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Editorial Notes.

Rural Uplift Department in Bombay.

The Government of Bombay are to be congratulated on their having evolved a comprehensive scheme of Rural Development. The Registrar of Co-operative Societies is to be the Director of Rural Development and he would be helped by Board consisting of the heads of the Agricultural and Industries Departments for expert advice and another Board consisting of some non-official rural workers for consultation. In Madras with its 13,000 societies as against 5,000 in Bombay it is difficult to say whether the Registrar, whose normal duties are already heavy, can also assume the function of a Rural Development Commissioner. Modifications suited to this Province may have to be made.

The Board will be in charge of agricultural production, marketing of agricultural produce, organisation of supplies to rural population and so on. Each district will have a similar Board, a Board of experts that will be a part of a large Committee consisting of officials and non-officials. At the bottom of this pyramidal structure there will be a village worker in charge of the local co-operative society, the village panchayat and other organisations working for the welfare of the village. The Government contemplate to train workers

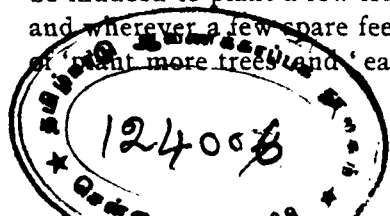
in five different centres of the province and these workers are expected to settle down in villages and get themselves worked into the scheme of village life as an integral part thereof within a period of five years.

It is a matter of gratification for us co-operators that in this scheme of Rural Development co-operative societies play a very prominent part. For credit, for sale of agricultural produce and for the purchase of the requirements of the agriculturists the co-operative societies are to be the media. We hope a similar organisation will be brought into existence in our province as well. The co-ordination of the activities of the reconstituted statutory Village Panchayats with those of Co-operative Societies may well be a feature of the Madras scheme. We shall watch with interest the success of the experiment in our sister province of Bombay.

A much-neglected side occupation for the agriculturist.

It is calculated that India imports fruits, raw or canned, jams and jellies to the extent of Rs. 17½ lakhs every year and most of them come from U. S. A., Australia, South Africa and Japan. India with its millions of acres and its climate of every possible variety should be in a position to be autonomous at least with regard to this small item of food of its population. In recent times with the progress of research in nutrition the importance even from economic point of view of properly balanced diet has been recognised. A vigorous campaign should be organised to make people eat more fruits and as a preliminary to that an equally vigorous campaign should be organised for growing more fruit trees. The plains of India may not be quite suited for the growth of apples, but oranges we must grow in plenty and there are other indigenous fruits like the plantain, the mango, the jack and the pineapple which must be grown in large quantities and be made available to the masses.

We co-operators have got a duty to perform in this respect. We are mainly concerned with the masses of the people who are agriculturists and the growing of fruit trees will be a very useful subsidiary occupation to the peasant. Even if it is not organised on a commercial scale as is being done under the guidance of the Agricultural Department at Kodur and other places the average villager might be induced to plant a few fruit trees in his back-yard and front-yard and wherever a few spare feet are available. An organised campaign of 'plant more trees' and 'eat more fruits' should be undertaken by



co-operators and it should be carried on vigorously till we no longer depend upon foreign countries for our fruits.

Co-tours.

This is rather a new word but it deserves to be popularised throughout the co-operative world. It stands for co-operative tours arranged by co-operative societies for the benefits of its members.

In England there is a company called Travco Camps Ltd. registered under the Industrial and Provident Societies Act, and owned by the Co-operative Wholesale Society and the Workers' Travel Association. Last year they ran a camp near Lowestoft called Roger-son Hall Camp, and during the period of seven weeks it was open as many as 1,300 guests availed themselves of the facilities for camp life. Co-operative spirit runs throughout the enterprise. Retail societies carry on a thrift campaign among their members and the savings thus effected together with the dividends on purchase enable the members to avail themselves of the holidays. Holiday camps are run by co-operative organisations which are not only "jolly" on account of people of the same status and general outlook of life assembling together in large numbers, but they are "jolly cheap" because they are run on co-operative principles for the benefit of the consumer and there is no exploiting agency. An attempt is made to forge another link in the chain by establishing what is called the C. W. S. Travel Service so that a member by means of money saved through co-operative organisation can travel in a co-operative bus to a co-operative camp and spend a few days of holidays there in an atmosphere charged with co-operation.

This raises in us some longing for a similar organisation for the benefit of the co-operators in our country. Holiday camps in hill stations which enjoy a salubrious climate is now a thing of luxury open only to the few rich; but it need not be so. The benefits of a fortnight's stay in the salubrious climate of Ooty or Kodaikanal ought to be made available even to the ordinary man and that can be done only if holiday homes in the hill stations are organised on a co-operative basis.

It may not be possible, taking the circumstances in our country into consideration, to organise the whole thing co-operatively as is being done in England. But proceeding on the lines along which many city offices have organised lunch homes for themselves it must be possible for us in this province to organise a co-operative home in the hill stations where boarding and lodging may be arranged to be

within the easy reach of its co-operator-members of the province. An institution like the Co-operative Insurance Society which is interested in the well-being and longevity of the members may think of investing a portion of its life fund in a building in the hill station which might be utilised for the lodging of this co-operative holiday home. It is a line of development which is full of possibilities for the betterment of our life both physically, socially and economically and we hope co-operators of our province will give to this topic the attention it deserves and make a co-operative home in the hill station an accomplished fact in the near future.

The West Godavari Co-operative Conference.

Sri P. S. Kumaraswami Raja who presided over the 9th West Godavari District Co-operative Conference held at Relangi last month has touched upon some of the most pressing problems of co-operation, in a somewhat original manner free from shackles of mere book learning and basing his remarks upon his practical experience as a worker in the field. His address which is printed elsewhere will repay careful perusal.

We are glad that he started with the enunciation of the fundamental idea of unity of life without which co-operation becomes practically meaningless. Though he was aware of the limitations of the movement, he was charitable enough to state that the movement has been a success though not to the extent anticipated, and therefore pleaded for the expansion of the movement having faith in its potentiality.

He hit the right nail on the head when he stated that the true test of success was the proper working of the village co-operative societies. Indian villages, he showed, were the real cradles of co-operative activities though not technically so named; he contrasted the working of an indigenous banking enterprise in a village he knew with that of an ordinary co-operative society which is looked upon as extraneous institution and whose working is characterised by delay in the granting of loans, benami transactions, and default in payment of dues. He pleaded for still further development of the credit side though marketing and other aspects that are now in fashion have their own place in the economy of the village agriculturists. He visualised the day when co-operative organisations would grow so as to serve every economic need of the villager.

Rural reconstruction he advocated and co-operation in his opinion was the best agency for effecting it. But there must be a

separate organisation for co-ordinating the ordinary village agencies engaged in the uplift work and he pleaded for the creation of a department in sole charge of this work as in the scheme contemplated in Bombay. He did not neglect the development of the movement in urban areas. He pleaded for freedom in the organisation of the administrative machinery and in the working of societies according to the local needs and conditions. He suggested that instead of an extraneous agency going from village to village and trying to induce the villagers to join the co-operative movement, the village schools should be made effective agencies for co-operative propaganda. There is much to be said in favour of this idea.

We congratulate Mr. Kumaraswami Raja on his thoughtful address full of practical suggestions born out of his experience as a sincere worker in the field.

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Bombay Debt Relief Bill and the Co-operative Movement.

Elsewhere is printed in this number the speech of Mr. Saraiya, the chairman of the Board of Management of the Bombay Provincial Co-operative Bank, Ltd., Bombay. The speech was delivered at a meeting of the representatives of the Central Banks of the Province which was convened to discuss the question of the implications, so far as the co-operative movement is concerned, of the bill which the Bombay Government are introducing for the relief of the agricultural debtors in that Province.

Co-operative Societies are not exempted from the operation of the Act to be; only, the societies themselves are to state in consultation with the Registrar how far they will scale down the debts due to them by the agriculturists. For the rehabilitation of the agriculturists who have been brought within the scheme of relief, the Government have undertaken to invest 20 lakhs of rupees in Resources Societies of the province with a view to enhance the working capital of these societies so as to make necessary credit available to the agriculturists.

Mr. Saraiya in his informing speech is not satisfied with these indications of the support of the Government to co-operative societies. He wants that the Government should make co-operative societies their bankers and invest their monies with them and thus make more money available to the movement. He further wants that the Government should make good any loss to the movement which may be incurred through no fault of any co-operative institution, but as a result of the debt-adjustment policy of the Government. His third

request is that the Government should announce that the financing agencies of the co-operative department have Government's backing. This has already been anticipated by the Finance Member who in his budget speech gave that assurance.

In appealing to the Government to make co-operative central banks and the Provincial Bank as their bankers and to place at their disposal loanable capital, Mr. Saraiya quoted the example of the America, England and Bulgaria. But in all these countries the capital invested by Government for agricultural relief is more for the redemption of prior debts. The various Provincial Co-operative Enquiry Committees as well as Banking Enquiry Committees have made it quite clear that the co-operative credit organisations as they are at present constituted are capable of handling only short term credit or at best intermediate credit extending over five years. Long term credit is to be dealt with as an independent subject by a special agency constituted for the purpose, i.e. land mortgage banks. If successful land mortgage banks be working in a Province and if they tackle the sole problem of prior indebtedness, we have no doubt the Government will come to the help of such banks as they have done in our province by guaranteeing the principal and interest regarding any debentures that these land mortgage banks may float. But we think that it may not be possible for Government to convert the existing Provincial and central banks as their bankers and make more loanable capital available to them for short term credit. Even as it is, these banks are able to attract enough capital for all ordinary purposes and the undertaking by Government to subscribe 20 more lakhs of rupees which would enable the working capital of the movement to be increased to 10 times that amount or about two crores is all that may be expected from provincial governments with their limited resources and numerous calls on them.

The Bombay scheme of Agricultural Relief coming as it does after the various experiments in that direction by other provinces is a little more comprehensive and we shall watch with interest the working of this experiment in our neighbouring province.

The Co-operative Enquiry Committee, Madras.

The Co-operative Enquiry Committee, Madras, held their second session at Madras from 9th to 20th of May 1939. Unlike the April meetings at which they discussed certain fundamental aspects of Co-operative problems only, and that in a general way, at these

meetings the Committee discussed problems and arrived at certain specific conclusions.

On the first day they discussed the problem of what part the co-operative movement can play in a general plan of the village uplift. There were those who held that all aspects of village work could be brought under the ambit of the co-operative movement; while some differed and held the view that the co-operative movement has its limitations and that only a statutory village panchayat empowered to levy taxes that could tackle the problem. The discussion gave an opportunity to Dr. Pattabhi Sitaramiah to expound the ideology of the rural uplift from what may be called the national point of view. He was of opinion that courts, councils and colleges are the creation of the Britisher and these have been responsible for the migration of the rural population to towns; he advocated rehabilitation of village life and making it simpler, healthier and more self-sufficient.

Mr. K. Bhashyam's proposition that all villagers must be compelled to join the village co-operative society was the next subject taken up for discussion. Compulsion, it was argued was the very negation of the fundamental principle of co-operation, and that a co-operative society in which the people were compelled to join would become another state department. After some discussion this proposition was negated by the Committee.

Dr. Pattabhi Sitaramiah's proposition that mortgage of land be permitted to co-operative societies only, was opposed by some eminent co-operators who held that this will upset the present village economy and that it was not possible to dispense with the non-co-operative lending. This proposition also was negated after some discussion.

The next important question discussed was the control and regulation of money-lending. The outline of the scheme which was placed before the Committee for its consideration is as follows:—

- (a) Land is to be made security for loans by land mortgage banks to clear prior debts;
- (b) Produce could be pledged only to village societies for raising money for immediate agricultural purposes;
- (c) Loan on produce and selling the produce through loan and sale societies are to be encouraged;
- (d) There should be scaling down of debts;

- (e) The Civil Procedure Code and the Revenue Code should be suitably modified and more items belonging to the agriculturists should be made non-attachable;
- (f) There should be a simpler Rural Insolvency Law; and
- (g) Debt Conciliation Act to be utilised more than at present.

The above scheme was discussed at some length and the Committee came to an agreement on all these matters. As they came to the conclusion that private money-lending could not be completely dispensed with, the Committee agreed that there must be compulsory licensing of money-lenders and that accounts should be maintained on the model of the Punjab Act.

The next important point discussed was the re-organisation of the agricultural credit societies. Mr. V. Ramadas Pantulu submitted a scheme the main features of which are:—

- (1) That more societies should be organised so that every one of 50,000 village in our presidency may have a co-operative society either in itself or in the area of the group within which the village is included;
- (2) that existing societies should be strengthened by the enrolment of more members;
- (3) the provisions in the existing by-laws for joint purchase and other kinds of economic activities should be utilised more fully than at present;
- (4) that agricultural credit societies should keep to their limited sphere and should not aim at competing either with land mortgage banks or with loan and sale societies;
- (5) that the basis of organisation whether it should be limited liability or unlimited liability may be left to be decided by the Registrar according to local circumstances and conditions; and
- (6) there must be a five, seven or ten year plan to achieve this idea.

The nature of the liability of members was the most contentious item of the above plan. Some members of the Committee advocated the orthodox Raiffessien model; small number of members who are likely to know each other and unlimited liability which they said is the very basis of co-operation. There were others who looked upon unlimited liability as a drag upon co-operation and an effective method of preventing healthy expansion of the movement.

After a prolonged discussion the Committee accepted the following amendment of Mr. Ramadas Pantulu:—

“The liability of a society, of which the primary object is the creation of funds to be lent to its members and of which the majority of members are agriculturists, shall ordinarily be limited. But if in the opinion of the Registrar, having regard to local opinion and other circumstances, unlimited liability is more suitable for any society, the liability may be unlimited.

The other points of the scheme were accepted.

On the 19th of May a joint conference of some Ministers of Government and the Committee was held. Three Ministers were present. The Revenue Minister explained his plan of reorganisation of the Village Panchayat, the Minister for Self-Government explained the effects of that scheme from the point of view of his Department, and the Labour Minister explained his scheme of Labour Legislation and Colonisation.

The Committee, as has been remarked, is pursuing unorthodox methods of doing business; but it is business-like and some important points have been settled in their May sessions.

We shall comment on their proceedings of this month in our next number.

Registrar's Report for the Year 1937-38.

We commented in our notes of the last month on the several features of the working of the Act which the Registrar has mentioned in his general remarks. We shall take up the important, but much neglected aspect of co-operation, namely, the non-credit side of it.

There is such a bewildering variety of types of societies coming under this general classification. Some of them have not a good record of work to be proud of. Let us take the following examples:—

(a) Under Kudimaramath and Irrigation Societies we are told that out of 12 societies 3 did not do any work during the year “These societies are not able to show better progress owing to the difficulty of collecting contributions due from non-member Pattadars.”

(b) Under Agricultural Improvements and Agricultural Demonstration Societies, we are told that excepting three societies the rest, 32 societies of this type, did no work worth mentioning. One Demonstration Society in Vizagapatam took on lease 32 acres of land for the purpose of demonstrating the latest methods of agricultural operations. But no demonstration work was done. It conducted experiments in the manufacture of sugar by the open pan system. The experiment ended in loss to the society.

Stationary Societies attached to schools and colleges did good work. They showed improvement under every head namely, number of members, number of associate members, paid-up share capital, value of articles sold and bonus distributed. The actual savings effected shows a decrease and the stock on hand shows an increase. Both these are danger symptoms whose significance will be appreciated by the workers and the threatened danger, it is hoped, will be avoided.

The most outstanding instance of successful working of the non-credit type of societies is the South India Co-operative Insurance Society. This institution has been showing signs of slow but vigorous expansion and we hope the rate of progress though not very spectacular will be kept up in coming years.

The Co-operative Building Societies have been doing very useful work though they are not in the limelight. The questionnaire issued by the Government to help the Committee of Enquiry does not even mention this type of societies. But these societies numbering about 250 have a paid-up share capital of over Rs. 8 lakhs and the Government have advanced to them over Rs. 17 lakhs. In some districts these societies are having over-dues both under principal and interest. We are glad that the authorities of the Coimbatore Mills are about to launch a scheme of House-Building for the benefit of their employees.

There are many other forms of non-credit activities but we shall confine our observations only to Thrift Societies, Better Living Societies and Societies exclusively for women. Thrift societies should avoid the danger of degenerating into ordinary credit societies. We are glad to be told by the Registrar that in the district of Salem where Prohibition has been introduced thrift is encouraged by all the co-operative societies in the district, and the various kinds of deposits in these thrift societies show a definite sign of improvement. Better Living Societies are comparatively new. But in a land like ours where it is so difficult to break old conventions established in social and religious matters, these societies have got a great purpose to serve as they create healthy public opinion regarding curtailment of expenditure on ceremonial occasions. Women's societies have a great future before them provided, as the Registrar points out, there are women supervisors and organisers to educate the women folk of the land in the principles of co-operation and to organise societies and to supervise them. We hope that the Registrar's recommendation to have atleast one Woman Co-operative Sub-Registrar in the West Coast where there are many such societies, would be sanctioned.

Taking a general view of things we may say that the non-credit co-operation though a late arrival in the field is showing signs of healthy expansion. We shall deal with the credit side of the co-operative movement in our next number.

Pooling the reserves of the Movement for common benefit.

A REVOLUTIONARY SCHEME.

BY THE HON'BLE V. RAMADAS PANTULU.

The Committee on Co-operation appointed by the Government of Madras to examine the working of the Movement in the province and to suggest methods for its improvement has already acquired a reputation for the un-orthodox character of its procedure. The Chairman of the Committee, Sir T. Vijayaraghavachariar is singularly free from the trammels of the traditional procedure of Governmental Committees. He is anxious to elicit all shades of opinion by giving ample opportunities to every member to place at the Committee's disposal as full and free an exposition of his view point as he is capable of. What at first appeared to be a dilatory process, besides gradually resolving itself into a fairly quick march towards conclusions, has helped to blow up some preconceived notions by the pooling of varied experiences and the touch of unflinching logic and sound common sense. More than that, it has helped to release many a question from the cramp which held it tightly fastened to its orthodox surroundings and to lift it right above those surroundings. This method of approach to the problems under investigation has already produced some remarkable results. When the report of the Committee is published, Co-operators in India and elsewhere may find that the Committee not only abandoned the orthodox procedure so long associated with the work of similar committees, but it has also cut across several notions which are rightly or wrongly associated with orthodox co-operation. I shall deal in this article with what I consider to be one of the momentous conclusions of the Committee and which many co-operators may call revolutionary.

One of the usual modes of assessing the strength of the movement in a region or province is by a reference to the reserves built up by the movement. Co-operators in Madras have all along laid considerable stress on the magnitude of the reserves built up by them. The figures in the aggregate are indeed impressive, as the following table will show:—

1. The Provincial Co-operative Bank	...	Rs. 16.5 Lakhs
2. The District Co-operative Central Banks	"	33.5 "
3. The Agricultural Credit Societies	...	77.0 "
4. The Non-agricultural Credit Societies	...	37.0 "
5. Other types of Societies	...	9.0 "
		Rs. 173.0 Lakhs.

There are other reserves like building funds, common good funds, dividend equalisation funds, investment depreciation funds and so on in some societies, but they need not be considered in this connection. Besides these there is a special reserve called Bad Debt Reserve with which we shall deal later. These reserves which are shown under other funds amount to about Rs. 92 Lakhs.

The total working capital of all types of societies in the Province, excluding investments of one society in another, in round figures, is Rs. 1,200 lakhs of which Rs. 800 lakhs represent the borrowed capital and Rs. 400 lakhs represent owned capital, that is to say the share capital of Rs. 235 lakhs and the statutory reserve fund of Rs. 173 lakhs. The position of the movement viewed from the standpoint of the aggregate reserves must therefore be said to be extremely sound and other provinces may very well envy Madras in this matter. But the question, how far these reserves can as a whole help us to rehabilitate the movement, has not so far come under critical examination. General statements appearing in the official reports and the reports of the working of several institutions drawn up by their managements to the effect that though certain portion of the dues of the societies may be written off as bad and irrecoverable debts, the financial equilibrium of the movement in the area will not be upset, as the movement holds strong reserves, will be found on a closer examination to be not really helpful. As the co-operative law and practice now stand, the reserves of one society cannot be utilised for helping another society, even though it may be its next door neighbour. The result is that while strong societies may grow stronger, the weak societies grow weaker. With the rapid increase in the number of weak societies and those working at a loss, a fairly large proportion of our primaries in this province are now either in a moribund condition or absolutely beyond hope of rehabilitation. Of what avail are these huge reserves for the weaker units of the movement? They are no more serviceable to the weak and decaying societies than the wealth of the close fist multi-millionaire is to his starving and dying fellow men in our capitalistic social economy. Supposing by law, a millionaire is prevented from parting with any portion of his surplus wealth for the benefit of his fellow men, then what avail is his wealth to the community? It is exactly the same with the co-operative law of to-day. Some societies may have immense reserves,—surpluses not needed for them—but the law prevents them from using such surplus wealth for the benefit of the movement as a whole. Good societies

must function in a distressingly unhealthy atmosphere created by the presence of numerous sickly neighbours whose number is growing daily.

The Madras Committee on Co-operation in dealing with the question of reducing the overdues in the agricultural credit societies and starting as many of them as may be found capable of rehabilitation on a new career so as to function in a more healthy and invigorating atmosphere, have found in the present law and co-operative practice a real obstacle to any sensible and practical solution of the question which has so far baffled the co-operators in this Province. The Committee has come to the conclusion that the only possible and effective solution lay in pooling the reserves of the movement itself and cutting across the present law and practice relating to the reserve funds. I shall now proceed to explain the scheme in detail.

Agricultural credit societies which are normally constituted on unlimited liability basis are required by the co-operative law in force in this province to carry to a statutory reserve fund 50 per cent of their annual divisible profits. The statutory reserves so built up by them aggregated to about Rs. 77 Lakhs on the 30th June, 1938. The central banks to which the societies are affiliated and which finance them are similarly required to carry 25 per cent. of their annual divisible profits to the statutory reserve fund. The central banks in the province built up a reserve fund of Rs. 33½ lakhs at the end of the last co-operative year, viz. 30-6-1938. The Provincial Bank in the same manner has built up reserves of Rs. 16½ lakhs. Under the law, the statutory reserve fund, so built up by any society, and which is intended to meet unforeseen losses is however not allowed to be utilised for the purpose of meeting the losses, until the society is actually liquidated. So while the society retains its corporate character, this reserve fund cannot be used to write off bad debts. Nevertheless what happens is that when a particular society is working at a loss and has been eating up not only its share capital but even its borrowed capital, to that extent its reserve fund has actually become diminished or depleted. But only the law, as it stands, does not permit of making the necessary adjustments to show the true position. So these reserve funds in reality do not amount to any thing more than reserve accounts.

In order to enable the societies to write off bad debts from time to time and in order to curtail the dividends paid by societies to shareholders, a special reserve called the bad debt reserve is being created for the last five or six years. So far as I am able to understand one of the objects of such reserve is to enable the societies to

make periodical adjustments of this fund against bad debts; but it has not been done. This bad debt reserve is used as working capital of societies—a practice which does not prevent the periodical adjustments against bad debts being made.

The bad debt reserves thus built up to-day are in the neighbourhood of about Rs. 35 lakhs between the Central Bank and the agricultural credit societies taken together. Roughly speaking, the bad debt reserve in the central banks aggregate to about Rs. 20 lakhs and that in the agricultural credit societies about Rs. 15 lakhs. As against this special reserve, the bad debts in the agricultural credit societies are in the neighbourhood of Rs. 70 lakhs but only about 25 per cent of it will affect the Central Banks. Complete figures are not available from the published statistics. From the administration report for the year 1937-38 we find that as a result of investigations in about 7,000 societies involving loans to the extent of Rs. 300 lakhs, the bad debts in those societies were estimated at about Rs. 40 lakhs. But the number of agricultural credit societies in the Province is over 10,000 and the loans involved in them are about Rs. 500 lakhs. So adopting the proportion of 300 to 500, the total bad debt in the agricultural credit societies may be put at $66\frac{2}{3}$ or roughly Rs. 70 lakhs. As against this, as I have already stated, we have a bad debt reserve of Rs. 35 lakhs, which covers about 50 per cent of the bad debt. If the bad debts to this extent had been written off and some solution thrashed out to deal with the balance of bad debts, the position might have been slightly better to-day. But no proper steps were taken to remove irrecoverable overdues from persisting to appear on the books in this manner.

It is somewhat difficult to exactly say whether every bad debt entered as such in the audit notes is wholly bad. Most of them are perhaps bad. If they are scaled down on some standards, probably portions of some of them may be recovered in easy instalments in the course of a few years from the indebted members. Investigations in this line have been made in some areas but not completed. So the first step in dealing with overdues should be to write off bad debts or portions of them after scaling them down as indicated above to the extent that the bad debt reserve of each society would permit. Then contributions may be asked for from each of the central bank concerned to part with its bad debt reserve for the same purpose. It is a legitimate demand. The bad debt reserves of central banks have been built up from the profits earned by the transactions with the societies,

and the bad debt reserves of central banks have necessarily an integral relation to the bad debts of societies, for the main assets of the central banks are the loans outstanding in the societies. It no doubt involves the transfer of the benefits of the efforts of the strong to the weak. But it is inevitable and is a feature of all schemes of mutual benefit in co-operation and insurance. So far it is evident that this idea of pooling the special bad debt reserve does not involve any deviation from the spirit of co-operative law and practice.

Then the next question is how to deal with the balance of bad debt left over after adjusting the bad debt reserves, as stated above, in our scheme to rehabilitate societies. It is here that the question of utilisation of the statutory reserves comes in. As I have already stated, the statutory reserves of one society cannot be utilised to rehabilitate another society, nor can it be used even by the society which built it up, till it is liquidated, as the law and practice now stand. The Committee therefore discussed with great care the practicability and advisability of the adoption of a scheme to pool these reserves and treat them as funds held in trust for the movement. The idea is that bad debts should be written off first, bad debt reserve of each society being utilised for the purpose to the extent they go. In the next instance, contributions from bad debt reserves of central banks are to be made available. After that, societies which are found to be incapable of rehabilitation with the aid of any reasonable financial assistance that may be granted to them should be brought under liquidation. As a last resort and temporary expedient, the statutory reserve funds of the agricultural credit societies and of the central banks to which they are affiliated should be pooled into a fund to be administered by a Trustee who will be the Registrar of Co-operative Societies in the Province. He will draw upon the fund for proved necessity and on sound business rules, to write off bad debts.

In working out the scheme, it is necessary to fix a unit. It is not intended that the funds of the whole Province should be pooled in this manner. The most convenient unit to be adopted in pooling is the area of operations of a district co-operative central bank. As the area of operations of a district bank is not always co-extensive with the revenue district, it is more convenient to take the jurisdiction of each central bank as a unit for this purpose.

On a first impression it looks as though the pool of the reserve funds made in each central banking area will meet the requirements

of that area ; but without a much closer examination, it is difficult to say whether a need may not arise for one central bank to indent upon the help of a neighbouring central bank in a regional grouping of central banks. The figures have to be worked out. The Committee's conclusion is vague on the point. Speaking for myself, I am prepared to go the whole hog. If need arises, I will not hesitate to advocate the pooling of the reserves of all the central banks and even of the Provincial Bank into a trust fund for the movement though this will be really an ultimate device, not a likely and much less an immediate need.

This scheme merely amounts to a logical extension of the co-operative principle "Each for all and all for each" from individuals to societies. So far as I can see there is nothing un-co-operative in the idea. On the other hand, such a combination among the units, which are societies in this case, stands exactly on the same footing as that of a combination of the strong and the weak individuals in a single society. It takes co-operation one step higher and really implements the principles of co-operation for the first time on a broad basis.

In drawing up this scheme, particular attention is paid to the need to retain the confidence of the investors in the central banks and of the money market in general. This scheme of temporary pooling of the reserves for the rehabilitation of the movement will considerably enhance the security of all the creditors and the depositors of the central banks and will have the effect of stimulating the inflow of deposits for which larger and larger outlets will be found in the reconstituted societies, the character of which was fully set out in the article contributed by me to the last issue of the journal. I may also state that at the back of the minds of those who supported this scheme of pooling is the larger ideal of covering the entire province (all the 50,000 villages) with a net work of strong multi-purpose societies on a limited liability basis. Nothing short of a drastic step like the one outlined in this scheme of pooling of reserves will serve to infuse new blood into the societies and to start them on a clean slate to function as robust and healthy institutions.

Now I come to some essential details of the way in which this trust fund would be administered. As the unit is the area of a central bank, suitable machinery has to be set up for each such unit. The Deputy Registrar of the district, who will be representative of the Registrar in his capacity as Trustee, representatives of the

central bank and of any other interests to be safeguarded may be constituted into a committee or board of three to five members to aid the Registrar in administering his fund. In order to prevent wrong application of this fund and to confine its benefits to those who deserve it, the following precautions may be adopted. In the first place, the Registrar may insist upon the societies in which the loans are well-secured and recoverable to collect the loans in order to discharge the societies' liabilities. It is our experience that in some cases owing to indifference or even un-willingness of defaulting and self-seeking Panchayatdars, even good loans are not collected. The Trustee may deny the benefits of the scheme to such societies. In the second place where it is found that the losses in a society arose either from fraud or gross mismanagement on the part of those who are responsible for its conduct and where such losses can be recovered from those responsible for it, the loss should be so recovered and the benefits of the scheme should not be extended to such cases. In order to enable the society to recover such loss without liquidating it, the Registrar may be empowered by a suitable amendment of the law to enforce unlimited liability by issuing contribution orders against such delinquent members without liquidating the society. With these and other safeguards that may suggest themselves in the course of the working of the scheme, the trust fund may be drawn upon to write off bad debts to the extent that they could not be written off from the bad debt reserves or otherwise provided for.

There will thus be as many trust accounts as there are central banking areas, or larger regional areas where a single central banking area will not be enough to give effect to this scheme. Besides the trust account of the funds pooled in the area, separate accounts will be maintained of the reserve funds of several societies. The interest on the reserve funds will be paid to the several societies, as usual. There is nothing novel in the idea of pooling, for even now, the reserve funds of all societies are pooled, in a sense, and invested in the central banks themselves. In regard to this trust pool, there is an important difference between the reserve funds of societies and the reserve funds of central banks. The reserve funds of societies which are invested in the central banks are not in the same liquid position as the reserve funds of central banks which are pooled in the Provincial Bank. While the central banks employ the reserve fund of societies invested with them as their working capital, the

Provincial Bank separately invests the reserve funds of all central banks kept with it. So, one important consideration that arises in connection with the scheme is whether the central banks which between them have used up Rs. 78 lakhs of the reserve fund of societies can disgorge the amounts and hand them over to the Trustee to go into the pool account. When the scheme of adjusting statutory reserves is worked out the need for actually disgorging any large amounts by the Central Banks may not arise at all. So far the central banks' reserve funds are concerned, the Provincial Bank can hand them over to the Trustee because they are separately invested. Even if they are left by the Trustee with the Provincial Bank, it makes no difference. So these are details which in my opinion do not present any insurmountable difficulty. A suitable scheme can be evolved for the purpose.

This scheme I must say is intended to be strictly of a temporary duration and to deal only with the existing overdues and bad debts in the societies and central banks. It does not apply to future loans and reserves built up after the commencement of the scheme. It is expected that this scheme itself need not be in operation for more than three years from the date of starting of the scheme. In any case I do not expect that it is either necessary or expedient to keep it in operation for more than five years, even in the most economically backward areas.

In regard to future loans, they must be completely segregated from the existing loans. The existing loans dealt with in the manner above stated will continue to be on the unlimited liability basis. Future loans will however be advanced on limited liability basis, subject to the exception that where the local co-operative opinion so desires, unlimited liability may be adopted even for future loans. In regard to future loans, the principles of the Agriculturists' Relief Act for the time being in force and of any other acts relating to money-lending that may be passed from time to time will no doubt be followed. Interest will not be charged at more than 6½ per cent and in the determination of future arrears the principles that may apply to loans from other sources will also be adopted.

The Madras Milk Supply.

BY SRI RAO BAHADUR A. RAJABADAR MUDALIAR, B.A.

It has often exercised my mind whether the lot of the milking animals and their calves in the city, which generally present a really pitiable sight due to under feeding and indifferent care, cannot be bettered by co-operative methods, by forming co-operative societies in suitable centres in the city for the owners of these animals to become members thereof and to sell the daily produce of milk to the society which can supply to the consumers in retail as the Co-operative Milk Supply Union is now doing in some parts of the city. It should be possible by this means to enforce the maintenance of milch animals and calves in better condition by rejecting the supply of milk drawn from unhealthy or ill-kept animals or of those whose calves are ill-maintained. The society can also advance money to the cowmen to purchase suitable fodder and to stock the same to avoid starving of the animals for lack of supply, and the society may even purchase the right kind of fodder and supply it to the members, which will tend also to improve the quality of the milk. These advances can be easily recovered from the sale proceeds of the milk produced by the members. The Madras Co-operative Milk Supply Union depends for its supply at present on milk drawn in distant places in the Ponneri Taluq and also on the supply from the Iyanavaram cattle yard on the borders of Madras. These supplies compared with the total quantity of milk consumed in the city pale into insignificance. While the purity of milk of the cattle yard at Iyanavaram is controlled by the staff employed by the Union in whose presence the milk is drawn, no similar control exists to my knowledge with regard to the supply from distant villages. It would therefore be a great advantage to the Union both as regards the quantity of supply and its quality, if the milk produced in the city is gradually brought under its control by means of societies started in suitable centres and affiliated to the Union. The milkmen themselves should welcome such societies as they could save their bother of taking their cattle from house to house and vending the milk in retail, and more than that, derive much benefit by having close at hand a source for ready financial help for all their needs to purchase new animals and to maintain a constant supply of suitable fodder. I

know that when I was President of the Madras Co-operative Milk Supply Union for a short time about three years ago the owners of milch animals in the neighbourhood of Iyanavaram were very eager to become members of the milk supply society there and I expect the milkmen in other parts of the city would be equally eager to join similar societies in their neighbourhood, if and when they realise the immense benefits they would derive from them.

A perusal of the transactions of the milk supply societies which supplied milk to the Madras Co-operative Milk Supply Union during 1937-38, as reported by the Registrar, shows that most of such societies incurred a loss and that the profit earned by the few other societies was nominal. Of the total quantity of the milk purchased by the Union for Rs. 1,63,941 the Mental Hospital Milk Supply Society alone supplied milk to the value of Rs. 1,15,051, but it earned a net profit of only Rs. 18 which, however, the society obviously does not mind in consideration of the great facilities the members have for the sale of their milk and for borrowing money for their needs. The Union, however, is said to have earned a profit of Rs. 14,492, which suggests the possibility of its paying to the societies a more attractive price to stimulate applications for societies from all parts of the city which would result in the consuming public getting an undoubted better supply of pure milk and in the milking animals and calves being better fed and looked after than they are now.

Now that a pasteurisation plant has been set up by the Madras Milk Supply Union, all the unsold milk of the mornings or the evenings of the proposed city societies can be taken over by the Union and pasteurized for being kept and sold as milk within the prescribed intervals instead of being converted into by-products immediately involving a loss of income. The cheapness at which milk can be purchased in distant villages may be more attractive to the Union than the comparative high price at which the Madras milkmen can supply, but the various advantages of the supply at close quarters and the general improvement expected in the condition of the animals, as explained above, may be worthy of consideration by the Union.

I have ventured to express these views in the hope that they will elicit criticism which would be helpful for the consideration of an important co-operative undertaking in the city.

We have great pleasure in publishing the following note written by Sri Dewan Bahadur K. Deivasikhamani Mudaliar, President, The Madras Co-operative Milk Supply Union, Ltd., which throws much light on the problem.

(1) The policy of the Agricultural Research Institute, India, is to see that milk is supplied to cities from places outside Municipal limits so that the animals can be kept under better sanitary conditions—a factor necessary for the production of 'good' milk. They have recently obtained statistics to this effect for the city of Madras.

(2) The milkmen in the city live in congested parts and no suitable place for drawing milk can be secured except at a prohibitive cost. The Union had cattle yards in Egmore and Triplicane for some time and the Egmore depot was closed as a result of the warnings given by the Corporation. There were separate societies for each hospital area in the city and they have all been amalgamated with a view to keep the animals at a place where sanitary conditions can be enforced.

(3) The Union burnt its fingers by arranging for advancing money to milkmen in the city. It supplies, however, to its members cattle food, the value of which is recovered from the monthly sale proceeds of milk. The value of animals sold cannot so easily be recovered. This has been our experience.

(4) The owners of the animals which are kept at Iyanavaram are Madras milkmen who live in Purasawalkam, Kosapet, Egmore, etc. and not of Iyanavaram.

(5) The control over milk from villages is as good as it is in Iyanavaram. For the last three months every can of milk received, whether from Iyanavaram or from the mofussil, is tested scientifically before it is accepted. The trouble is with the salesmen and not with the milkmen. The mere name "co-operative society" will not give unadulterated milk. Societies scattered all over the city will be as difficult to control as mufussil societies. Hence the idea to concentrate in three or four centres.

(6) It is not true to say that the milkmen in the city do not supply milk to the Union. Of the 1,900 measures of milk handled by the Union all but 450 measures come from the milkmen in the city. At each hospital we gather the milkmen and get the required quantity of milk. Large supplies were drawn in this way last year. After reserving the quantity required for the hospitals we take the balance to our headquarters for pasteurisation and sale. Attempts

made to bring more men in groups in various parts of the city have not so far been successful. Discipline over the men is the chief cause.

(7) The bylaws of the primary societies were framed at a time when the Union was not in existence. The method of purchase and sale differs from what the bylaws originally contemplated. After the Union was started the societies act merely as agents of the members. The individual members of the primary societies get the value of the milk at the rates fixed by the Union directly from the Union and pay a commission to the primary societies at so much per measure supplied by each and this commission is appropriated towards the cost of management of the societies. Any balance left is treated by the department as profit. Under this arrangement there can be no profit for the primary societies. The individual members get the value of the milk at the time of supply and bonus after the end of the year. Thousands of rupees have been so disbursed in past years. The Madras milkmen get Rs. 0-1-9½ per pint as against Rs. 0-1-6 paid by other agencies and the Iyanavaram yard men get 5½ annas a measure and the mufussil milkmen get Rs. 0-4-9 per measure as against Rs. 0-4-0 paid by others. The cost of transport of the mufussil milk comes to 9 to 12 pies per measure and the mufussil milk is not therefore cheaper. The cost of transport in the city and the cost of pasteurisation do not leave much margin. There is no doubt that mufussil milk is better in quality owing to the nature of the feed given. Milkmen of the city will not easily change the nature of the food now given for they stand to lose by it. All attempts made in this direction have so far been futile.

(8) Apparently the writer of the article has forgotten the method of working of the Union. The profit of Rs. 14,492 is the profit of all the societies under the method of work described above. Whatever was declared as net profit was paid back to the individual members as dividend and bonus. Bonus roughly for two to six pies in the rupee was paid in the previous years, although during the last two or three years a portion of the profit was set apart as pasteurisation plant fund to obtain money for the plant. This profit was possible only by keeping down expenditure for the whole of the controlling work was done without any expenditure to the Union. A Sub-Deputy Registrar is now in charge of the Union and other technical men have been or are being appointed, and it is not possible

to raise the purchase price. The cost of management has risen considerably. The price paid by the Union compares very favourably with the retail market price, three measures a rupee, as in Mambalam, etc.

(9) The unsold pasteurised milk cannot be pasteurised again and sold as whole milk as the writer of the article assumes.

(10) If the milk problem of the city of Madras has to be solved satisfactorily, legislation will have to be undertaken with a view to segregate all the animals outside the Municipal limits and in sanitary surroundings. Any one who has seen the dark houses in which the unfortunate animals are housed in the city of Madras will refuse to drink any milk produced by the Madras milkmen. If in the meanwhile the city milkmen should be helped, it should be in the manner now done by the Union by assembling them at sanitary places like the hospital, etc., and buying their milk. There are very many rival depots working in competition with the Union. Every dismissed servant of this Union has opened one or more milk depots and there are many rival associations selling all sorts of milk. There are over 100 depots scattered all over the city. Good milk does not therefore get a reasonable price.

(11) The profit earned is due to the large turnover and not to the large margin of profit. It will not therefore be available to increase the purchase price to any approximate extent. It is therefore returned as bonus.

(12) It is impossible to guarantee "good milk" unless the animals are gathered in one or two suitable centres and milk obtained under sanitary conditions and pasteurised. This is the aim of the Union.

[Mr. Rao Bahadur A. Rajabadar Mudaliar's rejoinder to this note will appear in our next issue.]

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True Village Societies.

BY MR. D. MUNIKANNIAH, B.A., B.L., CHITTOOR.

The controversy whether 'limited liability' or 'unlimited liability' suits and serves the exigencies, utility, and purposes of a village society is of importance, particularly in view of the proposed amendments to the Madras Co-operative Societies Act.

The unlimited liability coupled with its correlative of voluntary and mutual trust and risk has led in actual working of the society to conferring of benefits of the society to only a 'group' in the village; and the generality of the ryots have invariably been denied the benefits of the society. It is in the knowledge of those in the know that in the history of every such village society a stage is sooner or later reached when fresh members dread to get into it, and expansion or reorganisation becomes almost impossible. Experience tells us that it is next to impossible to make every villager or ryot to believe in the others and so make him sail with the others in an atmosphere of confidence. Also it is difficult to conceive of the possibilities of the growth of a number of societies in each village—one for each of the different groups—though all of them will have to serve the same purpose, and also to induce the same ryot to own the liability and shoulder the responsibility, severally and jointly, for the incidents and the working of different kinds of societies. Experiments as are being conducted to-day are not, in any case, such as to comprise within the ambit of the society the entire ryots and villagers in a village and to afford them scope to practice the principle of co-operation among them.

Any copying of the models of the Westerners and application of the principles which govern their village societies (which I call as 'compact village societies') without regard to our village conditions and the genius of our villagers is not calculated to solve the problems of rural credit, which to-day stare the ryots. True, the limited liability basis is particularly suited to the urban societies and for special purposes and non-credit societies. But to imagine that the village society is there to help the living of the villager and of the ryot without reference to his occupation and industry of agriculture is to emphasise the existence of the ryot without the appreciation of agriculture as an industry. To try to help the individual ryot

without improving the industry of agriculture in the village is to attempt the impossible. Therefore a society in a village for all the ryots and villagers which is capable of supplying their needs and rendering financial help to them and for carrying on their occupation and at the same time based on mutual help and vowed to the policy of finding its finances within the village is the desideratum of the times. Such a society will not exist for a group only within the village or be restricted and obsessed by the weight of the unlimited liability. To conceive of an organisation with such elasticity and usefulness based only on the unlimited liability theory is to stifle progress and ignore the possibilities of co-operation becoming the hand-maid of the industry of agriculture.

I would venture to suggest that in every agricultural village a society should necessarily exist and all land-owners should become members thereof having at least a share of Rs. 2-8-0 for every acre of land he or she owns. The share capital may be payable in dribblets covered over say, five years, but every acre should be under an obligation to contribute. The holding of a share in the society should be an incident of the ownership of an acre of land and should be appurtenant thereto in the sense that the share or shares will have to be transferred with the transfer of the ownership of the land. The landless class also can join the society by taking shares; and this society is thus distinguishable from the unlimited liability society for the unique benefits conferred on this class of persons also. The lending for short-term credit purposes can be on the basis of the principle applicable to cases of limited liability transactions, say eight times the share capital. The members should be prohibited from borrowing from any other creditor, at least for specified purposes mentioned in the by-laws. In the case of necessity of the members of such a society for borrowing the long-term loans principles applicable to the grant of loans by Land Mortgage Banks may be enforced. This society can also serve the villagers as the agency for marketing and for loaning monies on the produce. If the villagers are convinced of the usefulness of such a society it might become increasingly possible for them to contribute every year regularly at the rate of say Rs. 0-8-0 per acre towards the share capital and augment their resources. Thus it could be seen the needy and the rich can be made to come together to save monies for their common benefit, thereby really promoting thrift and co-operation and ultimately enabling the society to be autonomous in its finances and dealings. The limited liability basis for village societies will then be of vital importance, if the objects of co-operation are the service of the agriculturists and promotion of their well-being.

At the beginning the district banks will have to take the initiative and nurse these societies at the most for a period of five or ten years. Later on, the village societies may be expected to be self-supporting, and also in a position to help their neighbours. Instead

of having to depend for their existence and goodwill only on the margin allowed between the borrowing and lending rates of interest, these societies can earn greater profits, and more money will thereafter be available by way of Common Good Fund which can be spent profitably in the village itself.

I am not unmindful of the element of force and compulsion which will become necessary if the co-operation of the whole village is demanded. But situated as we are in the villages and knowing as we do the state of the disorganised state of the credit of the agriculturists and the oweful lack of proper notions of thrift and co-operation among the ryots, a certain amount of compulsion is certainly justifiable; for otherwise, the future of rural credit is dismal and no organised effort to alleviate the misery of the ryots and to save them from lapses is practicable.

As in the case of every good endeavour, it is not enough if the trial of these limited liability village societies is made sporadically in one or two selected places; but I am confident that far reaching results will accrue if in case the villages in one Taluk at least are tried with these societies and there is also sufficient fortification afforded by statutory provisions.

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	Rs.
Paid up Share Capital of the Bank on 9—2—39 is	... 12,596
Reserve Fund	... 2,922
Total Loan Outstandings	... 50,071
Fixed Deposits	... 51,605
Provident Deposits outstanding formed as Sinking Fund	... 7,109
Cash on hand and in bank accounts	... 7,521

E. S. GANAPATHI AIYAR,

President.

The Need for Industrial Demonstration Societies.

BY MR. N. SESHARAO PANTULU,

President, Bhimavaram Co-operative Urban Bank, Ltd.

To-day, in India more than 70 per cent. of its population are living on agriculture. This high percentage itself became the last straw on the camel's back; for, agriculture the greatest occupation in India, has turned out to be a deficit economy. So, it has been the concern of all those, who are concerned with the welfare of India, to suggest ways and means to relieve the land of this highly alarming pressure. The remedy suggested was, that a part of the agricultural population should be switched off to employment in such other industries and handicrafts, which would form subsidiary industries to agriculture. In the past, each one of our villagers developed some village or cottage industries suited to the locality.

So, Mahatma Gandhi thought that the revival of all those industries would help the situation very much. For, these industries when properly developed could give relief not only to the under-employed ryot but also to the crores of unemployed labourers. At the instance of Mahatma Gandhi, we had the All India Village Industries Association formed at Wardha in 1935 to make a scientific study into these forgotten industries. During the short period through which it worked the association tackled the problem efficiently and in a scientific manner too. As a result of its labours, the association recommended some important village industries such as flour-grinding, dehushing of paddy, gur-making, oil-pressing, bee-keeping, sericulture, tanning, paper-making, pottery and carpentry. Soap making, printing, dying, works of art, metal industries etc., are suggested as some useful cottage industries. Many scientific improvements are suggested in the implements as well as in the mode of operation of many of these industries. Also methods are suggested to adopt these industries to modern needs and tastes. These suggested industries would stop wastage and convert village waste and other waste materials to good purpose. Also, the leisure hours of the ryot, his dependants, his family members, would be profitably engaged and his annual income would be sufficiently substantiated in return.

All this useful knowledge gathered at Wardha needs a wide, wide publicity and it should be diffused immediately, throughout the

7 lakhs of villages wherein crores of under-employed ryots and unemployed labourers are merely prolonging their existence. But, to-day there exists a vast gulf between Wardha and the 7 lakhs of villages. To bridge this gulf and to pass on immediately the knowledge gathered at Wardha to the needy villager, and to train him in the new technique of village economy and industry, a well-organised machinery is needed. To fulfil this national need, some industrial demonstration societies, one for each taluk, should be organised. Such industries which are recommended by the A. I. V. I. A. and satisfy the local conditions are to be exhibited in these centres. These centres would study the local conditions, gather statistics necessary, make original experiments on the subject and diffuse the knowledge collected by the A. I. V. I. A. at Wardha. The monies needed to start and work these centres shall be subscribed as donations by citizens interested in the movement. The societies are to be registered under co-operative societies act and be under the control and supervision of the Government Co-operative Department.

The centres will do the following business.

1. To run 3 or 4 main industries that satisfy the local needs.
2. To impart training in these industries and such necessary education needed for successful working of the said industries to adults and grown-up boys, who come for that purpose from neighbouring villages.
3. To impart to young children of the locality general education well-correlated with the main industries of the locality.

The District Advisory Councils would do well to take such necessary steps to organise these Industrial Demonstration Centres, one for each revenue taluk at least, to start with.

In this connection, it may be mentioned that the Co-operative Urban Bank, Bhimavaram, has made a humble beginning by influencing public opinion to organise one such Industrial Demonstration Centre at Bhimavaram to serve the people of Bhimavaram Taluk. The Government and the authorities of the Co-operative Department, the co-institutions in the co-operative field, and other philanthropists are requested to give necessary help and guidance in the matter.

Recent Utterances.

THE 9TH WEST GODAVARI DISTRICT CO-OPERATIVE CONFERENCE, RELANGI.

PRESIDENTIAL ADDRESS

By SRI P. S. KUMARASWAMI RAJA.

Fellow Co-operators,

"It is with a deep sense of responsibility that I have accepted your invitation to preside over your annual conference. For, while I am thankful to you for the honour you have done me, I am not forgetful of the fact that you have in your midst and in the Andhra Desa persons who have rendered distinguished service in the field of co-operation and therefore could well have taken my place on this occasion. Although I can proudly claim affinities with the great Telugu race and still look back to this charming land as the house of my ancestors, I cannot pretend to be so thoroughly and intimately acquainted with all the problems and difficulties you are facing in your area in the field of co-operation. Nevertheless, I have very confidently and boldly responded to your call, because, the main problems of co-operation in your area are the same as those in mine and in fact all over our dear motherland. Who will deny that the co-operative movement is one of the bonds that unites the different peoples of our country—the Pathans and the Tamils, the Bengalis and the Sikhs, the Gujaratis and the Andhras. Nay it is one of the bonds of universal brotherhood. For, whatever be the local differences, the principles of co-operation and the chief forms of co-operative enterprises are fundamentally the same, whether in India or Japan, Germany or England or Russia or the United States of America. Co-operation knows no barriers of caste or creed, race or nationality and transcends the limits set by Geography or political boundaries. In the realm of the modern co-operative movement, the whole mankind is viewed as one brotherhood and the whole world as one unit.

Growth of Co-operation in India

Viewed in the above light, the birth of co-operation in India in 1904 is an epoch making event, for thereby the peoples of a vast sub-continent have been brought within this vast universal brotherhood of co-operators. When the movement was started thirty-five years ago from now it was small, insignificant and almost unnoticed by the people. But to-day it stands out as a mighty movement, the number of primary societies in our Presidency alone is nearly 13,000 and as you are aware there are besides numerous Supervising and Audit Unions, Central Banks, Provincial Associations and All India Associations.

That the movement has abundantly succeeded no one can deny though critics and well wishers alike may deplore that the success has not come up to their expectations. Views such as these, permit me to say, exhibit a lack of historical perspective and an insight into the economic environment of our peasant community. For defects and short comings are inevitable in the transitional period of any movement and the duty of every one concerned is not to deplore or remain passive with destructive criticisms but to promote the further progress of the movement by rectifying the defects. Defects should never be an excuse for abandoning a good cause. Nay they are a challenge for further action. Considering the fact that co-operation in our country has just touched the fringe of the population, and that the scope for its expansion is unlimited, we have to take courage in the thought, that after the movement has reached its fullest development, it would be the most gigantic movement, as gigantic as that at Russia or Japan or Denmark. The potentialities of the movement should be our greatest source of satisfaction.

Test of the success of co-operation in India

What should be our standard of elevating the success of co-operation in our Country? Not the Central Banks, however sound their financial condition may be and whatever may be the variety of the services rendered by them. Not the excellent work turned out by our District or Language Federations. Not even our Provincial Co-operative Union or the All India Institute and the Associations or the brilliantly conducted journals and reviews, though we appreciate the need for such organisations and deeply value their excellent work. The success of co-operation in India lies with the efficiency of our village societies. If those societies do not or are not made to function properly, the success we have achieved or still hope to achieve in all other directions in the work of Credit Societies, Federations, Provincial or All India Institutes and journals is in vain. The soul of India is in her villages and it is the village society which should be the key-stone of the arch of co-operation.

Happily, Indian villages, as the historical records of the past have proved abundantly, are the very cradle, of co-operation. The village community system is a wonderful example of co-operative republic. As you know the villagers had in some cases, and still have common thrashing floor pasture grounds etc. Sheep penning is another illustration of co-operative effort in the economic sphere. The ancient practice of Kudimaramat repair of public works by the joint labour of all the people is still another instance of an excellent indigenous co-operative activity. Why even the system of maintaining the village artisans through contributions from each household is based on the same co-operative principle. It is this simple principle that our popular Health Minister, The Hon'ble Dr. T.S.S. Rajan has so boldly and skilfully embodied in what he has

called Co-operative Health Units Scheme. The scheme outlined by the Minister is in conformity with the genius of the people and is in no way alien to their traditions, while at the same time it possesses all the characteristics of a modern Health Insurance scheme as it prevails in England.

I have referred to the co-operative health units scheme and rather deliberately at this stage in order to emphasise the fact that co-operative efforts in our country should be suited to rural needs and conditions and should be in conformity with the traditions of the people. May we expect that the new co-operative committee appointed recently by the Madras Government under the chairmanship of the respected opener of this conference Sir T. Vijayaraghavachariar will give the whole movement a new orientation so that it may take deeper and deeper roots in the socio-economic system of the people? It is only then that co-operation can flourish in Rural India, and rural prosperity can become an accomplished fact.

An example of indigenous co-operative credit system

To illustrate the point by a concrete example in a little village in the Tinnevely district inhabited by about 120 heads of families a few Marwari money-lenders were playing a profitable business by lending very small sums of money Rs. 2 to Rs. 10 to a single borrower on the day when he was in need of money to go to the "Shandy" to buy provisions on condition that the principal was returned at the end of a week with an interest of two annas per rupee. The poor needy illiterate borrower hardly cared to calculate that the interest he was paying worked at 600 per cent. Happily some half a dozen youths of the village discovered the enormous toll of interest that the Marwaris were levying and the demoralising effect that their system of lending money produced and set about to rescue the people. They did not think of registering a co-operative credit society for they were simply ignorant of this movement. Imagine however what would have happened if they had organised a co-operative credit society. The panchayatdars, as usual, would have had some "benami" transactions. The borrowers, as it happens in about 70 per cent. of the cases, would have defaulted in repayments or would not have been able to obtain loans to meet their urgent credit needs. In other words, the enterprise may have ended in a sorry failure. On the other hand, what the youths did is of supreme significance and is capable of adoption in almost in every village throughout the country. They solved the problem of credit in a truly co-operative but indigenous way. They persuaded the elders of the village to lend money to the needy in the village in the same way as the Marwaris did small sums of money to meet the specific urgent needs—but at nominal rates of interest out of the 'village common fund.' As this fund is the co-operative savings of the

Whole community the elders have the utmost care to disburse loans only to deserving cases and the borrowers too have great sense of responsibility to repay, as elders have to collect the dues. The system is working wonderfully well.

The above illustration is not intended to exhibit a complete scheme of co-operative credit to meet all the credit needs of the rural people but, I am sure, you will find in it a clue or the basic principle upon which you can build up a truly indigenous co-operative activity. What is wanted, as the Hon'ble Minister for co-operation has pointed out, is a new 'orientation' and we hope that the present committee on co-operation will succeed in giving the province a truly successful scheme of rural credit.

Credit needs of villagers

In this connection, it is necessary to utter a word of warning and caution regarding the shifting of emphasis from credit to marketing and the numerous schemes put forward by enthusiasts to improve the existing marketing system. That agricultural marketing requires rationalisation—by standardisation of weights and measures, by grading and better storage facilities—is undoubted. Nevertheless, the fact should not be overlooked that the economies resulting from improvements in marketing machinery necessary as they are are less than those arising out of lower rates of interest and a more satisfactory credit system. The toll system levied by the money-lender from the agriculturist cuts the biggest hole in his income and no greater boon can be conferred upon the whole Agricultural population of our countryside than that of the same, adequate cheap and efficient credit. Credit has been described as the soul of commerce; and it is certainly true of the most fundamental and ancient branch of commerce-agriculture. I would therefore urge that the co-operators all over our country should pay more and not less attention to the provision of credit for agriculture and the recent interest in marketing reform should not result in obscuring the credit side of our movement. The improvement in the structure of co-operative credit is still as important and as great a problem to-day as it appeared some thirty five years ago when the movement was first inaugurated.

The scope of multi-purpose societies

The above remarks are not intended to convey the impression that the rural co-operative movement should begin and end with credit. What we have been trying to emphasise is that credit should still occupy the central place in the programme as Khadi does in the programme of the Village Industries Association. However, as Mahatma Gandhi said at the time of inauguration of the All-India Village Industries Association that "without other industries, Khadi cannot make much progress"

(The Harijan, November 16, 1934) so also credit cannot make much progress without the development of the other types of co-operation. In other words, the full force of co-operation must be brought to bear upon the ryot at every point in the whole sphere of his activities namely, better farming, better business and better living. It is this idea that underlies the scheme of multi-purpose societies advocated by the Reserve Bank of India. The view of the Reserve Banks of India is that the co-operative organisation in rural area should prove not only credit, but also supply of seeds and implements and market the produce besides working out of programmes of community welfare. Briefly stated, the multi-purpose society is expected to undertake work now performed by three different institutions the village bank, the central supply and sale society and the supervising institute. The novelty and the soundness of the idea should not make enthusiastic rush hastily in giving it a form and shape in an alien garb. I would suggest that the guiding principle of organisation of this form of multi-purpose co-operative credit society should be to adopt it in conformity with the genius of our people and with the traditions of our socio-economic life. The great day of co-operative movement in Rural India will be when there will be a co-operative organisation in each and every village which will enable the villagers to buy their cows, buffaloes, bulls, and others stock co-operatively and perform all other economic activities co-operatively. Such enterprises should enable the villagers to possess their own playgrounds, radios, schools, libraries, health services, insurance facilities and newspapers. We, the townsmen, will be almost entirely under the grips of these rural co-operatives. We shall have to buy our rice, vegetables, milk, and all farm products through these rural co-operatives. There would also be thousands of co-operative societies for the organisation, production and distribution of a multitude of the products of our small industries.

The place of Rural Reconstruction in the Co-operative Movement.

The picture that I have drawn of the future of rural co-operation can hardly become a reality, if the Government of the country does not come forward with an intelligent programme to wipe out poverty, debt, drink, untouchability and illiteracy. In other words, the villages are to be lifted out of the present distress due to the accumulation of several evils in our whole social and economic structures and rejuvenated with a fresh life, a fresh out-look and a fresh environment. This is what we call rural reconstruction. And may I say with all the emphasis that I can command that rural reconstruction work should be taken up side by side with the development of co-operative enterprise and that without the former, the latter will be a gross failure. At present the work of rural reconstruction remains the pastime of few individuals or institutions and the results achieved in the particular localities are hardly

worth the troubles involved. What is wanted is direction from a central source—a Provincial Organisation under Government auspices supplied with funds and staff to work out a complete programme all over the Presidency. It has been reported that the Bombay Government has created Rural Reconstruction Department by the amalgamation of the Co-operative, Agricultural and Industries Departments. One should think that this is a step in the right direction as the much needed co-ordination of the work of these departments can be achieved only by these means. Further, the Bombay scheme has provided for the constitution of a Board in each district for directing rural reconstruction work with a trained officer and assistants. This provision is exactly the same as that recommended by a distinguished member of the Townsend Committee on Co-operation in 1930. Further more the Bombay Government have provided to link the whole rural reconstruction machinery with the co-operative movement—for, they have provided for the appointment of a paid employee who will be the Secretary of the Village Panchayat and of the Co-operative Society for promoting the welfare activities in each and every important village. The scheme indeed has made all the necessary provision of a comprehensive machinery and it is now the duty of the people to work it to their greatest advantage. I am not saying, that we should bodily copy the Bombay scheme in our Province but it should be pointed out that the first necessity for an intelligent, sustained and comprehensive effort at rural reconstruction in our Province is a Governmental machinery with an adequate supply of money and staff, and unless this is forthcoming very little headway can be made in the progress of rural co-operation.

Co-operative enterprises in towns and cities.

By emphasizing the importance of co-operation in rural areas I am not ignoring the place of co-operation in urban areas. It would be a fatal mistake to do so. For, co-operative enterprises in towns and cities are the most valuable allies of village co-operative societies. For example, a successful store in the city like that of the Triplicane Urban Co-operative Society can and has established contacts with several sale societies in the villages. The Madras Milk Supply Union has been responsible for the promotion of a score of successful producers' co-operative societies in the villages. The same is true also to a smaller extent of the city milk supply societies in Coimbatore and Madura. A successful building society in any town or city would go a long way to relieve congestion due to over-crowding caused by immigration from villages. In the same way a well-conducted labour co-operative society can be of immense help to the class of labourers in the city who are mostly immigrants from villages. The truth is that urban co-operatives are as essential as rural co-operatives in order to maintain a proper

balance between them and to promote a complete programme of co-operation. How can co-operation be said to be progressing in our country, if the city part of our national economy is uninfluenced by co-operation? It is therefore, the duty of the Government and of the people to promote all sorts of co-operative enterprises in the cities, stores, building societies, students' societies, labour societies, loan and sale societies, handloom weavers' societies, etc.

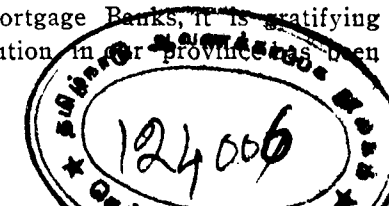
Problem of Administration and Management.

Gentlemen, I have studiously refrained from referring to the multitude of problems that engage the attention of co-operators in their practical work of administration and management of co-operative societies both rural and urban. It would be practically impossible to deal with these problems at length in the course of this address. Even a mere enumeration of these problems would make a formidable show. This does not mean, however, that these problems are less urgent and less important. But the fact is that these problems vary from place to place and from institution to institution and that a detailed consideration of them would hardly be of general interest. As is well-known, certain rural societies are functioning efficiently because of the availability of a good group of panchayatdars and the care with which they are able to disburse the loans and collect the dues. This may not be so in certain other societies where these conditions are absent. It would therefore be uncalled for to make a general recommendation for the employment of a paid staff carrying on the work of the rural societies as has been advocated by some. Similarly all questions relating to supercession of societies, official interferences, procedure regarding liquidation, the disposal of lands purchased by liquidators, etc., are matters of detail. For the same reason, the controversy whether limited or unlimited liability should be the rule of rural societies need not be pursued too far, though the consensus of opinion in Andhra Desa is in favour of limited liability, while the opposite view is held by the co-operators in Tamilnad. The whole set of troubles relating to separation of long and short-term loans, the machinery for collection of overdues, the method of issuing credit to the villagers, the linking up of the work of the credit societies with that of the sale society and the central bank, in my opinion, are also matters of detail in which both the Department and the non-officials can permit several variations. In other words, there is hardly any necessity for uniformity or rigidity in all matters relating to the day to day administration and management of the work of the co-operative institutions.

Land Mortgage Banks.

Coming to the work of the Land Mortgage Banks, it is gratifying to record that the progress of this institution in our Province has been

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very satisfactory. There have been no overdues to the Central Land Mortgage Bank from any of the primary banks. The central organisation itself has constituted a Debenture Redemption Fund and a Sinking Fund for each series of debentures separately. The maximum amount of guarantee of principal and interest by the Government has also been raised from Rs. 150 lakhs to 200 lakhs and the Government have also provided further facilities for temporary accommodation, besides granting encumbrance certificates free of charge for all loans up to Rs. 2,000. The passing of the Debt Relief Act has been a great boon to the agriculturists and we hope that the Government will come forward with other similar measures for the relief of agriculturists in the province. I understand that one of the special problems of your area in connection with the work of the Land Mortgage Banks is the granting of loans on the security of dry lands. I trust that all such special problems should be brought to the notice of the new Committee on Co-operation so that they may be given the prominence they deserve in the final recommendations of the Committee.

Propaganda and Education.

Before I conclude, I should refer briefly to another broad group of problems relating to propaganda and education. There is no denying that a sound system of instruction in the theory and practice of co-operative education is essential for larger success of the movement. The existing machinery and facilities for this type of service are admittedly inadequate and imperfect. The supervising unions as a whole have failed to carry out this function which was expected of them. Nor have the Executive Officers of the Central Banks been able to increase the efficiency of the work of supervising unions as these officers are overburdened with a great deal of administrative work. Perhaps such Executive Officers are hardly fit to assume the role of propagandists. The district federations have also shared the fate of the supervising unions. The language federations and the provincial union are content with the publication of journals—a very useful, necessary and efficient form of propaganda and education, which unfortunately has the serious defect of reaching only the upper strata of co-operators. The mass education of panchayatdars planned and worked by the Provincial Co-operative Union out of the grants from the Central Government is a well intentioned but misdirected effort. It has hardly resulted in any tangible benefit. The most effective and sensible method of propaganda and education for co-operation should be through visual instructions, lantern lectures, cinemas and dramas, and we can conceive of no better agency than the village schools and village co-operative societies working under the guidance of the Central Banks. If the Central Banks of each district could allocate grants to educational institutions and village

co-operative societies for this purpose, a good deal can be done for co-operative instructions. In fact, the common good fund of the village societies themselves can be drawn for this purpose. The village school masters and the Educational Officers will be willing to do all that is possible for them in this task. Such propaganda carried out by the villagers and local institutions will be far more effective and appealing than what can be achieved by educated town men delivering a few learned lectures to groups of panchayatdars from a dozen villagers assembled in a central place in a town centre. Local propaganda by local people will result in local effort for putting into practice what they preach, and in that way will progress be accentuated. In other words practice will follow precept and the mutual benefit will be cumulative. Co-operative education for the masses is indeed a most vital necessity and every effort should be taken to tackle this problem. When compared with the magnitude, urgency and value of this piece of propaganda and education that is given for school children, teachers under training and employees of the co-operative institutions and of the Department, probably shade into the back ground. For, by a simple executive order of the department of education, co-operation can be made a compulsory subject of education in all the educational institutions and the step would indeed produce direct, immediate and tangible results. The present arrangement for the education and training of Inspectors employed by the Department cannot be said to be defective. If improvement is needed, a college of co-operation and commerce as has been suggested by some, can be easily started and one institution will certainly work with eminent success. As I have said already problems of co-operative education in the higher sphere are simpler and are less important as compared with those among the masses of the people.

The Co-operative Enquiry Committee.

Gentlemen, I am deeply thankful to you for having invited me to preside over your function and share with you some of the ideas and thoughts on co-operation. We are indeed happy that the Government have appointed at this stage a Committee under the chairmanship of Sir T. Vijayaraghavachariar to make a comprehensive enquiry into all the problems of the co-operative movement in our province. It is indeed fortunate that the Committee is presided over by an Indian administrator of our own province who has had a vast experience both in our country and abroad and in that of the Committee are to be found veteran co-operators and men of experience from different parts of the province. We look forward to their work with the hope that their labours will result in a substantial improvement not only in the structure and function of the co-operative movement but also in a wide awakening of interest among the masses for putting into practice all the ideals of co-operation and a deep sense of responsibility on the part of the Government to give the movement the required guidance and encouragement at this stage in order that the obstacles may be overcome and progress accelerated."

THE BOMBAY PROVINCE CO-OPERATIVE BANKS' CONFERENCE.

PRESIDENTIAL ADDRESS

BY MR. R.G. SARAIYA AT SPECIAL SESSION.

"It is with considerable hesitation that I have agreed to preside over this special conference of Co-operative Central Banks, because this is one of the most momentous conferences that the co-operative financing agencies can ever be called upon to attend, and therefore the task of guiding its deliberations should be entrusted to co-operators of greater experience than myself. But I understand that it is the convention that the Chairman of the Bombay Provincial Co-operative Bank, Ltd. presides on such conferences, and I trust that in a true spirit of co-operation you will all make up for my deficiencies and help me to bring our conference to a successful conclusion. At this juncture no one feels more keenly than I that we are without the able guidance of Sir C.V. Mehta who resigned the chairmanship of the Bombay Provincial Co-operative Bank, Ltd. during the current year for reasons of health. Perhaps our Board would have persuaded him to carry on his chairmanship for some time longer if it had realised that such momentous changes were in store for the co-operative movement in the near future.

It is not my purpose at this stage to anticipate the conclusions of our deliberations, but I think it is my duty to draw your attention to some of the more important aspects of the Bombay Agricultural Debtors' Relief Bill now before the Legislature. As early as 1928 the Royal Commission on Agriculture wrote "Legislative measures designed to deal with the problem of indebtedness have proved a comparative failure". They also said, "We have no hesitation in recording our belief that the greatest hope for the salvation of the rural masses from their crushing burden of debt rests in the growth and spread of a healthy and well-organised co-operative movement based upon the careful education and systematic training of the villagers themselves. Apart altogether from the question of debt, co-operative credit provides the only satisfactory means of financing agriculture on sound lines. If the rural community is to be contented, happy and prosperous, Local Governments must regard the co-operative movement as deserving all the encouragement which lies within their power to give."

The Bill now before the Bombay Legislature seeks to achieve two objects. In the first place it proposes to reduce the debts due by agricultural debtors to what is expected to be within their repaying capacity, repaying capacity being defined in Sec. 47 as 80 per cent. of the value of the property of the debtors and the value of his other assets calculated at the net annual income of such assets capitalised at 6 per cent. In the second place it proposes to ensure or at least tries to ensure, that the debtor so relieved of his debt does not incur further debts beyond his capacity to repay, by

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compelling him, if he at all wishes to have his debts adjusted, to join a Co-operative Resource Society. It lays down in Sec. 75 that:—

- (1) No debtor who is a party to an award under this Act and who is indebted to a resource society shall alienate or encumber the standing crops or the produce of his land without the previous permission of the society. Any such alienation made without the permission of the society shall be void.
- (2) Any debtor who alienates or encumbers the standing crop or the produce of his land in contravention of sub-section (1) or a person who knowingly permits such alienation or encumbrance to be created in his favour, shall on conviction be punishable with imprisonment which may extend to six months or with fine which may extend to Rs. 500.

I have thought it necessary to quote here Sec. 75 in full, as it is the crux of the whole legislation. Although provision is made in Sec. 76 for exceptional cases in which the Provincial Government may authorise an individual or body to advance loans to agricultural debtors whose debts have been adjusted, the burden of financing the agricultural debtors is placed on the whole on the shoulders of the co-operative movement, i. e. in the last instance on the co-operative financing agencies.

There are thus two aspects of this legislation in which co-operative financing agencies are vitally interested. Although co-operative debts do not directly come within the purview of the Debt Adjustment Boards, Sec. 43 (4) lays down that the Co-operative Society shall intimate to the Debt Adjustment Board the amount of remission of debt which the Co-operative Society is willing to give in respect of the debt due to it. It is not mentioned on what principles the Co-operative Society may be liberal in granting remissions where a majority of its members are indebted to it, and where the Society's own funds are small. If such extravagant remissions of debt to the primary societies are granted, there is danger to the stability of the whole structure of co-operative finance. When this legislation was under consideration, the Hon'ble the Finance Minister had called an informal conference of some co-operators, and it was suggested that the remissions of debt to be allowed by the primary societies would be under the advice of the Registrar in consultation with the financing agencies. It is necessary that the position in respect of Sec. 43 (4) is clarified first by a suitable amendment, or by suitable rules under the Act, if it is possible to do so, as otherwise quite mistaken notions are likely to prevail about the implications of this particular clause.

This conference is asked on what lines financing agencies would advise societies to scale down debts under Sec. 43 (4). It is for your consideration whether you should not first ask for a suitable amendment of this section. It is also for your consideration whether Co-operative Societies should be

called upon to scale down the debts due by their members to them at all, in view of the facts which I need hardly recall to a gathering of co-operators that the debts due to a Co-operative Society stand on quite a different footing from a debt due to a money-lender, that the profit made by a Co-operative Society out of interest earned from its debtor-members has gone back to the debtor-members in one form or another unlike the profit made by a sowcar, and that the co-operative credit movement in its own humble way has helped to bring down the rate of interest payable by the cultivator in many districts. Further in all hard cases, co-operative financing agencies have been granting liberal remission of interest, and if the rate of interest charged in certain areas appears to be high, it has to be kept high to compensate for the low rate of interest earned from less fortunate districts. Here is co-operation in the true sense of the term! But there may still be cases where remission of debt may be in the best interests of the members and of the primary society and the financing agencies would not be averse to recommend the primary societies, to allow remission in such cases. If you accept this view, you will no doubt recommend that the primary societies can only allow remissions of debt to their members with the consent of their financing agencies in case they are indebted to the financing agencies. The financing agencies in their turn would be guided by the advice of the Registrar of Co-operative Societies.

A note of warning may be sounded here in connection with the policy of remissions of debt to be allowed by primary societies to their debtor-members. The burden of such remissions is bound to be felt by the financing agencies. But the financing agencies cannot in their turn ask their depositors and the general public to write off their deposits of Current or Savings accounts. At present the Co-operative Banks are—thanks to the soundness of their structure—able to tap the money markets of cities like Bombay, Surat or Ahmedabad, and make available to the agriculturists funds borrowed from the money market at low rates of interest. They can stand up to a certain amount of strain. But if a policy of ever-popular over-liberal remission of debt is followed by primary societies, the faith of the public in co-operative banking institutions may be shaken, and these very agriculturists whom it is proposed to help, may, in the long run, be the worst sufferers. Credit—especially financial credit—is a delicate plant. It has taken years and years to nurture it, and bring it to its present condition in the co-operative banks; it is already bearing fruit in the form of cheaper finance to the agriculturist. Any violent digging and chopping at its very roots—at the primary societies—may endanger its very existence.

It is, therefore, reassuring that the Hon'ble the Finance Minister in his Budget Speech on February 14, 1939 definitely stated: "*Government have decided to stand by these financial institutions and support them in every possible way as it will be on them that in the coming days Government will have to depend for financial assistance to the rural population.*"

One of the items before this conference is to suggest the best methods of securing Government assistance for the work of rehabilitation and development, in view of the above assurance. Financing agencies are, under the contemplated legislation, asked to stand up to a double strain—the first is that of the remission of debt already referred to; the second is that they will have to finance the agricultural operations of the entire farming community whose debts have been adjusted. They have the assurance of the sympathy and support of the Provincial Government. As the answer of this conference to all the items on its agenda to-day is bound to depend largely on the nature and the scope of the Government's assistance, I shall deal briefly on the lines along which this assistance can be given.

According to the Budget Speech of the Hon'ble the Finance Minister, Government have decided to subscribe share capital in the financing agencies to the extent of Rs. 20 lakhs. They thereby hope to enable these institutions to raise their working capital by nearly Rs. 2 crores, and place it at the disposal of the agriculturist. It is for your consideration whether this is the best or only form of Government's assistance which can be given. Although technically the increase of share capital by Rs. 20 lakhs may empower the Co-operative Banks to borrow Rs. 160 lakhs, it does not necessarily follow that the Co-operative Banks will be able to command additional deposits to this extent. To enable them to meet the additional demand on their resources, the Government of Bombay should be prepared to place at the disposal of the Provincial Co-operative Bank and other Central Banks substantial amounts of loanable capital, as recommended by the Indian Central Banking Enquiry Committee in 1931: Majority Report (Para 189)

"We recommend that when a Provincial Government is satisfied that for meeting the needs of the movement in exceptional circumstances, or for the development of the agricultural industry, it is necessary to make loanable capital available to the co-operative banks, the Provincial Government with the concurrence of its legislature should place at the disposal of the movement such loans as may be necessary to meet the requirements. Such funds shall be placed at the disposal of the provincial banks to be loaned out to central banks and primary societies."

There is no reason why at least a certain portion of the funds of the Government of Bombay should not be deposited free of interest with the Bombay Provincial Co-operative Bank and other Central Co-operative Banks. Further, in times of stress or in the near future when the effects of debt reconciliation may be felt very keenly by the financing agencies, and when the advantages of the rural development scheme are still remote and not realised, Government may have to step in and it would strengthen Government's ultimate plans and the co-operative movement's financial position if they made up their minds from now and gave an undertaking to place further deposits with the Co-operative Banks, if necessary.

The Indian Central Banking Enquiry Committee (Majority Report) has also made recommendations in case the borrower defaults to pay regularly the annual instalments to a primary society. The Banking Enquiry Committee says: (Para 91 (6)) "In that case the Society will be subjected to a loss and it is desirable that Government should come to the assistance of the Society in all cases where the loss is not due to any negligence or mismanagement on the part of the latter." This is a very salutary recommendation and furnishes a parallel which the Bombay Government may well follow. The principle of the Local Government recouping the loss, which may be caused by their debt reconciliation policy to the primary societies, may with advantage be extended also to the financing agencies, as they will be called upon to bear a very severe strain on their resources, especially in the initial stages of debt adjustment.

Reference has already been made to the importance of credit for the very existence of a financing institution. The financial credit which enables a bank to borrow, say, 9 times its own capital, depends upon the faith of the depositor in the bank. This faith is easy to shake, but difficult to establish. It depends upon the continued ability of the bank to repay its dues at the promised date, its continued solvency and its continued ability to earn a reasonable profit. To enable all these objects to be achieved, Government's assistance would have to be three-fold as explained above. Firstly, Government should announce that the financing agencies of the co-operative movement have Government backing. This has already been done in his Budget Speech by the Hon'ble Finance Minister, who announced that Government had decided to subscribe share capital in the financing institutions to the extent of Rs. 20 lakhs. Secondly, this announcement should be followed up by recognition of the Co-operative Central Banks and the Provincial Bank as bankers to the Local Government, and the Local Government should place at the disposal of the financing agencies loanable capital as recommended in the Banking Enquiry Committee's Majority Report. Thirdly, in order to preserve the profit earning capacity of the banks, the Government should announce that they would come to their assistance where losses are incurred through no fault of their own, but as a result of the debt adjustment policy.

It may appear that the demands made on the Government are on the high side. To any critics of these demands it may be asked whether they are able to point to any country where it has been possible to finance agriculture without Government assistance. I have not been able to find such examples of successful financing of agriculture without Government help, but, as I shall show presently, there are many examples of Government's help to agricultural banks even in more advanced or self-reliant countries. This is because the principles of ordinary commercial banking would not allow any bank or financing institution to undertake the risk involved in

financing agriculture. In India the risk is all the greater, as agriculture is, after all, "a gamble on the rains" and hardly a profitable occupation in itself.

A close parallel to Indian conditions may be found in America where 'the Federal Intermediate Credit System grants loans for periods of not less than 6 months and not more than 3 years. The Intermediate Credit Banks are Government institutions. Their establishment was made mandatory by an Act of the Congress and the Secretary of the Treasury was directed to subscribe to their capital stock in such amounts as called for by the Directors of the Banks, not in excess of 5 million dollars for each bank'. (Majority Report—Indian Central Banking Enquiry Committee. Para 247). Further, in the case of a Federal Farm Loan System, the Government of the United States was authorized by the Congress:

- (1) to subscribe to the share capital of these banks
- (2) to take up debentures issued by these banks
- (3) to pay for organization expenses upto \$100,000
- (4) to make temporary deposits for the use of any Land Banks.

The debentures of these Banks are exempt from Federal, State, Municipal and Local taxes and are Trustee Securities. (Majority Report of the Indian Central Banking Enquiry Committee. Para 247, pp. 188, 189).

In England, which believes in minimum Government interference, the resources of the Agricultural Mortgage Corporation, Limited, consist of the share capital, the guarantee fund, and the debentures issued by the Corporation. The guarantee fund is provided under Section I (i) of the Agricultural Credits Act 1928 and is equal to the share capital of the Corporation. It carries no interest for a period of 60 years, after which period the interest payable is not to exceed the average yield on Government funded stock. The amount of the guarantee fund is £ 650,000. Further, Government contribute £ 10,000 annually towards expenses. (Mr. K. L. Punjabi, I.C.S., Bombay Provincial Co-operative Quarterly, September 1937).

In Bulgaria, where there is a centralised system of co-operative credit financing State control, the Government have intervened to take over 80 per cent. of the farmers' debts, substituting in their place amortization payments spread over 10 years. The debt which was payable to the Agricultural Bank (with which the Apex Co-operative Bank was amalgamated in 1934) has since been taken over by the Government itself, leaving the Bank free to carry and develop its fresh business with agriculturists. Similar action is taken in Yugoslavia, while in France a special State Fund has been provided for the amortization of the debts which are made repayable over an extended period of years. In Denmark, Government have assumed a guarantee for the redemption of agricultural debts and secured a reduction in the rate of interest. (Vide Miss Margaret Digby—Indian Co-operative Review in July-Sept. 1937).

From the above examples of the experience of other countries it will be seen that the demands suggested on the Bombay Government are reasonable, and not in any way excessive and the Bombay Government must be prepared to meet these demands if it wishes to carry through the scheme for agricultural debtors' relief to a successful result.

Government's assistance has also been envisaged in the speech of the Hon'ble the Finance Minister by creating a more uniform and economical organization for field work. As a part of the scheme of rural development and in order to ensure systematic and speedy recovery of Co-operative Societies' dues, it is proposed to provide the Co-operative Department with its own recovery staff. A staff of 100 officers of the grade of Aval-karkuns with requisite office establishment will be employed and will be in charge of liquidation, winding up and recovery work of Co-operative Societies (*vide* Bombay Government Resolution of March 8, 1939). It is for this conference to consider in what way assistance thus provided can be utilised for the re-organization of the arrangement for supervision, inspection and development with a view to securing economy, co-ordination and unification of control. This is one of the items on the agenda of the conference and the financing institutions may well consider to what extent they can delegate their own functions of inspection, preparation of normal credit statements, examination of credits etc. to the field staff of this calibre to be appointed by the Government. It is also for consideration whether the utilisation of Government agency in this manner would enable the financing agencies to retrench their own staff or to pass it over to the Government, and pass on the advantage of such economies to the agricultural borrowers.

Finally, one cannot but admire the courage of the present Government in trying to tackle the problem of rural indebtedness not in a haphazard way but in a wholehearted manner. It is all the more creditable that it is realised that tackling the problem of credit alone will not solve the problem of rural indebtedness or of the poverty of the peasant. A Department of Rural Development is to be attacked on all fronts—from the directions of co-operation, agriculture, cottage industries and marketing. The financing agencies I am sure, will be prepared to assist Government in the noble work which they have undertaken to the best of their capacity. But the very nature of their structure and their business exposes them to certain risks and requests them to ask for Government assistance in a number of ways outlined above. I wish all success to the Government in its bold experiment at rural reconstruction, and can only wish that the Hon'ble Finance Minister was able to secure larger amounts of money for this purpose, and that the public was more interested in these really constructive foresighted proposals. First time since medieval times has any Provincial Government in India aimed so high in the sphere of rural uplift. The broad outlook which the Government's rural development programme is conceived should be continued in all the details of its execution so as to overcome the many difficulties that are bound to present themselves in so huge a task."

Co-operative Insurance.

A radio talk by Prof. S. K. Yegnanarayana Iyer.

The word 'Insurance' is another form of 'Ensurance' and means making sure something. It is now generally used in the sense of making sure of help in times of an emergency or against an unexpected danger.

In medieval times, Insurance had its origin in the case of ship-owners. Some speculative people promised the ship-owners a certain sum in case the ships did not return in safety. In course of time, the speculative element has been practically removed and the whole scheme of Insurance is based upon an absolutely safe and scientific basis; thanks to the progress of the Science of Statistics and the careful study of the laws of probability. The experts in the subject can now almost calculate to a nicety the amount of risks in particular fields and Insurance Companies provide against such a risk and hence run safe business.

Insurance can be effected against any risk anticipated. The usual forms are: against fire, against accidents; and against burglary. There are instances of Film Actresses insuring their faces and dancers insuring their legs and so on. But the above mentioned are the usual forms of Insurance. The most popular form of Insurance, of course, is provision in case of the bread winner of a family being snatched away by the cruel hand of death. Death, so far as we human beings are concerned, is a certainty and hence sometimes, Life Insurance business is termed "Assurance".

The need for insuring the lives against death being recognised, there is a definite social demand for this kind of business and shrewd business-men have been first in the field to supply this demand. Capitalists joined together and floated a company, where in return for the premia collected, they insure the life of persons and promise to pay at death or at the time of maturity, specified amounts. As a matter of fact, the premia collected are more than what is absolutely necessary to cover the risk. The actuarial science tells us that within a particular group, say, a thousand, whose ages range from 18 to 55, only a probable number, not more than 25 would die in a particular year; but there is no scientific possibility of forecasting, which 25 out of this group will die and hence the Insurance Companies exploit this uncertainty and try to get all the 1,000 people insure their lives with them, with the result that they collect quite a large amount as premia and this is invested in a 'Life Fund'. The income from the premia collected, and the interest upon the accumulated 'Life Fund' enable these capitalist concerns to declare high dividends, out of which, in recent times, no doubt, they pay some bonus to policy-holders. But even after this payment, the gain to be divided among the original share-holders is so vast that some of the long-standing companies have, by way of dividend, paid the original capital many times over. And if anybody scrutinises stocks and shares as published

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in the newspapers, they can see for themselves that the Rs. 50 share for a well-known company is selling now nearly for Rs. 500. This is how, an ordinary Capitalistic Insurance Company is working.

Now, we co-operators want to extend our activities in this field of Insurance, as well. The ordinary capitalistic concern is actuated by a motive for profit, whereas with us co-operators, the main object is 'service to the people'. Profit there is; but it is not the main consideration.

Just as before the co-operative movement was started in 1904 there were money-lenders who exploited the poor borrowers and the Co-operative Societies lightened the burden of debt in the case of thousands of borrowers; just as there were shops, catering to the needs of consumers and in recent times Co-operative Stores have been started which supply articles at a reasonable price and of good quality, and whatever gain there is from this transaction, is returned to the purchaser by way of rebate; and just now Marketing Societies are started to enable producers to sell their own produce at maximum cost, advantageous to themselves; similarly the co-operative movement which has been spreading itself in various directions and doing efficient business in all of them, has now taken up Insurance work as well.

The main features of a 'Co-operative Insurance' are in the first place, the Insurance Society is registered under the Co-operative Societies' Act and hence, it is entitled to all the benefits of a Co-operative Institution, viz., exemption from Stamp Fee, Government Supervision and Audit and so on. Secondly, in the bye-laws themselves, there is provision for setting apart a fixed portion of even the first year's premium and a very much higher portion of the renewal premium towards the 'Life Fund', a feature, which will be conspicuous by its business, in most capitalistic concerns. They are bent upon getting business without reference to the cost of procuring the same. Thirdly, like the main movement of co-operation, this special division of it is intended to benefit the poor man. Big and capitalistic concerns would well-come a few policies, each for a sufficiently big sum, whereas, we aim at spreading the benefits of Insurance to the poor man in the village and issue policies from Rs. 100 to Rs. 500 the like of which no capitalistic concern is prepared to do and which, according to the New Act, no capitalistic concern is allowed to do. In the earlier days, so far as Madras company is concerned, the Government nominated a Director; but in course of time, when they felt that the affairs of the company were getting on very well, they withdrew their nominee. The Madras concern is purely a mutual one, that is, the company belongs to the policy-holders. It is true, that there are some share-holders and they are mostly co-operative concerns like District Banks and the Provincial Bank and so on, and they subscribed share capital in the earlier stages to enable the Insurance Company to start work and they have never been keen on getting a high dividend. In fact, the Insurance Company has taken powers to return the share capital to these institutions, and

when that process of returning is complete, the company will be a purely mutual one.

In these and various ways, the Co-operative Insurance Company is attempting to popularise the benefits of Insurance among the people at cheaper rate, but with equal efficiency and it is hoped, that the masses of our land would avail themselves of it.

II

An abstract of the radio talk "we are not alone" on Co-operation at the Trichy A.I.R. by Mr. O.A. Narayanaswami.

No man can afford to live alone in this wide world without the help of his brethren and even so, every human being owes a duty to his brethren. This is the ideal embodied in the motto of "All for each and each for all" for which the co-operative movement stands.

A co-operative society is not only a combination of the economically weak and helpless, for the purpose of carrying on a common enterprise and sharing the profits thereof commensurate to their contribution but also a humanitarian movement intended to develop thrift, self-help and selfless work for the common good. Though the movement in the present form owes its inception to the Co-operative Societies Act of 1904, the aims and ideals thereof have always been manifested in the Indian body politic from time immemorial. The self-contained village community of ancient days which was a model to the countries of the West and catered to the needs of the villagers in all spheres of activity, was undoubtedly the best manifestation of the co-operative spirit. The impact of the Western influences during the past one century and over has to a great extent disintegrated the structure of ancient village life and the villager finds himself thrown into a vortex of new economic conditions which he is not able to grasp or understand. Though the centralisation, resulting from administrative changes consequent upon British administration, has been in some respects advantageous, yet the villager at present is in a hopeless plight, sunk in poverty and ignorance, weighted with a load of debt he could not bear and is drifting helplessly along. The only panacea for almost all the ills that afflict the villager at present is undeniably the co-operative machinery with a network of organisations all over the land.

This is testified to by the Royal Commission on Agriculture who observe in their report that "If co-operation fails the best hope of Rural India fails". It is through co-operative endeavour that many countries of the West have been able to attain a considerable degree of prosperity, higher standard of living and better conditions of life, such as Great Britain with its vast stores organisations, Denmark with its dairy societies and Italy with the many forms of labour organisations. But in India the achievement since the inception of the movement, 35 years back, has not been as

satisfactory as anticipated. The movement has just touched the fringe and even then mostly on the credit side. The accumulating overdues in primary societies and the heavy surplus at the top indicate an unhealthy state of affairs. But that at any rate to a limited extent the movement has been beneficial cannot be denied. There is ample scope for further development and the possibilities are immense. The future lines of development will be in the direction of controlled credit, revival of cottage industries intensive agricultural development, marketing and effective methods of propaganda. A planned programme is necessary for the purpose. The recent Debt Relief Legislation in our province has lessened the load of agricultural debt to some extent. The Act, besides, has reduced the rate of interest. There has no doubt been in the rural areas a considerable contraction of credit but only of such credit as has hitherto been available for unproductive extravagant items of expenditure, at very high rates of interest. The result of this Act will therefore be to direct rural credit along well-regulated channels of co-operative credit.

Besides, the Madras Government have also, through measures of total prohibition and other ameliorative steps, been trying to do their utmost to secure better economic conditions in rural areas and improve the lot of the villager. Measures on the anvil comprise relief of taxation in the direction of shifting the burden thereof from the villages to the town. The Committee on Co-operation under the able guidance of Sir T. Vijayaragavachariar is also considering the measures necessary for making the movement function effectively. The revision of the Act is also under contemplation. The present time is therefore most opportune for a reorientation of rural credit through Co-operative Societies along lines already indicated with such safeguards for supervision and control as would make them function satisfactorily. There is therefore immediate need for very effective propaganda in the villages and it would be a piece of national service, if some of our bright young men sufficiently trained for the purpose are forthcoming to go into the villages, fired with a missionary spirit and carry the message of co operation to them. If only this is achieved there is no denying that our countryside will be full of prosperous village republics smiling in peace and plenty and pave the way for the new India which Gandhiji dreams of and the "Bharatha Samudhayam" of which Subramaniya Bharathi sings.

Reviews.

Report on the working of Prohibition in the Salem district by Mr. C. Jagannathachari, M.A., M.Litt., Special Research Scholar, Annamalai University, published by the Department of Economics, Annamalai University.

This may be read along with the report on the economic results of Prohibition in the Salem district published by the Madras University Economics Department. But this differs from the Madras publication in the fact that the entire enquiry was conducted by one individual as against six research students of the Madras University. There is therefore more of the personal element in this report than in the Madras report.

After dealing with the physical features and the general economic condition of the Salem district, the author explains the main provisions of the Prohibition Act and describes the machinery for enforcing it and shows how the machinery is working. The most important portion of the book is sections III and IV dealing with the economic condition of the people after the introduction of Prohibition and the family and social life under Prohibition. The author took up for study three typical taluks of the district, namely, Krishnagiri, Tiruchengode, and Salem and carried on investigation in about 20 villages of these taluks. Taking a family as unit, he carried on investigations on the following points, namely, members of the family, income, property, expenditure, debt, the origin of the liquor habit, general health after Prohibition and so on. His analysis of the insidious way in which a drink habit steals into the daily routine of a man is very helpful. After an exhaustive enquiry the author has come to the conclusion that Prohibition has been helpful not only economically, but physically and morally, and in many other ways which cannot be easily enumerated and evaluated. The actual histories of typical families belonging to different strata of society given on pages 38 to 45 should convince even a sceptic that the author's statements are based upon irrefutable facts.

We are specially gratified to be told that weavers and landless labourers have been benefited by Prohibition. The best testimony in favour of Prohibition is given on pages 77 to 79 in the remarks of two women who gave expression to their natural feelings in their own artless manner.

We are sorry to note that in the opinion of the author co-operation of the non-officials in the district both in the matter of enforcing Prohibition and in the matter of giving counter attraction to former addicts is somewhat unsatisfactory. We hope the patriotic citizens of Salem would rise equal to the occasion and acquit themselves well in this great struggle which is being watched all the world over with great expectation. The report is one more testimony, and that by an expert, of the beneficial effects of Prohibition and we hope the Government will push on their policy and enforce Prohibition in more and more districts in the years to come.

S. K. Y.

II

Bulletin No. 4 of the Reserve Bank of India Agricultural Department (Co-operation in Panjavar, a village in the Una Tahsil of the Hoshiarpur District, Punjab).

Bulletin No. 4 issued by the Agricultural Credit Department of the Reserve Bank of India is as usual an interesting document worthy to be studied carefully by all interested in co-operation and Agricultural Credit. It is unlike their official bulletin on the working of Kodinar Banking Union. The Reserve Bank seems to have circularised the Co-operative Departments of the various provinces to find out whether any other institution of the same type be working and as a result they seem to have received many replies and the bulletin under consideration is one dealing with an institution that has been working successfully in the Punjab. The responsibility for the contents of the bulletin is not accepted by the Reserve Bank themselves; the author is the Assistant Registrar of Co-operative Societies, Sialkot, the Punjab.

The bulletin is divided into two sections one dealing with the working of what is known as Shamlat Society of the place which was a pioneer in the field of co-operation even before the Co-operative Societies Act was passed. The second part deals with an account of a co-operative society started after the automatic winding of the first society after its 30 years of existence. The co-operative society worked successfully and became a centre of useful activity in the neighbourhood. It developed into a nucleus as the Kodinar Banking Union has done and we are told that it has conferred many benefits on the members of co-operative societies in the neighbourhood. The following are some of them :—

- (1) Throughout the field of operation of the Union improved seed is being used.
- (2) Lessons of self-help and mutual help have been preached and the general body meetings have been of great educative value.
- (3) Ceremonial expenditure has been considerably curtailed.
- (4) Ideas of sanitation and hygiene have been popularised among the people as a result of which the country side is much healthier than in the past.

The Union is now looked upon as leader in all economic, social and cultural activities in the neighbourhood and the peasantry all round are happier and healthier and more contented than before.

It is possible if proper human material is available to develop such centres in other parts of India as well.

S. K. Y.

News and Notes.

The Government of Madras, it is understood, have sanctioned the opening of nine co-operative land mortgage banks during the year 1939-40 and also for the employment of three Co-operative Sub-Registrars in connection with the work of the above banks.

Improvement of the breed of milch cattle in the province is engaging the attention of the Bombay Government. A committee has been constituted with the Director of Agriculture as Chairman to formulate proposals for the proper working of the scheme. The plan it is learnt, is to establish five centres in the province and work them on co-operative basis.

A definite attempt is made by the co-operative movement of the West to enlist the sympathies of the youths of the country. In order to achieve this they hold classes and lectures to make children and adolescents get acquainted with the ideals and economic purpose of the movement. The youths of the land are induced to make small savings and to take interest in the working of the co-operative movement during their leisure hours.

Sri P. K. Pattabhirama Sastri, District Educational Officer, Vellore, inaugurated on the 22nd May a fortnight's course in bee-keeping for the benefit of 26 elementary school teachers in the Vellore range. Mr. M. S. Kotiswaran, Headmaster of the Mahanth School, who was present on the occasion expressed pleasure that the teachers now-a-days took interest in handicrafts and cottage industries.

A scheme to establish an Agricultural School in order to give practical training in dry, wet and garden cultivation, market gardening and poultry farming, submitted by the Director of Agriculture, has obtained the sanction of the Mysore Government. As per the arrangements contemplated the Vokkalinga hostel at Sommanahalli will be converted into an Agricultural High School.

The Government Cottage Industries Institute, Delhi, which was started in 1934-35, it is stated, has been able to solve unemployment to some extent. It provides free training in spinning, weaving including tapes and durrees, gota making, dry cleaning and washing and other allied trades in addition to wood carving, clay modelling, etc. The demand for the Institute, which comes mainly from urban population, it is reported, is heavy. The Government of India have sanctioned a grant of Rs. 2,000 in 1934-35, Rs. 5,000 in 1935-36 and Rs. 6,000 in 1936-37, 1937-38, and 1938-39 each.

English papers are full of measures taken against any possible air raid in England in case war breaks out. A. R. P. (as it is called) or Air Raid

Precautions are being adopted by every department. School children are expected to be taken to a safe place and the whole city of London is getting ready for quick evacuation in case of air raid.

Along with other employers of labour the C. W. S. also has budgetted for a possible expenditure of £62,000 for A.R.P. measures to be adopted for its 58,000 employees.

Mr. R. Suryanarayana Rao, B.A., of the Servants of India Society, of Madras, while speaking recently at the Annual Day celebration of the Chepauk branch of the T. U. C. S., Ltd, pointed out that a co-operative society should satisfy all the legitimate needs of the members. He rightly observed that unless co-operative societies took the place of sowcars and met all the economic needs of the members the economic improvement of the members could not be effected. The lecturer wished that the Purchase Committee consisted mainly of women as they were the fit persons to determine the quality of the articles. He then advocated for the closer co operation between T. U. C. S. and the Provincial Co-operative Marketing Society.

The school leaving age of children in England has been recently raised to 15. But exemption can be secured if it is brought to the notice of the authorities that the children are engaged in "Beneficial Employment".

We are glad to learn that the authorities of Co-operative Union have advised their members to refrain from applying for exemption certificates under this plea so that at least co-operative societies will be no party for reducing the period of compulsory study in schools by students.

While performing the pleasant function of laying the foundation stone of the Tindivanam Co-operative Urban Bank, Ltd., on 3rd May 1939, Mr. S. A. Venkataraman, I.C.S., Registrar of Co-operative Societies, Madras, observed that he wanted to lay the foundation stone of not only a fine building but of the co-operative movement itself. It was his sincere hope that by laying the foundation stone the Bank should be prosperous, serviceable and useful to the public. He appealed to the members present there to be honest and of good character as they go a long way in the successful growth of the movement. In conclusion, the Registrar suggested the formation of a Loan and Sale society also for extending the Bank's activities throughout the district.

"Drink more milk" is the slogan of Agricultural Department in many a Western country. The Technical Commission of the Health Committee of the League of Nations has investigated the problem of milk and it recommends about a pint for children from ages 1 to 2 and about 2 pints for children upto 14 years of age. They recommend milk as an important article of food for persons of all ages. A well-known Sanskrit proverb tells

us that 'Milk is an ideal food for Yogi, Bhogi and Rogi'. That is for the spiritually inclined, for the sexually inclined and for the invalid.

Speaking recently at the Cultural Association of the Central Co-operative Institute on "Psychology of Co-operation" Mr. M. S. Srinivasa Sarma said that co-operation in India has not assumed various forms as in the case of other countries. This he thought was due to the lack of co-operative spirit or team spirit as it is often called, and the rule of self-centredness and insincerity. The promoters of a co-operative institution very often only sought to benefit themselves instead of the members at large. He opined that the first principle of co operation was not the production of fine goods but human beings. Further he observed that in the process of self-purification, which made them regard one another as brothers, lay the secret of the co-operative movement and the secret of national welfare.

Hon'ble Mr. V. Ramadas Pantulu recently spoke at the Cultural Association, Mylapore, on 'Reserve Bank and Co-operation'. In doing so he stated that none of the conditions that the people would want in an Indian Central Bank was fulfilled by the Reserve Bank as now constituted. While he agreed with the Reserve Bank in the enlargements of the functions of the village societies he also wanted to enlarge the area of operations of the village societies so that a group of villages might be covered by a single society. He observed that the multi-purpose societies suggested by the Reserve Bank should function on a wider basis. When societies were thus formed on an enlarged basis they could not work on unlimited liability system. On this aspect of the question, Mr. Pantulu thought, that the pamphlets of the Reserve Bank failed to give a lead.

The co-operative milk trade of England during the year 1938 shows satisfactory progress. As liquid milk they sold 177,643,004 gallons and milk for manufacture was sold to the extent of 13,707,058 gallons, making up the total of 191,350,062 gallons. The national figures supplied by the Milk Marketing Board for England and Wales give the total milk sales for the country to be 1,063,333,513 gallons. It would thus be seen that co-operative milk trade handled nearly 18 per cent. of the total milk trade of England. If we remember that an ordinary kerosine tin contains 4 gallons, the co-operatives of England handled 48 lakhs of tins of milk during the last year.

The Ninth West Godavari District Co-operative Conference was held at Relangi, 5 miles from Tanuku, when Sir T. Vijayaraghavachariar had the pleasure of declaring it open. While doing so he stated that co operation was based on the old adage viz. "Union is Strength" and commended to the gathering the observation of Sgr. Mussolini "Sink your differences and follow the leader." Unfurling the co-operative flag Hon'ble Mr. V. Ramadas Pantulu observed that that flag was the emblem of peace and the symbol of

international unity. Mr. Pantulu further urged for the abolition of registration fees for co-operative societies and stated that the Limitation and Insolvency Acts should be so modified as to guard the interests of the co-operative movement. The conference was presided over by Mr. P. S. Kumaraswami Raja whose speech is published elsewhere in this number.

Mrs. Chadwick addressing an audience of co-operative ladies spoke as follows :—

"We have too many boards of management which are parochial in outlook. They carry on in their own way, while our opponents are amalgamating their forces. I think we all realise the day of the one-man business is dying out. The combines and multiple firms are continually buying out their smaller competitors. The bulk of the trade of this country is done by multiple firms and the C. W. S.—but we don't show up in a favourable light; and we should amalgamate our forces."

A press communique giving an account of rural reconstruction work during the quarter ending 31st December 1938, issued by the Ministry of Public Information, Madras, says :

"Since the issue of last review, subsidies to the extent of Rs. 8,037 have been sanctioned to four Co-operative Loan and Sale Societies in the districts of Cuddapah, West Godavari, Madura and Ramnad for the construction of godowns estimated to cost Rs. 32,475. Loans amounting to Rs. 21,400 have also been sanctioned to the first three societies. The construction of godowns in other districts for which subsidies have been sanctioned is making quick progress."

The Communique also adds "that the Government of India grant was made available for the formation and encouragement of co-operative societies for consolidation of holdings only in August last. Proposals for the employment of special staff for the formation and supervision of such societies are under consideration."

It is further stated that industrial museums have been started in North Arcot, Tinnevely, Guntru, Cuddapah and S. Kanara districts in order to popularise cottage industries and steps have been taken for the formation of similar museums in some other seven districts. In Salem district cottage industries are proposed to be promoted through the agency of co-operative societies spread over the district.

Government Order.

INVESTMENT OF LOCAL BOARDS' FUNDS.

The Government have passed orders directing that all municipal councils and district boards, which had current accounts with banks or co-operative societies, other than current accounts of municipal councils with the Madras Provincial Co-operative Bank, should close their accounts and transfer the balance to their accounts with the Government treasury not later than June 30 this year and that they should not make further payments into the accounts with banks and co-operative societies after the receipt of this order.

In the course of their order, the Government state that in connection with the examination of the financial arrangements consequent on the inauguration of provincial autonomy His Excellency the Governor had come to the conclusion that in view of the present changed conditions the existing orders required revision. The order stated that these bodies should conduct all their ordinary transactions with the nearest Government treasury or sub-treasury. Special permission should be sought by any body which considered it absolutely necessary to keep a current account in a bank in addition to its account with the nearest treasury.

The Government order also lays down rules regarding investment of moneys. They provide as follows;

"A district board or municipal council might invest the whole or any portion of earmarked funds, viz., the provident fund, railway cess, water and drainage fund and endowment funds as below. No other funds should be withdrawn from a local body's treasury account for investment without the special sanction of His Excellency the Governor, which would not be given unless there were special and exceptional reasons for it.

Investments should be in the form of securities or deposits specified below ;—

- i. Madras Government securities and securities guaranteed by the Madras Government as to payment of interest and repayment of principal.
- ii. Non-terminable loans of the Central Government.
- iii. Fixed deposits for periods upto three years in the Madras Provincial Co-operative Bank and Central Co-operative Banks approved by the Registrar of Co-operative Societies for the purpose; and
- iv. Post Office Savings Bank deposits (only in the case of provident fund balances likely to be required for early disbursement).

His Excellency the Governor considers that local bodies' investments should be made in item (1) except when there are special reasons for considering that it would be more advantageous to invest in one of the other permissible forms."

CIRCULAR

Circulars.

R. No.4034/39-B.

OFFICE OF THE
REGISTRAR OF CO-OPERATIVE SOCIETIES,
Madras, dated 25th May 1939.

S. A. VENKATARAMAN, ESQ., I.C.S.,
Registrar.

CIRCULAR

Sub:—Bylaws—Credit Societies—Model bylaw No. 36 —Driving the society to courts—Expulsion of members for—amendments to model bylaws.

According to bylaw 36 of the model bylaws of credit societies in vogue at present, "a member who drives the society to court to recover the money due from him shall, for that reason, be expelled from membership." Some instances have been brought to the notice of the Registrar, which call for a revision of this bylaw. In one case a defaulter against whom execution proceedings had been instituted claimed to continue as a member because he paid the amount due as soon as execution petition was filed. In another case (an unlimited liability society) a past member disowned liability for the debts of the society on the ground that the words "shall for that reason, be expelled" cast an obligation on the society to remove him from membership as soon as he drove it to court. The Registrar considers it necessary, therefore, to make the bylaw quite clear on the point, and also to distinguish between limited and unlimited liability societies in this respect. It is necessary to vest discretion in unlimited liability societies to exercise the power of expulsion so that members may not be removed from membership to circumvent unlimited liability. In the case of limited liability societies, however, the membership may be made to cease automatically. To serve this end, the Registrar suggests that the bylaws given below may be adopted in the place of bylaw No. 36 now in vogue in all societies.

Revised bylaw 36 of unlimited liability societies.

"36. If a member deceives the society in any way, or if his general conduct is such as to render his removal necessary in the interests of the society or if a member who being the principal debtor drives the society to the necessity of recovering his dues by way of execution, it shall be open to the general body to expel such member. An expelled member shall be paid all moneys due to him from the society after deducting therefrom any money due from him to the society and he shall be liable, as provided in bylaw 3, for the debts due by the society as they stood on the date of his expulsion, for a period of two years after such expulsion."

Revised bylaw 36 of limited liability credit societies.

"36 If a member deceives the society in any way, or if his general conduct is such as to render his removal necessary in the interests of the society, it shall be open to the general body to expel such member. A member, who being the principal debtor, drives the society to the necessity of recovering his dues by way of execution, shall *ipso facto* cease to be a member. A member who has ceased to be as such under either of these two provisions shall be paid all moneys due to him from the society, after deducting therefrom any money due from him to the society and he shall be liable as provided in bylaw 3, for the debts due by the society as they stood on the date of cessation of his membership, for a period of two years from such date."

(By order)

G. CHANDRASEKHARAN,
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62	The Pedalanka Sri Nageswaraswamy Co-operative Society ...	Krishna.
63	The Lingala Co-operative Society ...	"
64	The Guntur Fishermen Co-operative Society, Ltd. ...	Guntur.
65	The Hindu College and High School Staff Co-operative Society, Ltd. ...	"
66	The Chinnapulivarru Sri Thummalamma Co-operative Credit Society ...	"
67	The Chintadripet High School Students' Co-operative Stores, Ltd. ...	Madras.
68	The Thevayur Co-operative Credit Society ...	Trichinopoly.
69	The Sendurai Co-operative Credit Society ...	"
70	The Murungai Co-operative Credit Society ...	"
71	The Srinivasanallur Co-operative Credit Society ...	"
72	The Thalugai Co-operative Credit Society ...	"
73	The Arkonam Co-operative Land Mortgage Bank, Ltd. ...	N. Arcot Dt.
74	The Mudaliarpatti Mat Weavers' Co-operative Sale Society ...	Tinnevelly.
75	The Tiddimi Co-operative Society ...	Vizagapatam.
76	The Vanur Co-operative Stores, Ltd. ...	South Arcot.

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S. No.	Name of Society.	District.	Date of cancellation.
1	The Moolakothalam C.S. ...	Madras	... 5-5-39
2	The Arkonam Co-operative Loan and Sale Society ...	North Arcot	... 6-5-39
3	The Kavalkurichi C.S. ...	Tinnevelly	... 6-5-39
4	The Calicut Cottage Industries C.S.	Malabar	... 6-5-39
5	The Mithakondala C.S. ...	Kurnool	... 6-5-39
6	The Sree Radhakrishna Co-operative Better Living Society, Ltd.	Vizagapatam	... 6-5-39
7	The Sree Vema Ranga Co-operative Better Living Society, Ltd. ...	"	... 8-5-39
8	The Govada C.S. ...	"	... 8-5-39
9	The Kiladri C.S. ...	Ramnad	... 13-5-39
10	The Sree Anjenaya Co-operative Better Living Society, Ltd. ...	Vizagapatam	... 13-5-39
11	The P. Kosavapatti C.S. ...	Madura	... 17-5-39
12	The Perambra C.S. ...	Malabar	... 18-5-39
13	The Sanganeri C.S. ...	Tinnevelly	... 18-5-39
14	The Karaimeedu F.L.C.S. ...	Tanjore	... 24-5-39
15	The Sree Krishna Co-operative Better Living Society, Ltd. ...	Vizagapatam	... 24-5-39
16	The Sree Lakshmi Co-operative Better Living Society, Ltd. ...	"	... 24-5-39
17	The Sree Venugopala Co-operative Better Living Society, Ltd. ...	"	... 24-5-39
18	The Nathakulam C.S. ...	Ramuad	... 24-5-39
19	The Lam Adi-Andhra C.S. ...	Guntur	... 27-5-39
20	The Ajjavar Grain Bank, Ltd. ...	South Kanara	... 27-5-39
21	The Vishamangalam C.S. ...	North Arcot	... 31-5-39

The Madras Provincial Co-operative Marketing Society, Limited.

582, Pycrofts Road, Triplicane, Madras.

(Registered Under Madras Act VI of 1932.)

(PHONE No. 8175.)

Head Office ... 582, Pycrofts Road, Triplicane, Madras.
Fruit Branch ... 38, Bunder Street, G.T., Madras.
Potato Branch ... 2/24, Malayaperumal Street, G.T., Madras.

President : SRI T. A. RAMALINGA CHETTIAR, B.A., B.L., M.L.C.

The following are the main objects of the society :—

(a) to arrange for the sale of produce of the affiliated societies and other members to the best advantage; (b) to act as agent of members for the disposal of their produce; (c) to co-ordinate the activities of the various non-credit societies by getting them into touch with the market, places of production and the prices prevailing in the presidency; (d) to serve as an information bureau of raw products and articles available in the presidency or elsewhere;

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Commodities now available in the Fruit Depot :— 38, Bunder Street

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The need for a central society to find suitable market for the surplus produce of the loan and sale societies and that of the agriculturists was keenly felt and the Marketing Society was started in 1936.

The middlemen at the source and the places of production are eliminated and thus enable us to sell the goods at a moderate price. Producers are benefitted considerably. Accounts are settled as soon as a consignment is sold. The loan and sale societies in the province may get themselves admitted as members and send their goods for sale to the marketing society and desire the benefit.

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SUPPLEMENTS.

Reserve Bank of India,

Agricultural Credit Department, Bombay.

Reference No. ACD. 590/70-38.

To

**All Provincial Co-operative Banks and Central
Land Mortgage Banks.**

DEAR SIRs,

**Procedure to be followed by Co-operative Banks for
obtaining financial accommodation from the Reserve Bank.**

With a view to implementing the proposals contained in paras 37 and 38 of our Statutory Report to the Central Government under section 55 (1) of the Reserve Bank of India Act, 1934, we are issuing herewith the first of a series of circular letters laying down the procedure to be followed and the conditions to be fulfilled by Co-operative Banks desirous of obtaining financial accommodation from the Reserve Bank. The Bank reserves the right of changing the conditions from time to time, and may also call for additional information or impose such other conditions as it may consider necessary before granting advances or rediscounts. For instance in the case of crop loans the Reserve Bank will have to watch carefully the risk of excessive financing of any one crop either generally or in any area. We shall be pleased to furnish you, if required, with further information in explanation of any details of the procedure.

2. At present the various Provincial Co-operative Banks follow different methods of drawing up their balance sheets. As we consider it desirable that the balance sheets of Co-operative Banks should be prepared, as far as possible, on uniform lines, we attach herewith a form which in our opinion is sufficiently comprehensive for all practical requirements. We shall be glad to have your comments on it or any other suggestions you may have to make for its improvement. After a consideration of the replies received from the Co-operative Banks we propose to suggest the adoption of a standard form if general agreement is obtained. We propose that the form should be adopted by the Co-operative Central Banks also.

Yours faithfully,
MANILAL B. NANAVATI,
Deputy Governor,

Procedure to be followed by Co-operative Banks for obtaining financial accommodation from the Reserve Bank.

1. The Reserve Bank will deal with approved Provincial Co-operative Banks and through them with eligible Co-operative Central Banks of the A and B classes.

2. Provincial Co-operative Banks which desired to be classed as approved should make an application to this effect to the Officer-in-charge, Agricultural Credit Department, Reserve Bank of India, Bombay, through the Registrar of Co-operative Societies. The application should be accompanied by copies of their audited balance sheets, profit and loss accounts and annual reports for the last three years as well as a copy of their bye-laws. If it is desired to rediscount, or obtain advances against, promissory notes or bills of A and B class Central Co-operative Banks, similar statements for such banks should also be enclosed. After scrutinising the financial statements and making such further enquiries as may be necessary the Reserve Bank will prepare a list of approved and eligible banks, which will be revised from time to time.

3. In deciding the question of admission to the list, the Reserve Bank will not be guided merely by the classification of the Bank according to the audit but will consider whether its business is carried on generally on sound banking lines and will in particular pay attention to the following matters.

- (i) The maintenance of an adequate reserve and fluid resources invested in liquid securities.
- (ii) A strict separation of short term loans repayable within a year and long term loans, the proportion of the latter to the former not being unduly high.
- (iii) The proportion of overdues and bad debts to total loans and the provision for them.
- (iv) A business-like distribution of the assets in cash, investments, short term loans and long term advances.
- (v) The rate of interest paid on deposits.
- (vi) The dividends distributed.

4. Provincial Co-operative Banks admitted as approved banks will have to agree to the following:—

- (i) Maintenance of a cash balance with the Bank, the amount of which shall not, at the close of business on any day, be less than $2\frac{1}{2}$ per cent. of the demand liabilities and 1 per cent. of the time liabilities of such bank in India as shown in the special returns to be filed for the purpose.

Where the headquarters of a Provincial Co-operative Bank or that of a Land Mortgage Bank are not situated at the place where the Reserve Bank has its branches in the banking department free remittance transfer facilities will be provided for the maintenance of this account.

(The question of other remittance facilities to the co-operative movement is being separately considered).

- (ii) Preparation and submission of the balance sheet and annual report on the lines laid down by the Reserve Bank.
- (iii) Submission to the Reserve Bank of the Audit Note.
- (iv) Submission of periodical statements prescribed by the Reserve Bank.
- (v) Agreement to allow inspection of the Bank by officers of the Reserve Bank from time to time.

5. After a Provincial Co-operative Bank is informed of its inclusion in the approved list, if it desires any financial accommodation for the forthcoming season it should make an application through the Registrar to the Officer-in-charge, Agricultural Credit Department, specifying its requirements under the various clauses of Sec. 17 of the Act. The Reserve Bank will fix the credit lines for each bank at its discretion after considering the position as a whole. The Bank will be informed of the lines fixed and should apply to the Manager of the Reserve Bank office in its area when it requires actual accommodation. Fresh credit lines will be fixed every year and for this purpose the Provincial Bank should send its application at the beginning of every financial year through the Registrar and the Manager of the local office of the Reserve Bank to the Officer-in-Charge of the Agricultural Credit Department.

6. Financial accommodation will be available under the following heads:—

- (i) Loans or advances against Government securities for periods not exceeding ninety days to Provincial Co-operative Banks and through them to Co-operative Central Banks—Sec. 17(4)(a). This accommodation will be available at any time subject to the limits and margins which may be laid down by the Reserve Bank.
- (ii) The Bank would be glad to discount Treasury Bills at rates which can be ascertained from the Managers of the offices of the Bank.
- (iii) Similar loans and advances to Provincial Co-operative Banks and through them to Co-operative Central Banks against approved debentures of recognised Land Mortgage Banks, which are declared trustee securities, if the bank considers that the debentures are readily marketable.
- (iv) Loans and advances for periods not exceeding ninety days to Provincial Co-operative Banks against promissory notes of approved Co-operative Marketing or Warehouse Societies endorsed by Provincial Co-operative Banks and drawn for the marketing of crops—Sec. 17(4) (c); or rediscount of such promissory notes maturing within nine months—Sec. 17(2)(b),

or loans and advances for periods not exceeding 90 days on the promissory notes of Provincial Co-operative Banks secured by warehouse warrants issued by corporations independent of the borrower or on the security of promissory notes supported by documents of title to goods which have been assigned or pledged as Security for cash credits or overdrafts granted by the Provincial Co-operative Bank to approved marketing or warehouse societies—Sec. 17 (4) (d).

- (v) Besides making advances in the manner stated above the Bank will also on occasions be prepared to make advances to Provincial Co-operative Banks for a maximum period not exceeding ninety days against promissory notes of Central Co-operative Banks endorsed by Provincial Co-operative Banks and drawn for financing seasonal agricultural operations or the marketing of crops—Sec. 17 (4) (c); or rediscount of such promissory notes maturing within nine months—Sec. 17 (2) (b). In this case the Bank would require more detailed information regarding the financial position of the Central Banks whose paper is intended to be rediscounted and the working of the primary societies financed by it. This inquiry will be made with a view to ascertaining how far the loans and advances made by the Central Banks to the primary societies are liquid or otherwise. For these loans the Bank would obviously have to confine itself to the paper of first class Central Banks run on sound banking methods.

7. It will be seen that under the Act the Reserve Bank can deal only with those promissory notes or bills which are drawn for the purpose of financing seasonal agricultural operations or the marketing of crops and which have a fixed maturity. It will therefore be necessary for the Central Co-operative Banks to separate their loans made to societies for other purposes from those made for financing seasonal agricultural operations and the marketing of crops. The Provincial Bank when it offers promissory notes or bills of Central Banks for rediscount or advances will have to satisfy itself and certify that the amounts have been advanced for the purpose specified in the Reserve Bank Act.

8. In all cases of loans, advances or rediscounting the Provincial Bank will be responsible for payment to the Reserve Bank on the due date and the amount will be recovered by the Reserve Bank by debiting the account of the Provincial Co-operative Banks. The Reserve Bank will turn over the bills to the discounting bank on the due date and it will be the duty of such bank to effect collection. In computing currency of the bill the bank will not take into consideration the days of grace so as to enable the Provincial Bank to claim payment from the makers on due date.

9. As regards Land Mortgage Banks, the Reserve Bank will deal with approved Central Land Mortgage Banks which are declared to be Provincial Co-operative Banks under the Act on the following lines:

- (i) It will when necessary help them in the flotation of debentures by advising them about the rate of interest, suitable time for issuing them and so on. (There is no provision in the Act under which the Reserve Bank can itself undertake the flotation of such debentures).
- (ii) In emergency, the grant of loans upto ninety days and advances against approved debentures to Central Land Mortgage Banks and to Primary Land Mortgage Banks coming through them. Only debentures which have already been issued and which are trustee securities and whose ready marketability is proved will be acceptable under this clause.
- (iii) Grant of loans and advances up to ninety days against Government paper to Central Land Mortgage Banks and Primary Land Mortgage Banks coming through them.

Reserve Bank of India, Agricultural Credit Department, Bombay.

Ref: No. ACD/-528/77-39.

12th June 1939.

To

All Provincial & Central Co-operative Banks.

DEAR SIRS,

Re-organization of the Co-operative Movement on banking lines.

In paragraph 38 of our Statutory Report under Section 55 (1) of the Reserve Bank Act we stated that we would issue from time to time circular letters indicating what in our opinion were the criteria of sound banking which would justify our making advances to co-operative banks and also laying down the procedure for obtaining loans and advances from us when these conditions were fulfilled. Accordingly the first circular letter was issued on the 14th May 1938 setting out the procedure to be followed by co-operative banks for obtaining financial accommodation from the Reserve Bank. In this circular which is the second of its series an attempt has been made to clarify some of the issues raised in the replies to our first circular and to indicate the manner in which co-operative banks might organize their business on banking lines.

2. The general need for the re-organization of the co-operative movement on banking lines has already been emphasized by us in paragraphs 21 and 24 of our Statutory Report. As pointed out there it is only in so far as co-operative banks follow sound business methods that they will be of real and permanent value to the agriculturist. We recognise that the particular circumstances of a bank and the environment in which it operates have to be taken into account. Nevertheless we believe that general principles are of value inasmuch as they have stood the test of experience and we feel certain that their observance with suitable modification will greatly contribute to the progress of the co-operative movement.

3. It is sometimes alleged that the principles of co-operative banking are fundamentally different from those of commercial banking. This is incorrect. In all essential respects the nature of the business of co-operative banks is the same as that of commercial banks. Both types of institutions accept deposits and are therefore responsible for investing their funds in such a way as to safeguard the interest of their depositors. The same considerations of safety and liquidity in the employment of funds are essential for the stability of both. The principal difference is that whereas commercial banks lend to trade and industry, co-operative

societies make advances mainly to agriculturists. The fact that the agricultural cycle is longer than the commercial and that the co-operative banks are not primarily concerned with making profits for their shareholders does not make any essential difference in the fundamental principles which both types of institutions have to observe as banking concerns. As a matter of fact, the type of business the co-operative banks are called upon to undertake makes it all the more necessary for them to observe strict business principles.

4. In particular it is desirable that co-operative banks should distribute their assets in the same manner as commercial banks. In this connection we might describe the practices followed by commercial banks in Great Britain and in India in the employment of their funds. Commercial banks have to maintain their assets in such a form that a large portion can always be readily realizable in case of necessity. For this purpose they keep the greater portion of their funds in the form of cash and other liquid assets such as balances with other banks, call money, bills and gilt-edged securities. In Great Britain joint stock banks generally keep an amount equal to about 10 per cent. of their deposits in the form of cash on hand and balances with the Bank of England. In India the cash holdings of the banks show large seasonal variations but as at 31st December 1937 the percentage of cash and balances with banks to deposits of the Indian scheduled banks was about 13 per cent. Apart from cash, the British banks invest about 5 to 6 per cent. of their deposits in call loans, about 15 per cent. in bills (including treasury bills) and 30 per cent. in gilt-edged securities. The liquid assets of the British banks thus approximate to 60 per cent. of the deposit liabilities, the remainder being invested in loans and advances which are usually made for periods not exceeding 6 months. In the absence of well-developed call loan and bill markets in India the main classes of liquid assets of joint stock banks in this country are cash, balances with other banks and government or trustee securities. The table below shows the distribution of assets of the Indian scheduled banks and of the British joint stock banks expressed as percentages to deposits.

	Scheduled Banks (excluding Exchange Banks)		British Joint Stock Banks.	
	(Percentage to total deposits)			
	31st December 1937.		31st December 1937.	
Cash and Balances with Banks	13		10	
Call money—	Not shown separately—		5 to 6	
Bills	6		15	
Investments	69		60	
Advances	40		40	

It must be observed however that in the case of Indian joint stock banks cash in the above table includes balances with banks other than

the Reserve Bank whereas in the case of British joint stock banks balances with banks besides the Bank of England are not included.

5. In considering how far the ratios obtaining among the British joint stock banks should be followed by co-operative banks, due regard must be paid to the structure of the co-operative movement and the peculiar features of the Indian money market. In the first place certain types of liquid investments like call money and bills, which are popular with the British banks, form a comparatively small portion of the assets of even the larger commercial banks in India so that the possibility of the co-operative banks acquiring such assets in any considerable quantity is remote. The chief form of liquid assets open to the co-operative banks, is, therefore, cash, balances with other banks and investments in gilt-edged securities. Secondly, unlike the commercial banks the greater portion of the liabilities of the co-operative banks generally comprise fixed deposits so that it is not necessary for the latter to keep as large cash reserves as for the former. However, apart from cash, the need for other liquid investments like gilt-edged securities appears to be greater in the case of the co-operative banks inasmuch as their advances and loans are for longer periods than those of the commercial banks and their income depending as it does on agricultural conditions is more likely to vary widely from year to year. Having regard to all these factors it appears desirable that provincial and central co-operative banks should advance loans up to about 50 to 55 per cent. of their deposits and invest the remaining assets in cash and gilt-edged securities. Cash and balances with banks may form about 10 per cent. of the deposits. At least 30 to 40 per cent. of the deposits should be invested in government securities. The above ratios may be expressed in a tabular form as follows :

	Percentage to deposits.
Cash, cheques in the course of collection and balances with other banks ...	10
Investments in Govt. securities and treasury bills ...	30 to 40
Loans and advances ...	50 to 55

These ratios are explained in more detail below.

6. **Cash.** The proportion of cash to deposits to be maintained by a bank depends upon several factors such as the ratio of its demand deposits to time deposits and the liquidity of the other assets held by it. In England the joint stock banks have found the ratio of 10 per cent. sufficient for all practical purposes because of their other liquid assets and also because banking in that country is conducted by larger units. However, besides this 10 per cent. held in the form of cash and balance at the Bank of England, the British banks maintain about 5 per cent. of their deposits in the form of balances with other banks, and cheques in

the course of collection. As most of the deposits of the co-operative societies are for fixed term, we have recommended a slightly lower cash ratio for them. At the same time we have recommended a slightly higher ratio for holdings of gilt-edged investments because the advances of co-operative banks are longer dated and more likely to become frozen.

7. Though for the purpose of indicating these ratios broadly we have put cash and balance with other banks together, it is necessary to make it clear that it is not desirable that balances with other banks should be considered as cash. The Indian Companies Act requires banking companies to maintain an actual cash balance of 5 per cent. of their demand and $1\frac{1}{2}$ per cent. of their time liabilities and in practice banks find it safer to keep an even higher proportion in cash. It is therefore necessary that at least the proportion laid down in the Indian Companies Act should be held in hard cash. In regard to balances with other banks it should be remembered that their liquidity depends upon the liquidity of those banks and great care must therefore be exercised in the selection of such banks.

8. In this connection we would like to refer to our first circular regarding the procedure to be followed for obtaining financial accommodation from us where we stated that co-operative banks admitted to the approved list will have to agree to maintain balances with us equal to $2\frac{1}{2}$ per cent. of their demand liabilities and 1 per cent. of their time liabilities. This condition has been misinterpreted in some quarters as constituting a departure from the intentions of the framers of the Reserve Bank Act. We would however observe that in asking co-operative banks to maintain balances with us we are only trying to ensure that these banks maintain a sufficient amount of cash in their portfolio such as is being maintained by bankers all over the world. We consider the maintenance of an adequate cash reserve as one of the criteria of soundness. The percentage of cash we are asking for is much less than that which the scheduled banks are required to keep or that which any sound bank should maintain and we believe that this should not cause any hardship to banks which observe the usual percentages of cash against deposit liabilities.

9. **Investments.** We have said above that investments of co-operative banks in gilt-edged securities should form at least 30 to 40 per cent. of their total deposits. It may be said however that in most cases mofussil central banks may not be in a position to buy and sell government securities locally. To obviate such difficulties and at the same time to ensure investment in government securities at the best possible rates we suggest that in such cases the provincial co-operative bank in each province should buy and sell government securities on behalf of such central banks and keep in their custody earmarked for the account of the central banks concerned. The central banks should be required to hold at least 25 per cent. of their fixed deposits, 30 per cent. of their

savings accounts and 35 per cent. of their current accounts in the form of government securities and for this purpose to transfer an equivalent amount to the provincial bank which will buy government securities for them. Those central banks which are not in a position to transfer sufficient funds immediately to the provincial bank in respect of their existing liabilities in the manner suggested above should make them gradually and make it a rule in future, that whenever any deposit is received, the necessary amount is transferred to the provincial bank for investment. In this way the provincial bank will act as an investment agency for the affiliated central banks. Such securities should be kept as far as possible unencumbered, but in case of real emergency the central banks might be permitted to borrow on the security of the investments deposited with the provincial bank by means of bills drawn by the former on the latter for temporary periods. The provincial bank will thus have a portfolio of bills during times of seasonal stringency which bills the provincial bank can at all times get rediscounted with the Reserve Bank as the provincial bank can easily certify that all such bills are fully secured by government securities held for and on behalf of the central banks concerned. Such a practice will create a large supply of additional eligible paper which could be rediscounted with the Reserve Bank.

10. **Loans.** We have already said that commercial banks do not generally lend for periods longer than 6 months. We would also like the co-operative banks to follow a similar practice although in their case the normal period of repayment might be nine months. The co-operative banks should attempt as a general principle to avoid long term business and where loans for periods longer than nine months are found necessary, care should be taken to ensure that the total amount of such loans does not exceed the paid up capital and reserves. This means that the agriculturist members of co-operative societies will be able to obtain intermediate credit to satisfy their requirements for other than seasonal loans upto the extent of the capital and reserves of their own societies as well as the banks without seriously affecting the liquid position of the latter. At the same time it is necessary to see that the maximum does not in practice become the minimum and that loans intended to be short term do not become long term by being allowed to remain overdue, and prompt measures should be taken to recover overdue debts.

11. In our first circular we suggested that long term loans should be separated from short term. To this suggestion the All-India Provincial Co-operative Banks' Association have replied that in most provinces no attempts have so far been made to examine and separate short term and long term loans of members of societies and that unless this is done no division of short term and long term finance is possible at the apex bank. What we desire is that provincial banks should state clearly how much of their present outstanding loans against central banks is strictly short term and how much has become long term even though it

may have been originally short term. We believe that the banks can easily assess this with reference to their actual recoveries in the past. It would also be desirable to indicate short-term and long-term loans separately in the balance sheet.

12. Overdue loans should be shown separately in the balance sheet as provided in the skeleton form recommended by us to the provincial co-operative banks. At present the various provinces follow different methods for the calculation of overdues with the result that the figures from the different provinces are not comparable. In some provinces loans are issued by banks at call but the demands for repayment are fixed at each harvest after taking into account the agricultural conditions prevailing at the time and the balance remaining unpaid out of the demand is shown as overdue. In others, loans are issued for fixed periods and the demands are fixed at the time of issue. Sometimes loans in arrears are extended and such renewals are not shown as overdues. On account of such differences the figures for overdues in all the provinces do not convey the same meaning. We would therefore suggest that all banks should advance loans for fixed periods and fix the demand at the time of issuing such loans and calculate overdues on the basis of such demands. All authorised extensions should be shown separately as such in the balance sheet.

13. It seems necessary here to refer to the practice of fictitious repayments which, more than anything else, has been in the past responsible for concealing the real condition of some of the co-operative banks not only from the outside public but sometimes even from those in authority over the banks. It is not merely that the outstanding loans are renewed and shown as fresh advances, in which case at least the authorities of the bank are aware of the real nature of the transaction, though even in such cases it is desirable that the renewal should be definitely shown as such and not as a new loan; what happens more often however is that the members of societies secure a temporary advance from a money-lender for the purpose of making repayments to the society or the bank which immediately or after an interval of a few days relends an equal amount which is utilised for discharging the money-lender's debt. We are aware that the officers of the co-operative department and the banks have made several efforts to stop this practice, but we are afraid that it is still prevalent to a much larger extent than is generally realised. The consequences of this practice are obvious; it gives the impression that the bank's loans are liquid when in fact they are definitely frozen and locked up; the bank is shown to be lending every year to the societies for seasonal agricultural requirements while the loans in reality represent the continuation of debts incurred in the past; no real attempt is made by the members to reduce their debts and the co-operative societies in effect carry on the money-lender's traditions of providing a perpetual loan till the member's liabilities exceed his assets, and a deadlock is reached. It is clear that unless this practice is

stopped it is not possible to make a correct appraisal of the assets of co-operative banks nor can the banks effectively improve the economic condition of their members. What makes it possible and sometimes even necessary for members to play off one credit agency against the other in this manner is the practice of some co-operative societies of insisting on the liquidation of the entire debt at the end of the season even though it may be beyond the capacity of the members to repay, and to advance immediately afterwards an equal amount irrespective of the periods at which the income should accrue to the members or those at which they need loans for the various agricultural operations. Where this policy is followed it may be safely assumed that the repayments and fresh loans are fictitious in the sense we have explained above and such banks would do well not to be satisfied with the apparent liquidity of their funds but to make enquiries regarding the sources from which the money for repayments comes and the actual purpose for which the so-called fresh advances are utilised. Where it is found that the actual state of things is as we have described above and that the loans represent a continuation of indebtedness it would be best to recognise the fact and allow them to be repaid in instalments, so that there may be some chance of the debt being really liquidated. To avoid the possibility of such fictitious repayments in future it is necessary that the practice of making recoveries in a lump sum at one time and advancing the whole amount soon afterwards should be stopped. Loans should be advanced in instalments as the money is required for each operation. Loans may even be given for consumption purposes so long as they are well within the yearly paying capacity but they should also be given when they are actually required. The times for repayments should be so fixed as to coincide with the periods during which income accrues to the members. It is particularly necessary that where the members have different sources of income at different times of the year, recoveries should be made at those times and not on one fixed date in the year. To ensure that the loans are in reality seasonal it would be desirable to make it a rule that "seasonal" advances for each particular crop must be reduced to nil for a portion of the year during which such credit is obviously not necessary. Such a system will stop fictitious repayments and also ensure that members clear off their liabilities from their income.

14. In this connection we might also mention the necessity of a bank knowing the exact extent of its bad and doubtful debts. Our recent inquiries into the financial practices of co-operative banks have revealed that only a few banks possess full and reliable information on the subject. Where such information is not available, it is desirable that immediate steps should be taken to collect it. Audit is hardly worth the name unless the auditor investigates and points out the amount of bad and doubtful debts. The directors of banks should review these figures and make a provision for all such debts. Generally speaking the bad and doubtful debts under present conditions should be

expected to form at least 75 per cent. of the debts due from societies under liquidation, 50 per cent. of debts due from D class societies and 25 per cent. from C class. If the auditor's appraisal shows such debts at a lower figure, it would be risky to accept them without careful and thorough enquiry. Each bank should create a full reserve against bad debts and a 50 per cent. reserve against doubtful debts. These reserves should be kept distinct from the general reserve fund. Bad debts which cannot be expected to be recovered even when agricultural conditions improve should be written off from reserves built up for this purpose and where necessary from the general reserve.

15. The All-India Provincial Co-operative Banks' Association have asked us what proportion of overdue, bad and doubtful loans to total loans, we consider as 'safe.' We believe it is undesirable to lay down any particular proportion because these forms of loans are obviously to be guarded against at all times. It might however be said that the total of overdue, bad and doubtful debts should form a very small proportion of the total and a state of affairs where they exceed the reserve fund should be regarded as serious.

16. **Owned capital.** Every bank whether commercial or co-operative requires an adequate capital if it is to win the confidence of its depositors. Adequate capitalisation is secured in the case of commercial banks in various ways e.g. by providing for a minimum fixed capital or by prescribing a maximum proportion between capital funds and liabilities. The Indian Companies Amendment Act has prescribed a minimum capital of Rs. 50,000 for banking companies 'incorporated after the 15th January 1937. As regards co-operative societies it is obviously not possible to prescribe any minimum capital and we therefore recommend that they should observe certain proportions between owned and borrowed funds. The proportion between the paid up capital and reserve to deposits in the case of British joint stock banks is 1 to 16 whereas in the case of Indian scheduled banks it is 1 to 8. We recommend that the deposit liabilities of co-operative banks as suggested by the MacLagan Committee should not ordinarily exceed 8 times the paid up share capital and reserve. We find that the proportion of owned and borrowed funds in most of the provincial co-operative banks is higher than this though this does not hold good for all co-operative banks. The practice of capitalising interest and allocating it to reserve and other funds obtaining in some banks leads to undue inflation of owned funds and makes it difficult to gauge the real position. While recommending the above ratio we presume that overdue interest is not capitalised. At present the various provinces follow different methods with regard to unrealized interest. This item may preferably be split up into the following heads namely (i) interest recoverable from D class societies (ii) interest recoverable from societies under liquidation (iii) interest recoverable on other bad and doubtful debts and (iv) other interest recoverable. The last item may be further sub-divided into (a) interest earned on accounts

on which no interest is overdue and (b) interest on accounts on which interest is already overdue. None of the above items except item (iv) (a) should be taken to the profit and loss account and even the appropriation of this item should be deferred until the amount is actually recovered. Interest recoverable under (i), (ii), (iii) and (iv) (b) may be credited to a suspense interest account until it is recovered. It may here be pointed out that our suggestion regarding the disposal of unrealized interest is generally in keeping with the resolution passed by the last Registrars' Conference on the point, the difference being that we suggest that the interest recoverable from D class societies and on bad and doubtful debts, even if it is not overdue, should not be taken to the profit and loss account.

17. Reserve Fund. The provision for a substantial capital or a maximum proportion between capital and deposits by itself is not sufficient to ensure safety to the depositors of a bank. In many foreign countries commercial banks are required by law to build up reserves out of undistributed profits. Under Section 33 of the Co-operative Societies Act, co-operative societies are also required to transfer at least one-fourth of their net profits to the reserve fund. But besides the published reserves joint stock banks as in Great Britain generally have large hidden reserves. The co-operative banks also might emulate their example by writing down gradually the value of their premises and fixtures to a nominal sum and to show their investments at cost or market value whichever is less. The effect of the last depression on the co-operative movement and the manner in which banks with large reserves were able to weather the storm shows clearly that the reserve fund cannot be built up too quickly or reach too high a total. Another reason why co-operative banks should build up large reserves is that owing to the restriction on dividends and voting power, there is little incentive for members of co-operative societies to buy a large number of shares and hence the share capital usually remains low. We are therefore of opinion that all co-operative societies should carry at least 1/3rd of their net profits annually to the reserve fund until it equals the paid up capital, and thereafter at least 1/4th of the net profits. In this connection we would observe that non-scheduled banks are required under the Companies Act to transfer at least 20 per cent. of their net profits to the reserve fund till it equals the paid up capital. As regards scheduled banks, although they are under no legal obligation to build up reserve funds, many of them have large reserves which sometimes exceed the paid up capital. The spread between the borrowing and the lending rates of co-operative banks should be sufficiently wide to speed the building up of reserves on the lines indicated above. Moreover the reserve fund should always be constituted out of realised profits and invested outside the movement in any of the modes prescribed by the Co-operative Societies Act. It may be pointed out in this connection that investments in first mortgages of immovable property, even though they fall within this category, are

not usually desirable for co-operative banks. There is a danger of the line of demarcation between loans and investments being lost sight of and of loans being made to individuals against immovable property without proper scrutiny of their paying capacity, under the guise of investments. Such investments have almost invariably turned out to be frozen and in many cases bad and co-operative banks should avoid the risk of locking up or losing their funds in this manner.

18. In our previous circular letter we stated that in rediscounting paper of A and B class central banks through the provincial banks we would take into consideration the rates of dividend paid. Although the maximum rates of dividend are generally fixed by local Acts or bye-laws of the banks concerned the Reserve Bank will have to take into account whether a part of the net profits in the manner indicated above has been transferred to the reserve fund before such dividends are declared and whether the dividends are declared out of profits actually realized.

19. Many other banking principles and practices may be introduced with a view to organise the co-operative movement on banking lines. At the present time the rates of interest prevalent in the co-operative movement are in a chaotic state with the result that some banks have unknowingly been living on their capital. The loan and deposit rates of the central banks should be linked with the loan and deposit rates of the provincial bank which in turn should be linked with the bank rate so that there may be an organic structure of rates throughout the co-operative movement. A co-operative bank should not as a rule accept deposits for periods longer than a year or two at the most, as long term deposits make it difficult for a bank to adjust its interest rates in accordance with the fluctuations in the money market and are a source of great embarrassment in times of falling rates. Rates of interest paid on deposits should not be higher than the bank rate. Although it may not be possible to achieve the latter object all at once it should be possible by stages to reduce the high rates obtaining at present. Current accounts may be introduced where they do not exist, in order to bring down the cost of obtaining deposits but this should be done only if the principles mentioned earlier in this letter are observed.

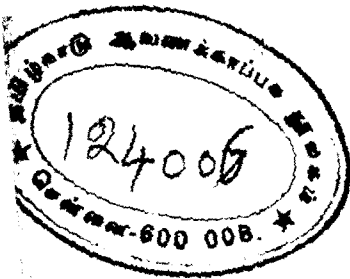
20. Finally as we pointed out in para 25 of the Statutory Report 'sound banking is the result not so much of banking rules as of good bankers,' it is therefore essential that the central co-operative banks should employ an efficient and well-paid staff trained in the theory and practice of banking. The provincial co-operative banks should exercise a close watch over the working of the central co-operative banks to ensure that the latter follow the lines laid down in this circular. For this purpose the co-operative banks should submit periodical statements, say once a fortnight, to the provincial co-operative bank in a prescribed form.

21. As stated at the outset this circular has been written with a view to explaining in what manner co-operative banks may conform to banking

principles and practices. It does not therefore refer to the important question of the relations between the banks and primary societies. It should not however be assumed that because we have laid so much emphasis on the necessity of observing sound banking canons we are unmindful of the banks' duties towards the primary societies. On the contrary, as we have explained in our bulletins, we consider that co-operative banks exist in order to be of service to the primary co-operative societies and that their success will depend upon their usefulness in this respect. Their relations with the societies should not be merely those of a financier but of a friendly counsellor and they should look after all the needs of the societies to a much greater degree than is usually done at present.

22. There are many other points on which the co-operative banks may need guidance, but we do not wish to make this circular too long. We shall however be very glad to give advice on any point relating to co-operation or banking referred to us by co-operative banks.

Yours faithfully,
MANILAL B. NANAVATI,
Deputy Governor.



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Secretary.

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