the Hon. Mr. C. Rajagopalachariar, the Premier.

An interesting experiment undertaken by the Madura Loan and Sale Co-operative Society needs special mention. It obtained a contract from the Madura Municipality for its night-soil and rubbish for disposal as manure to the ryots in the neighbouring villages. The contract is for Rs. 25,000 for the period April 1937 to March 1938. The society made an initial deposit for Rs. 8,250 with the municipality by borrowing from the Central Bank as a short-term loan. The advantage to the ryots is that while formerly they had to pay up to Rs. 2-8-0 for every cartload of night-soil and annas twelve for a cartload of rubbish they have to pay now only Rs. 1-12-0 and annas nine respectively. Another advantage is that even the smallest ryot now gets a due share of the manure, which was not the case formerly. Up to 30th June 1937, 17,939 cartloads of rubbish and 3,042 cartloads of night-soil were sold in this manner. The society has also undertaken composting of night-soil and rubbish in order to remove the bad smell. The experiment is proving successful and it is hoped that other loan and sale societies in municipal areas will follow the lead given by the Madura society. The Nilgiris District Potato and Agricultural Produce Sale Society registered in December 1935 did good business by the distribution of manure to the members of affiliated societies. It purchased and supplied 8,517 bags of manure worth Rs. 91,427 and thereby effected savings to members to the extent of Rs. 17,034. The society earned a net profit of Rs. 4,592 for the year.

The system of controlled credit has been tried in South Arcot, Salem and Coimbatore with success. Steps are being taken to try the scheme in other districts such as Tanjore, Tinnevelly and Chittoor. The 12th Conference of the Registrars of Co-operative Societies held at New Delhi in December 1936 considered that the linking of credit and marketing wherever possible was of great importance and suggested that the Madras scheme of controlled credit might be examined carefully in each Province with a view to its adaptation to local conditions. To take the case of Salem district, membership in rural societies is increasing rapidly and every taluk is clamouring for a sale society. Under the scheme, Rs. 26,357 were disbursed in 75 rural societies for the cultivation of cotton, in shape of cash credit loans. 66 societies cleared their loans in full though the due date for their re-payment was only 30th September 1937. Nearly all the loans were cleared by sale of cotton through the three sale societies in the district. During the current year, 74 rural societies have so far been given Rs. 47,431 for the cultivation of groundnuts. It is estimated that the gains to ryots in the shape of true weights and measures, competitive prices in public auctions and better prices come to 10 per cent of the sale price. It is reported that on a rough basis the total savings to the ryots were somewhere in the neighbourhood of half a lakh of rupees.

Sale societies have not actually marketed the members' produce to any large extent and this problem awaits solution. I am inclined to think that we shall have to abandon, temporarily, the theories of pure co-operation and invoke the help of expert business-men. In some societies sale by auction is being done, but most societies are content with advancing money on the pledge of produce only. The chief reason for this has been the absence of a central agency to co-ordinate the activities of the various loan and sale societies. A Provincial Marketing Society has therefore been started during the year to meet this need.

The Madras Provincial Marketing Society.—At the end of year the society had on its rolls 68 members of whom 42 were societies. The Marketing Society has so far dealt with potatoes, oranges, plantains, mangoes, onions, garlic, eggs, honey, ghee, handpounded rice, tamarind and jaggery. The value of such goods sold was Rs. 8,979. The society has a separate godown in the marketing quarters for the sale of fruits. A weekly bulletin is issued by the society showing the prices at which the chief primary products of the Presidency are sold in Madras and copies of it are communicated to all Deputy Registrars and loan and sale soceities. The society attends also to trade enquiries regarding prices and possibilities of marketing. It has undertaken to sell through Messrs. Volkart Brothers, Madras, the sugar produced by the Vuyyuru Industrial and Credit Society. The value of sugar so disposed of was Rs. 1·75 lakhs. The successful working of this central society will be conditioned by the unflinching loyalty of primary societies affiliated to it, the volume of business that they supply and the business integrity that they display in their transactions. So far the Provincial Society is still feeling its way.

The Madras Co-operative Milk-Supply Union.—The Union continued to make steady progress. It had on its rolls at the end of year 13 societies and 13 individuals with a total paid-up share capital of Rs. 16,908. The Union purchased during the year 581,911 measures of milk for Rs. 1,87,141 and sold 548,350 measures of it to the public and to the State hospitals for Rs. 2,25,123. The unsold milk was converted into by-products and sold for Rs. 14,067. The average daily purchases of milk during the year were 1,594 measures as against 1,119 measures in the previous year and the daily sales went up from 1,042 to 1,502 measures. The number of depots for sale of milk increased from 34 to 43. Cream got from societies is converted into ghee sold to the public. There is an increasing demand for the ghee sold by the Union. The net profit earned by the Union during the year was Rs. 7,004. The question of purchasing a pasteurising plant has been under consideration for a long time and the fund created by the Union for the purpose amounted to Rs. 26,957. The Government have recently sanctioned a loan of Rs. 25,000 to meet the cost of the plant and the scheme for pasteurising the milk purchased will soon be put into operation. The Union purchased cattle food of the value of Rs. 41,019 at wholesale prices and sold it to affiliated societies. Another line of activity was the granting of loans to societies to the extent of Rs. 10,000 for purchase of good milch cows. The Milk Supply Union has thus been progressing from strength to strength. What is possible in the city of Madras should be feasible in the big towns of Coimbatore, Trichinopoly, Madura, Rajahmundry, etc., and I confidently hope that similar milk supply unions on co-operative lines will be started in the mofussil at no distant date. An attempt is actually being made in Coimbatore.

Production and Sale Societies.—Including 18 societies registered during the year there were 31 societies at the end of the year. Of these, 25 were milk supply societies in the Chingleput district, 2 agricultural and industrial societies, 2 sugar-cane growers' societies, one fruit growers' society and one salt licensees' society.

Milk Supply Societies.—Fifteen societies were registered during the [illegible], of which 6 did not start work by the close of the year. The remaining [illegible] societies had on their rolls 745 members with a paid-up share capital of R[illegible] 4[illegible]64. The societies supplied to the Madras Milk Supply Union milk of the value of Rs. 192,401. Bonus was paid to members to the extent of Rs. 4,001.

Fruit Growers' Societies.—Excepting the Kodur Fruit Growers' Co-operative Society in the Cuddapah district, the other societies under this class did not do much work. The Kodur Society started work in April 1937. Within two months it sold through the Madras Provincial Marketing Society nearly 500 baskets of oranges and more than 500 baskets of mangoes and limes. It worked at a small profit during the year. The society has vast scope for development.

Agricultural Demonstration and Agricultural Improvements Societies.—There were 24 societies at the end of the year. Excepting the Lalgudi Sivagnanam Agricultural Society in Trichinopoly and the Dimili Agricultural Demonstration Society in Vizagapatam, the remaining societies did no work worth mention. The Lalgudi Society continued to maintain the demonstration farm covering an area of 9½ acres of wet lands. The society distributed manure and seeds of the value of Rs. 1,37,140 and it issued loans to members on the pledge of produce. The Dimili society selected 2 crores of lands for demonstration purposes and sowed paddy and onions partly under the old and partly under the improved methods. The results could not be estimated by the end of the year as the crops were not yet ripe.

It is desirable to have at every district headquarters or other suitable centre a central society to demonstrate the advantages of improved seed, manure and agricultural improvements.

Urban Credit Societies.—There were 1057 societies under this class at the end of the year, classified as follows:—

	No.		No.
Government servants	.. 213	Factory employees	.. 16
Municipal, Local Board, Railway Employees, etc., Superior	.. 77	Thrift societies	.. 11
Municipal, Local Board, Railway Employees, etc., Inferior	.. 56	Others	.. 684
		Total.	1,057

Four Municipal Employees (Inferior) societies, one each in the districts of Anantapur, Chingleput, Coimbatore and Kistna made wholesale purchases of cloth and foodstuffs to the value of Rs. 20,450 and the savings effected by members in this way are estimated at Rs. 600.

Loans.—Duriny the year these societies disbursed loans amounting to Rs. 247·81 lakhs of which Rs. 71·12 lakhs were on short term. Most of the societies kept their obligations to the depositors and the financing banks, the percentage of overdues in the Presidency being 5·32 under long term and 1·62 under short term as against 5·66 and 1·72 respectively in the previous year. Out of a total demand of Rs. 201·17 lakhs under long term and Rs. 82·55 lakhs under short-term loans outstanding against members, there was a balance of Rs. 43·46 lakhs and Rs. 17·80 lakhs under long-term and short-term loans respectively, the percentage of arrears working out to 21·60 and 21·56 as against 14·17 and 16·47 in the previous year. The percentages of overdues under arrear and current interest were 61·52 and 19·62 as against 62·43 and 20·40 respectively in the previous year. The loss sustained by 203 societies was Rs. 1·04 lakhs; the remaining societies earned a net divisible profit of Rs. 8·11 lakhs.

Societies for Purchase, Sale and Production.—

	No.		No.
Stores	.. 58	Fishermen's society	.. 7
School and college societies	.. 85	Coir workers' society	.. 1
Weavers' societies	.. 80	Miscellaneous	.. 14
Milk-supply society in Madras	.. 1		
Industrial and credit societies	.. 2	Total	.. 248

These societies had on their rolls 24,322 members (inclusive of 175 society members) with a paid-up share capital of Rs. 3·33 lakhs. The net profits earned by some of the societies amounted to Rs. 66,241 and the loss sustained by the rest was Rs. 1,58,708.

Stores.—The 58 stores societies had a working capital of Rs. 7·51 lakhs. The value of the stock on hand at the beginning of the year and of the goods bought during the year amounted to Rs. 20·03 lakhs. They sold goods of the value of Rs. 18·91 lakhs and made a gross profit of Rs. 1·67 lakhs. The net profit earned by some societies was Rs. 48,160 while the loss incurred by the rest was Rs. 12,531 as against Rs. 49,305 and Rs. 39,118 respectively in the previous year. All store societies have been advised to become members of the Madras Provincial Co-operative Marketing Society and to arrange for their purchases through it. The provincial society should prove a useful link between the several producers' and consumers' societies in the Presidency.

The Triplicane Urban Co-operative Society with its 26 branches in the Madras City and 5,658 members with a paid-up share capital of Rs. 82,561 still holds the first place. It sold goods to the value of Rs. 8·82 lakhs and earned a net profit of Rs. 17,524. The profit earned last year was Rs. 16,913. In view of its unwieldy size, the society changed the constitution of its general body and under the revised by-laws, the general body will consist of only representatives elected by the several branches of the society.

The Aravangadu Cordite Factory Stores, the Madras Government House Stores and the Pykara Power House Stores in the Nilgiris did good business during the year. They sold goods of the value of Rs. 1·72 lakhs and made a net profit of Rs. 8,373. There is no doubt that these stores do considerably reduce the cost of domestic requirements

The Kodaikanal Stores, Madura City Stores and the Madura Meenakshi Stores sold goods of the value of Rs. 2·92 lakhs and earned a net profit of Rs. 11,971.

School and College Societies.—There were 85 students' stores at the end of the year. Most of the societies earned good profits. The profit earned by some of them was Rs. 11,647 while the loss incurred by the remaining societies was Rs. 459 as against Rs. 6,970 and Rs. 772 respectively in the previous year. It is gratifying to note that these stores run by students who are to be the co-operators of the future are working satisfactorily. I am trying to get such stores started in every school and college in consultation with the Director of Public Instruction. I have also under contemplation the starting of a Central Students' Store at Madras.

Weavers' Societies.—There were 80 societies as against 50 in the previous year. Out of the 80 societies, 66 are classed under "Purchase and Sale" and 14 under "Production and Sale." The working capital of these societies excluding the

Provincial Society amounted to Rs. 1·49 lakhs. With the starting of the Madras Handloom Weavers' Provincial Co-operative Society there has been an increased activity in these primary societies. Raw materials and prepared goods of the value of Rs. 1·54 lakhs were purchased by the societies during the year as against Rs. 1,13,350 last year and finished products of the value of Rs. 1·60 lakhs were sold as against Rs. 76,199 last year. The net profits earned by some of the societies amounted to Rs. 9,596 and the loss incurred by the rest was Rs. 8,046 as against Rs. 2,290 and Rs. 9,943 in the previous year. The bulk of the loss sustained was contributed by the Devanga Weavers' Co-operative Society in Coimbatore. Reports received show that the members of most of the societies got employment throughout the year. The number of credit societies in which weavers contributed more than 60 per cent of the membership was 71 at the end of the year. They had a paid-up share capital of Rs. 39,012 and a working capital of Rs. 2·45 lakhs. The profit and loss made by these societies were Rs. 4,735 and Rs. 8,811 respectively as against Rs. 4,996 and Rs. 13,052 respectively in the previous year.

Madras Handloom Weavers' Co-operative Society.—During 1936-37, the Government of India allotted a subsidy of Rs. 68,800 for the development of the handloom industry in Madras. Out of this amount Rs. 44,260 were disbursed to the society. A loan of Rs. 30,000 was also given to the society for working capital: the loan is to be repaid before March 1940. The society is granting from this amount cash credit loans to primary societies for the purchase of yarn and for payment of wages to members. The Provincial Society subsidizing during the year 52 societies to the extent of Rs. 16.596. Yarn of the value of Rs. 27,298 was supplied to societies by mills on the guarantee of the Provincial Society. The value of goods received from the primary societies was Rs. 33,413. Cash credits were advanced to societies to the extent of Rs. 21,450. The Presidency was divided into six circles and a supervisor was appointed to each. Sales depots were opened at Madras, Bellary, Calicut and Bezwada. The Provincial Society participated in three exhibitions during the year. The society felt that a merchant with business experience would be more useful for doing marketing work and a merchant was therefore appointed as Marketing Officer. A Senior Inspector is doing duty as Executive Officer to control the work of the supervisors and to inspect the societies. The society will be installing a calendering plant shortly. A hand-sizing machine to supply readymade warps has been installed in Melappalaiyam in Tinnevelly district. The initial expenses and also recurring charges for the first six months will be met by the Provincial Society. After watching its work for some time, four more machines will be installed at four different centres. The society earned a net profit of Rs. 1,747 during the year 1936-37.

Industrial and Credit Societies.—The Vuyyur Industrial and Credit Society in Kistna had on its rolls 514 members with a paid-up share capital of Rs. 1,62,037 as against 515 members with a share capital of Rs. 1,54,491 in the previous year. The supply of sugarcane was not adequate and the factory could therefore work only for 79 days during the year. The quantity of cane crushed was 30,923 tons as against 34,340 tons in the previous year. 2,472 tons of sugar were manufactured of which 2,222 tosns were sold for Rs. 4,20,155. The Sugar was marketed by the Madras Provincial Marketing Society through the agency of Messrs. Volkart Brothers. The Madras Provincial Co-operative bank continued to find financial accommodation to the society. The loans due to the Madras Provincial Co-operative Bank at the close of the year were Rs. 15·97 lakhs. The short supply of cane, the enhancement of excise duty on sugar and the fall in the price of sugar, all contributed to the heavy loss of Rs. 4·11 lakhs sustained by the society during the year. The management of the affairs of the society was not satisfactory during the year, and I had therefore to issue a notice to the directors to show cause why the committee should not be superseded under section 43 of the Madras Co-operative Societies Act. The Committee was, however, not superseded but was allowed to continue provided that the directors cleared a major portion of their arrears under capital dues. An officer of the Agricultural Department was appointed General Manager and to collect the growing overdues in the society, a Senior Inspector was appointed towards the close of the year as Special Officer.

Sugarcane Growers' Societies.—There were 14 societies at the end of the year, all registered as "Agricultural" societies. The Bubbili Sugarcane Growers' Society in Vizagapatam had on its rolls 852 members with a share capital of Rs. 4,267 as against 670 and Rs. 3,640, respectively, in the previous year. The society advanced 734 loans to its members to the extent of Rs. 21,746 to meet cultivation expenses. The members cultivated about 800 acres of land and got a net yield of Rs. 60 per acre. The society has extended the area of its demonstration farm from 4 to 16 acres and is experimenting on different varieties of sugarcane with a view to select the cane best suited to the locality. The farm is distributing good varieties of seedlings to its members. The society worked at a net profit of Rs. 306 during the year.

The Vuyyur Sugarcane Growers' Union and the Gudivada Sugarcane Growers' Society in Kistna distributed during the year manure of the value of Rs 29,973 to its members. It is reported that by the use of the manure supplied, the yield of sugarcane per acre rose to 40 tons and that the members secured an extra profit of Rs. 75 for every acre cultivated.

The Coimbatore Sugarcane Growers' Society disbursed during the year loans to the extent of Rs. 5,760. Five members of the society supplied cane to the Mills to the value of Rs. 2,459. The society sustained a net loss of Rs. 80 for the year. The Hospet Sugarcane Growers' Society had 558 members on its rolls with a paid-up share capital of Rs. 14,488. It advanced loans to members during the year to the extent of Rs. 29,736 for sugarcane cultivation. The loans outstanding against members amounted to Rs 49,763 of which Rs. 37,103 were overdue. The society worked at a loss of Rs. 3,921 during the year. The heavy preliminary expenses incurred contributed to the loss. The remaining societies for sugarcane growers did no appreciable work.

The South India Co-operative Insurance Society, Madras.—This is the fifth year of working of the society. The steady progress made previously was maintained. At the end of the year there were 4,672 members on the rolls composed of 35 societies and 4,637 individuals. The paid-up share capital of the society members amounted to Rs. 37,050 and that of individuals to Rs. 6,529. Including 19 proposals for Rs. 19,500 pending acceptance at the beginning of the year 1935 policies for Rs. 15,92,450 were received. At the close of the year there were 9 policies for Rs. 5,450 pending acceptance. 1,477 policies for Rs. 12·04 lakhs were issued as against 1,357 policies for Rs. 10.99 lakhs in the previous year. Ten claims for Rs. 8,750 were pending payment at the beginning of the year; 16 claims for Rs. 13,143 were intimated during the year, excluding three claims not admissible. Ten claims for Rs. 7,893 were paid off, leaving at the close of the year 16 claims for Rs. 14,000 pending settlement. The total Life Assurance business in the books of the society as on the 30th June 1937 amounted to Rs. 44·66 lakhs in respect of 5,354 policies as against Rs. 32·62 lakhs relating to 3,877 policies at the end of the previous year The society collected premia to the extent of Rs. 1·59 lakhs as against Rs. 1·22 lakhs in the previous year. The Life Assurance Fund which was Rs. 1,24,368 at the beginning of the year rose up to Rs. 1,83,988 by the close of the year During the year the first valuation of the society as on 30th June 1936 was done and bonus was declared at the rate of Rs. 15 per thousand on whole life policies and Rs. 10 per thousand on endowment policies. Since the close of the year the society raised its statutory deposit of Government securities with the controller of currency to Rs 2 lakhs. This testifies to the soundness of the Society.

The Postal and R.M.S. Co-operative Benefit Fund, Madras,—This society had on its rolls 2,455 members with a paid-up share capital of Rs. 29,407 as against 2,585 members with a paid-up share capital of Rs. 32,060 in the previous year. The society realized premia of Rs. 1·18 lakhs as against 1·43 lakhs realized in the previous year. Claims under policies paid and outstanding on account of death amounted to Rs. 30,071 and on maturity to Rs. 48,517. The total Life Assurance Fund at the end of the year was Rs. 4·35 lakhs as against Rs. 4·60 lakhs in the previous year. Claims admitted or intimated to the extent of Rs. 21,661 remained unpaid on the last date of the year. Investments by way of deposits of Government promissory notes, etc., with the Controller of Currency amounted to Rs. 1·84 lakhs and loans on the mortgage of the property were Rs. 1·78 lakhs. The reserve fund of the society amounted to Rs. 25,694.

Labour Contract Socteties. I must make prominent mention of the Madras District Labour Society which did very good work during the year, and will do better if it can only get some help for establishment charges. It had on its rolls 89 members of whom 78 were actual workers. The society executed work to the extent of Rs. 35,433 and at the end of the year work of the value of Rs. 17,350 was pending execution. The society completed the construction of 47 houses. The members got wages to the extent of Rs. 3,738 and non-members were paid Rs. 4,076. The society earned earned a profit of Rs. 354 for the year. There is scope for the successful working of such societies in all big towns, provided they get support from the public and from local authorities.

Better Living Societies.—There were 21 societies of this type at the beginning of the year excluding one society in Ganjam and eleven were registered during the year. Some of these 32 societies did useful work. One society in East Godavari conducted a night school for its adult members and a day school for the children of members. A society in Tinnevelly deputed one of its directors to every religious or other ceremony performed by its members to see that the members did not spend more than the amount fixed by the general body for the purpose. It is estimated that as a result of this supervision the net savings of members were Rs. 5,586 in twenty-two cases. Similarly a society in South Kanara effected retrenchment in the expenditure on ceremonies to the extent of Rs. 1,005. The curtailment of expenditure on marriages and ceremonies is a very good line of activity which every Better Living Society may take up. During 1936-37 co-operative societies granted loans to members to the extent of Rs. 37·51 lakhs for expenditure on marriages, etc., which was about 9 per cent of the total loans issued by co-operative societies during the year. The settlement of a Civil suit between two members was effected by a society in Chingleput. The Mangalapuram Better Living Society in Madras City assigned housesites to its members on condition that they conformed to the rules and regulations laid down by the society for better living. These societies are new to the Presidency and are very slowly feeling their way. But it should be possible to run

them on successful lines if there are in each society at least a few ardent spirits who can infect others with their love of discipline and enthusiasm and show by example as well as by precept how the society's objects can be achieved . There is no reason, however, why Better Living by-laws should not be introduced in all societies. Co-operation can touch every activity of men and women.

General.—There is a certain amount of criticism against the movement that it has not been helpful to the poorer people. In a sense this may be true, as co-operation is not charity but business. But put in this extreme form, the charge cannot be sustained for the following reasons:—

(a) During 1936-37, 1,90,995 loans aggregating Rs. 50 lakhs were issued for Rs. 50 and less and 63,489 loans for a total sum of Rs. 54 lakhs for sums between Rs. 50 and Rs. 100. Thus, a crore of rupees was disbursed as small loans. It is generally the poorer members who require such small amounts. These small loans formed a tenth of the total amount disbursed in agricultural societies and one-eighth in non-agricultural societies.

(b) It may be safely presumed that the members of depressed classes societies are very poor. There were 117,921 members in such societies on 30th June 1937 in depressed classes societies only.

(c) Yet another proof of the fact that societies do not neglect the poorer class of citizens is afforded by the fact that on 30th June 1937 there were 55,764 tenants and 43,430 field labourers in agricultural societies.

(d) Four municipal societies exclusively for inferior employees bought on the whole cloth and foodstuffs for Rs. 20,457 and effected a saving of Rs. 597.

(e) It must not be difficult for the poorer members to join societies as the share capital in primary societies is payable only in small instalments and this has been purposely done from the earliest days.

Conclusion.—Before I conclude I wish to offer my remarks on the agitation that is going on in some quarters against the so-called increasing officialisation of the movement. The Co-operative Movement is essentially a non-official movement and this ideal is always held prominently in view, and I for one shall welcome the day when it will be possible to entrust supervision to non-officials entirely. But I do not see any contradiction between non-official control and existence of a paid executive staff to carry on the day-to-day routine business of a bank. A recognition of this principle should easily disarm a great deal of adverse criticism against the appointment of departmental officers as Secretaries or Executive Officers of a bank. The department has been deputing officers only when requests are received for deputation, and where the banks were not disposed to take in men, the point has never been pressed. The deputation of officers has resulted in all cases in a better systematisation of routine work, stricter control over the office and executive staff and improved collections. Exception is also taken to certain recent amendments of the Act like the amendment of Section 51 providing for disputes between societies and ex-office-bearers. While there has been strong opposition to this amendment, it must be remembered that it was introduced to meet an admitted evil. Irresponsible panchayatdars have in some cases disbursed loans in contravention of all by-laws and the result has been the liquidation of the society, the enforcement of unlimited liability and sufferings for the solvent few. The section is a wholesome corrective against reckless and irresponsible management and should be welcomed by all co-operators. We have to conserve our strength and energy for such important problems as rural reconstruction, controlled credit, marketing and co-operative education, and here there is more than enough room for officials and non-officials to work side by side.

THE PUNJAB

Government Review of the Report of the Registrar, Mr. F. B. Wace, I.C.S., on the working of Co-operative Societies in the Punjab for the year ending 31st July, 1937.

The cost of Co-operative Movement to Government during the year under report was Rs. 11.80 lakhs as against Rs. 11.98 lakhs last year. As the facts and figures given in the following paragraphs will show, there has been steady improvement in all branches of the movement during the year, which marks a stage further in the process of recovery from the effects of the economic depression. The total number of societies at the end of the year was 23,186 with a membership of 8,68,437, showing a net increase of 632 societies and 45,893 members over the previous year's figures. The increase would have been greater but for the large number of cancellations of credit societies. These cancellations were necessitated by the fact that a large number of societies, which were kept on the register during the period of economic depression, simply to avoid hardship involved by liquidation to members cannot be suffered to continue indefinitely in the unsatisfactory condition. The severity of economic depression has passed and they must either show improvement or be cancelled. This 'clearing up' process will continue for some time and new registrations will partially be set off by cancellations.

The report contains a graph which shows the progress made by the movement up to the end of the year (1936-37). In the review on the last year's report, the question of a further advance was raised. The Registrar rightly remarks that a spectacular advance in numbers is not to be expected so soon after a severe economic depression. The wreckage has first to be repaired. Secondly, any advance must involve considerable increase in expenditure and the amount of extra funds that can be allowed to this Department is necessarily limited. The supervising staff of the Department is said to be already over-worked and any further expansion of its activities will require corresponding increase in the strength of the subordinate and superior staff. Government consider the policy of cautious advance followed by the Registrar is the best in the circumstances.

Of the various kinds of societies, agricultural credit societies are perhaps the oldest and the most important. Under this class fall Land Mortgage Banks, which are only 12 in number, and agricultural credit (unlimited) societies. Very few loans were granted by Land Mortgage Banks and attention was concentrated during the year on recoveries. Recoveries effected were Rs. 2.09 lakhs as compared with Rs. 1.76 lakhs last year. Overdues, however, also increased from Rs. 3.92 lakhs to Rs. 4.79 lakhs, and a large number of borrowers defaulted. The question of re-organisation of these banks is receiving attention from the Registrar.

The number of societies increased during the year from 16,820 to 16,982 showing a net increase of 162 in spite of the fact that a number of societies of this category in the Jullundur District were converted into non-agricultural ones. Membership at the close of the year was 5,14,152 as compared with 5,06,169 at the end of the previous year. The increase was the largest in Hoshiarpur which had 156 new societies, Kangra was second with 50, and Lahore third with 11 new registrations.

Loans granted by these societies during each of the last three years have remained almost stationary the figure for the year under report being Rs. 96.82 lakhs. Out of this, Rs. 3.79 lakhs were advanced at a rate of interest higher than 9 3/8 per cent. The average loan per member is Rs. 18 as was the case last year. The following figures show at a glance the financial position of these societies:

	1936. Rs. (lakhs).	1937. Rs. (lakhs)
Total on Loan.	658·05	630·19
Due for recovery during the year:—		
Principal	78·18	95·68
Interest	207·96	214·26
Recoveries, effected of:—		
Principal	97·71	105·48
Interest	52·03	52·01
Overdues:—		
Principal	26·14	30·85
Interest	166·67	162·26
Percentage of principal recovered to the total debt at the commencement of the year.	13·6	16·03

The total amount on loan shows a big drop of nearly 28 lakhs. Recoveries are considerably better than last year and overdues are smaller. This is a sign of the healthy working of the societies. In paragraph 37 of the Report, the Registrar has given an interesting analysis of the objects for which loans were granted by societies to their members. An increase of Rs. 1.82 lakhs in members' deposits is another satisfactory feature of the year's working. The total deposit in this class societies is Rs. 30.26 lakhs. The A and B class societies represent 15.5 percent of the total number of classified societies as against 14.8 per cent last year. D class societies have also, however, increased from 15 per cent last year to 16 per cent at present. The bulk of societies is still in class C which is being split up into two sub-classes, C(i) and C(ii).

Of the other forms of agricultural societies, the more important are the Consolidation of Holdings Societies, which need more than a passing reference, and Better Farming and Production and Stock Breeding Societies. 3,518 maunds of wheat seed were distributed through Better Farming Societies during the year against 1,499 maunds last year. In addition a large number of agricultural implements were sold through the agency of these societies. Government hope that there will be expansion in both these directions. Cattle and Sheep Breeding Societies have increased by 36. This class of societies is making headway in the districts of Ferozepore, Amritsar, Gurdaspur, Hissar and Jhelum. Here too an increase is to be desired. In the Ferozepore District, a scheme of establishing veterinary first aid centres for the treatment of animals is being successfully worked in co-operation with the Veterinary Department. As many as 40 such centres are in existence and 8,460 animals were treated during the year under report.

The area consolidated through co-operative societies during each of the last four years is as under:—

Year	Acreage consolidated.
1934	.. 56,148
1935	.. 65,534
1936	.. 92,689
1937	.. 120,295

The total area consolidated in the province up to 31st July 1937 is 7,91,358 acres. The benefits of consolidation are being brought home to an increasing number of people every year and a larger number of villages apply for in advance the cost involved. The main difficulty in expanding the work on a very large scale has been that of finding competent superior staff. Arrangements, financial and administrative, are now being completed and greater expansion should presently be possible. Recalcitrant minorities are also a difficulty, but the Consolidation of Holdings Act passed by the Legislature in 1936 is designed to overcome it.

Non-Agricultural Credit Societies:—Non-agricultural credit societies number 1,273, of which 710 are urban. Urban societies show an increase of 58 as compared with the last year's figures, including 23 societies converted from the agricultural category to this class during the year. Among other varieties of non-agricultural societies the important ones are Production and Labour, Thrift, Better Living, Arbitration, and Industrial Societies. Better Living Societies number 920 of which 184 were registered during the Year. The membership was nearly doubled during the last two years and stood at 41,033 at the end of the year under review. These societies are working in co-operation with Panchayats and Sudhar Committees and their programme extends to a number of beneficial activities, e.g., restrictions of expenses on ceremonies, establishment of sports clubs, village libraries, flower gardens, first aid centres, settlement of village disputes etc. Arbitration societies are doing useful work particularly in the Kangra and Attock Districts. During the year, 756 cases were decided by these societies, only 54 of which had to be enforced through agency of civil courts.

The number of industrial societies has increased from 312 to 327. The figures below explain their position:—

	1935—36	1936—37
Advances	Rs. 1·81 lakhs	Rs. 2·03 lakhs
Recoveries	Rs. 1·72 lakhs	Rs. 1·97 lakhs
Per centage of recoveries to total debt	41·4	46·4
Average Debt per member	Rs. 80·9	Rs. 78·6
Reserve Funds	Rs. 1·05 lakhs	Rs. 1·72 lakhs

Membership of these societies increased during the year from 5,251 to 5,460. As only one member per family is admitted to membership, societies now touch almost 30,000 persons of whom at least 10,000 are workers. The hard workers in this Province belong to the poorest class of the community and their prosperity lies in co-operative organisation. During the economic depression these societies had a difficult time, but have fortunately survived it. It has been decided to give assistance to this branch of the movement from the Government of India grant for rural uplift schemes, which is a proof of the recognition by Government of the importance of cottage workers and a happy augury of the indigenous industries of the country.

The Registrar gratefully acknowledges the help rendered to the Department generally, and the industrial societies in particular, by Mr. F. L. Brayne, Commissioner, Rural Reconstruction, Punjab, and Mrs. MacPherson, Provincial Commissioner for Girl Guides.

Women's Societies:—During the year under report there was a net increase of only two in the number of Women's Co-operative Societies, the total number of which stands at 225 with a membership of 4,773 and a working capital of Rs. 2·74 lakhs. As the Registrar remarks, the progress is not satisfactory even if a full allowance is made for the difficulties that stand in its way. The Registrar is considering the question of improvement on the general standard of work of the staff concerned and it is hoped that the next year's report will show better results.

General Institutions:—The Punjab Co-operative Union received a grant of Rs. 0·94 lakhs during the year as against Rs. 1·04 lakhs last year. The basis on which this grant is calculated was changed last year from fifty new societies to one sub-Inspector to 40 new societies, but this does not appear to help appreciably to solve the financial difficulties of the Union. The Union has made efforts to reduce its expenditure to the minimum possible, but even so it has not found it possible to find funds to meet the demand for increased staff. The matter is being considered by the Registrar. The educational activities of the Union were carried on as usual, special stress being laid on the training of secretaries and Office-holders of primary societies. Refresher courses were also held for the secretaries of Banking Unions, and classes were held for executive agents and liquidators. During the year, trustees were appointed for the Calvert Fund and its capital invested in government securities. It has been decided to award scholarships from this fund to the sons of co-operators in 3 divisions of the Province for the present.

It is gratifying to note that the Punjab Provincial Bank continues to do well. During the year, the Bank exercised the option given in the trust deed and repaid the 6 per cent. debenture loan for five lakhs. The Bank's position is liquid and it is in a position to meet all reasonable needs of the Central Banks. All available profit is being devoted in strengthening reserves.

The following figures show the position of Central Banks and Unions during the year:

	1935-36 Rs. (lakhs)	1936-37 Rs. (lakhs)
(A) Working capital	669	669
Owned capital	112	117
Invested in the Government Securities (Book value)	113	121
(B) Principal outstanding	396	377
Interest outstanding	40	41
Advance to societies	56·83	54·27
Due for recovery during the year:—		
Principal	43·86	50·01
Interest	55·19	61·36

	1935-36 Rs. (lakhs)	1936-37 Rs. (lakhs)
Recoveries effected:—		
Principal	54·73	76·37
Interest	19·60	23·52
Percentage of principal recovered to the total on loan at commencement of the year.	13·6	19·3
Overdue at the end of year:—		
Principal	15·38	11·61
Interest	35·02	35·07

These figures show a general improvement in the working of these banks. The amount on loan to societies at the end of the year was short by Rs. 19 lakhs as compared with the previous year. The most usual lending rate of interest was 7 per cent with varying rates of rebate for prompt payments. The lending rate for societies has been reduced by all banks other than those which are unable to do so owing to the large amount of unproductive loans due from D class and cancelled societies. The most usual borrowing rates of the banks during the year were 2 to 2½ per cent. These figures show that the banks are borrowing as cheaply as possible and are lending to societies at reasonably low rates of interest showing thereby the consistency of their sound finances.

The principal debt due by societies classed D and those in liquidation is Rs. 115·02 lakhs. To provide for the irrecoverable portion of these debt, banks have created a reserve fund which is being strengthened by annual allocation from profit. The balance of the fund at the end of the year was Rs. 30·75 lakhs. During the year the following amounts were written off:

Principal	Rs. 75,586
Interest	Rs. 6,739

The total amount written off on this account since the commencement of the movement is: principal Rs. 1·91 lakhs and interest Rs. 49,546.

Acknowledgements:—The Punjab Government are grateful to Mr. Wace for this interesting and illuminating report on his Department, which bears testimony to his unsparing devotion to duty and his masterly hold of the complexities of the Co-operative Movement. His five years' experience of the Department coupled with his ability and sound knowledge are a great asset to Co-operation. Credit is also due to Mr. Eustace who officiated as Registrar for a part of the year and also to Mr. MacPherson, the Financial Advisor to the Department. Government also much appreciates the unremitting hard work done by the Deputy and Assistant Registrars and the large number of Inspectors and Sub-Inspectors, including honorary staff, who have contributed to a large extent to the successful working of the Department during the year under report.

CO-OPERATIVE CONFERENCES AND MEETINGS

TWENTIETH SESSION OF BIHAR CO-OPERATIVE FEDERATION CONGRESS, PATNA, 6TH APRIL 1938.

Inaugural Address by Dr. Sachchidananda Sinha, Chairman, Reception Committee.

As the Chairman of the Reception Committee, I extend to you a cordial welcome to this, the twentieth session of the Co-operative Federation Congress. My duty is the pleasant and agreeable one of offering you welcome and wishing your deliberations success, in the interest of the large number of people who are deeply concerned in the fortunes of the co-operative movement in this province. The presence of His Excellency the Governor is a conclusive proof of his sympathy with the aims and objects of the Congress. I regard his coming here to encourage us to-day as a hopeful indication of the changed attitude of Government towards the cause we represent. Your President is an experienced and seasoned public man of great reputation, who has been closely connected with the working of the co-operative movement in the country, and I have no doubt that his valuable guidance of the proceedings will enable you to get through your work not only expeditiously but successfully.

As for myself, my interest in the co-operative movement is not of yesterday or to-day. As a member of the Imperial Legislative Council, I took an active part in 1911-1912, in the discussions on the enactment of the Co-operative Societies Bill; and I trust I have proved my deep and abiding interest in the co-operative credit system, since then, as an investor, on a fairly large scale. When the Bihar and Orissa Co-operative Societies Bill—now Act VI of 1935, which replaced Act II of 1912—came up for discussion in the provincial Legislative Council, I put in a strong plea for the rehabilitation of the co-operative movement. I shall avail myself of the present opportunity also to do the same, for I am a confirmed constitutional agitator, and have always believed that non-violent repetition and re-iteration are the very essence of constitutional agitation. I, therefore, make no apology, in view of the present moribund condition of the co-operative movement in the province, and the attitude of the old Government towards it, to recall certain facts and circumstances which both Government and the public would do well to keep in mind, if this organisation is to develop and expand.

The co-operative movement, like so many other beneficent measures, owes its birth and development to Government initiative. It was started by Government early in this century, with public funds, and through Government officers. The Government passed a special Act in 1904, which was substantially modified and amended in 1912, in order to extend the scope of the organisation. Government then clearly assumed responsibility for the movement both by its legislation and conduct. Circulars were issued to District and Sub-divisional officers to take special interest in its working, and officers were warned that their capacity for holding charge of districts, or sub-divisions, would be judged by the amount of interest taken by them in the co-operative movement. Departmental officers were asked to raise funds for financing the banks, and by inducing their friends and relatives to deposit their money in co-operative banks and societies. Mr. Abdy Collins, the then energetic and zealous head of the department, pestered our lives by his too frequent calls at our houses to induce us to invest all our lives' savings in the co-operative banks, and many of us yielded to his persuasive eloquence. The annual reports of the Department encouraged and praised officials and non-officials who took part in the movement, and Government conferred on them promotions or titles in recognition of their services to it.

Naturally, therefore, the workers in this movement, either because they had a real faith in it, or because of Government's direction and encouragement, organised and started societies and banks, and the public consequently came to the conclusion that these institutions were controlled by Government, and were, therefore, perfectly safe and sound from the depositor's point of view. This impression was confirmed by the glowing reports of their working, and the praise bestowed by Government on the workers. The Co-operative Societies Act gave the Registrar power to audit and inspect, including even making an enquiry into the financial condition of a bank or society. It further empowered him to dissolve a society, if that was found to be necessary, in the interests of the public. Armed with these powers the Registrar proceeded to do his duty, aided by a number of Assistant Registrars, who were placed in direct touch with the central banks and societies, and a large number of auditors of various grades were appointed to audit the accounts of these institutions. A number of returns were prescribed for submission by these organisations, and all the books and registers needed for their use were also drafted and prescribed by the department.

Co-operative banks were also allowed to advertise openly the fact that they were registered under the Co-operative Societies Act, and were subject to audit by an agency appointed by Government, and this attracted deposits from the public by offering rates higher than those offered by other banking concerns. In the pamphlets issued, from time to time, this aspect of Government audit and inspection was always emphasised. Thus, in the pamphlet headed "Twelve Main Points of Co-operation", (printed at the Bihar and Orissa Government Press, and issued under the authority of the co-operative department) we find it stated that "Government has established the societies for its subjects, and employs the Registrar and other officers to inspect them and audit their accounts, to make sure that there is no *golmal*". It was further declared that "if members of societies are lazy or dishonest, the societies are closed by the Registrar and all money recovered by means of certificate procedure".

Another booklet called "Hints on the Starting and Management of Central Co-operative Banks", issued by Mr. Collins, in 1914 when he was Registrar, contains the following statements: "Central Bank is a combination of business and philanthropy—as it were, on a business footing. It consists of a combination of the local gentry with the village societies for the benefit of both and for common good. The former find in it not only a safe and profitable investment, but the best means of aiding in the economic development of their country. The Sub-Divisional officer or in the sadar sub-divisions, the Collector, is usually an ex-officio director, and sometimes elected chairman". In yet another pamphlet (printed at the Government Press, in 1919), containing some notable utterances on the subject, we find the following appeal to the public to invest their money in the provincial co-operative bank: "Now is your chance. Put your money in the bank and combine patriotism with profit".

These declarations and statements created a sense of absolute security in the minds of the depositors, and a wholly justifiable impression that not only all was well, but was bound to the well with the movement. The circular of Mr. Collins, pointing to Government's connection with the movement, and thereby inviting and

inducing depositors definitely and directly fixed the responsibility for their safeguard on the shoulders of Government. Nor was this attitude of Government anything but right and proper, for they had before them, as their guide, the following memorable words uttered by His Majesty the King-Emperor, George V, during his visit to this country, in December, 1911: "If the system of co-operation can be introduced and utilised to the full, I foresee a great glorious future for the agricultural interests of this country". The Royal Commission on Agriculture also declared that Co-operation was the hope of rural India. The Provincial Banking Enquiry Committee asseverated that the movement was highly beneficial and intrinsically sound. The Hubback Committee on Co-operation rang the same changes that Government was responsible for audit, and the Registrar had to see that it was properly done. It is thus absolutely clear that if people put their money into the co-operative banks, they did so because they saw that Government was closely connected with the movement, and their officers were chairmen of the banks and also occupied other important offices.

How, in spite of all these things, can Government ever disown their responsibility for the co-operative movement? In the face of the facts I have mentioned and the declarations, I have quoted from, it is by no means open to Government to shirk their responsibility. But the liquidation of a certain central bank, and the failure of many central banks to meet their obligation to their depositors and creditors, have rudely shaken the confidence of the public in the movement.

Economic depression, which has been prevailing for the last few years, has been very largely responsible for the present financial difficulties of most of the central banks, and regard being had to such circumstances Government are morally, if not legally, bound to come to their rescue. It is no answer to say that the tax-payers' money should not be spent any more. The tax-payers' money was spent hitherto and I think, will have to be spent, even now, because the movement has still in it vast potentialities for doing good to the agriculturists, which after all is one of the most primary duties of a civilised Government like ours.

The tax-payers' representatives in our legislature naturally, therefore, want that Government shall support the banks not with mere Acts, rules and bye-laws, or speeches and declarations of sympathy, but with ample funds. Governments should not, therefore, have any hesitation in spending the money required for the proper development of this movement. If Government are apprehensive that this action on their part is likely to meet with opposition in the Legislature, I may assure them that that will not be the case, since there is no alternative scheme before Government, or the public, for the uplift of rural India, other than the co-operative movement. It is the bounden duty, therefore, of Government to provide the necessary funds for its development with a view to restore public confidence in the movement. They must do all in their power to save the depositors from ruin, and re-assure them that the movement still enjoys, and will continue to enjoy, Government's support. It is no longer a case of a particular bank which has gone into liquidation. The fact is, and I am sure the Hon'ble Minister is fully aware of it, that the liquidation of the particular bank has had serious repercussions on many other banks, and if Government will not come to their rescue, then the fate of the co-operative movement in Bihar shall have been sealed for ever. People, therefore, look up to Government for large financial assistance to the movement, and that too now or never.

The Hon'ble Minister is, I am sure, aware of the fact that several central banks have not been able to meet the demands of the depositors and many of them have not been able to pay even the interest. Such banks should be supported by Government and helped materially, otherwise, first, these banks, and then their affiliated societies, will have to be liquidated before long. Such a step will spell ruin and disaster, both to the numerous depositors and to the members of the agricultural societies. And the consequence of failure will not end with these banks alone. It will spread all over the province, and affect a very large section of people. Can Government in such a case and, in particular, a poular Government as ours now claims to be, possibly disown or shirk their responsibility, and stand by and allow the societies to be wrecked?

If, as I believe, Government have faith in the movement and have genuine sympathy with it—as opposed to mere lip-sympathy, if they want to save the situation, they cannot but support all those banks that are in difficulty at present. In some other provinces (such as Bengal, and the Central Provinces) the local Governments came to the rescue of the co-operative movement when it was forced with a similar situation. There is no reason why the Bihar Government should assume an attitude which may lead people to infer, rightly or wrongly, that they are indifferent to the fortunes of the co-operative organisation. There is a good deal of misconception in the public mind in regard to the attitude of Government about our movement, and I venture to hope that the Hon'ble Minister will encourage us to-day by giving an assurance that Government are genuinely sympathetic, and they will do all that lies in their power, not only to support the movement financially, which is at the present moment faced with a grave crisis, but to do what will lead to its development and expansion.

In this connection I may recall that Dr. Rajendra Prasad also took the same view that I am now urging, while presiding over the Co-operative Conference held in this city, some years back. The consensus of opinion, therefore, seems to be that Government in the interest of the co-operative movement in the province, should come to the rescue of the central banks. I once again urge upon Government the imperative necessity of their helping the resuscitation of the co-operative movement and thus restoring the shaken confidence of the people in this highly beneficent movement. Immense as are the possibilities of the co-operative movement for doing good to the people, equally imperative it is on the State to strengthen it, to restore the people's lost confidence in it, and to direct it into channels which might uplift the masses, teach them thrift, and bring about a general improvement in the economic condition of the tenantry. Once again do I welcome you to this session at Patna, not so much as guests but as fellow co-operators, engaged in the noble task of devising means for common good.

Presidential Address by the Hon'ble Mr. V. Ramadas Pantulu.

Greatly honoured as I feel by your generous invitation to me to preside, for a second time, over a session of your Co-operative Congress, for which I tender to you my grateful thanks, I deeply regret that it has become necessary for you to seek a substitute for Sjt. Rajendra Prasad, your original President-elect, on account of his indifferent health. Not only Bihar but the whole of India looked forward eagerly to his wise guidance and courageous lead from this Chair at this juncture, when the co-operative movement is passing through a serious crisis. A pronouncement on the measures calculated to rehabilitate the movement in Bihar, by a leader of the eminence of Rajendra Babu, whose zeal for the uplift of the poor and the downtrodden is unparallelled and whose claim to speak on problems of social and economic emancipation of the masses is unquestioned, would not only have helped the

friends of the movement all over India but given an authoritative lead to the Provincial Governments. Let us pray that he may be soon restored to full health, so that he may devote some of his valuable time in the near future to advise us on the difficult problems which confront us to-day.

Our Task.—I have been duly informed by some of my friends in Bihar that the credit movement here is in a state of virtual collapse and this session of the Congress, under my presidentship, is expected to formulate a " cut and dried rehabilitation scheme to set right the affairs, before it is too late" as one of them put it. I am however greatly relieved to hear that it is not too late and that all is not over with the patient. But I have no ready made recipe to liquidate the crisis, nor can I pretend to be in a position to present to you any comprehensive scheme to rehabilitate the movement. All that I can offer is my whole hearted collaboration with you in the search for such a scheme. My services, in that effort, are unreservedly at your disposal.

Notwithstanding the complexity of the problem and the clouds that envelop the movement, I feel encouraged and cheered by the thought that we are to-day in a position to approach our task with a real measure of optimism, more than at any time in the past. You have already had a definite assurance from your Premier that "the question of rehabilitation of the co-operative movement is receiving the most earnest consideration of the Government." I understand that an elaborate scheme of rehabilitation is being actively discussed by the Government at the moment. The fact that H. E. the Governor and the Hon'ble Minister-in-charge of Co-operation have both agreed to deliver their messages in person to this Congress, further indicates the great interest that your Government is showing in the movement and its desire to help you out of your difficulties, so far as it lies in its power. A broadcasting of these two messages must bring hope and comfort to rural Bihar.

Congress Ministry and Co-operation.—It is a matter of genuine gratification to me, as a co-operator, that the clouds which a few weeks ago obscured the political horizon of this Province have quickly disappeared, and that a Congress Ministry is in office. I say so because the future of co-operation mainly depends on the political complexion and the agrarian programme of the Government of the Province. The failure of the co-operative movement to effectively achieve its aims in the past was as much due to the absence of co-operative virtues among its votaries, as to the presence of external factors which obstruct the advance of the movement and which can be removed only by courageous and well-planned State action. Our critics must remember that during the last 35 years, the experiment of organisation for associated effort on a co-operative basis—a highly technical and democratic form of organisation—was carried on among rural masses steeped in colossal illiteracy and ignorance and chronic poverty and debt and made to depend for their living on land held under oppressive and soul killing systems of tenure. No scheme of economic uplift can succeed under such conditions. If co-operation yielded slightly better results in one place than in another, the difference varied with the degree of intensity with which these socio-economic handicaps operated. Unless and until these external handicaps are removed by resolute, sustained and comprehensive attack on them, co-operation cannot substantially help the people. It is precisely for the effective handling of this task that the Congress Ministry is pledged and it alone, in my opinion, can accomplish it. The rural development programmes of the Congress Ministers in Bihar and elsewhere, which are framed in consonance with the election pledges of the congress and which comprise, among other items, the liquidation of illiteracy, relief of indebtedness, promotion of rural industries and reform of land tenures, raise in us, co-operators, the hope that in future the problems of the villagers' life will be dealt with as a whole, that co-operation will be given its proper place in schemes of national reconstruction, and that the early fruits of the congress rule will be a rise in the standard of life, and an increase in the income and sustaining power of our members. Indeed your Prime Minister in his Hajipur speech not merely avowed his faith in the economic advantages and moral significance of co-operation but gave expression to his resolve not only "to keep the co-operative movement alive but also make it more beautiful and convert it into an instrument capable of making the life of the village community fuller in everyway."

I should not however raise in you unduly high expectations of the opportunities which a Congress Ministry, functioning under the Government of India Act, 1935, has to influence national economic policies or control the economic destinies of our people. My esteemed friend, Prof. Kale, who occupied this Chair last year, presented to you a lucid survey of the limitations of the Provincial Autonomy, and the all-pervading character of the Central Government's control, over our fiscal, commercial, industrial, currency, and exchange policies on which largely depend the general improvement of the social and economic condition of the masses, betterment of the standard of living of the people and increase in the national income. By the same token we must estimate the limitations of co-operation and other socio-economic movements. Every co-operator must therefore not only look forward impatiently to the day when such central control also passes into the hands of the true representatives of the people, but must also work whole heartedly for such a consummation.

The financial crisis and how to avert it.—It is not necessary to bring under review the causes that have contributed to the present troubles of the movement in Bihar. They range from visitations of gods to the perversity of men and have often been critically analysed in the past. In the main, the present position is the legacy of our past sins, non-observance of the moral precepts of co-operation and the violation of the material rules of business code. I may however be permitted to briefly narrate the events that have led up to the position as we find it to-day.

In Bihar since the inauguration of the credit movement in 1906, the practice of granting, from out of your ordinary deposits, loans to members for the repayment of their old debts was a feature of your banking operations. It was a serious banking heresy. Nevertheless, it had the approval and support of the official as well as non-official leaders of the movement. It was the policy and practice in Madras also for many years. We however realised the grave dangers involved in it and retraced our steps much earlier than you in Bihar did. But I noticed that, even here, just before the economic depression set in, your Provincial Bank, pointed out to the Government of Bihar that the long term commitments of the movement required long term financial backing and asked for facilities to float debentures for a sum of Rs. 20 lakhs for the purpose. This proposal was examined by your Provincial Banking Enquiry Committee in 1929-30 and the Hubback Committee in 1930-31, and both of them supported the Provincial Bank's request and made suitable recommendations to the Government. The Hubback Committee, while strongly advocating the view that the creation of land mortgage banks alone can be the ultimate solution of the problem of liquidating indebtedness and for a relief from the gross embarrassments of the present financial system, recommended that in order "to improve immediately the stability of existing societies" a determined attempt should be made to raise sufficient long term money on debentures, backed by a Government guarantee of interest.

If your Government had taken prompt action on the lines suggested by the Provincial Bank in 1928 and subsequently approved by the two committees, the situation might perhaps have been saved. But the measures then contemplated as being adequate will not now suffice to meet the situation. After the great earthquake, the value of the security behind the loans greatly diminished and in some cases was obliterated and the prospects of recovery from your members were considerably reduced. I am told that in some areas, unscrupulous borrowers were not slow to exploit the situation and resorted to fraudulent alienations of their properties, leading to loss of confidence in the solvency of the banks and to a run on some of them. The unfortunate events that led up to the liquidation of the Gaya Central Bank had their inevitable repercussions, not only on its sister institutions in the Province, but on the Provincial Bank as well. There were heavy withdrawals of deposits from the Provincial Bank also and consequently its liquid position had deteriorated.

The Bihar Government which remained unmoved by the appeals of the Provincial Bank and the picture of the imminent danger which was about to overtake the movement, presented by the Provincial Banking Enquiry Committee and the Hubback Committee, had at last shown signs of response to the call of the earthquake, but too late and in a wholly inadequate measure, as Governments in India usually do in meeting popular demands, however pressing and responsible they might be. After the devastation wrought by the earthquake the Government agreed to give a loan of Rs. 20 lakhs to your Provincial Bank, Rs. 4 lakhs to enable it to strengthen its fluid resources and another sum of Rs. 16 lakhs not only to help it to meet the demands of its depositors but also to give financial aid to the central banks to enable them to repay their depositors as well as to finance their societies. But the total of the deposits at the time of the earthquake in the Provincial and central banks, I find, stood in the neighbourhood of Rs. 1¾ crores. Even so, if the news that the Government was behind the movement and that no effort would be spared to improve the business methods of the banks led to assuaging the fears of the creditors, the financial assistance rendered by the Government, small as it was in comparison with the calls on the banks, might probably have gone some way to arrest further deterioration of the position and to stop the run on the banks.

But events had taken a different course. The condition of some central banks was considered too shaky to safely prop them up, by financial support from the Government's loan to the Provincial Bank, and such central banks had no alternative but to declare their inability to meet their depositors' claims. We can easily imagine the effect of it on the rest of the banks. I understand that about a dozen central banks have already held their creditors' meetings under the provisions of section 24(a) of the Bihar Co-operative Societies Act and half a dozen more are contemplating to do so in the near future. Banks which have recourse to section 24(a) cease to be banks, command no more credit in the money-market, advance no fresh loans to the societies and merely divert their recoveries towards repayments to their creditors; in other words they are in the process of voluntary liquidation. The number of such banks seems to be increasing. I am also told that even those banks which have not yet held creditors' meetings are unable, at one end, to attract adequate volume of fresh deposits to finance the societies, while at the other end withdrawals of the existing deposits show no sign of abatement. This leaves us with the Provincial Bank and a few central banks which still command some credit.

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The liabilities of the credit institutions are roughly estimated to exceed their assets by about Rs. 50 to 55 lakhs, which is approximately the amount of bad debts by which the assets have been reduced. Your interest bearing liabilities are, I understand, a little over Rs. 140 lakhs while your owned capital is a little under Rs. 30 lakhs, composed roughly of share capital of about Rs. 16½ lakhs and reserves of about Rs. 13½ lakhs. For some years past you have not been earning sufficient revenue to meet your expenditure and working at an annual deficit of about Rs. 3 lakhs or roughly Rs. 800 per day. You cannot carry on much longer on this basis, without rapidly consuming your borrowed capital. All these figures may have to be tested by a detailed examination, but they throw out the dark outlines of the picture with sufficient clearness.

Rehabilitation scheme.—Now I proceed to submit for your consideration what I consider to be the outstanding features of the rehabilitation scheme. Three main questions arise from the position stated above apart from a mass of complex detail. The first question is how and from what source are we to derive the sum of about Rs. 50 to 55 lakhs which represents the excess of our liabilities over our assets. I find that there is a suggestion to reduce this deficit, partially, by utilising a portion of our owned capital—share capital and reserves—for the purpose, before trying to find the balance. The share capital cannot obviously be withdrawn from the movement, if it is to be kept as a going concern. I am not also in favour of using the reserve fund, either wholly or partly, to reduce the deficit. It is no doubt true that the reserve fund of an institution is primarily intended to meet its unforeseen losses. It is a different matter. Your circumstances are exceptional. The whole movement is in peril and not a particular institution. The movement which is already weak will be further debilitated by wiping out the reserves. While attempting to rehabilitate the banks, unions and societies, we must ensure that those which survive the process of rectification or organisation, start on their new career with adequate financial vitality in them and reserves are essential for such vitality. I know that my advice in this matter may not be acceptable to some of you. It is natural that you should feel considerable delicacy in asking the creditors and the Government to bear the entire burden, without some effort, however small, to reduce the size of the deficit, by some sacrifice on your part. But it is a wrong approach to the question. After all, if we have in any case to find Rs. 40 or 45 lakhs, even after wiping out our reserve fund, let us explore other avenues to find another Rs. 10 or 12 lakhs and retain our reserves. I am hopeful that our appeal, in this behalf to the Government for an adequate subsidy and to the creditors for some measure of sacrifice to help us out of our difficulties, will not go without response.

In playing the role of the mendicant let us abandon for the moment, notions of delicacy, deriving courage from the consolation that we are constrained to do so, not merely in the immediate interests of the movement, but mainly in the larger interests of rural economy eventually. I need hardly dwell on the responsibility of the Government to back up the movement at this juncture, and to restore public confidence, which was largely based in the past on the belief that the Government was behind the movement. Psychology plays a great part in finance. As we all know, fortunes of investors and fluctuations of markets are as much influenced by mental as by monetary currents. The measure of the financial help rendered by the Government, computed in terms of its potential value to the movement and to the agricultural industry in general, will far outweigh the few lakhs of rupees which they may place at the disposal of the movement. I therefore appeal to your Government on your behalf, to extend their help to the movement in a generous measure, to enable the movement to retain its slender owned capital in tact.

The second question is how do we stand in relation to our creditors and to what extent we can satisfy them. It seems to me that our creditors have to be differentiated and should be delicately approached, the approach naturally varying with the financial position of the debtor banks. Firstly there are creditors whose money is locked up in banks which are actually in liquidation or which must necessarily be liquidated. Normally the remedy of the creditors in such cases is to receive such dividends as the liquidators may be able to pay, from time to time, from the assets, as and when realised. The help which they may legitimately expect from the Government is to speed up the liquidation proceedings and make them as inexpensive as possible, so that the dividend may be as satisfactory as possible and paid as quickly as it can be. It is wise to leave this class of creditors at that. Trying to settle their claims by conciliation and satisfaction will generally speaking, be found impracticable, having regard to the volume and nature of the assets available, to raise the credit required for such operations. This does not mean that relief may not be given to such members of societies under liquidation as wish to save their lands from sale and able to avail themselves of some scheme in relation thereto or that the creditors may not be helped also if funds can be raised

Then come creditors who are slightly more fortunate and whose debtor banks are not on the verge of bankruptcy, though their assets are attenuated. They realise that they cannot get back their money in full, but expectantly look forward to their claims being, at least, partially satisfied by payment. The quicker the payment in cash the larger will be the concession to the debtor. It is in this class of cases that holding of creditors' meetings under section 24(a) and other methods of conciliation to bring down the claims of the creditors may prove most helpful if sources are found to satisfy such claims by cash payment. Funds, to the extent needed to pay the reduced claims of these creditors, will have to be raised, as promptly as possible on the assets of these banks.

Lastly there are creditors of the banks which possess sufficient assets to cover the liabilities either in full or to a large extent. But the existence of assets is not the same thing as their availability to meet the liabilities. Every creditor of a technically solvent debtor, without liquid assets, knows the difficulty of realisation. So, if we handle with tact and consideration this class of creditors, I am sure, they may also be persuaded to cut down their demands.

The Provincial Bank is of course in the same boat along with the depositors of the central banks and must therefore be necessarily prepared to lose some part of its investments in the central banks, which I understand are round about Rs. 70 lakhs. Its loss may be anywhere between 15 to 25 lakhs. I hope that the Government will treat the Provincial Bank with special consideration. The bank has been working since 1931 at a loss which must now aggregate to about Rs. 11 or 12 lakhs. As it must continue to be the financing agency and the balancing centre of the movement and its mainstay, I feel that all that is possible should be done to enable it to continue to command the confidence of the money-market. I hope that the bank will not be put to the necessity of diverting its reserves to reduce its losses. After all, its total reserves are a little under Rs. 7¾ lakhs, a perilously sparse provision for a rainy day, and it can ill afford to make any portion thereof available to cover its loss. I have not taken into account the financial implications of the division of the assets and liabilities between the Bihar Provincial Bank and the Orissa Provincial Bank as no materials are available to me. The Provincial Bank cannot, in any case, recoup itself without substantial State aid. I hope your Government will remit the outstanding liability of the Provincial Bank under the loan advanced to it and treat it as a subsidy. In addition to this the Government may have to contribute some portion of the annual cost of management till the bank regains its balance.

The third question that arises in connection with this rehabilitation scheme is what are the good assets of the movement which can be mobilised to raise the credit required to meet our needs under the scheme. Our main assets are the outstanding debts from the members. A thorough and expert investigation to assess the assets and liabilities of the central banks and the societies must be conducted, with a view to ascertain them, with as much precision as possible. Every endeavour should also be made to dispose off, as quickly as possible, our real assets, that is, lands purchased in satisfaction of claims against members. Wherever possible, such schemes must be so worked as to restore the lands to the members, under a suitable plan for recovery of the purchase money, in easy instalments, before the title is allowed to vest finally in the purchaser.

Such of the outstanding loans as are not considered irrecoverable and written off, but nevertheless cannot be recovered in the normal course as short or intermediate loans, should be placed on a definitely long-term basis. In doing so it is not necessary to fix a uniform period of 15 or 20 or 25 years, for repayment in all cases, as suggested by some. A suitable period should be fixed, having regard to the revised estimate of the repaying capacity of the debtor, value of the security behind the loan and other relevant circumstances in each case. In thus assessing the repaying capacity of a member and fixing the kists, due margin should be left to enable him to borrow and repay each year for his seasonal needs. But the arrears cannot possibly be recovered with the interest burden at the present rates. The arrears of interest must as far as possible be either totally remitted or substantially reduced. I plead for total remission. If it is necessary to recover some interest on arrears I feel that it should not exceed 2 per cent. As for future interest on these revised long-term loans, it has been suggested to me by some friends in Bihar, that such interest should not exceed 4 per cent. It is a matter of vital detail which you have to settle, in consultation with your Registrar and with the approval of your Government. When you come to devise schemes for the discharge of the loan to be advanced to the movement by the Provincial Government, you will have to create an accumulating sinking fund or a debenture redemption fund or adopt other suitable plan for retiring the debentures on maturity. In all such schemes provision for the recovery of an equated fraction of the loans each year, towards repayment, will help you to make the arrangements for repayment to the debenture holders smooth. The rates of interest to be charged on these loans will have an intimate bearing on the amounts to be periodically diverted towards interest payable to the debenture holders and into the fund for the amortisation of the debentures. I cannot express an opinion off hand on the future rates of interest which may have to be charged on those loans, to put the whole scheme on a sound business basis. In no case I feel that the rate should exceed 6 per cent.

After having thus ascertained the immediate financial needs of the movement, the extent of the provision needed to meet by cash payment the revised claims of such of the depositors and creditors of the Provincial Bank and the central banks as do not agree to an extension of the term for the payment and the amount of long term money needed to help the members through the rehabilitation scheme, we must approach the Government for the necessary monetary assistance. In what form that assistance can be safely and usefully given is a matter primarily for your Government to decide. But one thing is clear. The expectation of the Hubback Committee that the necessary funds can be raised by the Provincial Bank issuing

debentures backed by the Government guarantee of *interest alone*, will not materialise, if money is to be raised at a reasonably low rate of interest, say 3 or 3½ per cent; both the principal and interest of debentures, for the full period of currency, should be guaranteed. Some of the depositors may receive such debentures in substitution for the deposit receipts of the banks held by them. Others may have to be paid by raising money on the debentures in the market. The debentures will have to be backed by the security behind the loans due from the members and the assets of the concerned central banks. *I do not advise the pledging of the general assets of the Provincial Bank to the debenture holders.* It will lead to serious difficulties too technical to discuss now. Adequate portions of the recoveries of those loans must of course be regularly diverted towards the payment of interest on debentures and to a fund for the discharge of the principal of the debentures. The transaction between the movement and the Government in regard to this part of this scheme must be placed, as far as possible, on a sound business basis and not on the footing of a dole. It may not be possible to estimate at this stage the exact amount of the help required from the Government. I see it is estimated by co-operators in Bihar at somewhere between Rs. 60 and Rs. 100 lakhs. But it may not be all required at the same time and the debentures may be floated in convenient blocks as and when the money is required. It will be necessary for the Government to arrange for an overdraft for about Rs. 2 or Rs. 3 lakhs, on the Government's backing to enable the Provincial Bank to operate on it, in intervals during which debenture money is called in and paid. If debenture money is received in advance of your actual needs there will be loss of interest.

Reorganization scheme.—Now a few words about the scheme of reorganisation.

(1) The reduction of the number of your central banks, many of which are too weak and unfit to command adequate credit and resources, is an absolute necessity. How the reduction is to be effected is a matter for examination in the light of the local conditions; some may have to be liquidated, some amalgamated and some merged into a new central bank to be established in a suitable place. One strong central bank for each district must be the ideal, with as few exceptions as possible. One far reaching and beneficial effect of this reform will be to reduce the cost of management of the central banks and consequently the margin between their borrowing rates and the lending rates to the members of your societies, which is still as high as 12½ per cent. It is the abnormal costs of management and the consequent heavy margins of financing banks that account for your high lending rate. Every endeavour should be made to eliminate waste and bring down cost of management. I however fully realise that the rehabilitation scheme will, for obvious reasons, have the immediate effect of increasing the cost of management. But when the reconstituted central banks begin to function vigorously with large working capital, the costs will come down.

(2) The relations between the Provincial Bank and the central banks must be placed on better defined and more satisfactory basis so as to ensure effective co-ordination of financial policies—regulation of lending and borrowing rates and methods of loaning. I do not like the idea of this reform being effected by legislation or the exercise of the compelling power of the Registrar. It must be done by consent and the convention method, which will grow into a settled practice. This has become possible in Madras and there is no reason why it should not in Bihar. If necessary the constitution of the Provincial Bank may be modified so as to make it a true apex bank in which the federated units have a real voice. I am not in favour of the central banks being made the branches of the Provincial Bank. They must be in-

dependent and strong institutions federated into a robust Provincial Bank. It may be necessary in carrying out the rehabilitation scheme, to entrust the management of a few central banks to the Provincial Bank as a temporary measure. But it should not be extended into a scheme of virtually making the central banks the branches of the Provincial Bank or of vesting in the Provincial Bank administrative control over the central banks. If banking facilities have to be extended, branches of central banks may be established in suitable subdivision centres. In other words, I desire to commend for your acceptance the recommendation of the Hubback Committee, in favour of the loose type federation of the financing units, no unit having administrative control over another.

(3) Strengthening the primary societies which are the foundation of the movement and on which the entire edifice of co-operative credit organisation rests is of course as vital as improvements at the top. An overhauling and rectification programme is however the more immediate need than any drastic changes in the constitution and the functions of the existing credit societies. Bad societies which are a source of weakness to the movement and undesirable members who are a handicap to the societies should unhesitatingly be weeded out. Where the membership of a society is too small to work successfully, effort should be made to increase the membership so that as many residents of the village as possible may be brought in to make the society serve as an organisation for the whole village. Where conditions require and permit, small societies operating within a short radius may be amalgamated. New societies should, unless local opinion views with disfavour, be formed on a limited liability basis and functions other than pure credit, may also be assigned to them, specially supplying of good seed, manures and implements to help the agricultural industry. Where it is possible to do so, the society may also be helped to offer facilities to their members to market their agricultural produce profitably. Old unbusinesslike methods must be rigorously stopped and all loans must be advanced with care and caution and with due regard to the repaying capacity. Your societies and central banks when reconstituted will have a large field to cover, namely the supply of short and intermediate credit—no small service to the movement, specially at this juncture when organised rural banking must step into the gap that will be created by curtailment of credit by money-lenders and other unregulated credit agencies, whose usurious activities will soon be brought under effective control, by schemes of debt relief.

(4) The question of long term finance for the normal needs of the movement is one which presents considerable difficulties at present. I am in full agreement with the view expressed by the Hubback Committee about the desirability of establishing land mortgage banks, with as much expedition as is compatible with sound organisation. But I feel that this is particularly inopportune time for starting land mortgage banks, however advantageous and necessary it may be to do so. Even under normal conditions, land mortgage banks can succeed only with substantial State aid. In spite of the numerous facilities—statutory and administrative—hitherto given by the Government of Madras, besides guaranteeing the principal and interest to the extent of Rs. 175 lakhs, we are faced with practical difficulties in expanding our land mortgage banking system without continued help from the Government. You in Bihar are now put to the immediate necessity of converting your existing short term lons into long term loans with substantial State aid. I doubt whether it would be prudent or even expedient to ask the Government for further financial assistance at this juncture, to provide for normal long term credit, through a system of land mortgage banks.

(5) The question of the improvement and reorganisation of the services of the non-official co-operative organisations is coming to the front in many provinces. The employment of properly trained men and improving their conditions of service is a great need of the movement everywhere. The higher services in the central banks and other institutions should, in my opinion, be placed on a provincial or a suitable regional cadre so as to provide for transfers and promotions of members of such services and taking them into the department also when possible. Every Central Bank must have a properly trained and paid manager or secretary. This may be treated as a part of your reorganisation scheme, for your movement will considerably benefit thereby.

(6) The reorganisation scheme must be so conceived and executed as to give full scope for non-official initiative and enterprise and to reduce official control and interference to the minimum required to safeguard the interests of the movement. Making co-operative law more stringent and sharpening its sanctions will not avail to make the movement a success; it must be remembered that its success inevitably depends on the devotion to the cause, zeal and energy of the non-official leaders and workers. These conditions cannot be secured under a system of perpetual tutelage and spoon-feeding.

Audit Fees.—I do not wish to express any opinion on your present system of audit as I understand, it is proposed, that Government should take over audit, as in Madras. I have no doubt that with improvement in the conditions of service, prospects, pay and pension, the audit service of the Government will attract efficient men with good qualifications. It all depends upon the recruitment. Our experience in Madras is anything but happy over the quality of the audit staff. I hope your experiment will be more fortunate. But I wish to confine myself to the method of assessing of audit fees and distribution of the burden over the movement. If my study of the position is correct, almost the entire burden, except to the extent of the relief afforded by subsidies given by the Government, is practically thrown on the members of the societies and that it amounts to roughly annas 10 per Rs. 100 of the working capital. The societies seem to pay annas 0-6-0 per cent for the audit of their accounts and the central banks annas 0-2-0 per cent for their own audit, in addition to annas 0-2-6 per cent for the audit of the societies affiliated to them. Judging from the margins between the borrowing and lending rates which your Provincial Bank, central banks and societies retain and the high rates of interest charged on loans advanced to members of societies, it seems to me that, in effect, practically, the whole of this cost of audit now comes out of the pockets of the members of the societies. I speak subject to correction. In any case I feel that the burden of the existing audit fees is too heavy for the members of the societies to bear, specially in the present depressed state of their finances. The heavy audit fees are a contributing cause to the high rates of interest charged on loans to members and relief is necessary.

Moreover the working capital of a society is not necessarily, and in many cases is not, for obvious reasons, a proper basis to assess the benefits derived by it from the auditor's service or its capacity to pay for it. While a society with a large working capital but with few or no new transactions in a year and which may be working at a loss, consumes very little time of the auditor, a society with a much smaller working capital but with numerous tiny transactions requires much greater time for its audit and the former pays for the services rendered to the latter. Again consider the position from the aspect of counting as working capital, money sunk in the old debts of members which are frozen and even interest on which may not be collected. It must show how unreal the test of working capital is from the stand-point of capacity to pay the audit fee. We in Madras have therefore been contending for years that the system of fixing the audit fee on the basis of the working capital should be abandoned in favour of a more rational system. The Government have at last realised the necessity for a change in the basis of assessment and are now engaged in drawing up a new scale of audit fees based on the time test, that is to say, on the basis of the time taken by an auditor over the audit of the society concerned. This new system is expected to give tangible relief to our central and urban banks in the matter of their contribution for audit. In this connection I may mention that all unlimited liability societies, irrespective of the amount of their working capital, and limited liability societies with a working capital of less than Rs. 20,000 (with the exception of a few special types of societies like consumers' stores), are audited free in Madras by the departmental staff and incur no expense on their audit.

I desire to urge on your Federation and your Provincial Government the need to give substantial relief to the societies in regard to audit contribution. I plead for a temporary exemption from audit fees of all rural credit societies and small limited liability societies at least till conditions improve. I also feel that some permanent measure of relief should be given by suitably revising the present system of assessment of audit fees so as to make it conform to the principle enunciated by the Hubback Committee. If this reform involves your Government finding more money from the Provincial revenues to be spent on co-operative audit, I have no hesitation to say that it is not only necessary but justifiable public expenditure in the interest of the movement.

Education and Training.—I am greatly relieved to know that the Central Co-operative Training Institute has been recently reorganised by the Government on a residential basis and that it is now accommodated in the sylvan and serene surroundings of old Pusa. By the courtesy of your Registrar I had the benefit of perusing his note on the training proposed to be given at Pusa and the syllabus of the studies prescribed for about 40 selected stipendiaries. The latter part of the scheme is of topical interest to us now, as I learn that it is part of the plan to strengthen your central banks on their administrative side, by deputing these specially trained graduates first to the duty of inspecting officers and then of managers of central banks. They may play an important and useful part in the reorganisation scheme. I also understand that two or three of them may be eventually taken into the cadre of Assistant Registrars to make it in course of time a close service. The central banks not only in your Province but even elsewhere suffer badly on account of not employing men with requisite knowledge of the theory and practice of banking and the departmental officials, with few exceptions, are themselves incapable of giving sound technical advice on banking question. I mean no disrespect to them. They are lay men with no acquaintance of the technique of banking and are not to blame. Not a few of our troubles are due to the unfitness of the non-official as well as the official staff to conduct and control a banking system. So I welcome the idea of supplying this deficiency. The syllabus is fairly extensive but the success of the scheme obviously depends upon the calibre of the men selected and the scope for the intensive studies of those subjects in which sound theoretical and practical knowledge is required to equip them for the efficient discharge of their new duties. I hope those services will not be made too costly for the central banks, if they have to pay for them partly or wholly.

The general scheme of training prepared by your Registrar not only takes note of the deficiencies in the old syllabus and fills in gaps, but also attempts to provide the necessary "socio-economic background" for the studies and "acquaint the recruit with the different aspects of the village life in which improvement may be effected by the co-operative effort of the villagers, aided by all the departments of the Government." Other Provinces will certainly watch this experiment closely with a view to benefit by its results. I hope and trust that the Government will bear the entire cost of the scheme and not tax the movement which at the present moment is unable to bear any financial strain. In this connection I may state that in Madras the entire cost incurred on co-operative education and training is borne by the Government and the movement is not taxed to any extent.

I would commend for the consideration of the official and non-official co-operators of the Province, the following among other questions on co-operative education. (1) Whether the department of co-operation should be still saddled with the task of training its own employees, not to speak of the employees of the co-operative societies and of educating the masses of the members of the societies? (2) Whether it is not necessary to demarcate more clearly the field of co-operative training of employees, from that of co-operative education of the masses and the public, who require a blend of propaganda and instruction in a very attractive form? (3) Whether it would be better to recruit the permanent teaching staff of any training institution from among the members of the departments of co-operation and agriculture or independent persons with academic qualifications and practical knowledge of the working of the societies though there need be no objection to indent upon either for occasional lectures? (4) Whether it is necessary for the movement to have complete control of all grades of co-operative education including the highest involving co-operative economic research or whether certain higher stages of co-operative education may be entrusted to the Universities who may be aided by endowments, if only to get an objective estimate of the working of the movement; and finally (5) the best method of eventually finding regular and adequate funds within the movement for building up a permanent edifice of co-operative education. We must solve those questions sometime or other, and the sooner the better.

Conclusion.—I desire to close with an exhortation to you to dismiss all pessimism from your minds about the future of co-operation. The movement is bound to come to its own in Bihar very soon. But in order to fulfil our mission in the task of contributing to the prosperity of our members and thereby to our national advancement, we must cherish and foster the cardinal virtues of co-operation—service, self-help, and self-reliance. We must eliminate all factors that tend to create internal strife and conflict; we must promote mutual goodwill and harmony. The definite aim of co-operation is to bring about economic emancipation of the masses by methods which radically differ from those of capitalism and socialism. Our methods of reconstruction of our socio-economic system do not involve a class war or even the discarding of any agency which can be made to function in the interests of the community. We aim at class co-operation and not class struggle. In the new order of things the capitalist and landlord will be made to play a beneficient and helpful role by being shown their proper places in the social and economic fabric of the country. In such environment they will realise that their vocation is to serve their people and that their surplus wealth will have to go back to the people for their uplift.

But this form of associated effort through co-operation among the classes and masses requires moral and mental qualities of a high order. But so far, our objective has not been to produce teachers of co-operation who can train men and women, to live a conscious life of genuine co-operators. It is no doubt necessary to train our workers to efficiently discharge their routine duties of collection, distribution, book-keeping, remittance, inspection and audit. But we cannot achieve our aims unless we also educate them so as to shape them into co-operators whose daily activities are pervaded by that idealism and ideology associated with co-operation and behind whose work there is not merely the stimulus of the coin but that exalted sense of duty which ought to animate and inspire a co-operator.

Opening speech by His Excellency Sir Maurice Hallett.

There are many subjects of which I have little knowledge and Co-operative Credit is one of them. Though I have held numerous posts during my period of service in this province, I have never had to deal with any of the problems connected with the movement and have never had occasion to study them. I have tried to become better acquainted with the problems that have confronted us during recent months, but I must admit finding them very difficult and complicated. I have come here to-day therefore as a pupil rather than as a teacher as I cannot claim that anything which I say will help in the solution of our difficulties.

Coming here as a pupil, I feel I have spent a very useful morning listening to the speeches of Dr. Sinha, the Chairman of the Reception Committee, and the very illuminating address of the Hon'ble Mr. Pantulu. We are all most grateful to him for putting himself to the trouble and inconvenience of a visit to Patna at this season of the year, and I feel sure that his suggestions will prove of the greatest help to us.

Dr. Sinha has reminded us of the history of the movement in this province; he has proved conclusively that Government have been responsible for the movement in the past, that enthusiastic and optimistic Registrars such as my friend Mr. Abdy Collins encouraged, or to quote Dr. Sinha, pestered residents in the province to invest their money in this department and that in other ways Government led investors to believe that they would always support the movement. Possibly it may seem to some here to-day that Mr. Collins and others who were responsible for the department of co-operative credit in its early days were unduly optimistic, but I would recall the fact that Mr. Collins was Registrar and issued the circulars which have been quoted as long ago as 1913 or 1914, that is to say before the great war. At that time everything looked clear ahead, there were no clouds visible, not even of the size of a man's hand, and it was justifiable to look forward in a spirit of enthusiastic optimism. Then came the 4th August 1914 and the storm broke. The war did not, it is true, affect India as much as European countries, but India was affected by the economic cataclysms which have taken place since 1918, the boom in prices that took place immediately after the war and the even more disastrous slump which occurred in 1930. Here in Bihar we had the further disaster of the earthquake. I do not wish to lay too much stress on these disasters, but I think it is only fair to those who were directing the movement in the early days to mention them.

However the main point which Dr. Sinha has made was that Government were responsible for the development of the movement; Government must therefore be responsible for its rehabilitation. With that view I entirely agree; with that view my ministry also agree and the Hon'ble Dr. Mahmud will later this morning explain to you as far as practicable the steps which he proposes to take to re-establish public confidence in the movement. Some of the difficult problems, in particular the financial problem, which arise cannot be said to be wholly solved and it is not

possible for the Hon'ble Minister to put before you a cut and dried scheme. Any scheme, if it is to be successful, must be based on experience and fact, and in some matters, as far as I understand the problem, we do not yet quite know how we stand. However I am confident, and I think that after you have heard Dr. Mahmud's speech, you will share my confidence, that my Government are going to adopt with as little delay as possible a practical policy for the rehabilitation of the movement.

That policy will in all probability follow in many respects the advice given us to-day by the Hon'ble Mr. Pantulu.

I do not propose to discuss in detail the Hon'ble Mr. Pantulu's admirable lecture. He has at the beginning started in a spirit of optimism and he had closed his address with an exhortation asking us to dismiss all pessimism from our minds, and I am very glad that he has done so, for if we are pessimistic and frightened by the magnitude of the problem, we may drift into the attitude that nothing can be done. I may also say that I fully agree with his observation that "the failure of the co-operative movement to achieve its aim in the past was as much due to the absence of co-operative virtues among its votaries as to the presence of external factors which obstruct the advance of the movement and which can be removed only by courageous and well-planned State action." He has also quoted with approval a statement recently made by my Prime Minister that we must not merely keep the movement alive but also make it more beautiful and convert it into an instrument for making the life of the village community fuller in every way. With that too I fully agree.

If we tackle the problem before us in a spirit of optimism, we shall, I feel sure, achieve some success. We must of course also in dealing with the problem follow strictly sound rules of banking and finance. As Mr. Pantulu has pointed out, our past sins include not merely non-observance of moral precepts of co-operation but also the violation of the material rules of the business code. Workers in the movement whether they are officials or non-officials, however well trained they may be in the principles of co-operation, cannot be expected to be banking or financial experts. We must have some experts to guide them in the right path and I would like at this stage to express my thanks to the Reserve Bank of India and to its Chairman, Sir James Taylor, for lending us the service of Mr. Punjabi to help us in dealing with the question. We must have a good audit staff, though Mr. Pantulu has shown that to acquire such a staff is none too easy. But as Mr. Punjabi has said in a report which I have seen, a silver lining can only appear in the dark clouds which are ahead of us when the golden rules of banking are followed.

I have already spoken too long for I know you must all be anxious to hear what the Hon'ble Minister is going to say. If merely by my presence here to-day I have made even a small contribution to the rehabilitation of this valuable movement in Bihar, I am glad. I still have faith in the movement and feel that we shall be able with so many willing helpers to set it on a sound basis.

Speech of the Hon'ble Dr. S. Mahmud, Minister for Education and Development, Bihar.

I have heard with great interest the speeches of Dr. Sinha and the Hon'ble Mr. V. Ramdas Pantulu which, I am sure, will be of great assistance to me in formulating a practicable scheme of rehabilitation of the co-operative movement. The Co-operative Federation Congress is very fortunate in having an eminent co-operator of the standing of the Hon'ble Mr. Pantulu to guide the deliberations of the Congress this year. I hope, and pray, that his mature wisdom and experience may help the Congress in arriving at suitable decisions of far-reaching consequence at a time when the movement is passing through a critical stage. I would congratulate the Reception Committee on their being able to enlist the support of our highly esteemed citizen. Dr. Sinha, whose name and fame have travelled far beyond the bounds of this province.

My colleagues and myself have taken various measures—administrative and legislative—for improving the condition of the rural population and consistent with this policy, the Hon'ble Prime Minister and myself have already declared the firm belief of the Ministry in co-operative organization as the most effective instrument by which an all-round improvement of the villagers can be secured. On behalf of Government, I would reiterate our confidence in the future potentialities of the movement and would declare that Government have decided to rehabilitate the co-operative movement as early as possible and to take adequate steps to ensure its future expansion on sound lines so that it may, in time, develop into a truly national organization capable of making rural life richer and fuller in every way. I do not think that any useful purpose will be served by my entering into a discussion into what have often been described as the "sins of the past" or by any attempt on my part to apportion the blame between the paid and the honorary workers.

Whatever may have been the causes responsible for the present stagnation of the movement, you will agree with me that the time has come, if it has not long been overdue, when the movement must undergo a searching self-examination. Until the stock-taking is complete and facts and figures regarding the true state of affairs of the banks and societies are available, you will appreciate the difficulty of Government in deciding and declaring what precise steps Government may have to take for securing rehabilitation of the movement in general, or of individual banks or unions in particular. Government have appointed a Banking Expert to help them in their examination of these problems. An intensive enquiry into the assets, liabilities and repaying capacities of societies and central banks will very shortly be undertaken. As soon as the enquiry in respect of each group of banks is completed, Government propose to take up the question of rehabilitation by amalgamation or bifurcation of banks and societies, or by a combination of both these processes, according to circumstances of each case. In the process of rehabilitation, societies and banks which cannot meet a reasonable proportion of their total liabilities may have to be weeded out in the interest of the movement, but Government will try their best to protect the better societies under these banks and provide financial assistance for them by bringing them within the orbit of reconstructed banks. Side by side with the elimination of undesirable members, societies and banks, the strength of the movement will have to be increased by the organization of new societies on sound lines. Government will, in due course, take steps to provide necessary funds through the Provincial Bank, or otherwise, to put the rehabilitated banks and new societies on a sound financial position.

It is believed that the failure of the present organization is largely due to the absence of adequate attention to the development of non-credit side of the movement when it was initiated. There is unlimited scope of future development of the movement for removing illiteracy, for introducing better methods of farming and marketing, for reducing unemployment, for consolidation of holdings, for organising the supply of raw materials, for cottage industries and the marketing of the products on a co-operative basis. In view of the increasing pressure of population on agriculture, the earnings of the agriculturists must be increased by the development

of subsidiary occupations on a co-operative basis. It is not enough for him to secure cheap credit, he must also be helped in judicious investment of the money borrowed so as to be able to earn the maximum possible return and in this matter all the nation-building departments, particularly the Agriculture, the Industries and Veterinary, will have to work in close co-operation with the Co-operative Department.

An interesting experiment in Agricultural marketing is going on in the form of canegrowers' co-operative societies, which have been recently re-organized on a large scale with five circles in charge of five Special Officers. It is proposed to organise the growers of cane, specially those living within the reserved areas to be formed under the Sugar Factories Control Act, on a co-operative basis as quickly as possible and thus remove considerable difficulties of the growers in the marketing of sugarcane. The question of co-operative production and marketing of certain other commodities, like lac, is also engaging the attention of Government. I would, however, emphasise that the benefit of co-operative organisation cannot be estimated in terms of money alone. There is a more abiding and far-reaching gain in the way of developing self-help, training in business methods, unity and brotherly association for a common purpose.

Co-operative training and education are essential factors in the progress of Co-operation and Rural Development. (It must be realised, once for all, that mere idealism and good intentions are not enough for ensuring success). The work of co-operative organization is becoming more and more technical every day and those persons both paid and honorary, who are entrusted with the duties of guiding the working of co-operative institutions must be adequately trained in the technique of co-operative organisation and must keep them up-to-date by study and training through refresher courses. As pointed out by me, while performing the inauguration ceremony of the Co-operative Training Institute at Pusa on the 27th March last, more and more importance will have to be given in future to the adequate training of different classes of officers of the Co-operative Department as well as members and office-bearers of societies and banks. In view of the prevailing illiteracy among the masses, publicity and propaganda will have to be systematically organised on modern lines for restoring public confidence and for securing new recruits.

A comprehensive scheme of rural development will soon be put into operation in the province. The scheme provides for intensive work in all the villages lying within at least one police-station in each of the 16 districts in the province. Steps will be taken for harmonising the work of all the nation-building departments with a view to secure an all-round improvement of village life in the selected areas. It should, however be realised by all that rural development, if it is to be real, must grow from within the village and should not, and cannot, be a gift from outside nor can it be imposed by an extraneous authority. The nature and extent of the progress will depend on the human materials available and on the sincerity and spirit of social service on the part of the villagers themselves. All that the local leaders and Government staff can do is to inspire the villager himself. Our system of education, particularly primary education, publicity and propaganda, will have to be so organised as to set the average villager thinking that something is wrong, and when once the habit of thinking has been inculcated in him the desire to improve his surroundings and to raise his standard of living is sure to come. The people will then sink their differences and join with one another in working on a co-operative basis for improving their homes, farms and villages. The vision of a better village and of a better Bihar must be brought home to every man, woman and child throughout the length and breadth of the province.

I would appeal to every officer of every department, every Zamindar, every local leader and every educated citizen in the province to think and realise that the privileged position, which he occupies, carries with it a special responsibility and a special obligation to his less fortunate fellowmen and that he must contribute his quota in the movement for a better Bihar, if it is to be successfully carried out on a national scale. Difficulties there must be many and in any scheme of nation-building some risks must necessarily have to be taken. While there is no ground for too much optimism, I am one of those who believe that given self help, character, truth, non-violence and unity as the cardinal principles on which the re-organisation of village life is to be based, we may well find adequate inspiration for our work from the possibility, if not the certainty, of a better future. In view of the limit of provincial revenues, the paid staff can never be adequate and the progress of the movement will depend more and more on the nature and extent of the keenness and missionary zeal on the part of honorary workers, particularly of those living in rural areas. I would, therefore, fervently appeal to all the citizens of Bihar, particularly to the young educated persons, men as well as women, to come forward to take their share of responsibility in the way of helping in the scheme of reconstruction.

PROCEEDINGS OF THE MEETING OF THE JOINT SESSION OF THE STANDING COMMITTEES OF THE INDIAN PROVINCIAL CO-OPERATIVE BANKS' ASSOCIATION AND THE ALL-INDIA CO-OPERATIVE INSTITUTES' ASSOCIATION.

A joint session of the Standing Committees of the Indian Provincial Banks' Association and the All-India Co-operative Institutes' Association was held at Vizianagram on Saturday, the 16th April, 1938, at 12 noon under the presidency of the Hon'ble Mr. V. Ramadas Pantulu, President, of both the Associations. The session was attended by members from many of the provinces and some of the Indian States. Rao Saheb N. R. Chandarker, Senior Deputy Registrar of Co-operative Societies, Central Provinces and Berar, the Deputy Registrar of Co-operative Societies Vizagpatam, and the local Co-operators of Vizianagram were also present. Members present at the meeting held on the 16th and 17th April, 1938, were as follows :—

Delegates.

1. The Hon'ble Mr. V. Ramadas Pantulu, President.
2. Mr. K. Bashyam Iyengar, Madras Provincial Co-operative Bank.
3. Mr. T. A. Ramalingam Chettiar, Madras Co-operative Central Land Mortgage Bank.
4. Mr. S. K. Chatterjee, Bengal Provincial Co-operative Bank and Bengal Co-operative Organisation Society, Ltd., Calcutta.
5. Mr. Lakhe, C. P. & Berar Provincial Co-operative Bank.
6. Mr. W. Zeman, Bengal Co-operative Organisation Society, Ltd.
7. Mr. Md. Qasim, Punjab Provincial Co-operative Bank.
8. Mr. S. K. Lahiri, Vice-President, All-India Co-operative Institutes' Association, Calcutta.
9. Mr. K. Velayudhan Pillai, Trivandrum Central Co-operative Bank.
10. Prof. V. G. Kale, Bombay Provincial Co-operative Bank.
11. Sir M. G. Deshpande, Central Provinces & Berar Provincial Co-operative Bank.

12. Mr. V. M. Thakore, B & O Provincial Co-operative Bank Ltd. (Secretary, Indian Provincial Co-operative Banks' Association).
13. Khan Mohd. Bashir Ahmed Khan, Punjab Co-operative Union. (Secretary, All-India Co-operative Institutes' Association).
14. Dewan Bahadur K. V. Brahma, Berar Co-operative Institute, Amraoti.
15. Rai Bahadur R. M. Khare, Central Province & Berar Federation.
16. Mr. N. G. Kothari, Indore Central Co-operative Association.
17. Dr. P. Gurumurti, Madras Provincial Co-operative Union.
18. Mr. N. Satyanarayana, Andhra Sahakara Sammelanum.

Visitors.

1. Rao Saheb N. S. Chandarkar, Senior Deputy Registrar of Co-operative Societies, Central Provinces & Berar.
2. Mr. V. Venkatasubbiah, Hon. Secretary, Madras Prov. Co-op. Union.
3. Mr. G. M. Deshpande.
4. Mr. Muthukrishna Naidu, Deputy Registrar, C. S., Vizagapatam.
5. Mr. P. L. N. Raju.

The Standing Committees which sat on the 16th April, 1938, till 7 p.m. discussed the agenda, which was previously circulated, and framed the following draft resolutions for discussion on the 17th April, 1938.

DRAFT RESOLUTIONS

1. The Co-operators of India, representing crores of members of the country, note with the most profound anxiety the insecurity which prevents the re-establishment of normal relations between the people and realising the unprecedented situation of tension in international relations and constant menace of war, note with horror the possibility of humanity being once again plunged into armed conflict which would certainly shake, if it did not destroy, the foundations of our civilization.

They once more reaffirm their conviction that the co-operative system of economy, combined with the spirit of association which animates its activities and inspires its social ideals, furnished the truest basis of international understanding and the surest guarantee of universal peace.

2. While emphasising the importance of honorary services in village societies, this meeting is of opinion that trained paid agents to look after the work of village societies are necessary. Where societies are too small to employ such services a person may be employed for a number of societies in convenient groups of villages.

If in any province an amendment to the bye-laws of societies is necessary to embody this scheme, steps should be taken in that behalf.

3. This meeting requests the Provincial Co-operative Institutes and Provincial Co-operative Banks to give due encouragement for the formation of "multi-purpose" societies with limited liability and operation over convenient group of villages where practicable and conditions for their successful working are forthcoming but such new societies should not be established where they are likely to compete with existing societies.

4. (a) This meeting once more reiterates its opinion that to the extent the Co-operative Societies' Acts in the British Indian Provinces and States empower the Registrars (1) to interfere with the normal internal administration of societies, (ii) to supersede the committees of the co-operative banks without the concurrence

of the financing or the apex bank, (iii) to remove officers and members from societies at their discretion, (iv) to frame or modify the bye-laws of societies without the concurrence of the general bodies, and (v) to surcharge members and past members and past members of committees and officers and past officers of societies for acts done in their official capacity, without an opportunity for appeal to a civil court by the person aggrieved, they are opposed to the basic principles of Co-operation as a popular Movement and should be suitably amended by deleting such provisions. The Acts should be so framed as to make the society the centre of the picture and not the Registrar.

(b) This meeting further disapproves of any rule or statutory provision limiting the period of the tenure of any office bearer of a society or requiring the permission of the Registrar for re-election to any office after the expiry of the period.

(c) This meeting also disapproves of any rule or statutory provision insisting on a prescribed minimum of share capital or deposits as qualifications for membership of a committee of a society.

5. This meeting urges on the Provincial Governments the necessity of directing their immediate attention towards securing a fair and reasonable price for jute, cotton, wheat, sugarcane, cocoanut and other commercial crops and for this purpose recommends that the said Governments in co-operation with the Government of India consider the adoption of some or any of the following suggestions :—

(i) Co-operative marketing of commercial crops.
(ii) Fixation of a reasonable minimum price by legislation.
(iii) Restriction and regulation of cultivating of crops by legislation.

6. This meeting urges on the Provincial Governments that, in view of the intimate connection between Agriculture and Rural Industry and Co-operation, the concerned Departments be put under one Minister and their activities should be co-ordinated for common planning and joint action.

7. Where there is no provision for attachment before judgment in respect of sums due to co-operative societies suitable amendments should be introduced to the Co-operative Societies' Acts to provide for it.

8. This meeting recognises the imperative need for extending relief to heavily indebted members of primary village societies and the urgency and desirability of seeing that lands which Central Banks in some provinces had to buy in satisfaction of debts owed to them by the primary societies or their members and therefore appeals to all co-operative organisations and specially the Provincial Banks and Governments in the Provinces of British India and the Indian States to adopt measures along the lines indicated in Bulletin No. 3 of the Reserve Bank of India (shortly known as the Burma scheme) with such modifications as local conditions in the Provinces or States may require or other equally effective and suitable methods; and with this end in view the committee suggests that the instalments for recovery of debts owed by members of primary societies be spread over sufficiently long periods with due regard to the repaying capacity of the members and also to adopt the rent purchase system described in para 2 of Bulletin No. 3 of the Reserve Bank of India; and the Committee earnestly appeals to Governments in the Provinces and the States to help these ameliorative measures by such financial or executive assistance as may be needed to rehabilitate the co-operative movement.

9. This meeting recommends to the Provincial Governments that suitable action be taken in regard to the following recommendation contained in the Statutory Report of the Reserve Bank of India :—

Regulation of money lending and making registration compulsory for money lenders and providing for maintenance of accounts by money lenders in prescribed form and periodical inspection thereof.

10. This meeting disapproves of the recommendation of the Reserve Bank of India in paragraph 20 of their Statutory Report about reconstruction of Central Banks into banking unions; but where it is proposed to constitute banking unions as an experimental measure where conditions for their successful working are forthcoming, such experiments may be tried.

11. This meeting entirely disapproves the observations made by the Reserve Bank of India in paragraph 27 of their Statutory Report regarding loans by Land Mortgage Banks for discharge of prior debts and disagrees with the recommendations therein.

12. This meeting regrets to note that the attitude adopted by the Reserve Bank towards Provincial Co-operative Banks, as reflected in paragraphs 34 and 37 of the Statutory Report is entirely inconsistent with and opposed to the letter and spirit of the Reserve Bank Act and requests the Government of India and the Reserve Bank to take steps to place the Provincial Co-operative Banks on the same footing as the scheduled banks in all respects for the purposes of the Act.

The insistence of the Reserve Bank in paragraph 37 that the Provincial Banks should maintain minimum balances with the Reserve Bank contravanes the policy underlying the specific exemption given to Provincial Banks in the matter of maintenance of such balances under the Act.

13. This meeting does not agree with the views of the Reserve Bank that the various demands and suggestions of co-operative institutions are not urgent and the amendments to the Act proposed by them may be taken up at a later time, and urges once more on the Reserve Bank those amendments, especially the following resolutions passed at the sessions held in Delhi (March 1937) and at Bangalore in July 1937 :—

(A) (i) This meeting is of opinion that the intention of the Act in creating the Agricultural Credit Department has not been kept in view by the Bank and urges on the Bank to so work section 54 clause (b) of the Act as to help Provincial Co-operative Banks with short term financial accommodation so long as the security offered for the loans is sound and no risk is involved in them, specially for the purpose of developing sale and supply (marketing) societies on the security of promissory notes executed by Provincial Co-operative Banks supported by documents of title to goods or pledge of goods.

(ii) This meeting resolves to request the Central Board of the Reserve Bank of India to invest in or lend on the security of debentures issued by Provincial Banks and Land Mortgage Banks where the principal and interest thereof have been guaranteed by the Central or the Provincial Governments.

(iii) This Conference recommends to the Government of India to amend the Reserve Bank of India Act so as to secure to Provincial Banks and co-operative societies in Indian States the same rights and privileges as are available to banks and societies in British India, under the Act.

(B) This conference after due consideration of the recommendations contained in the Report issued under section 55 of the Reserve Bank of India Act, resolves to express its view on the matters stated below :—

(i) This conference does not favour the organisation of Apex Land Mortgage Banks on joint stock basis. In Provinces where there are no Co-operative Apex

Land Mortgage Banks, steps should be taken to form such Apex Banks on a co-operative basis on an adequate scale.

(ii) This conference does not agree with the view that the Provincial Banks do not command the confidence of the investing public, by their Boards being largely composed of borrowers. The constitution of Apex Banks is in accordance with sound principles of co-operation and they do command in abundance the confidence of the public.

(iii) This conference is of opinion that the view of the Reserve Bank that the margin between the lending rates of co-operative banks and societies is low and should be raised is not correct as a general statement. The adequacy of margin depends mainly upon the difference between the borrowing and lending rates, cost of management and requirements of reserves for bad debts. While conceding that these factors depend upon local conditions and circumstances, the conference places on record its considered opinion that the aim of the co-operative banks and societies should be to make credit to the borrowing members as cheap as possible and the existing lending rates should not be raised except where local conditions make it absolutely necessary.

(iv) This conference considers it undesirable to provide any representation to depositors or commercial bankers as such on boards of co-operative banks, whether by nomination or other means.

(v) This conference while agreeing with the view that long term credit should be provided only through Land Mortgage Banks is not in favour of the recommendation that loans from Central Banks and societies should be strictly confined to cultivation finance only.

Other necessary forms of short and intermediate credit required by members should also be found by Rural Societies and Central Banks in order to prevent them from resorting to money-lenders; provided, however, that the deposits and borrowings of the banks should be so regulated as to permit such loans being granted from those sources.

(vi) This conference while recognising the necessity of bringing down the level of debts of members where there is no reasonable prospect of recovery in full even if long extensions are given, does not consider it desirable that any hard and fast rules should be laid down for all banks and in all areas. With the rise in prices and other favourable conditions, the position may change as it has done already in certain areas and it must be left to the banks and societies to deal with the problem according to local conditions.

(vii) This conference agrees with the view that the practice of making debentures of land mortgage banks redeemable at any time is unsound that that a period should be fixed for the redemption of those debentures; a fund into which collections of principal are pooled should be formed for redeeming debentures and provision should also be made for retiring them by purchase in open market whenever possible.

14. This meeting is of opinion that efforts should be made in each province wherever the Land Mortgage Banks have come into existence to divert such of the borrowers of the existing societies as have absorbed heavy loans, to the said Land Mortgage Banks so that while the latter may have a clientele which is already familiar with the principles and working of co-operative bodies, the societies may be relieved of heavy loans and they may start with a clean slate for furtherance

of short term finance and the Central Banks whose loans the societies have absorbed may also be freed from the incubus of frozen assets.

15. This meeting requests the Provincial Governments to issue instructions to their Revenue Officers or if necessary to amend the Tenancy and Revenue laws so as to make it obligatory, that whenever lands are sold, notices should be given to land mortgage banks, central banks and societies whenever such properties are put to auction for arrears of land revenue or rent to enable such institutions to pay such arrears.

16. This meeting requests the Provincial Governments to take prompt steps to increase the repaying capacity of the members of the village societies by improving their agriculture introducing cottage industries and making adequate arrangements for marketing their product through the Development Departments of the Provinces.

17. The invitation to hold the next meeting of the Standing Committees at Trivandrum is provisionally accepted.

18. The accounts of the Indian Provincial Co-operative Banks' Association, as submitted, are passed.

19. A grant of Rs. 1,000 (one thousand) may be paid for the *Indian Co-operative Review* from the Provincial Banks' Association for the year, 1938.

The Standing Committees met again on the 17th April, 1938, at 7-30 a.m. with the Hon'ble Mr. V. Ramadas Pantulu in the chair.

The Chairman in opening the proceedings said:

"My first duty is to convey my thanks to our friends at Vizianagaram who have made good arrangements for our convenience and stay here, particularly my friend Mr. K. Kalidas Pantulu, President of the Vizianagaram Co-operative Central Bank.

Before we begin to discuss the resolutions which were framed in open session by all the delegates, I wish to say a few words about the general position of the movement. It is now fully recognised that the movement has not succeeded as well as it should have done, not only because we are deficient in the virtues of co-operation or because our business methods are not sound but also because the general conditions for the advancement of an economic movement like the co-operative movement do not now exist in India. My experience is that the economic position of members of societies, who are drawn largely from agriculturists is very weak. Their purchasing power and repaying capacity is low and the handicaps which we suffer from are as much due to factors outside the co-operative movement as to factors within the movement. Endeavour should therefore be made to impress on the Governments the need for improving the economic position of the agriculturists and members of societies. In the absence of any such efforts on the part of the Provincial Governments, I do not think much headway can be made by the co-operative movement in any Province in India. We should therefore make it a part of our programme to impress on the Government the need to bring about a change in the standard of living and outlook on life of the peasants and workers. To the extent such a programme succeeds the co-operative movement will be largely benefited. We have not taken as much interest as we should have in the general rehabilitation of the masses which ought to be an integral part of the programme of co-operators in future.

Another thing that we should press on the Governments is the need of using the co-operative movement as an integral part of their economic planning. We have schemes for rural uplift, cottage industry, promotion of literacy and various other measures but co-operation has not been used to the extent it should be used by the Provincial Governments in carrying out their plans. Elsewhere the co-operative movement is considered to be a great factor in the prosecution of such schemes. In India the potentialities of the co-operative movement for such social amelioration have not been recognised either by the people or by the Government. Even the Provinces in charge of Congress Governments are not more fortunate with regard to this matter. Somehow or other congressmen as a body, of course with some notable exceptions, have kept themselves aloof from the co-operative movement all these years. Our leading congressmen would not touch co-operation because they had a prejudice against it that it was an official movement. Many of the Ministers who are at present in charge of co-operation had not associated with the movement in the past in India in any manner. Therefore to impress upon them the potentialities of the co-operative movement and the part which it can play in the programme of the autonomous provinces in regard to the improvement of the economic position of the people is of great importance, but at the same time a difficult matter. The difficulties, however, should be overcome by constant exertion on our part. I must say that there is more economic illiteracy at the top than at the bottom.

Another thing that I wish to say is that there has been in the past no co-ordination between the various nation-building and development departments. Moreover, those departments did not know enough of each other. Industries and Agricultural departments did not know what was co-operation and co-operation did not know what were the other two departments. There should be joint action among the various departments which are engaged in rural development. In Madras agriculture is under one Minister and co-operation is in the hands of another Minister. Each Minister is busy with his own department and co-operation has to look to both these departments, the Ministers of which may not meet and discuss common problems. In every province co-operation, cottage industries and agriculture ought to be placed in charge of only one Minister and if the finances of the province permit we should also ask for a development commissioner if necessary who will look after and co-ordinate the activities of these departments. A non-official who is conversant with the social and economic conditions of the people in rural areas will be preferable to an official in this behalf.

With regard to co-operative education we have on previous occasions passed a number of resolutions indicating that co-operative education should be in the hands of non-official organisations. No action has so far been taken in this behalf. It may be that such a step may not be possible for want of sufficient funds. For instance in Bihar the movement cannot be further taxed for the sake of co-operative education but the ideal to be aimed at is that training and development should be in the hands of non-officials. For a long time the department has been doing it and we must thank them for the good work are doing; but I think the time has come when co-operative institutions should be entrusted with propaganda and education. Each province has a co-operative union or institute of its own which I think is the proper agency to conduct co-operative training and education. In Bombay the institute is vested with the functions of education. Government must finance and subsidise the activities of the institutes in this behalf. We should urge on the Provincial Governments to discontinue the policy of officialising co-operative education, wherever there is such a tendency and concentrate all efforts in vesting co-operative education and training in the non-official institutes of the provinces.

Another point of importance is audit, the arrangements for which are not quite satisfactory in any province. Without of course minimising the statutory responsibility of the Registrar, audit must be in the hands of an impartial and independent agency. Audit by the staff of the Registrar subject to administrative control of the Registrar's sub-ordinates is as objectionable as audit under the supervision of the societies themselves whose accounts are audited. I have known cases where auditors under such systems have done their work indifferently. Such a state of affairs not only affected the prestige of the institutions audited but the prestige of the controlling agency also. A scheme must be devised so that the audit staff may be free from such control and each province must evolve a scheme suitable to local conditions. In Madras the audit is far from satisfactory. In Bihar the audit has been in the hands of the B & O Co-operative Federation. When I was there in the first week of this month to preside over the 20th Session of the Bihar Co-operative Congress I had no hesitation in advising my Bihar friends to hand over the audit to the department though they were reluctant. Almost all my friends in Bihar with whom I have associated for 20 years looked upon my advice with surprise. They were surprised to see that I wanted to hand over the audit to the department. However, I gave this advice because the system there had practically failed and the interests of the movement had to be safe-guarded. A resolution was accordingly passed by the Bihar Co-operative Congress to hand over the audit to the Government. I also told my friends that audit by the Government would be of no use if it was done by the auditors who were controlled by the co-operative department. My idea was that audit should be made independent. We should devote more attention to this subject on which depends our future and put the system of audit on a satisfactory basis in all provinces.

Yesterday we framed a resolution regarding the rehabilitation of the co-operative movement. Though in some provinces the position is particularly distressing, generally speaking the conditions are more or less the same all over India. Many of the loans advanced to members cannot be recovered in the normal course. We have not yet tried scientific methods of scaling down those debts to the extent that they can be repaid without at the same time embarrassing the position of the societies. In Madras we have had a thorough examination of the individual loans in societies. Nearly 7,000 societies were tackled in this behalf. We must place these loans on a definitely long term basis finding the necessary long term capital. Unless this is done, the statistic returns will not reveal the true state of affairs. In every province such loans should be placed on long term basis in accordance with the repaying capacity of the members. In a province like Bihar this cannot be attempted at all unless the Government gave substantial relief partly by subsidy and partly by a loan for a long period. I am glad to say that the Government of Bihar have definitely decided to help the movement on the lines indicated and made a very useful declaration for the rehabilitation of the movement in order to re-instate the public confidence which had been weakened. I hope your Committees will help those provinces to receive such help for the movement from their respective Provincial Governments as far as possible.

Finally we must see that the democratic character of the movement is retained. There has been an increasing tendency for Government to assume more and more control over the movement. I am perfectly aware that this is sought to be done in the best interests of the movement but I must say that state managed co-operation is no co-operation at all. That official control and stringent Co-operative Societies Act are not the remedies to resuscitate the co-operative movement is proved by Bihar, which has the most stringent Act in force ensuring utmost official control. Nevertheless the movement in Bihar has practically collapsed. About a dozen central banks have already gone into voluntary liquidation by calling creditors' meetings and the condition of other central banks is not very satisfactory their credit having been entirely lost. The Provincial Bank has also been working at a loss since some years past. At such a time when everything was in a state of collapse a stringent Act was thought necessary and the Bihar Co-operative Societies Act was passed. The necessary financial help, advice and guidance were not made available but a section of the Act namely Section 24 permitted creditors' meetings to be held in central banks which were unable to meet their liabilities on the lines of the Insolvency Act. This provision helped many central banks in Bihar to carry on bankruptcy proceedings without going to the civil court but did nothing to put the movement on a sound basis. My advice therefore to you is to see that the Provincial Governments take up the question of amending the Co-operative Societies Acts in their provinces. We have only one formula to give for the amendments. All Provincial Acts so far have been drawn up by making the Registrar the centre of picture. We want that the society should be the centre of the picture and not the Registrar. We do not wish to ask for the transfer, to non-official hands, of any of the statutory functions of the Registrar such as audit, supervision, inspection, registration and liquidation. All that we want is that the movement must be administered by the people for whom it is intended with as little interference in its internal management as possible from the Registrar or other Government officers. Nowhere in India the co-operative movement can be said to be democratic in the sense it ought to be. There is a feeling in some of the Congress provinces that the Congress Governments being popular Governments, official control and state-hold upon the movement should not necessarily be an evil. I am afraid this is an entirely wrong notion. Even in the self-governing countries the co-operative movement is subjected to great hardships. The methods of the State and the co-operative movement are not necessarily the same in all cases. In England every Act that is passed is against the co-operative movement. The State is dominated by capitalistic interest. In my opinion therefore state-controlled co-operation is a contradiction in terms. I for my part feel that we are not going to get very much even from the autonomous Congress Governments and therefore for the future development of the co-operative movement we must safeguard our interest in all provinces from encroachments by vested interests both capitalistic and official.

With regard to the development of cottage industries something must be done. There are various small industrial organisations which can be organised on co-operative basis. I hope and trust that the Standing Committees and the Provincial Co-operative Institutes will interest themselves in this direction. Rural industries should be organised on co-operative basis and I hope Registrars of Co-operative Societies in the provinces and States will interest themselves in this behalf.

Before I conclude I must say that these meetings of ours have been very useful as they have enabled us from all parts of India to meet on a common platform and exchange our ideas. Wherever we have met we have found that the Registrars were very useful to us. They not only attended the meetings but placed their views at our disposal. I think in the United Provinces the Government has issued a circular asking the departmental officers to attend the co-operative conferences and meetings to which they are invited and participate in the discussions. So far as Madras is concerned I am sory neither the Registrar nor the Joint Registrar of Madras has cared to attend this meeting. I cannot congratulate my province in this respect and I sincerely hope that the Registrars of all provinces will take

interest in our work. By not attending these meetings they are not showing the zeal and spirit they ought to have shown. Unless the officials and non-officials co-operate with each other in this matter, it is not possible to put the movement on proper basis.

In conclusion I may say that as the draft resolutions to be discussed at our meetings were framed yesterday after full discussion by all the delegates, much time will not be needed to go through and adopt the resolutions. It would, therefore be useful if the members present give an account of the working of the movement in their respective provinces during the time at our disposal.

Professor V. G. Kale.—I am glad to have an opportunity of saying a few words about the position of the co-operative movement in the Bombay Presidency. In Bombay in certain areas in any case conditions are extremely bad but taking the Province as a whole we are as well off or as bad as most of the other provinces of India. The urban co-operative movement I am proud to say has really made some headway in our province. In fact it has advanced much further in Bombay than in other provinces but with regard to the agricultural credit movement there has been in some parts serious deterioration owing to what is ofen called over-financing. When prices were high and other conditions favourable, loans were advanced freely without due regard to the repaying capacity and when the depression set in, there has been practically a dead-stop and money has been locked up. For the last 3 or 4 years we have been trying to encourage recoveries by wiping off overdue interest. We are making it a condition that if say 25% of the principal is repaid along with interest; for the current year, overdue interest would be written off to a certain extent. I am glad to say that the experiment of inducing recovery of overdues by such concessions which has been tried during the last three years, has to a large extent succeeded. Of course as in other provinces we are trying to put these overdue loans on a long term basis consistently with the repaying capacity of the borrowers.

We have now a Congress Government and we are impressing on that Government the necessity of taking ameliorative measures for the uplift of the rural masses. We have placed before the Government a scheme which includes the undertaking of measures with regard to the reduction of indebtedness, scaling down of debts, improvement of marketing and of agriculture and cottage industries. As our Chairman has just now said, the Congress Ministers in several provinces kept themselves at arm's length from the co-operative movement. Our Minister in charge of co-operation is very keen about improvement of the whole movement. The first thing he did on assuming his duties was to order an enquiry into the condition of the movement for taking suitable measures. The work was entrusted to a committee of two, one of them being our friend, Mr. V. L. Mehta and the other the Registrar. The report of this enquiry is now before the Government who are expected to issue orders on the various recommendations made, at an early date.

Unfortunately the Provincial Co-operative Institute of Bombay is deprived of much of its powers. It is deprived even of its normal functions. It appears to be a strange irony of fate that one of our best co-operative friends who was associated with this enquiry should have felt compelled by circumstances to recommend that the Institute should conduct co-operative education only and have no other functions. We have now put forward a modified scheme with a view to the satisfaction of our minimum requirements and I hope the Minister and the Registrar will give sympathetic consideration to it. The position of the co-operative institutes all over India has gone down and from that point of view I must say that the movement in India is decidedly worse off than elsewhere. We in India are carrying on things in a spirit and manner entirely different from those of co-operators in other parts of the world. While in other countries the movement is in the hands of non-official organisations, in India, it is in official hands and the people are nowhere. However, if we strive hard we can regain the position which we have lost. I do not think that the Congress Governments are prejudiced against the movement, and would stand in the way if people organise themselves. As our President has pointed out we have to educate our Ministers and the Congress Government.

With regard to the Land Mortgage Banks we entered the field rather late. We have now about 13 such banks. The Government of Bombay, I should say, are rather slow. They have already wasted nearly two years in settling the form of debentures to be used for the finances of land mortgage business. We are consequently very much handicapped. I hope that in the course of 2 or 3 months the debentures will be issued.

In Bombay we have now a number of bills, Money-lenders Bill, Tenancy Bill etc., which are bound to have repercussions on the co-operative movement and therefore the co-operators there were taking care to see that the best interests of the movement were not adversely affected by these measures. All these bills are of a radical character and our sympathy will go to the Government but we have to see that injustice is not done to any one and particularly to the co-operative movement.

I entirely agree with the President with regard to the remarks he made about audit. We have been urging on our Registrar that with regard to the central and urban banks there should be a panel of auditors qualified for the work from whom the banks concerned may select one of their choice. The independence of the audit will thus be maintained and the cost also will be to a great extent minimised. There is duplication of work now as the Banks themselves maintain their own auditors besides the Government auditors. If we get the choice of selecting our own auditors we can certainly have audit done more efficiently at even half the present cost. The Registrar in our Province has generally agreed to this proposal and is going to try a suitable scheme.

With regard to co-operative training I mean the training of the staff and members of societies and Panchayatdars financed out of the Government of India grant we had expected that the Provincial Co-operative Institute would be consulted. I regret to say however that this was not done. The Government are having their own machinery for the purpose. There has thus been no co-ordination between the Government and the Institute in this important respect. I hope and trust that the Government will consider the desirability of entrusting the Provincial Institute with this task.

Khan Mohd. Bashir Ahmed Khan (Lahore). I will just explain the system prevalent in the Punjab regarding audit. This system has so far worked quite satisfactorily. Audit of primary societies, and central banks and the Provincial Bank in the Punjab is in the hands of the Provincial Co-operative Union. The audit staff is employed and paid by the Union. Government maintains no audit staff of its own. We have about 400 men as auditors. They are employed by the Punjab Co-operative Union for the audit of societies. They conduct audit of all societies and as I have said before, they are paid by the Union. We have a special staff of senior auditors who take up the audit of central banks and a few big primary societies whose audit is technical and difficult, such as the Police Co-operative society and the Khalsa College Co-operative Store. Senior auditors are 4 in number and they are also paid by the Punjab Co-operative Union. Primary societies are audited once a year while urban societies twice a year. For the audit of central banks we have a different system. We have 49 central banks and 65 Banking Unions and one Provincial Bank. Previously the audit of all the central banks and banking unions was done twice a year. Some of the banks had concurrent audit also but for the last 2 or 3 years central and urban banks which are working satisfactorily were found not to require two audits in one year. Now therefore the central banks whose working capital is about Rs. 4 lacs are audited once a year. Senior auditors audit as many banks as they can. The Balance Sheet is prepared on the 31st August every year and therefore we insist that every Bank should be audited by the end of December every year. We give sufficient time to our auditors. Besides the auditors appointed by the Union we have also a panel of professional auditors approved by the Registrar. In cases where the audit is not done by the Union auditors, these professional auditors do the work. Their programme is arranged by the union. The professional auditors audit central banks once a year.

With regard to the audit fees we charge from every society, central or urban bank 10% of its net profits made every year subject to a minimum of Rs. 10. Even banks and societies working at a loss must pay the minimum fee of Rs. 10 per annum. No society is charged anything for audit in the first year of its working. The Provincial Union gets an annual income of approximately 5½ lacs of rupees for audit, supervision, education and propaganda.

In our province central banks have got no supervisors. All supervisors are appointed by the Provincial Union. They are known as sub-inspectors. Their duties and the duties of auditors are interchangeable. An auditor may be a supervisor or vice verse. These sub-inspectors are given 50 societies to supervise. Some 4 years back they were divided into auditors and supervisors so that they may not overlook the defects of their own institutions. So far as work is concerned, sub-inspectors work under the Government inspectors but so far as their promotion and increment etc. are concerned they are under the Provincial Co-operative Union. For the professional auditors there is a fixed fee paid once a year. Senior professional auditors are given a higher fee. The maximum scale for such auditors is 0-8-0 per thousand of rupees of the working capital but the scale is reduced to 0-3-0 per thousand of working capital in excess of Rs. 5 lacs. I have said before sub-inspectors have 50 societies in their charge and auditors from 100 to 120 societies. The Government gives a recurring grant to the Provincial Union on the basis of one man for 40 new societies. The Union has got another fixed grant of Rs. 50,000 per annum. All Banking Unions, Central Banks, Land Mortgage Banks, Commission shops and sale societies are the members of the Union. We do not, however, charge any membership fee.

Land Mortgage Banks in the Punjab have not made much headway. Since the first Land Mortgage Bank was started in the Punjab very little further headway has been made. The existing Land Mortgage Banks practically devote their attention to the recovery of their old dues and practically no new loans are being given.

Sir M. G. Deshpande, M.B.E. I do not say that the movement in C.P. is very bad, but owing to the depression our recoveries are not satisfactory. One thing which we have lost sight of is the principles of business methods. In C.P. & Berar financing has been stopped. When we do not finance any member, we cannot expect any recovery from him. I think that after a few years we shall be able to revive our movement if the prices show a satisfactory rise. At present the prices are so low that the members of societies are not in a position to pay our instalments from the income they get out of sale proceeds of their produce. In some banks interest due on loans from members of societies had to be written off as the members were found not to be in a position to pay.

With regard to audit I do not agree with the Chairman as well as the scheme suggested by him. At present the audit of societies is done by the societies auditors in C.P. and a fee of Rs. 10 per society is paid for audit. It is satisfactory that this audit is under the Registrar of Co-operative Societies. We have not found any misapplication of rules by the auditors under the Registrar as was just now said by the Chairman. I do not agree with the suggestion that men from outside should be permitted to audit our co-operative banks. Our Minister in charge of co-operation in C.P. is a man from Raipur. We are very glad to have a man like him who takes a very keen interest in the co-operative movement. Whenever we find any difficulty we approach him.

As regards the official control over the movement I regret I do not agree with the remarks of the Chairman. We must try to find out how official control has come in. Officers are required to interfere because we are not working properly and are not able to solve our own difficulties. As regards Land Mortgage Banks in C.P. and Berar, we find that we are working on sound lines. We have all along adopted the system followed in Madras. With regard to the accounts of individual members of primary Land Mortgage Banks, the Provincial Bank is asked to keep such accounts in the office of the Provincial Bank. This has increased our work very much and with the increase in cost profit has gone down. All the Land Mortgage Banks send their accounts at the end of the year; they send a copy of the loan ledger also to the Provincial Bank. Is it necessary that separate accounts of members should be kept at the Provincial Bank also? We have to send accounts to all the individual members annually. When every account is maintained by the Primary Land Mortgage Bank, there does not seem to be any necessity to keep such accounts separately also at the Provincial Bank.

President (Hon'ble Mr. V. Ramdas Pantulu). You raise the entire funds by the issue of debentures and you take all mortgages of the property of members in hypothecation, so every day at any time can know what is the state of your mortgages and how many of them have been discharged if separate accounts of borrowers of primary Land Mortgage Banks are also maintained by your office. The Provincial Bank has got in this the safe-guard for its investment.

Rao Bahadur Khare, (Berar). Berar forms a part of C.P. but we are different from C.P. in many respects. Our land tenure is also different. In Berar audit is done not by the Institute but by Government at its cost. We raise funds for our own purpose in the Institute. We charge 0-5-0 per hundred of the working capital of every central bank and society and raise about Rs. 50,000 per year. This fund is for education, supervision and writing of accounts in the primary societies. The Institute in Berar looks after the writing of accounts, supervision, propaganda and education of societies. There are 12 central banks in Berar with a working capital of about one crore. The number of staff engaged by the Berar Co-operative Institute consists of 9 chief group officers, 15 group officers and 17 assistant group officers. The Head-quarters are at Amraoti with the requisition stall.

Once Berar was considered to be the richest province. The greater the riches, the greater the indebtedness. The members borrowed recklessly and the central banks in Berar advanced uncautiously. Now there is a failure of crops for the last 7

years in our part of the country and money is not coming from the societies with the result that the lands of members are now being sold every year by auction and the Banks have to purchase them as there are very few other purchasers. The central banks and societies in Berar have at present more than 47 thousand acres of land at their disposal. Land revenue on these lands has to be paid annually to the Government and this amounts to about Rs. 80,000 per annum. If this land revenue is not paid the lands may be lost to the societies and the banks. In addition the lands which have been taken in mortgage from members against their advance by the societies appear to be also neglected by the members as very few of them pay the Land Revenue due on these lands. The land revenue on parts of the lands mortgaged to the societies has also to be paid by the central banks. The additional amount which the central banks have to pay on this account amounts to about Rs. 50,000 per annum. The greatest difficulty of the central banks in Berar is therefore in connection with the payment of land revenue on the lands purchased by them and the societies as well as the land mortgaged to the societies. Every year the burden of land revenue paid is growing heavier. In Berar we have partly applied a scheme of reconstruction and if we succeed there is some hope of revival but if the present state of affairs continues there is of course a very dark future for Berar.

We rely on the All-India Provincial Co-operative Banks' Association to take us out of this mire. Our hope is that if we have better crops, members may be able to pay off the liabilities of the societies and the societies in their turn can pay up the liabilities of the central bank; otherwise the future is very gloomy.

Mr. S. K. Chatterjee (Bengal). In Bengal the audit is done by the Registrar and his staff. A fee of 0-10-0 per cent on the working capital is charged from every society, urban and central bank, subject to a maximum of Rs. 140 per each urban society and Rs. 350 per each central bank. The audit of the Provincial Bank is done free as it is done by the Government and no audit fees are paid.

With regard to the Land Mortgage Banks, myself and another director of the Bengal Provincial Co-operative Bank were sent out to study the system of Land Mortgage Banking in Madras and elsewhere and evolve a scheme suitable to Bengal. The system prevalent in Madras has been mostly adopted. Every application for loan from a mortgage bank is very carefully scrutinised and 50 or 60 per cent of the application have to be rejected as it is very difficult to satisfy the requirements of the mortgage bank regarding the title. I must say that the progress made in Bengal in regard to Land Mortgage Banking is rather slow. We have only 5 banks now with a working capital of about Rs. 4 lacs. Some of the main reasons for the slow progress are the high lending rate which cannot be lowered unless debentures bearing Government guarantee of both principal and interest are floated, the continuance of the economic depression and the consequent low repaying capacity of the cultivators, unwillingness of the co-sharers to join in the execution of the mortgage bonds, difficulty experienced in splitting up of holdings, inability to produce sureties by the applicants and the introduction of the Bengal Agricultural Debtors Act, which has raised in the minds of the agriculturists a hope that better advantages would be available from the operation of this Act for the repayment of outstanding debts rather than by borrowing from the Land Mortgage Banks. Debentures have not yet been floated. The draft of the debentures has been sent to the solicitors to the Government of Bengal and all the important provisions necessary for the successful issue of such debentures have been incorporated therein. This form, however, has not been settled though it has been under consideration for a long time past, and there have been several discussions on this head.

The question of revision of rates of interest with a view to give adequate relief to the primary borrowers has also been engaging our attention. We are often accused of lending at a higher rate of interest than other provinces. Ordinarily we charge 9⅜% on our loans to members of societies. So far, however, it has not been found possible for the societies to reduce their lending rates any further. (Attempts are being made to reduce the lending rate) to the level of the repaying capacity of the primary borrowers. A rebate however is often given to members through the societies for punctual payment of current demand. The Provincial Bank originally could not grant reduction in the lending rate beyond allowing a rebate of 1½% on punctual repayment of current interest. With the grant of annual subsidy of Rs. 2 lacs by the Government the Provincial Bank has succeeded in reducing its effective borrowing rate to 5% and it may be reduced still further when the higher interest bearing deposits would be all replaced by deposites at a lower rate.

A bill to provide for the better working of co-operative societies in Bengal has been drafted and is now before the legislature. The bill has been discussed thoroughly at a joint conference of prominent co-operators and some of the leading members of the Legislative Council. I do not know whether it will be passed and in what form; but the Hon'ble Minister in charge of co-operation is taking a very keen interest in the matter and we have all been given opportunities for offering opinion during the course of the drafting of the bill which the Hon'ble Minister promised would be carefully considered by him. We hope that when the bill is passed into law, with proper modifications in the light of our suggestions, it would conduce to an improved and efficient working of societies in Bengal.

Mr. S. K. Lahiri, (Bengal). I am thankful to the President for having given me an opportunity to say a few words. I wish to refer, especially, to one matter only, namely, the increasing official control over the co-operative movement. When the Royal Commission on Agriculture sat, the late Sir Horace Plunkett made a statement in which he said that he would not describe the co-operative activities in India as a real co-operative movement. His reasons were that co-operative societies started by Government, managed by Government and controlled by Government could not in the real sense of the term be called a co-operative movement. When the Montagu-Chelmsford reforms were introduced there was a tendency amongst officials, as well as non-official workers of the co-operative movement, to attempt to liberalise the movement, i.e., to make it a more popular and autonomous movement, but soon after the advent of economic depression there was a reaction. New Provincial Acts have since been passed and proposed to be passed and the tendency noticeable in all of them has been to bring the movement more and more under the control of the department. I do not think that any Province or State can be said to have escaped from this tendency. The movement in the Punjab has of course, always been Government-managed. Bombay was at one time considered to be the most advanced in this respect. Madras might now be said to approximate to some extent to the popular side. There is no other province or State where it can be said that the movement has any life, or any tendency to extricate itself from the control of the department.

In these circumstances I feel that we should attempt to organise societies on purely autonomous lines and thus liberalise the movement and extricate it from the control of the department. I would even suggest that we should devise measures to have an organisation which would be entirely autonomous and which, if necessary, could be registered under the Company's Act adopting at the same time co-operative principles and ideals. As the law stands at present such an organisation could not, of course, be formally called as "co-operative," but it could follow co-operative principles and would enjoy freedom from official interference. If the house agreed with me that control from Government was not good for the movement it should proceed on the lines I have indicated.

The President.—In the Punjab, the Provincial Co-operative Bank was originally registered under the Indian Companies Act. In 1928, the Select Committee on the Reserve Bank of India Bill discussed the definition of a Provincial Co-operative Bank, and it was suggested that a Provincial Bank should be defined as the chief financing bank of the Province, which was registered under a statute governing the registration of co-operative societies in India. He had to point out to the Committee, of which he was a member, that the Punjab Provincial Co-operative Bank was registered under the Companies Act and that this Bank would be excluded if the above definition was adopted. It was thereafter that the registration of the Punjab Provincial Co-operative Bank was changed. He agreed with Mr. Lahiri that co-operative societies might be registered under the Companies Act provided their co-operative character was maintained, and that there was nothing revolutionary in the suggestion.

Prof. V. G. Kale agreed that it was worthwhile trying this new experiment. The recent amendments to the Companies Act had certain co-operative features about them and there could certainly be no objection to register societies under the Companies Act if only the co-operative character and principle were kept in view.

Mr. V. M. Thakore (Bihar).—I have to add only one more point to what the President has already said in his reference to the movement in Bihar. I do not wish to repeat what he has already said. Since the organisation of the movement in Bihar in 1906 it was our practice to grant loans to members for repaying old debts. This practice continued till about the year 1931 when the Hubback Committee on Co-operation pointed out the danger of granting long term loans out of comparatively short-term deposits. That the long term commitments of the movement required long term backing was pointed out by the Provincial Bank to the Government in the year 1928 and a demand was made for permission to float debentures of about Rs. 20 lacs with a view to put this long term commitments of the co-operative movement on long term basis. The Government wanted this matter to be referred to the Banking Enquiry Committee and therefore the Banking Enquiry Committee made an enquiry into the matter and recommended the proposal. This was again referred to the Hubback Committee on Co-operation which also made an enquiry and strongly recommended the proposal. The proposal was thus examined by both the committees in the years 1929 and 1930 on the recommendation of the Government. Although both these committees supported the proposal, the the Government deferred taking action till the great earthquake of the year 1934 which did incalculable harm both to urban and rural areas. Added to this the severe economic depression which had set in even 3 years prior to the earthquake practically converted even the then short-term commitments into long term ones on account of the reduced earning capacity of the members of societies. The result was that members were unable to repay their loans and the security behind the loans namely lands rapidly decreased in value. Due to the practice of granting heavy loans for redemption of prior debts to members, there was little margin left between the value of land and the amount of loan given. In some cases, in fact in most cases, the land values were found to be far below the loans advanced after the earthquake. After the earthquake the Government agreed to give a loan of Rs. 20 lacs to the Provincial Bank repayable in 15 years at 4%. By that time the movement was so bad that this sum was found to be insufficient. The present Government realising the urgency of the situation intend to sanction the floating of debentures with Government guarantee of principal and interest to the extent of 60 to 100 lacs. It is hoped that with this financial backing, it will be possible to restore the credit of the movement and put it once more on a sound footing.

Mr. T. A. Ramalingam Chettiar, (Madras). I only wish to refer to the progress of the Land Mortgage Banking movement in my province. There are about 90 primary mortgage banks in Madras, besides the Central Land Mortgage Bank which is an appex institution for the primaries. The Provincial Government have guaranteed the principal and interest of the debentures of the Central Land Mortgage Banks to the extent of Rs. 150 lacs. The Government have recently laid down that there should be a margin of 2½% between the rate at which the Central Land Mortgage Bank raises fund and the rate charged to the members of primary banks. The borrowers were charged till recently only 5% per annum but in view of the Government order mentioned above, the rate was raised to 5½%. There are 3 Deputy Registrars and about 25 Sub-Deputy Registrars in charge of the work connected with Land Mortgage Banks. The services of the 3 Deputy Registrars are paid for by the Central Land Mortgage Bank while those of the Sub-Deputy Registrars are paid by the Government.

We should concentrate our attention to the producing side of the members in order to enable them to repay the loans taken by them. On the better income and purchasing power of the agriculturists alone must depend his repaying capacity and the consequent success of primary societies. I regret very much to know that not much attention was paid to this aspect of the matter.

With regard to the working of loan and sale societies (or commission shops as they are called in the Punjab) in Madras some attempt is being in this direction. The Provincial Bank in Madras is also subsidising the central banks for the development of loan and sale societies. Besides the Provincial Bank grants loans to central banks for financing loan and sale societies at 3½% per annum while its normal lending rate is 4%. In cases where the ultimate borrowers i.e., the members of loan and sale societies are charged only 4%, the Provincial Bank lends even at 3% per annum. Want of proper trained men in the technic of marketing etc., is a serious handicap to the development of these societies.

I deplore that the Madras Provincial Union unlike the institutes and unions in other provinces is very much in the background. Beyond running the monthly co-operative journal, the Union is practically doing nothing. Co-operative training and education was conducted under the auspices of the Union for some time but the Government are now having their own Central Institute for this purpose in Madras. The Union runs only two peripatetic institutes, one in the north and another in the south of the Presidency. Even when the Government of India grant for training members and Panchayatdars of societies were made, the Union was asked to contribute a minimum amount from its own funds which in fact the Union did, thanks to the munificent grant made by the Provincial Bank from out of its common good fund.

Mr. N. G. Kothari, (Indore). We as others were very much worried about the heavy arrears in societies. The organisation of Land Mortgage Banks in Indore was impossible. In order therefore to solve the question of arrears a scheme was framed for the organisation of a bank called 'arrears bank' consistent with the law relating to the land revenue in the State. It is hoped that the Government of Indore would give their sympathetic consideration to the scheme.

We have organised Training College for the benefit of the honorary workers, the members of the staff, and those desiring to take advantage of the institution. The class will be working in the near future.

The President then requested Khan Mohd. Bashir Ahmed Khan, Secretary of the All-India Co-operative Institutes' Association to formally move the draft resolutions which were framed the previous day. Mr. Bashir Ahmed accordingly moved the resolutions one by one and they were adopted unanimously.

After the resolutions were adopted the President asked for a donation from the Indian Provincial Banks' Association for the conduct of the *Indian Co-operative Review* and the Association sanctioned a donation of Rs. 1,000 as given in the previous years.

In winding up the proceedings the President said that there were only 400 subscribers to the Indian Co-operative Review and if all present at the meeting made serious efforts to increase the number of subscribers, it could easily be raised to 500, in no time. Unless the number of subscribers increased to 500, it is unlikely that the Indian Co-operative Review would be self-supporting, meeting all its expenses out of income realised from subscription. He therefore requested the representatives of the Provincial Banks as well as the Co-operative Institutes to secure more members for the Review and thus not only popularise the magazine but provide means whereby it could prosper and develop in future years.

XVII SESSION OF MADRAS CENTRAL BANKS' CONFERENCE MADRAS, 23RD APRIL 1938.

Welcome Address of the Hon'ble Mr. V. Ramadas Pantulu:

This session of the Central Banks' Conference appears to me to be one of special importance in view of the serious problems with which Central Banks are confronted to-day. Indeed, they have to answer the question, To be or not to be. The Central Banks in this province, in spite of their record being undeniably the best in India and notwithstanding the fact that they have been able to weather the unprecedented economic depression and most acute financial crisis in the history of the co-operative credit movement in India, are now virtually threatened with extinction. They are subjected to reformist attack from all sides. The frontal attack consists of a straightforward demand for their abolition or to use a euphemism, their amalgamation with the Provincial Bank. Those who propose to perform this fatal operation claim that they do so on humane grounds. The Central Bank is a superfluous limb or an inconvenient overgrowth which, if amputated, will give strength and comfort to the body politic; it will clear the obstruction to facile flow of nutritive, healthy credit from the robust Provincial Bank to the famished primaries which are now ill-nursed by the Central Banks. The push forward from behind comes from the Department which is anxious to improve the backbone of the Central

Banks. One half of them are now found to be unable to stand erect without a departmental official prop at their back, in the form of a stiff secretary, manager or special officer. The rest of the Central Banks are being advised to profit by similar staminal treatment. The right flank is sought to be guarded by moneylenders, depositors and commercial magnates who seek to enter our committees through side curtains, if possible by obliging co-option, if not by over-riding nomination by the Registrar. There is an engaging frankness about this advice that co-operative banks cannot flourish in this country without capitalist guidance. Our left flank is to be in charge of joint stock bankers, on whose sole advice the Government will strictly define the limits of our banking operations at every stage—what forms of loans we should advance, how much we should advance and to whom we should advance.

In regard to the proposal to replace the Central Banks by branches of the Provincial Bank, I have given expression to my views in an article which I contributed to the *Madras Journal of Co-operation*, April, 1938. I propose to follow it up by another article in the next issue of the Journal. In my opinion, the proposal is suicidal and is beset with grave dangers to the Movement. The idea that money can be made available at cheaper rates to primaries by removing the Central Banks is not well founded. I have, however, suggested in my article, published in the current issue of the *Madras Journal of Co-operation*, that the two experiments of branch banking and of lending to primaries without the intervention of Central Banks may be tried in two select districts, and the results of the experiments watched. If any of the Central Banks are willing to start the experiments, I hope the Provincial Bank will give necessary assistance to them.

In regard to the introduction of departmental officials into the management of Central Banks, I have all along protested against the policy. In my opinion, it is calculated to stifle all non-official initiative and enterprise, and instead of improving the movement will lead to its deterioration. The Registrar has however suggested in a letter addressed to me that a scheme for the employment of qualified secretaries and managers by the Central Banks and placing them on a regional cadre may be evolved and as and when such a scheme is accepted by the Central Banks, he would have no objection to withdraw his departmental officers, when suitable secretaries or managers are appointed. I hope you will give your due consideration to this proposal.

In regard to the other two matters, viz., the introduction of moneylenders, depositors and commercial bankers into the committees of co-operative banks and the discontinuance of intermediate loans by Central Banks and Societies, the Registrar has addressed a letter to the Provincial Bank, which is coming before you for discussion. These questions were considered carefully by more than one joint session of the Standing Committees of the Indian Provincial Co-operative Banks' Association and the All India Co-operative Institutes' Association. The conclusions arrived at by them practically represented the unanimous opinion of the members of the Standing Committees. In considering the matters referred to by the Registrar, the Conference may, therefore, consider the resolutions passed by the All India Standing Committees in relation thereto.

The Reserve Bank's suggestion that "advances for any purpose whatever which cannot reasonably be expected to be repaid in one year should be ruled out as beyond the sphere of co-operative societies" cannot be accepted by us. In this province, after bestowing considerable and prolonged thought over the entire problem, we have arrived at the decision that not only short term seasonal loans but also intermediate loans should be advanced by Central Banks and Societies. The Reserve Bank has not consulted either the Provincial Bank or the Central Banks in this province in coming to this conclusion and making this suggestion. Nor have the Government done so before accepting that suggestion. It is a matter for regret that when such far-reaching recommendations are made neither the Reserve Bank nor the Government, who accept the recommendations of the Reserve Bank, should not think fit at least to invite the opinion of the concerned institutions. This policy, in my opinion, is entirely wrong. In any case, I am definitely of opinion that no reasons are urged either by the Reserve Bank or by the Government to convince us of the necessity to discontinue the advance of intermediate loans by the Central Banks and Societies. If the operations of primary societies are confined only to one-year short term seasonal loans and of the land mortgage banks to long term loans, there is an obvious gap in regard to the co-operative agency for the supply of intermediate loans, and the members of societies must inevitably go to moneylenders for the satisfaction of their intermediate credit needs. The recommendation of the Reserve Bank is, therefore, unco-operative, to say the least, and leaves a gap in our credit arrangements.

The belief of the authorities of the Reserve Bank that "there is considerable scope for an increase in the financial support given by commercial banks to co-operative banks, if they will reorganise themselves on the lines" suggested by the Reserve Bank is open to doubt. The matter has been editorially commented on, in the current issue of the *Indian Co-operative Review*. As pointed out therein, I doubt whether co-operative banks, that are financing the movement, are really anxious to get more funds now or any kind of financial support from commercial banks, whose outlook and methods of business are different, if not opposed to those of co-operators. I wonder why in this country co-operators should be exhorted to look up to commercial magnates as superiors whose services are indispensible to us and should therefore be coaxed into our Boards of Management, while in our turn we should agree to collect their bills. It is not for lack of business knowledge, that there is sometimes a lapse from sound banking practice, but it is the force of circumstances in agriculture that drives some of our banks to situations from which mere business knowledge cannot pull them up. It is not difficult to point to parallel lapses in joint stock banks, but I shall not indulge in that game. The proposal, therefore, to amend the by-laws of Central Banks to provide for the introduction of commercial bankers into their committees by co-option or nomination seems to be wholly ill conceived. On the other hand, if commercial bankers and commercial banks wish to deal with agricultural credit, it will be very helpful to them to amend their articles and memoranda of association to provide for taking a few co-operative bankers into their committees. If this is done, many of the fantastic proposals emanating from the commercial banks in regard to reform of co-operative banking will not be heard.

Another very important question is that of developing the operations of loan and sale societies. At present the Provincial Bank is lending to Central Banks at 3½ per cent for financing loan and sale societies. The Bank has also offered to advance money to Central Banks at 3 per cent if it can be made available to members of loan and sale societies at 4 per cent. I find that this latter restriction does not generally find favour with Central Banks. Moreover, the department insists on the loan and sale societies working with a margin of 1½ per cent. If so, it will be obviously impossible for the societies to lend money at 4 per cent. Therefore, the uniform rate of 3½ per cent may be adopted, leaving freedom to Central Banks and the loan and sale societies to settle their lending rates. It has also been pointed out that the Central Banks first finance the loan and sale societies by operating on their cash credit account with the Provincial Bank and then approach that Bank for a loan. The cash credit account carries 4 per cent interest, and the Central Banks are, therefore, put to a loss of ½ per cent in the interim period. I hope that the Provincial Bank will be able to charge only 3½ per cent on the sums so drawn from the cash credit account, to finance loan and sale societies. I commend for your consideration the suggestions made in regard to insurance and proper custody of produce as well as the audit fees.

There is just one other matter to which I wish to make a reference. A scheme for the return of lands purchased by Central Banks and societies from defaulting members by collecting the dues in easy instalments, spread over a long period, has been under consideration for a long time. But nothing has been done so far to help these members. I find that one of the obstacles for the successful tackling of this scheme is the want of long term funds. One of the Central Banks asked to lend money for 20 years, if the scheme is to be tried in that area. I think that this demand is a reasonable one. In order to see how the scheme works, I think we must find the amount of long term money required by one or two selected Central Banks. The Burma scheme described by the Rural Credit Department of the Reserve Bank of India in their third Bulletin seems to have many good points about it. If we can get three or four lakhs of long term money, we can try the rent-purchase system advised by the Reserve Bank in one central banking area. I request you to give your consideration to this problem. I am hopeful that the Provincial Co-operative Bank can raise twenty year money at 4 or 4½ per cent by uncovered debentures not guaranteed by the Government.

Resolutions discussed and passed at the Conference.

1. *Amalgamation of District Banks with the Provincial Co-operative Bank.*

Dr. P. Gurumurti who had suggested the consideration of the subject briefly explained that the question was brought to prominence at the last Provincial Co-operative Conference and the Provincial Co-operative Union was asked to elicit the opinion of all the Central Banks. Then as Convener of the Andhra Provincial Co-operative Conference, he had tabled it for discussion at Vizianagaram during the Easter that year and having regard to the views expressed he had come to the conclusion that the scheme of branch banking deserved a trial. Accordingly, he moved for adoption by the house the following resolution :—

> *That the amalgamation of District Banks with the Provincial Co-operative Bank is in the opinion of the Conference undesirable and the Provincial Bank may try as an experimental measure the system of branch banking in order to get an objective estimate in two taluks one in the north and another in the south.*

This was seconded by **Mr. T. Narayana Pillai, (Madura).**

Mr. K. Bhashyam Iyengar moved an amendment that the first part of the resolution might be deleted. He said that he had devoted some thought to the subject and come to the conclusion that a Provincial Bank with branches all over the Presidency would be in a better position to serve the agricultural population at low rates of interest. He was of the opinion that the intervention of the district banks made money costlier to the ryot. He was alive to the fact that such a centralisation might affect the co-operative nature of the bank but so long as the primary societies conducted the business on co-operative lines and were better served by such a Provincial Bank, the departure from principle was not of much concern. The restriction of operations of a Central Bank to a district or part of it was only arbitrary and he felt therefore that, if there was any objection to the formation of one bank for the whole province, four or five regional banks might be started.

Mr. Ramadas Pantulu said that, as indicated in his address, the Central Banks in Madras depended on the Provincial Bank very little for their working capital and that therefore they did not in any way make money costlier to the ryot. Most of them worked on local deposits as they were expected to and the Provincial Bank cannot do better. He was of opinion that the administrative cost of an independent Central Bank was not heavier than a branch and the latter would have to depend on a local Advisory Committee instead of a duly constituted board of directors. The experience in the Bombay Presidency did not go to support the view of Mr. Bhashyam. He was informed that the Bombay Provincial Bank had to charge more to the primary societies than an independent Central Bank. The Registrar of Co-operative Societies in Punjab had advised that the interest rates in newly started societies should be raised to 12½ per cent. In Bihar where he had occasion to investigate the matter in more detail, the rate of interest was higher. He however expressed that he had no objection to the Provincial Bank subsidising such an experiment as contemplated in the resolution.

Mr. N. Satyanarayana said that the experiment should be made. In Burma, a scheme of reconstruction of societies was being successfully tackled and the Central Banks and the Provincial Bank here with their vast resources and accumulated reserves should give a trial to the scheme.

Mr. K. Deivasikhamani Mudaliar in opposing the second part of the resolution pointed out that corporate bodies like the Central Banks were considered safer than Branch Managers acting at their discretion. There was no need for experiment unless a Central Bank had failed. The movement is not suffering by the existence of Central Banks and the only obstacle, viz., the want of education of panchayats in better business methods is sought to be removed by training classes. The repaying capacity is not properly assessed and hence short term loans were becoming in practice long term loans with the consequent overdues and frozen assets. He had visited societies in other provinces and come to the conclusion that the Central Banks in Madras were sounder and that there was no need to disturb them.

Mr. Krishnaswami Iyengar of the Christian Central Co-operative Bank, Ltd., Madras, was of the view that the idea of branch banking was as old as 1926 and that it was worth a trial, having engaged the consideration of earlier Bankers' Conference.

The Chairman then proceeded to put the two parts of the resolution independently to vote. The first part of the resolution was carried by a majority, two delegates only voting against and the second part was thrown out by a large majority only seven members voting in its favour, and thereafter the following resolution was recorded :—

> *This Conference is of opinion that the amalgamation of District (Central) Banks with the Provincial Bank is undesirable.*

2. *Reduction of audit fees payable by the Loan and Sale Societies.*

Dr. P. Gurumurti explained in detail that the levy of audit fees operated as a hardship on Loan and Sale Societies. From his experience, he could say that good societies with a business of about half a lakh of rupees and managed by honorary office-bearers had to work at a loss even without payment of audit fees, if they were not subsidised. He therefore moved the following resolution, which was seconded by **Mr. A. Ramachandram Pillai**, and carried unanimously.

Resolved that the Government be requested to exempt the Loan and Sale Societies from payment of audit fees.

3(*a*) *Working of Loan and Sale Societies.*

Mr. V. Ramadas Pantulu referred the delegates to the note prepared by the Provincial Bank on the subject and pointed out that Central Banks were running a great risk in not getting the effective custody of produce pledged by members of societies and leaving it with the societies uninsured. The Provincial Bank had during the first quarter of 1938 sanctioned loans to the extent of Rs. 20 lakhs for such purpose and the business, with the propaganda now made, is bound to improve considerably and a crore level in subsequent years cannot be over optimistic. Under such conditions, unless the Central Banks assured the Provincial Bank that adequate safeguards were being taken in that behalf and furnished periodical certificates of stock, the Bank would have to apply a check on such advance.

Mr. Narayana Pillai said that in his district the Bank had to trust the Loan and Sale Societies, and that, having regard to the extensive area of operations, the lodging of the keys of godowns with the Central Bank will operate as an insurmountable impediment to the business. Mr. K. Lakshmana Rao of Cuddappah also mentioned that Loan and Sale Societies should be trusted to a certain extent.

Mr. V. Ramadas Pantulu pointed out that apart from trust, the Central Bank should take steps to keep itself properly infomed about the proper custody of produce in view of the magnitude of the advances, and in deference to the representation of Madura and Cuddappah Banks he was prepared to consider the proposal, if the Central Bank took care to appoint a whole-time Inspector to have the custody of keys on behalf of the Bank. The practice of leaving the produce in borrowers' own houses and godowns should be discouraged.

The Joint Registrar invited the attention of the delegates present to the Departmental circular dated 8th April, 1936, laying down certain conditions regarding produce loans. He said that it was imperative that the Warehouse-keeper should be a representative of the Central Bank and that the produce pledged was inspected once a week by the Inspector of the Central Bank. He expressed that the Government was willing to sanction extra staff for the purpose and certificates of stock will also be furnished by them.

Mr. Kala Venkat Rao mentioned that, only if the godowns were owned by the Loan and Sale Societies or the Central Bank, it would be possible to comply with the requirements and that therefore Central Banks should be given the same assistance by the department as was extended to Loan and Sale Societies.

The following resolution was then adopted unanimously :—

This Conference requests the Government and the Provincial Bank to arrange for the lending of long term money to Central Banks for the construction of godowns on their own account, provided that the godowns are utilised for the business of Loan and Sale Societies, and also to give the same concession to Central Banks as is given to Loan and Sale Societies.

3(*b*) *Regulation of the loan policy of Central Banks as recommended by the Reserve Bank.*

Mr. V. Ramdas Pantulu said that the Registrar had commended for the consideration and adoption by Central Banks and Provincial Bank the recommendations of the Reserve Bank regarding the desirability of restricting the operations of co-operative societies to short term seasonal and crop finance, leaving long term finance to Land Mortgage Banks. That subject had been discussed threadbare in successive co-operative conferences, and co-operators all over India were agreed that the policy would lead to a gap in co-operative finance much needed by agriculturists and without any agency to supply it. He therefore suggested that the Conference might adopt the resolution of the Standing Committees of the Indian Provincial Banks' Association and the All India Institutes' Association held at Vizianagaram on the 17th April, 1938.

The Registrar observed that the Reserve Bank authorities were particular that all loans that could not be paid in one year from the sale proceeds of crops raised by members should be repaid within two years in full. Their suggestion was that credit societies should gradually give up the practice of disbursing long term loans from short term deposits. Having found on an analysis that the proportion of long term loans varied from 25 to 75 per cent of the total loan transactions in the several districts, he agreed with Mr. Ramadas Pantulu that the Central Banks should find suitable deposits for disbursing intermediate loans also in deserving cases.

The following resolution was passed unanimously :—

This Conference agrees with the resolution of the Joint Session of the Standing Committees of the Indian Provincial Banks' Association and the All-India Co-operative Institutes' Association held at Vizianagram on the 16th and the 17th April, 1938, and adopts the following resolution :—

This Conference, while agreeing with the view that long term credit should be provided only through Land Mortgage Banks, is not in favour of the recommendation that loans from Central Banks and Societies should be strictly confined to cultivation finance only.

Other necessary forms of short and intermediate credit required by members should also be found by rural societies and Central Banks in order to prevent agriculturists from resorting to money-lenders; provided however that the deposits and borrowings of the Banks should be so regulated as to permit such loans being granted from those sources.

4. *Provincialisation of services of non-official staff.*

Mr. V. Ramadas Pantulu said that there were 16 Central Banks who had departmental Secretaries or Managers and the desirability of the Registrar withdrawing such subordinates had been under correspondence between himself and the Registrar for some time. The Registrar had expressed his willingness to withdraw the Departmental officials if the Central Banks agreed to appoint qualified men in their places. The question was by its nature very important and he would suggest therefore that Central Banks thereafter should refrain from applying for such officers in keeping with the non-official nature of the movement and form a suitable cadre on a provincial or regional basis whichever appealed to them. The services (Executive Staff like Secretaries, Managers or Executive Officers) should be made contented, secure and efficient in the interests of the movement. The Registrar had suggested that Central Banks might recruit men from a list of qualified men to be maintained by him for the purpose. He invited the members present to offer their views.

Mr. Kunhiraman Menon expressed that it would be sufficient if the Registrar prescribed the minimum qualification for such selected posts, as otherwise provincialisation would bring in its wake many complications.

Mr. Narayana Pillai stated that he could find no defect in the present system which needed such a change. It might be that in the case of a few banks, the office-bearers had other activities which led the Department to force their subordinates on them.

Mr. V. Ramadas Pantulu replied that there was no doubt about the need. 50 per cent of the Central Banks were in that regrettable condition. The circumstances which culminated in such a regrettable state of affairs required the consideration of the members present. It was true that the question raised important aspects of the controlling authority, tenure of service and liability to transfer, and a change was desirable.

Rai Bahadur Murugesa Mudaliar, (Vellore) expressed that centralisation was undesirable: the scheme would lead to a deadlock as in the case of Commissioners of Municipalities and it will be a disgrace to the autonomous co-operative institutions.

Mr. Gangadhara Sastry said that the scheme would create an efficient service and supply a long-felt want of the services.

Mr. Subba Rao expressed that the Registrar should confine himself to prescribing the qualifications and leave the matter of appointment to the Central Bank concerned.

Mr. Alagiriswami Naidu in reply to a remark said that the circumstances of the Srivilliputtur Bank were peculiar and that the departmental officer was there at the request of the Central Bank.

Mr. Ramadas Pantulu wound up the discussion and expressed that if the Central Banks were of the view that the departmental men were there only at the request of Banks and that there was no pressure from above he had nothing to add. He was of the opinion that the Banks should at least recruit their principal paid officers from a list of persons maintained by the Registrar satisfying certain standards, but it appeared that Central Banks were not agreeable even to such a proposal. He therefore moved the following resolution, which was adopted :—

> *This Conference is of opinion that there is no necessity for provincialisation of the services of non-official staff but recommends that the Central Banks do recruit Secretaries, Managers or Executive Officers from out of persons who have the qualifications prescribed by the Registrar of Co-operative Societies.*

5. *Co-optation on the Boards of Management of Central Banks and the Madras Provincial Co-operative Bank.*

Mr. V. Ramadas Pantulu pointed out that that was another vexatious recommendation of the Reserve Bank authorities which the co-operative banks should resist.

Mr. K. Bhashyam mentioned that experts should be called in only when their services were required. The services might be paid for, as occasion arises, but they should be given no place in the day-to-day administration of the banks.

Accordingly, the following resolution was unanimously approved :—

> *This Conference is unanimously against the proposal of the Registrar regarding the amendment of Bye-Laws for co-optation of persons of experience on the Board of Management of the Bank. The Conference is also of opinion that there is no necessity for any co-optation at all.*

6. *Safeguards in granting loans to members consequent on the amendment of the Civil Procedure Code.*

The Conference was of opinion that no action was necessary in that behalf and it was passed over.

7. *Organisation of Land Mortgage Banks in each Taluq.*

The principle was accepted without discussion and the following resolution was passed :—

> *Resolved that a Land Mortgage Bank should be organised for each revenue taluq as early as possible.*

8 *Indemnification of Ex-Directors of Co-operative Societies.*

Mr. A. M. Monteiro said that in view of the introduction of Section 51 (c) regarding the liability of ex-Directors and their representatives it had become necessary to indemnify the ex-Directors of Co-operative Societies and their successors in office against vexatious prosecutions. The following resolution was adopted unanimously :—

> *This Conference is of opinion that it is desirable to enact a bye-law in all societies on the lines of the General Regulation No. 23 (1) of the Reserve Bank of India seeking to indemnify the Directors, against all losses suffered by societies, except such as may happen from their own wilful act or default or breach of trust.*

9. *Branches of Central Banks.*

Mr. T. Narayana Pillai moved the following proposition which was passed unanimously :—

> *This Conference recommends that branches of Central Banks may be opened in important centres in the District to facilitate collection work and to help Loan and Sale Societies.*

10. *Registrar's circulars on questions of policy.*

Mr. T. Narayana Pillai moved also the following, which was adopted :—

> *Resolved that the Registrar be requested to consult the Provincial Bank and accredited non-official co-operative opinion before issuing circulars on questions of policy.*

11. *Deputy Registrar's refusal to register societies unless the borrowing power of the society is divided into three-fourths for short term and one-fourth for long term.*

It was resolved unanimously as follows, on the motion of **Mr. T. Narayana Pillai.**

This Conference is of opinion that no restriction regarding the borrowing power of societies should be insisted at the time of registration.

12. *Additional staff for registering new societies.*

The following resolution was unanimously adopted, on the motion of **Mr. T. Narayana Pillai.**

This Conference requests the Registrar to give additional staff to the Deputy Registrars for organisation of new societies, and registering societies pending registration.

At this stage, the Chairman brought to the notice of the house that four more Central Banks had given notice of certain resolutions which were not received within the prescribed time; and the house having waived notice took up for consideration the following propositions :—

14. *Deposits of Local Bodies in Central Banks.*

Mr. M. M. Kunhiraman Menon moved the following resolution, which was unanimously adopted :—

This Conference reiterates its resolution passed at the XVI Session held on the 17th April, 1937, that the limit of acceptance of deposits of local bodies by Central Banks be raised to three times the paid-up share capital plus the Reserve Fund.

15. *Loans to Co-operative Institutions in the Districts.*

Mr. Nanjundiah of the Hospet Bank moved the following for consideration of the Conference and referred to the direct financing of the Hospect Sugarcane Growers' Society by the Provincial Bank.

This Conference resolves that all loans to the co-operative institutions in a district should be granted and disbursed through the Central Bank.

Mr. Ramadas Pantulu replied that the financing was undertaken only with the consent of the Central Bank and the approval of the Registrar and that the Central Bank should not try to interfere thereafter. The mover of the resolution did not press it further.

16. *Utilisation of Reserve Fund for Building purposes:*

Mr. Alagiriswami Naidu in moving the amendment to Rule XIII stated that the department did not permit in certain cases the utilisation of Reserve Fund for building purposes even when the rule permitted. The Conference accepted the proposal and the following resolution was passed unanimously :—

Resolved to request the Government to get rule XIII of the Rules under the Madras Co-operative Societies Act VI of 1932 amended, enabling sociaties to utilise their reserve fund for the construction of buildings for their use.

17. *Multi-purpose Societies.*

Mr. Kala Venkat Rao moved the following, which was adopted :—

The Conference is of opinion that wherever practicable multi-purpose societies, on limited liability basis, may be organised.

SILVER JUBILEE OF THE KOLHAPUR URBAN BANK
Kolhapur, 24th May, 1938.

Presidential Address by Mr. V. L. Mehta :

I deem it indeed a privilege to be called upon to preside at the Silver Jubilee Celebration of the pioneer and leading Co-operative Bank among the Indian States, in the Southern Maratha Country. Kolhapur is the foremost state in Maharashtra and it is the first State on this side of India to have introduced the Co-operative Movement within its territory. Its example has, later on, been copied by other Indian States in the Deccan, with considerable benefit to agriculturists and other persons of small means. To us Co-operators, political frontiers present no obstacle to the spread of the gospel, and we rejoice in the keenness and enthusiasm with which Hyderabad, Mysore, Kashmir, Baroda, Travancore, Gwalior, Indore, Bhopal, Cochin, Pudukottah and other States, ruled by Indian princess, have interested themselves in the application of Co-operative method to the solution of the economic problems of their subjects. Among these States, Kolhapur occupies an honoured place and these last 25 years have witnessed the gradual building up of a sound Co-operative edifice in this State, the most noteworthy component of which is the pioneer urban bank, which celebrates its silver jubilee to-day.

No small part of this development is due to your distinguished founder and veteran leader, Mr. Bhaskarrao V. Jadhav, who first conceived the idea of a co-operative bank for his city and devoted years of strenuous labour to the building up of its prosperity. No institution, no movement grows without patient, persistent, and painstaking efforts on the part of its promoters, and it is Mr. Jadhav more than any other individual who enabled the bank to establish its credit and reputation and made it a vital factor in the life of this city. This is not the place to recount Mr. Jadhav's great services to the cause of co-operation, but one observation I shall permit myself to make, namely, that he has definitely placed Kolhapur on the co-operative map of India. Along with Mr. Jadhav, Mr. Rajadnya has laboured selflessly, in the past, for the enlargement of the range of the bank's activity and the conduct of its operations on sound banking lines. Their services to the cause of co-operation extend beyond the confines of the Kolhapur State. But both of them have brought added prestige to this institution, for which their names deserve to be remembered with gratitude by the members of the Kolhapur Urban Co-operative Bank.

Starting work as a modest credit society, this institution has turned its attention to the provision of banking facilities by the opening of current accounts, the introduction of the use of cheques, the granting of cash credits to traders, the issuing of drafts and hundis and the transmission of funds to other centres. Side by side, the bank has taken in hand the work of granting advances against valuables and commodities and overdrafts against Government and other approved securities. It is in a position to undertake all banking services for its members, thereby enabling this city to have the opportunity of having the banking business of its people, run for the people and by the people.

People's banks are valuable agencies, as Italy recognized years ago, for democratizing the control of credit, for popularising banking instruments and methods, and for ensuring that the profits of banking do not accrue to an individual or a group of individuals, but are shared by the participants and the customers. Unfortunately in India, the place of urban banks in banking developments is, to my mind, inadequately recognized .There is a general impression that co-operation is concerned mainly with problems of rural credit, although in their recent Report on

Agricultural Credit, the authorities of the Reserve Bank of India have admitted that trade credit may be provided through the agency of urban co-operative banks. The contention of co-operators is that co-operative urban banks will be in a better position to develop banking facilities in the smaller centres of trade and industry than joint stock banks located in central headquarters operating either directly or through their branches. The people's banks are more in touch with the people; they can gauge the requirements of the people better and their surplus earnings if any are available for local use. The authorities of the Reserve Bank of India may well utilise the agency of urban banks in developing banking facilities all over the country, instead of expressing satisfaction at the opening of branches of the larger joint stock corporations which oftener than not involve the attraction of deposits from small centres of population to the head offices of the banks for the financing of organized trade and large scale industries in the bigger cities. Because of the costliness of their machinery, the branches of banks do not prove remunerative, while the Reserve Bank finds it difficult to enter into satisfactory business relations with indigenous bankers. Why should not the authorities of the Reserve Bank, in these circumstances, chalk out a definite programme for the encouragement of urban co-operative banking all over the country, including centres of trade and industry, such as Kolhapur, which are located in Indian states? This will necessarily involve an amendment of the Reserve Bank of India Act, a suggestion which for the past three years has been repeatedly brought to the attention of the Government of India by the All India Provincial Co-operative Banks' and Co-operative Institutes' Associations.

But in order that we may put forward this demand in an irresistible manner it is necessary that we co-operators should put our own house in order. A little plain speaking here will do no harm. Urban Co-operative banks cannot claim the same status and privileges as joint stock banks unless they agree to subject their business to those wholesome restriction and regulations which are accepted as sound banking canons in the world of finance. Joint stock banking is still governed by the Indian Companies Act which has recently had radical amendments incorporated in it to control the working of banking institutions. It is necessary that these restrictions, with suitable modifications, should be made applicable to all institutions registered under the Co-operative Societies Act that seek to be recognised as banks. These restrictions are provided in section 277(f) of the Indian Companies Act and cover the definition of the business of banking, the maintenance and separate investment of a reserve fund, the provision of fluid resources on the lines of the arrangement for the deposit of minimum balances with the Reserve Bank by scheduled banks, the submission of periodical statements of assets and liabilities and the qualifications and disqualifications for directors. In addition, it is necessary to prescribe the extent to which urban banks should lend on the mortgage of immovable property. It is an unsatisfactory feature of the working of co-operative urban banks in several parts of India that their lendings are not liquid and that often the bulk of the advances are on the security of mortgage of lands or houses. The secret of success in banking, banking authorities hold, consists in recognizing the distinction between a mortgage and a bill of exchange. In a sound bank, lendings should be on easily realisable security and of a liquid nature, the loans should be for productive purposes including the financing of trading transactions, and mortgages even if necessary should be treated as collateral security. For a co-operative bank, the basis of credit should essentially be personal, the character, trustworthiness and repaying capacity of the borrower and his ability to get sound sureties to guarantee the repayment of the loan. Where personal security is taken,

there will be ample assurance that the advance will not ultimately turn out to be of an intermediate term or long term type, as the surety, especially in an urban area, will take good care to see that the advance is repaid on the expiry of the originally stipulated period.

Another common defect is the granting of loans for short periods when the purpose of the loan obviously demands a longer term of repayment. Loans of this type are sure to lead to overdues and it is not surprising that the proportion of arrears in urban banks where these points are overlooked is higher than it should be in institutions dealing with traders and artisans or persons with fixed incomes. The growth of arrears leads to demands for the devising of special measures for recovery, including resort to Government for assistance in the settlement of civil disputes, and the execution of awards and decrees. The provision of a special procedure though helpful in the solution of our immediate difficulties, has undoubtedly the sub-conscious effect of placing the management of banks under a false sense of security. In British India and in the Kolhapur State and elsewhere it has been so far common for Government to give a favourable response to such appeals from co-operative banks for assistance in their recovery work. In their own interest, co-operators will be well-advised not to make demands of this type in future and further to rely as little as possible on the special recovery procedure devised at their instance. Ultimate safety lies along that path and not along the slippery slope of coercive action with the backing of Government.

With a large and growing membership, it has to be admitted that the task of relying altogether on the personal factor in credit is somewhat difficult. But in addition to personal security, other forms of liquid security should be fully exploited. The pledge of valuables, the taking of commodities in possession, the assignment of title to goods, the transfer of shares and securities, the hypothecation of stock in trade or in transit, the discounting of usance bills—these are all forms of security preferable to the mortgage of immovable property. It is these that should constitute the main lines of business for an urban co-operative bank, because mortgage loans sooner or later tend to involve an institution into long-term credit operations for which by its very constitution it is not suited. This type of credit can be dispensed much better by an urban mortgage corporation or by an industrial bank which can raise long-term capital by the issue of debentures. Short-term loans on liquid security are the special province of urban co-operative banks and they should explore all avenues of developing business in these directions, framing suitable rules, adjusting these from time to time to meet local conditions, ascertaining the needs and requirements of their clientele, and providing the maximum possible facilities and with the maximum possible elasticity, consistent with the safety of their operations.

Capitalist banks and large joint stock corporations have this advantage, that they can command the services of experts both for advice and guidance and for the administration of their day-to-day affairs. Individual banks situated in isolated centres are managed by persons whose training and experience are limited and whose emoluments are meagre. They often lack the advantage of trained guidance at the head. These needs have been felt as serious not only in our country but in others as well, and hence the adjuration to co-operative societies that they should always be independent but never isolated. To impart the strength to be derived from unity of aim and concentration of effort co-operators in various provinces and States in India have formed unions, federations and institutes. For a comparatively small tract like the Kolhapur State it is difficult to contemplate to-day the formation of a federation. The membership of the Provincial Co-operative Institute of Bombay has been thrown open to co-operative societies in Indian States, thanks to the efforts of your veteran leaders. But the Institute does not function as a federal organization even for societies in the province of Bombay. It is now proposed to have in Bombay city, and in the various linguistic divisions of the province, auditing and controlling federations for urban banks. It will be the business of such federation to provide the trained advice and guidance that are required by urban banks and it is likely that the inauguration of the federations will be the first stage in the transfer of authority from the Registrar to federations controlled by representatives of the federating units. The question of the inclusion of banks from Indian States in such a federation no doubt, presents some difficulties. But I should like to throw out here the suggestion that the Kolhapur Urban Bank would do well to get into touch with those who might be entrusted with the task of forming an urban banks' federation for Maharashtra, with the intention of utilising its services for the enlargement of the scope of its operations, on well-ordered lines.

I have so far intentionally refrained from offering any, except general observations on the working of the Kolhapur Urban Bank. A jubilee celebration is undoubtedly a fitting occasion for stock-taking, but that task can better be performed by those closely associated with the fortunes of your bank, your city and your State than by an outsider like myself. One feature of the constitution of the bank that I appreciate very much is the constitution of a supervising Council charged with certain powers of superintendence and possessing appellate jurisdiction. This enables the Bank to interpose between the general meeting and the managing committee, a council composed, presumably of elders, men of authority and experience capable of taking long views and unlikely to be swayed much by prejudices and prepossessions. It also ensures to a certain extent continuity in administration by making available to a new committee of management the advice of those who had been actively associated with the working in the past. Danger lies ahead, however, if the ultimate responsibility for the actions taken is transferred from the Board of Directors to another body and the authority of the council is brought into operation now and again. It was Mr. N. C. Kelkar who first suggested, at a very early session of the Provincial Co-operative Conference, the creation of supervising councils in urban banks. But these councils do not generally form an integral part of the constitutions of all urban banks. We, in Bombay, would like to profit by your experience especially because in the recent Co-operative Reorganization Report submitted to the Government of Bombay the recommendation is made that the system should be adopted universally by urban banks.

For two reasons, co-operative societies have come into bad odour in several parts of India. The first is the coercive action they have to take against defaulters with the assistance of Government. Lenders everywhere have sometimes to proceed against those borrowers who refuse to meet their liabilities. One distinction between co-operative institutions and others is that proceedings under the co-operative law are decided by arbitration. So long as the arbitrators do not act arbitrarily, there is everything to commend in this procedure which is expeditious and inexpensive. But if the procedure for execution makes the coercive process prescribed for the recovery of the Revenues of Government too easily available for the recovery of the outstandings of a banking institution it may involve some measure of hardship. The remedy should be to make the procedure available only in exceptional cases of proved contumacy and to allow recoveries commonly to be made through the usual procedure for the execution of the decrees of civil courts. The

other target for criticism is the frequent failure of co-operative institutions to secure a personnel animated by the spirit of co-operation working harmoniously and with good will and in a disinterested manner. Co-operative institutions are manned by persons elected on a democratic basis and it is not possible to postulate co-operative qualities in those who succeed at elections. But this throws the responsibility for an occasionally unsuitable or unworthy personnel on the electorate, the general body of members. So that in the ultimate resort we are thrown back on the conclusion that the success of co-operation depends more on the sense of responsibility possessed by members and the good sense displayed by the general body of members than on any extraneous factors or any safeguards that a constitution may provide. The bulk of the membership in urban banks consists of needy persons and not necessarily of persons particularly inspired by the spirit of co-operation. But it is the duty of the management to provide what is lacking and by efforts at publicity of the right type, the forming of personal contacts, and the provision of the facilities for education in the basic principles of co-operation to mould out of the masses of their borrowers the nucleus of a trained body of co-operators. We may not all have assayed this task and some may have failed in the attempt. But that does not mean that these efforts should be abandoned, because we cannot forget that the provision of facilities for the practice of thrift and the supply of credit on a co-operative basis represents only the first stage in the evolving of a truly co-operative commonwealth. This form of co-operation must contain within itself, the seeds of other co-operative activities extending, in towns and cities to the organization of handicrafts-men, the opening of consumers' stores, and the formation of housing colonies. It is unfortunate that in several parts of India we have rested on our oars and have remained satisfied with petty achievements where failure has not been our reward. If we probe into the causes of our failure or the comparative lack of success, we find that in the ultimate analysis they reduce themselves to a departure from co-operative principles, an inappreciation on the part of members of the theory underlying the movement and the ideals that inspire it. Our hope for the future lies in our ability to remove this defect. In assessing results, let us, therefore, not lay the blame at the doors of others. If we want greater success in co-operative effort than has been our lot so far, let us again and again turn to the message "educate your masters", for, in such education alone lies the salvation of co-operation and the hope of the emergence of co-operation as a new social order.

THE SIND PROVINCIAL CO-OPERATIVE BANK

MR. V. L. MEHTA'S REPORT.

The following is a summary of Mr. V. L. Mehta's report on the reorganisation of the Sind Provincial Co-operative Bank:—

Mr. V. L. Mehta was asked to advise Government on the organisation and working of the Sind Provincial Co-operative Bank, both internally and in its relation to the co-operative movement as a whole; and in particular as to whether it provided the necessary financial structure for the co-operative movement, its methods of loans and recoveries both to societies and individuals, and the suitability of its bye-laws for the constitution of its Directorate and the adequacy and efficiency of its staff.

Mr. Mehta began his enquiry on the 14th February 1938 at Karachi. He interviewed a large number of gentlemen connected with the Bank, officers of the Co-operative Department and prominent co-operators. He visited Hyderabad, Nawabshah and the Husri group of co-operative credit societies in the Hyderabad District. Mr. Mehta submitted his report to Government on the 1st March, 1938.

Mr. Mehta points out that the Provincial Co-operative Bank which was organised in 1919, has since 1934-35, during which period the Central Banks in Sind were amalgamated with it, occupied a unique position among the apex banks in India, inasmuch as it is the only Provincial Bank which has no intermediate agency interposed between it and the primary societies.

Without going into the causes leading to the withdrawal of deposits to the extent of Rs. 38 lakhs from 1st June 1937 to the time of his enquiry, which are already well-known, Mr. Mehta points out that the loan position of the Bank in regard to long-term resources is not satisfactory and the following are the chief methods of remedying the siuation recommended by him:

(i) Special efforts to attract long term deposits.

(ii) A thorough examination as soon as possible in respect of bad and doubtful debts in the case of every borrowing society.

(iii) The exact amount of the Bank's loans that are frozen, doubtful and bad should be ascertained after a detailed examination of the position of borrowing societies. This examination should be accompanied by measures for inducing voluntary repayments by the grant of concessions such as the scaling down of the burden of accumulated interest. Consistent with the safety and sound working of the Bank, attempts should be made as in other provinces, to reduce the burden of interest charges payable by Agricultural Societies and their members.

(iv) Coercive action against contumacious defaulters, specially those who fail to take advantage of the concessions and facilities offered.

(v) The appointment of special recovery officers with the powers of Mukhtiarkars where the number of awards and liquidation orders pending disposal is large; the vesting of wider powers in selected nominees of the Registrar functioning as arbitrators to secure the speedy disposal of arbitration cases; and the appointment of full-time liquidation officers in compact areas where sufficient work is available. The appointments can be made self-supporting.

(vi) The future exclusion from divisible profits of all accrued interest on accounts in respect of which interest is already due.

Issue of Debentures.—Mr. Mehta considers that, when a thorough examination on the above lines has taken place, it is probable that the Bank will have to grant instalments to societies, and for this purpose it will require adequate long-term resources. He remarks that it is not possible to transfer the frozen loans to a Land Mortgage Bank, as there is no such bank in Sind and its organisation would take time, and would involve State aid and control.

He therefore recommends the issue of debentures, the principal and interest being guaranteed by Government.

Attracting Deposits.—Dealing with particular matters, Mr. Mehta recommends that the practice of attracting deposits to the extent of the requirements of the movement should be continued and that the provision of banking facilities for customers on the existing lines should also continue.

He recommends that no fresh loans should be made to Co-operative Housing Societies as this involves locking up of the Bank's funds for long periods.

Loans to Individuals.—In regard to loans to individuals, Mr. Mehta recommends that loans on the security of gold and silver and Government and other authorised securities and the pledge of produce should be continued and even extended with the usual safe-guards, provided there is no competition with Urban Banks; but he is not in favour of loans against the hypothecation or pledge of merchandise. While loans to individuals on the mortgage of immovable property served a useful purpose in the past, he does not favour their continuance, as they involve locking up of the Bank's funds.

Size of Board.—Mr. Mehta considers that the present size of the Board of Directors is unwieldy and suggests a Board of 11 with representation for Agricultural Credit Societies, individual members, Urban Banks and other non-agricultural societies and provision for nomination by the Registrar.

He considers that the disqualification of persons who are defaulters should be strictly interpreted and rightly enforced. He thinks it desirable that control should not be allowed to pass into the hands of persons connected with rival banking institutions and that the Bank's policy should not be permitted to be dictated by party considerations. He further recommends that the local boards of directors at the branches should be replaced by branch advisory committees of three members each.

Staff.—He notes that retrenchment has been made in staff and considers that the effects should be watched. He thinks that the scale of salaries is somewhat liberal compared with salaries paid in other co-operative banks and suggests that unqualified staff should gradually be replaced by qualified staff or made to undergo training in co-operation and accountancy. He considers that the strength of the inspecting staff should be increased and that the General Manager should visit branches regularly and keep in touch with borrowing societies in the district.

Urban Banks.—Mr. Mehta considers that the Bank's relations with Zamindari Banks or industrial societies should continue provided the security is adequate and the business is on a short term basis. As regards Urban Banks, he considers that they constitute an important element in the co-operative credit structure and that they might have their own federation for mutual control, co-ordination and credit, but that their financial relations should continue to be with the Provincial Bank. He thinks that the movement would be weakened by the withdrawal of their financial support and of their knowledge and experience of banking.

Agricultural Credit Societies.—As regards Agricultural Credit Societies, including Zamindari Banks, Mr. Mehta finds that overdues amount to approximately 42 lakhs compared with total advances of 48 lakhs. Of the former, nearly 21 lakhs are under extension and 17½ lakhs unauthorised arrears. He notes that the admixture of 'Haris' and 'Khatedars' though sound in theory, creates special problems one of which is that zamindars obtain loans in the names of Haris.

Mr. Mehta observes that "the grouping of 'Khatedars' and Haris' into separate institutions, the formation of small Zamindari Banks on a limited liability basis for the former, the organization of multi-purpose societies serving compact groups of villages for the latter these suggest themselves as some of the directions in which efforts may be made in the future to reorganize the rural credit machinery."

Primary Agricultural Societies.—He observes further that "timely and vigorous action for the re-organization of the affairs of Primary Agricultural Societies is very necessary. The preparation and the annual revision of statements of normal credit for all working societies and the grant of fresh finance by the Bank on the basis of these statements should be put in the forefront of the programme of re-organization.

Re-organization of the existing societies will involve a systematic examination of frozen and doubtful debts, the scaling down of interest charge and the grant of fresh finance against adequate security.

The contumacious defaulters should be separated from those who are creditworthy. Action should be taken against the former as provided in the law. The latter should be called upon to reduce their liabilities in accordance with their repaying capacity. Should it be necessary instalments of repayment will have to be fixed for such debtors.

Mr. Mehta has made various suggestions by which the Provincial Bank can provide further facilities for agricultural credit and can further the ends of the co-operative movement. He recommends the grant of loans to societies on the pledge of produce crop and finance the system of granting maximum credit and observes:

"Special efforts may be made to develop godown and sale societies. As feeders to such societies and to the Provincial Bank, there may be organized in suitable centres village co-operative banks of the type recommended by the Reserve Bank of India. At the same time action should be taken to improve the standard of agricultural production and to develop secondary occupations and cottage industries."—The Sind Observer, May, 18, 1938.

GENERAL PURPOSE SOCIETY

VIEWS OF MR. C. F. STRICKLAND, I.C.S. (Retd.)

A society aiming at general uniform, not at a specific and limited object, is in danger . . . of becoming cumbrous in mechanism and unintelligible to the simpler members. It then passes into the hands of an educated oligarchy and loses its co-operative quality. So long as the activities into the society involve no commercial business, such as loans, purchase, or sale, the danger is not serious. Peasants can grasp the meaning of a proposal to clean the village, to build a road with their own labour, to restrict foolish expenditure, etc. No accountancy enters into these matters, and all men and women can express an opinion. Societies, on the other hand, which ambitiously try to carry on those several activities and also a series of financial enterprises, such as stockbreeding, landholding, irrigation, afforestation, house-building, etc., soon become highly complex and technical, and probably end in disaster. They have, in any event, no moral or social force for the education for the members who do not understand them. Many such institutions have been set up in China at the instigation of zealous organisers, who do not realise what a peasant can do and what he cannot. Their influence is, in the writer's view, either negligible because they do not function or harmful if they do. Societies of similar wide powers are found in Japanese villages, but for the most part they are content to arouse public interest in a new idea and then organise a separate co-operative society to put the idea into action. In this respect they resemble the *Boerenbond* (Peasants' League) of Belgian and Dutch villages, though these latter are not registered as co-operative societies. It should also be borne in mind that the majority of Japanese peasants are literate, and can thus control a more complex society than peasants of China and India. Rural reconstruction societies in India, too, have done good work so long as they confine themselves to enlightenment, stimulation, and the organisation of labour; but there have been sad mishaps when they have embarked on a variety of undertakings involving money and accounts. General purpose societies have recently been founded in British Malaya, which encourage thrift, better farming, hygiene, and the restraint of extravagance. In addition to this, however, certain of them have ventured on the purchase of requirements, and here they are on unsafe ground. One of their more prudent occupations is the destruction of squirrels, for which object the members, whose crops are being damaged, unite their efforts. No outlay is involved, and nothing can be more educative. A hundred years ago a local headman or chief might have mustered the peasantry for a task of common benefit, but his authority is weaker now, and a more democratic method, commanding the assent of the community, must be used in place of an outworn tradition.

International Labour Review, June 1938.

CO-OPERATIVE NEWS AND NOTES

IMPERIAL CONFERENCE ON AGRICULTURAL CO-OPERATION

The Agricultural Co-operative Organisations of the British Isles through their Agricultural Organisation Societies and the Co-operation Committee of the National Farmers Union have decided to hold a Conference at the British Empire Exhibition in Glasgow to give representatives of Agricultural Co-operative Organisations in the British Empire an opportunity of meeting. No such Conference has been held since 1924. In the meantime there have been many changes in the organisations through which primary producers must work to obtain requirements, market products and obtain credit, and many changes in the organisations which primary producers establish for their own service and protection. The Conference will be held from 18th to 20th July 1938, at the British Empire Exhibition in Glasgow. The nucleus for the Conference will be provided by agricultural co-operators from the British Isles, but co-operators from all parts of the British Commonwealth will be in the country and at the Exhibition and it is expected that they will take the opportunity of attending the Conference.

It is hoped that the Conference will be opened by the Secretary of State for Scotland, The Rt. Hon. Walter Elliot, and there will be an opening address on the present position of agricultural co-operation by Dr. C. R. Fay. Further sessions will be devoted to the sale of agricultural requirements, modern marketing problems with special reference to milk, dairy produce and fruit, co-operation and state control, and the relations between co-operative producers and consumers. One session will be reserved for the discussion of problems of particular commodities taking place between commodity groups formed from among those attending the Conference. As far as possible speakers will be drawn from different parts of the British Commonwealth and will deal with problems in which they are experts. A full report will afterwards be issued.

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The Government of the United Provinces have on hand a five-year scheme of rural development, which they propose to pursue and expand, as more funds become available. The aim of the scheme is, it is understood, to change the villagers' whole outlook on life to convince them that it is possible for them to improve their condition through their own co-operative efforts. The work done will be in the nature of welfare work aimed at bringing about environmental change for the better in the countryside. To achieve this they have appointed for each district in the province as organisers persons imbued with a spirit of missionary service and zeal. These organisers, it is said, will try to infuse a spirit of self-help in the villagers, to broaden their outlook and introduce the necessary improvements in agriculture, sanitation, industries, etc. There will be at the top a Provincial Rural Development Board consisting of 31 members, of whom two-thirds will be non-officials, with the Minister in charge of Development as the Chairman and the Provincial Development Officer as Secretary. District Rural Development Boards have also been set up, the Chairmen and two-thirds of the members being non-officials, and divisional superintendents are appointed to act as liaison officers between Provincial Centre and the Districts.

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The Bihar Co-operative Congress, held in April last, appointed a Committee to consider plans for re-organising the B. & O. Co-operative Federation. Says the *Bihar Co-operative Journal*, commenting on this: "Starting with audit as the main

function, the Federation gradually took up propaganda, development and educational work; but in course of time, it was shorn of these additional activities. By deciding to transfer to the Government its audit functions, the Federation may be said to have voted its own extinction. Should it be allowed to die or should it be re-organised with a view to discharge some functions essential to the Movement? It must be admitted that there is a definite place in this province for a non-credit federation of societies and that such a federation can play a very useful role in co-ordinating and guiding activities calculated to promote the welfare of the countryside. We are awaiting with interest the report of the Committee appointed by the Congress."

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With a view to advise the Government on all matters in connection with the scheme of rehabilitation of the Co-operative Movement, the Government of Bihar have appointed a Committee called the Co-operative Rehabilitation Committee, consisting of about ten members.

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The Government of India, it is learnt, have permitted the utilisation of the Rural Development Grant to the Madras Government, for expenditure on consolidation of holdings. The Madras Government, it is understood, have asked the Registrar of Co-operative Societies to prepare a scheme for the formation of co-operative societies for the purpose. The Government will bear two-thirds of the cost involved, the societies bearing one-third.

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The Bombay Government had requested the Registrar of Co-operative Societies to examine and report, in collaboration with Mr. Vaikunth L. Mehta, Managing Director of the Bombay Provincial Co-operative Bank, on the present position of the Co-operative Movement in the Bombay Presidency and to make specific recommendations regarding the future lines of development, specially with regard to the method of dealing with such of the assets of agricultural societies as have become frozen; the system of education and propaganda, finance, audit and supervision and official and non-official control; and the development of non-credit co-operation. One of the important recommendations made by the Enquiry Committee was with regard to the Bombay Provincial Co-operative Institute. Co-operative education and propaganda will have to be the main function of the Institute, besides the Institute being the focussing centre of non-official opinion on various subjects affecting the Movement and representing it in proper quarters. The Institute is also expected to review once a year the progress of the Movement and make suggestions to the Government. An Education Committee, which will be the Managing Committee of the Institute, will be set up, consisting of eight members, of whom one will be nominated by the Government, one will be co-opted and the Registrar will be ex-officio.

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Three Regulations giving immediate relief to agriculturists are being enforced by a *firman* issued by His Exalted Highness the Nizam. The regulations relate to the establishment of Debt Conciliation Boards, enforcement of Moneylenders' Act and starting of Land Mortgage Banks. Three Bills have been submitted in this connection, and the regulations will be in force till the Bills are passed into Law.

SHORT NOTICES OF BOOKS

Local Autonomy. By G. F. F. Foulkes, 2 Volumes (G. A. Natesan & Co, Madras, Rs. 2).

In these two volumes, Mr. Foulkes of Salem calls attention to more problems than what are commonly included under Local Autonomy. The wastage and stagnation in education, ill-health and malnutrition of the people, the delays of the law, the poverty, indebtedness and the low standard of living of the villager—these are all pointed out with sympathetic insight, and suggestions are made with a view to attain the ideal of a 'smiling and happy countryside'. In particular, the author has high hopes of the Co-operative Movement. He is aware, of course, that it has not fulfilled all the expectations of its pioneers; but he thinks that, properly organised, it can be made the means of saving the future of the country. Many of the defects mentioned and the solutions suggested are well known. What is necessary is an energetic Government, conscious of its power and the co-operation of a willing people, to carry a planned policy into effect. At present, we can be said to have both in several Provinces. The book serves as a reminder (if one is necessary) to the Government and the people of the main factors in the problem of rural reconstruction.

The Tenure of Agricultural Land. By Sachin Sen (The Politics Club, Calcutta, 1937. Rs. 2-8).

The book deals mainly with the tenancy problems of Bengal and champions the cause of Zamindars, who have not at all been rapacious as a class in the view of our author, who is a keen student of land tenures. His contention is that most of the advocates of tenancy reform wish to bolster up the middlemen rent-receivers and not the actual tillers of the soil. Bengal suffers most from the evil of subinfeudation which perhaps justifies several strictures of Mr. Sen.

But we cannot concede that the State and the landlord are the only two agencies that do, or should, provide credit for the cultivator. Peasant proprietors all over the world and in many parts of India are able to arrange for themselves the supply of credit, on terms not less advantageous than from the landlords. Of course, the best organisation from every point of view is co-operation. If this has failed in some places, it does not mean there is no chance of its revival and that the landlord or even the State should rush in and deprive the cultivator of the ownership of land.

Problems of Agricultural Credit in India. By B. B. Ghosh, Ph.D., (Modern Publishing Syndicate, Calcutta, Rs. 2-8).

Most of this booklet is taken up by suggestions as to what the Reserve Bank of India can do to help the agriculturists in getting the credit which they need for production and for marketing. This Bank, the creation of which is hailed as the great landmark in the organisation of credit, has been so far very cautious and even rigid in its interpretations of the provisions under which it could go to the aid of scheduled banks. Among the additional duties and powers suggested for the Reserve Bank are: that it should deal directly with the co-operative central banks (instead of with the Provincial Banks only) which it may audit and control, extend marketing finance for three years, establish warehouses and maintain them from profits or

from special loans, purchase and discount bills directly even in normal times with a view to develop the bill habit, and insist on the Government following a definite agricultural policy!

The data on co-operation are far from up to date, e.g., Bombay and Burma are alone credited with having their own provincial Co-operative Acts. The number and transactions of land mortgage banks are several years behind times. It is not clear what purpose the book serves except raising expectations of the Reserve Bank which has so far been too reserved.

The Socio-Economic Reconstruction of Travancore. By V. Achyutha Menon (B. V. Book Depot and Printing Works, Trivandrum, Re. 1).

The aim of this brochure is to draw up an economic plan which would not only increase the wealth of Travancore but distribute it equitably among all the participants. After an interesting and informative account of the existing economic resources of Travancore, the writer discusses the relative merits of Capitalism, Socialism and Co-operation and unreservedly votes for the last form of enterprise, though he also advocates a degree of State interference and control in which co-operation rarely flourishes. The experience of the movement in Travancore may not be quite assuring. The writer would have done well to have devoted much more attention to the causes of the poor show of co-operation in the past than to the elaboration of the machinery for the future.

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the subject of deliberation by this Conference, specially in the light of the reorganisation scheme formulated by the Government of Bombay.

REORGANISATION OF THE BOMBAY PROVINCIAL CO-OPERATIVE INSTITUTE

The future of your Co-operative Institute is perhaps the most important topic which is now engaging the attention of the Co-operators of Bombay. I find that the Resolution of the Government which practically accepted the recommendations of the Reorganisation Committee, has effected radical changes both in the constitution and function of the Institute. Instead of its membership being open to all types of Co-operative societies and certain individuals as before, it will be confined in future to "District Supervision Boards and all other federations of co-operative societies registered under the Act, except supervising unions and the agricultural credit societies." Its main duty in future will be the imparting of co-operative education to members of co-operative societies and to the workers in the Co-operative Movement. It will be a co-ordinating agency in matters pertaining to co-operative education. In effect it will be a central educational committee controlling local educational committees attached to district supervision boards. Thus the District Branches of the Provincial Institute will be replaced by the educational committees of the district supervision boards and the propaganda officers by the educational inspectors. It is not necessary for me to enter into the details of the composition of the central and the district education committees. Suffice it to say, that the Central Committee is preponderatingly non-official in character, consisting, as it does, of six elected members, four by the representatives of the general body, one by the central banks' association and one by the Urban Banks' association. The Registrar is an ex-officio member. Besides these, I find that one person is to be nominated by the Government, and one to be co-opted by the rest. I do not find any necessity for the nomination of a member by the Government, when the Registrar is already an ex-officio member. Even if the power of nomination is to be exercised by the Government to find a place for a prominent non-official co-operator on the Board, who cannot seek election under the constitution, I do not think that it is desirable to have such a provision. The powers of the education committee of the Institute to appoint educational inspectors is already limited by the scales of pay, qualifications and number of posts being fixed with the approval of the Registrar. So the need for another nominee of the Government is not clear.

Opinion on this scheme of reorganisation is bound to be divided, and any expression of opinion thereon by me must be based more upon my general notions of the constitution and functions of a Provincial Co-operative Institute than on a knowledge of the conditions of Bombay.

Since we organised the All-India Co-operative Institutes' Association in 1928, I have been endeavouring to ascertain co-operative opinion in the various provinces as to the best way of reorganising these Institutes, so as to make all of them effective and accredited exponents of non-official co-operative opinion of the province, besides being the chief co-operative organisations for the imparting and controlling of co-operative education and training in each province. I am glad to find that the Government of Bombay, while laying down that the main duty of the Institute is "Education," also assign to it the following duties: "It should function as a focussing centre of non-official opinion on various subjects affecting the Movement and for representing it in proper quarters. The Institute should have an opportunity of reviewing once a year the progress of the Movement and making suggestions to Government." A wide field of co-operative activity is thus opened to the Institute and I believe the following activities will come within its scope: (1) the protection and representation of common interests, specially in matters of legislation and administration; (2) the development, strengthening and improvement of co-operative organisation and effort in all its branches; (3) the study of co-operative, legal and economic problems; (4) the furnishing of advice and assistance to affiliated institutes on all co-operative, legal and economic questions; and (5) the carrying out of the resolutions of the periodical conferences of the Provincial Institute and other recognised co-operative organisations. If adequate facilities for the discharge of these functions are afforded and necessary financial assistance is given by the Government, I feel that the usefulness of the Institute to this Province will be real. The only other important functions, which I have noticed as being associated with co-operative institutes elsewhere are supervision and audit. Recently, I had occasion to advise a Conference of Co-operators in Bihar where their Co-operative Federation was discharging the function of audit to give up that function and leave it to the Government in the peculiar conditions of the Movement there at present. I see you are thinking of a scheme of audit federation; so I may presume that no one is advocating in this province that the Co-operative Institute should be entrusted with the function of audit. I am of opinion that supervision too should be left to local agencies assisted by the Department. So, I feel that the functions now assigned to the Institute are well conceived and adequate and if properly exercised, will tone up the Movement in Bombay.

The chief merit of the new scheme is that Co-operative Education is definitely entrusted to a non-official organisation with minimum departmental control. Hitherto co-operative education in India has been more or less a close concern of the Department

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Supplement to Vol. IV, No. 2, I.C.R.

THE BOMBAY DIVISIONAL CO-OPERATIVE CONFERENCE

Bombay, 26th June, 1938

PRESIDENTIAL ADDRESS

BY

THE HON'BLE V. RAMADAS PANTULU.

BROTHER CO-OPERATORS,

Permit me to thank you for your generous invitation to me to preside over this Conference. I need hardly say how greatly honoured I feel by your choice. But I accepted your invitation with a certain amount of hesitancy for two reasons; firstly, because this Conference is convened to consider some essentially local problems arising out of the report of a Committee composed of an official and a non-official expert, over whose conclusions I am hardly competent to sit in judgment and secondly because, the Conference represents urban co-operative interests which have features that differ markedly from those of the urban movement in my province. I may therefore be pardoned if I do not come up to your expectations or fail to give you a useful lead.

It is a matter for regret that the report drawn up by the Registrar and Mr. V. L. Mehta has not been made available to the public, who are left to gather the recommendations of the Committee from the resolutions issued by the Government thereon. The task entrusted to the Committee, namely, to study the working of the movement and make recommendations for its reorganisation, was a very onerous one; and it would have been more satisfactory if the procedure prescribed by the Government provided for the Committee receiving evidence or holding consultations with Co-operators of standing and experience in the province. I also wish that the Committee had been a little larger. But judging from the resolutions of the Government, the report of the Committee must have been a very businesslike, lucid and helpful document. The thanks of the Co-operators of this province are due to the Registrar and Mr. Mehta for the great knowledge and experience they brought to bear on the subject matter of their enquiry and for the valuable services they have rendered to the Movement in this province.

I do not propose to make a general survey of the conditions of the Urban Movement in the city of Bombay and its suburbs, nor attempt to make any suggestions for its improvement; I shall confine myself to a brief consideration of some specific questions which are likely to form and run under official aegis. In no country in the world, except India, is co-operative education run by the Government, and the change of policy in Bombay is therefore welcome. But the spirit of reorganisation, namely, transfer of co-operative education to non-official agency, must be observed in practice. In Madras we have the humiliating spectacle of the department providing the superintendent of the educational or training institute conducted by the Provincial Co-operative Union, which appoints other lecturers, who are recruited from the ranks of non-official educationists with university and technical qualifications. Often times, the departmental inspector or Sub-Deputy Registrar who is the head of the training institute is inferior to the other teachers in status and qualifications from academical, social and other standpoints. I hope when selecting the staff, your central educational committee will not be asked to take the services of departmental subordinates as teachers in your schools and much less as their headmasters.

In regard to the future composition of your Institute also, I think the views of your Re-organisation Committee and of the Government are on the whole sound. The Provincial Institute is best constituted as a federal body consisting mainly of other federal units, instead of being a central institution with unrestricted membership of all the primary and secondary bodies.

The question of finance of course is of great importance. Your income from membership fees is bound to go down considerably on account of this restriction on membership. The half a dozen sources of income indicated by the Government in paragraph 11 of their resolution dated 27th January 1938 may or may not be sufficient to enable the Institute to function effectively as the chief educational agency and the exponent of accredited non-official co-operative opinion. I think the Government is committed to pay only one half of the pay of the educational Inspectors, subject to a maximum of Rs. 18,750. The extent to which your institutions can tax themselves for co-operative education, is a matter for decision by themselves. But I think co-operative education should be substantially subsidized by the Government and that the co-operative societies, which are not doing too well at present, should not be taxed to any considerable extent. Recent tendency of some of the Provincial Governments has been to greatly reduce the grants to the Co-operative Institutes. In Madras we never had any. In Bengal, they seem to have withdrawn the grant in toto. In Bombay, I find there has been considerable curtailment for some years past. The first step in the process of genuine de-officialisation of the Movement is to strengthen the Provincial Co-operative Institutes by enabling them to function effectively and placing adequate funds at their disposal for the purpose.

The Government must realise that a central non-official organisation like a well-conducted Provincial Co-operative Institute is at least as necessary for the healthy development of the Movement as the Registrar himself.

REFORM OF THE AUDIT SYSTEM

The reform of the audit system is perhaps a subject of equal importance and interest as that of the Co-operative Institute. Audit is one of the best safeguards for the proper working of the co-operative credit organisations. I regret to say that co-operative audit has really not yet been put on a satisfactory basis in any province in India, in spite of the experience gained in the last three decades. There is no uniformity in the system prevailing in the several provinces. I have therefore considered it necessary to collect in the current issue of the *Indian Co-operative Review* articles on the system of co-operative audit in the various provinces, to enable the student of co-operative audit to study the problem from a comprehensive all India point of view.

Perhaps the first question to be considered in connection with co-operative audit is whether it should be done by a purely official agency, i.e., directly under the Government, or whether it should be by a non-official agency, controlled of course by the Registrar, in the discharge of his statutory duties under the Co-operative Societies Act in force in the province. There is wide divergence of opinion in regard to the relative merits of Government audit and audit arranged by societies through their own federations or otherwise. At one time, we were enthusiastic over the formation of audit federations in Madras. A few of the audit federations then started are still working successfully with departmental sufferance. In the wake of the depression and the many abuses that have crept into the working of the societies, the enthusiasm of non-officials for taking up the duty of audit, through federations of societies or other non-official agencies, has become considerably chilled. There is a general tendency to shirk the responsibility and a desire to leave it to the Government. The quality of the audit obviously depends upon the qualifications and equipment of the auditor for the work and the nature and extent of the control exercised over him. I have taken some pains to study the work of the auditors in several parts of India. I am of course more familiar with the conditions in Madras than elsewhere. But my general impression is that the quality of the audit staff employed either by the Government or by the audit federations is generally not up to the mark. Recruitment, even by Government, is often made not on grounds of efficiency and merit but on other considerations. Moreover, the idea that those who are responsible for the due exercise of administrative control to ensure the proper working of the societies should not be themselves responsible for their audit has not been accepted as a desirable maxim by the Provincial Governments. In provinces where audit is entirely under Government control and done by the Registrar's paid staff, as in Madras, the auditors are also the subordinates of the district co-operative officials, who are responsible for the proper working of the societies. I cannot accept their audit as "independent" in the sense in which it ought to be. It is subject to the infirmities which audit by societies' federation is, for the incentive to expose the defects in working of the societies frankly and fully is curbed, by the feeling that such exposure might react unfavourably on the administrative staff which is in a way responsible for prevention of the violation of byelaws and rules of business. In the course of my inspection of certain financing banks in the province of Madras, in my capacity as President of the Provincial Co-operative Bank, I have come across cases where obvious and glaring defects in the financial working of societies have not been brought to light by departmental auditors. It may be by oversight, nevertheless it is regrettable. If the audit staff of the Registrar discharged their functions fearlessly and effectively, many of the officers in administrative control of the societies concerned might have found themselves in trouble. This is the gravest drawback in the present system of Government audit. If Government is to continue to audit, I am decidedly of opinion that the Registrar's audit staff should be entirely liberated from the control of his administrative staff and something like the system of audit of local bodies by independent government staff should be evolved. If this is done and if the scale of fees prescribed for audit by Government is framed with due regard to the ability of the societies to pay and in a just and equitable manner, mainly on the basis of the time occupied and labour involved in the audit of the society and not on basis of the working capital or turnover, I think, in the present conditions of the Movement in the several provinces, audit by Government staff may be preferred. But the auditors who are to handle central banks and large urban banks should not be mere departmental Inspectors, but must be recruited from the ranks of the registered auditors. Those who deal with the minor societies, who are described as sub-auditors by your Re-organisation Committee, may be departmental men with sufficient knowledge of banking, book-keeping, accountancy and audit.

The recommendations of your Reorganisation Committee on the subject of audit are well worth giving a trial. The Government do not seem to have passed any definite orders on those recommendations, pending the receipt of detailed proposals from the Registrar. The recommendation of the Committee relating to the audit federation is thus set out in the Government's resolution :

"The Report suggests the formation of an Audit Federation of Urban Banks and Societies in Bombay with a view to its extension to other areas. The Federation is to appoint an audit staff and be responsible for the audit and inspection of Urban Banks in C and D class and all Urban Societies with the exception of salary earners' societies in A and B class and is also to inspect Urban Banks in A and B Class".

I understand that your Enquiry Committee suggests the restriction of the use of the word "Bank" to societies which do the business of banking as defined in section 277 (f) of the Indian Companies Act and have a paid up share capital of not less than Rs. 20,000. The rest are called societies. I believe that is the sense in which the words "bank" and "societies" are used in the extract from the resolution of the Government quoted above. I have gone carefully through the model byelaws of the proposed audit federation. But I am unable to form any precise opinion on the financial implications of the scheme. The funds of the federation are derived from the affiliation fees and annual contributions paid by the affiliated banks and societies. On what basis they will be ultimately taxed and whether the sums collected will be adequate to reasonably remunerate a qualified audit staff of adequate size are matters on which I can express no opinion without closer scrutiny and more information. Until byelaws 27 and 28 of the proposed audit federation are completely drawn up, no information on the subject will be available. I welcome this experiment on the whole. The quality of the societies, the staff employed by them to maintain their books, and the human material available to generally supervise the work of the societies in the city of Bombay and its suburbs, are factors which ought to contribute to the successful working of the scheme of audit by a federation of the kind proposed. But until we gain experience of its working, we need not attempt to extend the scheme to other urban areas of the province. The recommendations of your Enquiry Committee in regard to reorganising of audit by division of societies into those with a share capital of Rs. 2000 or less, those with share capital of over Rs. 2,000 up to Rs. 20,000 and those with a share capital of over Rs. 20,000 and the division of the audit staff into sub-auditors, auditors and special auditors are of a far-reaching character. But, I am not in a position to express any definite opinion in regard to it. I am in general agreement with their recommendation about the need to attach a chief auditor to the Registrar's office "to examine and take action on audit reports and to adopt proper remedial measures to deal with cases of breach of provisions of the Act, Rules and Byelaws. I am also in general agreement with the suggestion that qualified professional auditors should be employed by the Registrar for the audit of A & B Class Central Financing Agencies and A & B Class Urban Banks and salary earners' societies with a share capital of over Rs. 20,000 in Bombay area. We, in Madras have been asking for a similar arrangement for years without success.

CO-OPERATIVE HOUSING SOCIETIES

Bombay had given the lead to other provinces in the matter of co-operative housing societies. But I am distressed to hear that the housing societies formed on the co-partnership basis—a special feature of the Bombay system—have on the whole not succeeded here to any appreciable extent, whatever may be the causes. The idea with which such houses were built, namely, that the members themselves should become owners thereof in course of time, does not seem to have been realised. So, the problem to be faced appears to be how to get the loans contracted for building such houses, duly discharged by the members occupying the tenaments, so that they may eventually acquire ownership therein. One mode of relief that I can think of is a substantial reduction in the rate of interest and extending the period of repayment. Loans to members of building societies are now given in Madras at 5 per cent. I hope some effort will be made to induce your Provincial Government to reduce the interest rate at least to that level on old as well as new loans. Your present average rate of 5½ per cent is too high.

I would like to say a few words in regard to housing societies for the working classes. I dealt with this question at some length in my presidential address to the second Dadar Co-operative Conference held at Bombay on the 23rd February 1929; and not much progress seems to have been made since then by way of providing the working classes with suitable housing accommodation. It is not necessary to describe to a Bombay audience the misery of workers' life in the chawls, slums and tenements into which they are crowded. Nor is it necessary to point out that the efficiency of labour, the birth and death rates among workers and other socio-economic conditions which affect industry depend on the amenities which the working classes enjoy in regard to housing, among other factors. Both the State and the employers owe it to the labouring classes to improve their housing conditions. This object, I feel, can be best secured by economic co-operation between the State, the employers, the public and the workers. In Madras a Co-operative Building Scheme for textile workers promoted by Mr. T. A. Ramalingam Chettiar, M.L.C., an eminent co-operator and enlightened employer of textile mill labour was recently inaugurated at Coimbatore by the Minister for Labour, the Hon'ble Mr. Giri. Under this scheme, the employer, the public and the workers make contributions to share capital of such society in certain proportions. This investment will yield a reasonable dividend. The Government advances loans to the extent of four times the paid up share capital. The workers, who are the beneficiaries, will become owners of the houses in the course of 20 or 30 years by liquidating the loan. So, the capacity of the society to borrow from the Government will depend upon the amount of share capital invested by the employers, the public and the workers. If 20 per cent of the entire cost of the buildings of a society is thus collected by way of share capital, the other four-fifth can be obtained by way of a loan from the Government. The Society will be managed by a Board, on which the beneficiaries (workers), the employers and the Government will be represented in some proportion. I recommend this scheme for your examination and for ascertaining whether it will suit your conditions. I have suggested certain other schemes of financing house building societies for workers in my address to the second Dadar Co-operative Conference (1929), to which I have already referred; I invite your attention to them.

I find a suggestion that the surplus funds of some of the Urban Societies, like the salary earners' societies, might be made available for house construction purposes for their members. These loans being essentially of a long term nature, I do not consider it wise or advisable, from a sound banking standpoint, to invest much surplus funds in schemes of house construction. It is risky.

The question of linking up house building schemes with insurance on the model of British Building-Cum-Insurance schemes may also be usefully examined by you.

CO-OPERATIVE INSURANCE

Among the non-credit activities of the Co-operative Movement, Co-operative Insurance deserves to occupy an important place and its benefits and potentialities should be better known. An Insurance Society working on co-operative basis is never a superfluity in spite of the host of well-established and large joint stock concerns working in this country. The method of approach and the benefits secured to the policy-holders widely differ in the joint stock and the co-operative types. Take for instance Life Insurance, a field of insurance on which "Co-operation" has already entered. The aim of a Co-operative Life Insurance Society is to give the maximum benefit to the policy-holder at the minimum cost by elimination of dividend to shareholders among other things. Its essential co-operative character can however be secured only when it functions with the aid of other co-operative institutions, thereby cutting down, to a large extent, the agency and organisation expenses, a saving which naturally goes to swell the bonus that is paid to the policy-holders.

The successful working of a Co-operative Life Insurance Society and its rapid development will depend largely on the volume of support it receives from its sister co-operative institutions. Every member of a co-operative society ought to be told that to obtain cheap credit is not the sole object of co-operation and that a co-operative society does not exist merely to enable its members to borrow. The habits of thrift and methodical saving must be inculcated among our members; and in a village, where generally there is no bank or other savings institution, a co-operative society is the only agency which can successfully make the residents of the village realise the value of saving and thrift. If the villagers are educated in the benefits of Life Insurance and systematised saving to ensure the regular payment of their premiums, the village Co-operative Society would render economic and social services of great value to its members.

The Urban Banks, especially, can ask their borrowers to take out Life Insurance policies from your Co-operative Life Insurance Society, either on the Whole Life or Endowment plans, when loans are sanctioned, and have the policies assigned in favour of the lending Bank as collateral security for the loan. In the case of those who can afford to repay the loan punctually, the assignment of the policy in favour of the Bank, if continued, will serve as security for the members' subsequent borrowings. In course of time, the Life Insurance Policy would by itself serve as tangible security by acquiring substantial surrender or paid-up value, in which case the Bank can dispense with a surety. Apart from these considerations, the Bank would also have done an economic service to the member by steadily increasing the value of his assets, without his realising the service that the Bank is doing him. It would not only have helped him to borrow at a cheaper rate, but also to save and put by something, which he would not have otherwise done. I am therefore glad to hear that the Bombay Co-operative Insurance Society has popularised the scheme among the members of co-operative societies, specially, the salary earners' societies. I have no doubt that the advantages of insurance to the borrowing members will be increasingly realised with the progress of the Society's business among them.

For the successful working of this scheme, it is essential that the Banks should see that the policies are kept in force by their borrowing members, since a lapsed policy until it has acquired tangible surrender or paid-up value, is practically worthless as a security. For this purpose, the lending Bank should collect both the interest on the loan and the premium on the policy, and itself arrange for payment of premium on the policy, to the insurer. Every Urban Bank should, under this scheme, open an "Insurance Premium Account" and make every member to remit into that account monthly, quarterly, half-yearly or yearly a particular sum, so that the total of the saving for the period, might

cover the instalment of premium payable on the policy for that period. Some interest may also be allowed on these periodical deposits to encourage members to develop this habit, and in cases where a member fails to remit the full amount of the instalment of premium payable on the policy, the Bank might advance the balance with interest at one or two per cent over the rate offered on the deposit, and thus keep the policy in force. If a scheme of Savings and Thrift deposits is developed, as suggested in the resolution of the Government dated 15th March 1938, the question of paying the premiums from the savings deposit account may be considered.

Land Mortgage Banks also can very usefully adopt this system of getting Insurance policies of their borrowers assigned as collateral security for the loans borrowed. The value of Life Insurance policy as collateral security will be seen markedly in the case of Land Mortgage Banks, since the period of the loan is long and the chances of the borrower dying before the loan is liquidated are greater, than in the case of the Urban Banks, where loans will be for short periods. If after paying three or four instalments the borrower dies leaving a major portion of the debt undischarged, the insurance policy will cover the loan and thus relieve the members of the deceased's family from the liability to pay the loan to the Land Mortgage Bank. Two schemes of linking Land Mortgage credit with Life Insurance which may be thought of are: (1) amortization or diminishing debt insurance and (2) ordinary Life Insurance under an endowment policy, co-extensive with the original period of the loan.

It will be easily seen that a well-developed Life Insurance Society, with its huge life funds, can effectively cater to the long term needs of the agriculturists. By proper planning it can either directly discharge the functions of a Land Mortgage Bank or can find funds for the Land Mortgage Banks' loan transactions. I should like to ask whether it is not, for instance, possible for the Oriental Life Assurance Co., with an annual income of some crores, to invest every year about Rs. 25 lakhs in this presidency in long term credit to the agriculturists, through a suitable agency like a Land Mortgage Bank. If India possesses a powerful Co-operative Life Insurance Society with large life funds, the Movement need not go and borrow in the open market for all its long term requirements. At least a portion of such requirements can be supplied by the Co-operative Life Insurance Society.

There are now three Co-operative Life Insurance Societies working in India, at Bombay, Madras and Calcutta. I feel that amalgamating them into one single organisation with branches in each Province is a better and more feasible idea than to federate them into a central or

Apex Co-operative Insurance Society. The idea of Federal structure involves the existence of federated units as independent bodies with specified and exclusive areas of operation. Two societies with co-extensive jurisdiction, like the Madras and Bombay Societies, cannot be usefully federated. Unless there are at least four or five strong Provincial Life Insurance Societies, each functioning in its own province, the idea of a federal organisation becomes impracticable. Moreover, even then there should, in practice, be common tables for premium rates and agency commissions and identical terms and conditions of policy contracts for the federated units, for the smooth and efficient working of a federal All India organisation, though it may not be legally essential. If the existing societies are amalgamated, in the course of a few years, with the vast Co-operative Movement at its back, the All India Life Insurance Society is bound to make rapid progress and will be in a position to beat the records achieved by its commercial competitors, much older than itself. The huge life funds built up by such a society can be successfully diverted once again to finance the rural and urban co-operators. Under such a scheme of amalgamation, the funds of the amalgamated units may be kept circulating in their respective provinces for the benefit of the co-operators of the Province.

I am of opinion that there should be two separate organisations one for Life and another for General Insurance. The reason is not far to seek. Under the Insurance Act, Co-operative Life Insurance Societies get some special privileges, which they will lose if they do business other than Life Insurance. Firstly, a Co-operative Life Insurance Society, if it confines itself to life, can write on its books policies of Rs. 500 and below, and it will be found that most of the rural folk can only avail themselves of such small policies; secondly, notices of general body meetings of such a Society need not be posted individually to all its members, but can be published in newspapers in the manner prescribed by the New Act. Moreover, even in a combined society, the life fund should be segregated and accounted for separately. Again share capital is not essential for a Co-operative or Mutual Life Insurance Society and under the New Act, it cannot have share capital on which dividend or interest or profit in any other form is payable. The policy holders enjoy the benefit of the absence of dividend on external capital in the shape of higher bonuses. But in the case of other kinds of Co-operative Insurance like fire, industrial accident, motor transport or fidelity guarantee, the backing of a substantial volume of share capital or debenture loans is necessary, the period, nature of contract and other factors being different.

An important question which must be engaging the attention of the Co-operative Life Insurance Societies of Bombay and Madras is whether

they should extend their area of operations to provinces other than their own. In the absence of an all India Society on the lines suggested by me above, I do not see why a Co-operative Life Insurance Society should be prevented from doing business in provinces other than that in which its registered office is situate, while every commercial concern is given that privilege. The larger the area of operations, the stronger will be the position of the concern. But no co-operative insurance society should approach the co-operative organisations of another province, where there is a co-operative insurance society. The co-operative institutions in each province should only be approached by the Insurance Society of that province. With this reservation, they may function all over India. We may however consider the desirability of starting a re-insurance society on co-operative basis to prevent our business from going to capitalistic concerns. In the alternative, we may try to bring about co-ordination between the existing Co-operative Life Insurance Societies in regard to re-insuring with each other. Many technical details have to be settled to effect this.

Special provision is made in the New Insurance Act for the establishment of Insurance Societies for crop and cattle. The Local Governments are empowered, subject to such rules as the Central Government may make to enable their Registrars to register such societies, which will be governed by the rules framed by the Local Government and not the provisions of the Insurance Act. I hope co-operators will take advantage of these facilities.

CO-OPERATIVE TRADE

Of late, I have found a growing tendency among co-operators of a desire to combine co-operative trading with co-operative banking. Propaganda in favour of multi-purpose societies has given further stimulus to this tendency. The success of Raiffeisen Societies in Germany tempted co-operators there to tack on trading activities to them. Raiffeisen himself strongly advocated the taking up by credit societies the activities of the creameries. But opponents of Raiffeisen like Haas and others successfully stemmed the tendency of co-operative credit organisations branching out into other lines of activity, specially trading. Later experience of German co-operators had shown that many of the credit banks which engaged themselves in a multiplicity of such activities came to grief. I am, definitely against ordinary co-operative credit banks extending their sphere of activities to trading. Consequently, I do not advise your Urban Banks to extend their spheres of work to purchasing and selling commodities for their members. These functions are best discharged by separate co-operative organisations.

THE INDIAN CO-OPERATIVE REVIEW

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Your Enquiry Committee has dealt with a scheme of a central co-operative purchase and sale society and district or divisional purchase and sale societies. Where sufficient number of societies dealing in an important money crop exist and are able to provide adequate business for a central agency, a central society to act as agent for such societies may indeed be a useful organisation. But the risk involved in purchase and sale transactions due to fluctuations in price are real. But they can be eliminated. Your Committee rightly point out that adequate safeguards on business lines and expert advice are necessary to eliminate such risks.

Your Committee point out that a provincial or a large central purchase and sale society should have a large share capital, that its outside borrowings should be restricted to twice the share capital and reserve fund and that it should be able to make advances to traders and societies doing business with it at a rate not in excess of the Bank Rate by one or two per cent. Speaking for myself, I do not think that a central purchase and sale society on these lines can be successfully organised in Madras. But, Bombay is different from Madras. If necessary share capital from the members and the requisite credit from outside are forthcoming, the experiment is worth trying, and if the experiment succeeds, its economic benefits will be real.

CO-OPERATIVE MOVEMENT AND TRADE UNIONISM

The organisers of the Conference have intimated to me that the question of the relations between the co-operative organisations and trade unions might be brought up before the Conference, evidently to know my views in the matter. It is a subject on which it is not easy to pronounce an opinion off-hand. But it is well known that in the West, particularly in England, the trade unions and co-operative organisations maintain friendly relations and have much in common between them in their struggle against capitalism. In demanding equitable treatment to labour and the consumer by the capitalist producers, co-operatives as well as trade unions have worked together. Not only in Bombay but also in Madras and elsewhere there are co-operative societies of different types organised for the benefit of workers employed by mills, factories, railways and other concerns. Their organisation, audit, inspection and even supervision is done by the Co-operative Department and these societies have integral relations as well between non-official co-operative organisations both on the propaganda and the financial side. Members of these workers' co-operative societies are also members of trade unions. But there has been no co-operation between the co-oprative societies as such and the trade unions, in spite of their common membership. So far as ameliorative work is concerned, there can be no question that the two

movements should help each other. I would certainly advocate the development of closer relations between the co-operative movement and the trade union movement. After years of conflict, the question was settled in the West by the International Socialist Congress held in Copenhagen in 1910. That Congress passed the following resolution: "The working class in its struggle against capitalism has a vital interest in seeing that workers' unions, co-operative societies and the socialist party, while pressing their individual identity shall be united by a relationship which becomes increasingly close day by day." In a later Congress held in Hamburgh this declaration was affirmed—Vide *Consumers' Co-operation* by Charles Gede, pp. 222-223.

This collaboration between the Co-operative Movement and Trade Unionism, if carried to its legitimate conclusions, will require co-operative societies to stand by the workers in their demands against the employers, when a conflict between them arises. They do in the West. In several places, trade unionists are enjoined to be co-operators and co-operators trade unionists. A condition of employment by C. W. S is trade union membership in a society recognised by the Trade Union Congress. A writer on British Trade Unionism says: 'the relations between the two movements are very cordial and the Unions have received valuable assistance from co-operative societies *during trade disputes.* I realise the difference between conditions in the West and our conditions. Co-operative Movement there is largely a trading concern, consisting of producers' societies and consumers' societies. Therefore close relationship between the labour movement and the co-operative movement is a natural outcome of such conditions. The case is different here. Nevertheless, I think the fundamental principles of Co-operation and the real foundations of our organisation require that we should associate ourselves more largely with the working class movements and support trade unionism. Trade unionism is now recognised both by the Government and the employers. Both Movements aim at eliminating the conflict between capital, labour and the consumer. So, speaking for myself, I feel the Co-operative Movement should declare itself to be an ally of the trade union movement in this country.

Service to the masses is most effectively rendered through the ideal of Co-operative Association, and we co-operators therefore must put forth our "continuous effort to maintain the vitality and fruitfulness of union."

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