Indian
co-operative
Review

1939 - April - June

VOL. 5, NO - 2

THE

INDIAN CO-OPERATIVE REVIEW

Vol. V **APRIL—JUNE 1939** **No. 2**

CONTENTS

CONTENTS (*Contd.*)

THE INDIAN CO-OPERATIVE REVIEW

Vol. V APRIL—JUNE 1939 No. 2

EDITORIAL NOTES

JOINT SESSION OF THE STANDING COMMITTEES OF THE ALL-INDIA CO-OPERATIVE ASSOCIATIONS

A meeting of the Standing Committees of the Indian Provincial Co-operative Banks' Association and the All-India Co-operative Institutes' Association was held at Jubbalpore on 8th April last. The proceedings are published in full elsewhere in this issue of the *Review*. The session was attended by members from many of the Provinces and some of the States. The Hon'ble Mr. Dwaraka Prasad Misra, Minister for Co-operation in Central Provinces, could not be present but sent a message of welcome and assured his support to the cause of co-operation in the critical times we are passing through. Mr. C. C. Desai, the Registrar of Co-operative Societies of the Central Provinces reiterated the faith the Government had: "The more apparent the failure becomes, the deeper is our faith in co-operation as the solvent of economic ills and the more grim will our fight have to be to reach the desired goal." He referred in feeling terms to the crisis which had overtaken the central banks in Berar which had been compelled to acquire the lands of borrowers who could not repay their dues to societies. There were 57,000 acres thus acquired, most of which remained uncultivated but on which land revenue had to be paid! He solicited the advice of the co-operators assembled.

The President addressed the gathering and stressed the following points: (1) while Provincial Governments deserved the thanks of co-operators for their affirmation of faith in the movement, no government seemed to have any nation-building plan in which co-operation was given an integral place. Co-operation was looked upon as an isolated movement, and it was the duty of co-operators to press their claims and place definite programmes before the governments; (2) thanks to the classification of co-operative banks, the working of the Income-tax Act affected them very adversely so far as profits from investments outside co-operative business were concerned, e.g. in Government securities which they were obliged to buy; in fact more money was extracted out of them than even from commercial banks; the Finance Member of the Government of India had promised to look into the matter and set right the mistake in classification but it was our duty to press forward our claim; (3) the acute crisis in Bihar where central banks and the Provincial Bank were not functioning and could not function unless the Government came to the rescue and lent some money to co-operative organisations to pay off the depositors and finance the members for next cultivation season; (4) the impasse created by the purchase of lands on a large scale by the banks in Berar. The government should find some long term money by the issue of debentures through the Provincial Bank and to let the lands to original owners or others on hire purchase system as in Burma. There was general agreement on almost all these points. Only, in Berar there was an official suggestion that the lands acquired should be sold back by a system of lottery, for which support was canvassed but not obtained, as no one seemed to relish either the method or the possible consequences of such a scheme.

The members were requested to speak on the salient features of recent developments in the Province or State which each represented. An interesting and frank discussion ensued and there were some revelations which would not find a place in administration reports. This took a whole day, and the next day was devoted to the discussion of draft resolutions which the President had been authorised to scrutinise and bring up for discussion.

In addition to the vexed question of the disposal of lands in the hands of co-operative banks, there were a few minor contentious measures. One which was debated upon but not pressed to division was on the adoption of limited liability for credit societies. The President was definitely of the view that unlimited liability should go and limited liability should be given a serious trial. Some members opposed it on the ground that one of the first principles of co-operation was at stake. The representatives from Bengal were whole heartedly in favour of limited liability. So was the Andhra representative. Some were lukewarm, but the Punjab delegates were against, and Mr. Bashir Ahmed Khan, the Secretary of the All-India Co-operative Institutes' Association, quoted the instance of Japan, which, he said, had changed over from limited to unlimited liability recently. So far as we can see from published reports, limited liability has in Japan been replaced far more by *guaranteed liability* rather than by unlimited liability. The idea of having one society for a group of villages and to make it really serve a number of purposes found ready acceptance at the meeting. In such circumstances there was really little warrant for unlimited liability. However, the President thought it right not to press it to a division.

There was a proposal to affiliate the Provincial Banks' Association or the All-India Co-operative Institutes' Association to the International Confederation of Agriculture (Co-operative Section). Mr. A. G. Sherlekar of Indore was authorised to find out the minimum subscription, etc. and the subject will be brought up at the next meeting of the Standing Committees which may be held sometime in October of this year.

THE MADRAS COMMITTEE OF ENQUIRY ON CO-OPERATION

The Government of Madras have appointed a Committee of Enquiry, under the chairmanship of Sir T. Vijiaraghavachariar, to investigate and report on the changes needed in the law and structure of co-operative organisations and on audit, supervision and education and all kindred questions. The number of members is rather large for an expert body of enquiry, but apparently it has been prompted by the desire to include all possible interests. The procedure that has been followed in the constitution of the Committee and its deliberations is somewhat novel. A Special Officer was appointed, an elaborate—though not all comprehensive—questionnaire was framed and issued to co-operators and replies were solicited months before the announcement of the personnel of the Committee. The written answers to the questionnaire have been analysed and presented under different headings in three bulky volumes for the benefit of the Committee. Very few witnesses and practically none but experts have been called in to give oral evidence. The members of the Committee were in the first instance called upon by the Chairman to express their views on what they considered the main defects in the movement and how they could be set right. Several days were spent in such preliminary discussions and the versatile Chairman with a rare generosity permitted the press reporters to publish the proceedings though these were confined to the members of the Committee and no one was orally examined for a number of days.

The public of Madras have by this time known the great diversity of views among the members of the Committee, though on some fundamental matters a clear majority of members think alike. After a series of general, and somewhat rambling, discussions, the Committee took up one specific issue after another and arrived at definite conclusions, some of them unanimously and others by a decisive majority. We can refer only to a few important issues decided.

There was a motion that all villagers should be compelled to join the village co-operative society which should cater to all wants of the villagers. This idea of compulsion was not acceptable since most of the members felt that it was a negation of the first principle of co-operation and it would tend to make co-operation just a limb of the State. The feeling was also clear that a co-operative society had its own limitations, that it could not attempt all tasks, especially those that pertained to the statutory village panchayats with powers to levy taxes and enforce regulations on all citizens. There was a proposition that mortgage of land should be permitted only to co-operative societies; but this was also negatived as it was felt that it would upset the existing rural economy and co-operation could not fill the gap in the near future. On the question of the control of moneylending, the Committee came to the conclusion that private moneylending could not be dispensed with but there must be compulsory licensing of moneylenders and accounts should be maintained on the model of the Punjab Act.

On the vital question of the reorganisation of primary co-operative societies in villages we had the honour to submit a scheme which was accepted with a slight amendment. It was agreed by the Committee that: (1) more societies should be organised so that everyone of the 50,000 villages in the Province may have a co-operative society either in itself or in the area of the group within which the village is included; (2) existing societies should be strengthened by the enrolment of more members; (3) provision in the existing by-laws for joint purchase and other kinds of economic activities should be utilised more fully than at present; (4) 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) 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 last clause was no doubt the most contentious. Some of the members held that to drop unlimited liability would be to drop the most central idea of Raiffeisen, and the spirit of mutual vigilance and supervision implied in it. The majority of the members agreed with us that it was ill understood and ill-enforced and it was an irritation where it was enforced, that it was a drag on the movement and should give place to limited liability with other safeguards, so as to give a chance for the choice of better human material for managing the society. In fact if a multipurpose society to serve a wider area than a village is agreed upon, limited liability becomes inevitable.

CO-OPERATIVE PROGRAMMES OF PROVINCIAL GOVERNMENTS

Co-operators in India should be greatly touched by the profound faith expressed by almost all the Provincial Governments in India in the efficacy of Co-operation as the best agency to tackle the problems, not only of rural credit but also of rural reconstruction, including the development of cottage industries. It is not easy to retain faith after such a breakdown of the movement in several provinces and the collapse of it in a few. The policy of Ministers in charge of Co-operation to develop and reorganise societies is all the more praiseworthy in such circumstances. But we feel that it is necessary for them to consult fully the leaders and experienced workers in the field, before they take up the active work of reorganisation. This is exactly the object for which the Madras Committee on Co-operation has been constituted. The immediate incentive to development is the demand swelling in volume for some form of organised credit in place of the moneylender who has contracted or distorted his activities as a result of the debt-relief measures, enacted already or actively considered. It is felt everywhere that if in future the problem of credit should be more easy of solution, it is necessary to promote thrift and earning power of our agriculturists and save them from the exploitation by the trading middlemen and from costly social evils which they cannot individually escape. Hence the demand for a variety of societies, or societies each with a variety of purposes. The Minister in Madras expects the Committee of Enquiry to lay down "how far co-operative societies can be harnessed for the maximum good of the maximum number of villagers at minimum cost." The problem is easily stated, but the solution is far from simple.

The Government of Bombay have a provision in their draft Debt Relief Bill compelling debtors, whose debts have to be scaled down, to join a co-operative resource society—which is the same as our credit society—without whose permission there can be no alienation of property of the would-be-member. So great is their faith in Co-operation that even in places where there are no co-operative credit or multipurpose societies, central banks are advised to finance through their branches agriculturists on the pledge of produce by a novel system of *nominal membership* on a voluntary basis. In a discussion on the provisions of the Bill at a special Conference of Central Banks held recently, (extracts from the proceedings of which are published in this issue) some doubts were expressed on the feasibility of recovery of such dues to a central institution. A suggestion was thrown out by a prominent co-operator that Bombay might follow Madras by the organisation of independent loan and sale societies or credit societies with limited liability over a wider area than is common. Judging from the report we have of the Conference, no finality seems to have been reached.

Of the Punjab, Mr. F. B. Wace, the Registrar, writes in the latest Horace Plunkett Year Book as follows: "Both the main political parties have posed as the champion of the agriculturist and both have promised him the millenium....... The Unionist Government has shown every sympathy for the Co-operative Movement and has continued and even strengthened the support which the movement has always received in this Province from Governments under the old constitution." He goes on to say that debt relief measures have undoubtedly had the effect of driving the non-agriculturist moneylender out of business on a large scale, and this has led to an extended demand for co-operative credit. Here lies an opportunity and also a great danger. He holds that the ideal of 'one village one society' is 'utopian and dangerous' and that careful selection of villages and of members for each society is even more essential now because of the reduced material security agriculturists can now offer, after the series of restrictions on alienation of land imposed by the State in their own interests.

The Government of the Central Provinces and Berar believe that, in spite of 'discouraging experience of the past' the movement has great potentialities for good and are determined to spare no efforts to rehabilitate the Movement in Berar and other parts of the Provinces. A bill is said to have been designed to check abuses, inculcate a sense of responsibility in the Managing Committees and improve the working of all organisations.

It is the Minister for Co-operation in the United Provinces Dr. Kailas Nath Katju, that has gone farthest in developing the idea of a new kind of village society with a multiplicity of functions—not merely co-operative credit and trading but education, sanitation, civil and criminal trials—not usually associated with co-operative societies. Every village with 1000 or more inhabitants is to have a society in which the head, or his deputy, of every family in the village will have a place. The general body of members will discuss every question and only the actual execution of certain duties will be left to a working committee and a secretary to be chosen. Dr. Katju condemns the system of election in the village panchayat, as it tends to make voters forget the institution after the election fever is over. We wonder whether a general body of 100 to 200 can function frequently without any friction and discuss all sorts of questions without making the working committee either too powerless or too powerful. Election and its evils are inescapable whether in a panchayat or a co-operative society. The system of financing that Dr. Katju proposes is also objectionable from the co-operative point of view. There can be no compulsion under the co-operative system; there can be no levy of fees on every citizen whether he likes to become a member or not. Co-operation has all along been voluntary. That is why all over the world a fairly clear line of division is drawn between voluntary co-operative organisations and statutory local bodies with necessarily coercive functions. It is better the two do not encroach on each other's sphere. But Co-operators will revise their views if Dr. Katju succeeds in his experiments.

HEALTH CO-OPERATIVES IN MADRAS

Elsewhere in this issue is published the scheme of the Government of Madras for the organisation of Health Co-operative Societies with the object of providing on a voluntary basis proper and adequate medical relief and carrying out preventive sanitary measures. Each society will have at least one medical officer and a compounder and a moderately equipped dispensary. The funds required will be derived from members' subscriptions which may be paid in cash or kind or even in labour, from grants by Government and District Boards, and from contributions from out of the common good fund of other co-operative societies and central banks. An initial capital expenditure of Rs. 1,000 and an annual recurring expenditure of Rs. 900 would be the minimum required for running a centre. One society is to serve a group of villages whereof at least 500 families may be expected to join it paying each Rs. 1-8-0 per annum in cash or an equivalent of it in kind or labour. Members get medical advice free at the dispensary but will have to buy medicine at cost price and pay annas four per visit to the doctor if he is wanted at home. All such income, which may not exceed Rs. 1,000 per year, will be credited to the funds of the society, while the doctor will be paid a salary of Rs. 50 per mensem and the other staff smaller sums. It is expected that the Government, the District Boards and Central Banks will contribute in all Rs. 1,000, required to start a society in each of the promising centres. The Government of Madras have already proposed to start eight societies, four in the northern and four in the southern districts. The Government are prepared to help the organisation of more societies by utilising the balance of funds granted by the Government of India for rural reconstruction. It is also proposed in due course, after a number of societies are formed and are working well, to organise for a group of societies a Health Union for the provision of better medical aid, a clinical laboratory etc., and the purchase of drugs in bulk.

The scheme is well conceived and we congratulate the Government of Madras on the fine humanitarian policy as well as on the business aspects of the project. We do not know how far our rural folk will be ready to join the scheme without special propaganda. The terms on which relief can be obtained cannot be said to be beyond the reach of any but the extremely indigent, for whom no type of co-operation can be devised. Payment in kind or in labour may not be easy to work according to any specific by-law and may require a great deal of discretion on the part of the local authority. Where credit societies or village panchayats are already working well and the proper atmosphere has been created, these societies are bound to succeed, even as they have succeeded so wonderfully in Yugoslavia, as was described in the pages of this *Review* by Miss Margaret Digby. Already Poland and Bulgaria have copied their neighbour. It is claimed that the peasant members in these countries receive better medical service for one-third of the cost of the ordinary private practice, while the doctors get larger incomes.

In Japan though the movement began only in 1925 there were said to be, before she launched on the war with China, nearly 800 societies carrying out health activities either alone or with other functions. There are 200 hospitals owned by these societies in the rural districts of Japan where farmers get advice and treatment at nine per cent of their income while formerly they used to spend 28 per cent! Nearer home, Bengal must be given the pride of place for the earliest organisation in the world of a type of health societies—the Anti-Malarial societies—of which there are nearly 1,000 registered, while there are at least a 1,000 more unregistered. But the services rendered by these societies are largely preventive and there is little or no medical staff; only quinine is supplied in the fever season. They are not said to be working quite so well now; there is not so much incentive to individual effort and the support from the Government and local authorities and the Union is slender. A reorganisation on the lines of the Madras scheme may do great good. In a country where the resources of the Government are far from adequate to provide free medical relief for all, and practitioners fight shy of setting up practice unaided in rural areas, this voluntary and subsidised system of relief will greatly supplement State relief and strengthen the feelings of self-respect and co-operation among the rural community.

THE RESERVE BANK OF INDIA AND CO-OPERATIVE FINANCE

BY

THE HON'BLE V. RAMADAS PANTULU,

President, Indian Provincial Co-operative Banks' Association.

In their Statutory Report issued under section 55 (1) of the Reserve Bank of India Act in December 1937, the Agricultural Credit Department of the Bank explained the principles on which they would make advances to co-operative banks, the conditions for grant of such advances, and allied matters. That Report is now followed up by two circulars, one dated the 14th May 1938 and the other the 12th June 1939. The first deals with the procedure to be followed for obtaining financial accommodation from the Reserve Bank and the second with the reorganisation of the Co-operative Movement on banking lines. They are of far-reaching importance to the future development of the Co-operative Credit Movement in India and deserve the careful consideration of co-operators in general and the provincial and central co-operative banks in particular. Paragraps 37 and 38 of the Statutory Report and the two circulars referred to are reproduced in this issue of the *Review*. I propose to deal with the main subjects discussed in these documents under the following heads: (1) Investment of their funds by co-operative banks; (2) Forms of financial accommodation by the Reserve Bank; (3) Conditions to be satisfied for obtaining financial accommodation from the Reserve Bank; and (4) Remittance transfer facilities.

Before I proceed to deal with the subjects mentioned above, I would like to point out that the Reserve Bank of India should have consulted the Indian Provincial Co-operative Banks' Association or placed themselves in touch with the provincial co-operative banks in the various provinces and elicited their views on the proposals embodied in the circulars. If they had done so and discussed with them any points of difference that such consultation might have disclosed, I feel sure that the Reserve Bank would have made certain modifications, specially in regard to some of the comments made by them in the circulars about the position of co-operative banks and their methods of working which, in more than one instance, seem to be inaccurate and likely to convey erroneous impressions to those who have no first-hand knowledge of the working of the co-operative banks.[1]

1. Let me mention a few instances: (1) A complaint is made in the circular dated the 12th June 1939 that co-operative banks take no steps to prepare any accurate estimates of their bad and doubtful debts. From my personal experience

(1) **Investment of their funds by co-operative banks.**—With the general observations of the Reserve Bank in regard to the necessity of co-operative banks adopting methods which ensure safety and liquidity in the employment of funds so as to secure the stability of these banks, there cannot be much difference of opinion. But when we examine in detail their specific recommendations in regard to the modes of investment by co-operative banks of their funds, I cannot help feeling that the Reserve Bank overlooked some of the principal differences between the commercial banks and the co-operative banks. They recognise that one of the principal differences is that whereas commercial banks lend to trade and industry, co-operative banks make advances mainly to agriculturists and that the agricultural cycle is longer than the commercial. They stop at this and assert that these considerations do not make any essential difference in the fundamental principles which both types of institutions (commercial and co-operative) have to observe as banking concerns. This is certainly not a helpful method of approach to the problem of rural credit. It is true that the obligations of co-operative banks

and knowledge, I can say that this statement is not correct, at least so far as the banks in Bombay and Madras are concerned. Again the proposals made in paragraph 14 of the circular regarding the provision against bad and doubtful debts do not seem to be workable on the basis suggested in that paragraph. (2) There is considerable room for difference of opinion with regard to the observation in paragraph 16 on capitalising of interest. In any case, I do not think that the Reserve Bank is justified in stating that this leads to undue inflation of the owned funds of co-operative banks, making it difficult to guage the real position about the proportion of owned capital to borrowings. (3) The proposals contained in paragraph 17 regarding the spread between the borrowing and lending rates of co-operative banks, if given effect to, will result in a substantial enhancement of the lending rates to the ultimate borrowers, which is against the trend of co-operative opinion in most provinces. Co-operative banks do as a matter of fact bestow much thought and determine the range of this spread with due regard to local conditions. (4) The advice of the Reserve Bank about the non-acceptance of deposits, as a rule, for periods longer than an year or two at the most is too sweeping to be workable in practice. In the case of central banks which have to cover their old outstanding loans which have become frozen, the advice of the Reserve Bank is unsound. In this connection it may be pointed out that Mr. Darling, who went round the provinces in connection with the preliminary investigations conducted before the opening of the Agricultural Credit Department, advised the provincial and central banks to strengthen their long term resources by offering special terms for long term deposits, I believe, specially in view of the need to cover the frozen overdue outstandings of those banks. These are only a few among many other matters on which the Reserve Bank might have profitably elicited the opinion of the Indian Provincial Co-operative Banks' Association and the provincial co-operative banks, before making adverse comments on existing systems of working, about which no systematic or extensive enquiries seem to have been made by the Agricultural Credit Department.

to punctually meet their demand and time liabilities, their responsibility to maintain adequate fluid resources to meet these obligations and their duty to promptly satisfy the credit requirements of their constituents are almost akin to those of well-regulated joint stock banks. At the same time, it must be realised that there is much less elasticity in the financial operations of co-operative banks, as there are no facilities for the negotiation and discounting of agricultural paper held by them, while their borrowing power is strictly proportioned to their owned capital. Moreover, vicissitudes of seasons and consequent defaults in repayments by borrowers, which are of common occurrence in agricultural credit, have a greater reaction on the finances of co-operative banks than of joint stock banks; and the proportion of frigid money in co-operative banks is comparatively large and will necessarily increase in years of economic adversity. In addition to these peculiar difficulties of their own, the co-operative banks are charged with the duty of distributing their resources among thousands of small cultivators who need accommodation, "thinning out" as Mr. Wolff graphically puts it, "the stream (of money) collected, sending it in rills over a broad surface, so that irrigation may be perfect and reach every root to be watered." These are functions which no joint stock bank ordinarily undertakes. The peculiarity of the structure of co-operative credit societies and the collective guarantee incidental to the character of the liability of the members, at their best, are helpful only in so far as they facilitate the dispensing of credit and collection of dues. They do not carry us much further. The co-operative principles have, in my opinion, a more intimate bearing on the productive employment by co-operative banks of their capital than on the methods of raising and banking their resources. The vital question therefore with which co-operative banks are confronted is the latitude they enjoy in the utilisation of their resources, the bulk of which consists of ordinary banking deposits and loans from secondary organisations. It will be an ideal state of things if from these resources they are able to meet all the capital needs of the agriculturists. These needs broadly speaking fall under two heads: one is provision for a fluctuating accommodation to meet the expenses of working the farm—the short and intermediate loans fall under this head; the other is provision for substantial capital for freeing the farm from heavy prior encumbrances and for general improvement and equipment of the farm—the long term loans which are repayable from the savings of a long series of years in small instalments fall under this head. I am in complete agreement with the Reserve Bank's view that our credit societies, as at present constituted, should not dispense the latter form of credit, however desirable and necessary it may be to do so in order to afford legitimate financial help to the peasant. The land mortgage banks are the suitable agency for dispensing long term credit.

The Reserve Bank have given specific advice to the co-operative central and provincial banks in regard to utilisation of their resources for loans and advances to be made for short and intermediate purposes. The ratios in which the funds are to be invested are thus set out in the circular dated 12th June 1939:

(a)	Loans and advances	50 to 55 p. c.
(b)	Investment in liquid form (Government Securities and Treasury Bills)[2]	30 to 40 p. c.
(c)	Cash	10 p. c.

The Reserve Bank, however, have not indicated anywhere in their circulars what margin they consider will be necessary between the borrowing and lending rates of these banks, in order to be able to work on the basis of limiting their advances and loans to 50 to 55 per cent of their deposits and of investing remaining funds in gilt-edged securities and cash. In the province of Madras, the average borrowing rate of the co-operative financing banks is now three per cent and their average lending rate to societies is five per cent. In fact, these are the general rates now obtaining. There has been for some years past a growing demand from co-operators to reduce the lending rate to the borrowers. Some years ago, our lending rate to the members of societies, that is the ultimate borrowers, was two pies in the rupee or 12½ per cent. We brought it down to 1½ pies in the rupee or 9⅜ per cent. Later the rate was reduced to 1 1/5 pies in the rupee or 7½ per cent. But there is a universal demand, almost irresistible, to bring it down to one pie in the rupee or 6¼ per cent. This is the highest rate of interest allowed to be charged to agriculturists by moneylenders under the Madras Agriculturists' Relief Act. It will be obviously impossible for co-operative credit societies to charge a rate higher than that permitted to be charged by moneylenders. So any scheme of co-operative credit in this province must take note of the fact that the ultimate borrowers cannot be

2. It is said that the Reserve Bank in their proposals for the reform of banking law recommended that the joint stock banks should invest 30 per cent of their deposits in gilt-edged securities instead of the 30 to 40 per cent recommended for the co-operative banks. What is the reason for this differentiation? Is it because the Reserve Bank consider that the co-operative banks can afford to invest a larger percentage of their working funds in gilt-edges, the yield on which is not only low but whose prices are liable to fluctuation which may result in capital loss or because the Reserve Bank consider that the financial operations of the co-operative banks being more hazardous than those of joint stock banks, the former must keep a larger percentage in liquid investments irrespective of their ability to do so or not, or because the Agricultural Credit Department and the Banking Department do not collaborate in the matter of tendering their expert advice to the co-operative banks and joint stock banks, respectively?

charged more than 6¼ per cent. The proportions of the resources of the co-operative banks prescribed for investment by the Reserve Bank as stated above cannot, in my opinion, be adopted without reference to the borrowing and lending rates, the margin of profit and other relevant considerations which vary from province to province and from region to region in the same province. On the basis that co-operative banks pay three per cent on their deposits and lend 50 per cent thereof at five per cent to constituent societies and invest 40 per cent in liquid securities which fetch on an average three per cent, we arrive at the following figures:—

Interest receivable.	
Rs. 50 lent at 5 per cent will fetch ..	Rs. 2·5
Rs. 40 invested at 3 per cent will fetch ..	Rs. 1·2
Rs. 10 cash	Nil.
	Rs. 3·7
Interest payable ..	Rs. 3·0
Margin[3] ..	Rs. 0·7

No allowance is made for depreciation in the value of gilt-edged securities and the assumption of three per cent yield on the 40 per cent of liquid investments errs, if at all, on the side of over-estimate and not under-estimate.

I have worked out figures for the 32 central banks in the province of Madras for the year 1937-38 on the above basis, as suggested by the Reserve Bank of India. The result is shown in a tabulated form in the accompanying statement. It will be seen from the statement that very few banks will be able to meet their normal expenditure from the margin. It is needless to point out that nothing will be left to pay a dividend even at four per cent to their shareholders after meeting their expenditure. It will also be seen that no provision can be made for adding anything to the statutory reserve fund in accordance with the practice hitherto followed by these banks. It therefore appears to me that the advice of the Reserve Bank in regard to the proportion of investments in loans, gilt-edged securities and cash will not work, at any rate, in the province of Madras. Without the balance sheets of other provincial and central banks, it will not be possible for me to state how far they will work in other provinces. My own impression is that the scheme will not work anywhere. The joint stock banks work with a much

3. If the proportion of 55 per cent of loans and 35 per cent of liquid investments is taken, the margin will be 0·8, and it makes no difference.

higher difference between their borrowing rate, that is to say the rate of interest paid by them on their deposits, and the rate of interest charged by them on their loans and advances. These and other relevant considerations are, in my opinion, overlooked by the Reserve Bank in their circulars.

The co-operative banks are now working on different methods. They are required to maintain fluid resources on standards prescribed by Provincial Governments. In the province of Madras central banks maintain a fluid resources register, in which entries are made from day to day and the Registrar ensures that these banks strictly maintain these standards.[4] The Reserve Bank have not suggested any definite standards of fluid resources to be maintained by provincial banks and central banks. If the authorities of the Reserve Bank are not satisfied with the standards adopted in any province, it is of course open to them to suggest to the Provincial Government concerned to modify the scale prescribed in that province. Expert advice of the Reserve Bank on this matter will receive the consideration, to which it is certainly entitled.

(2) Forms of financial accommodation by the Reserve Bank.— The circular dated the 14th May 1938 states that financial accommodation to which the co-operative banks may be eligible fall under the following heads:—

(i) Loans or advances against Government securities for periods not exceeding ninety days.

(ii) Discounting of treasury bills.

(iii) Loans and advances against approved debentures of recognised land mortgage banks, which are declared trustee securities, if the Bank consider that the debentures are readily marketable.

(iv) Loans and advances for periods not exceeding ninety days against promissory notes of approved co-operative marketing or warehouse societies endorsed by Provincial Co-operative Banks and drawn for the marketing of crops; or rediscount of such promissory notes *maturing within nine months*; or loans and advances for periods not exceeding ninety 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 banks to approved marketing or warehouse societies.

4. In Madras, fluid resources are maintained on the following standards:
100 p.c. of deposits matured but not claimed.
50 p.c. of fixed deposits maturing within the next 30 days.
50 p.c. of liabilities under current deposits (40 p.c. in the case of the Provincial Bank).
25 p.c. of savings deposits.
50 p.c. of undrawn cash credits.

(v) Occasional advances 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 marketing of crops; or rediscount of such promissory notes ***maturing within nine months.***

These items constitute virtually a reproduction of the provisions of section 17 of the Reserve Bank of India Act, so far as they relate to rural credit. The interpretation placed by the Reserve Bank on these provisions practically rules out their applicability to co-operative banks. The expressions, "maturing within nine months" and "documents of title to goods" occurring in the relevant portions of section 17 exclude the demand promissory notes and documents relating to produce against which loans are advanced by co-operative societies. What the Reserve Bank want are usance bills, that is to say, promissory notes or bills drawn for purposes of finance for seasonal agricultural operations or for marketing of crops *which have a fixed maturity*, or documents of title to goods which have been assigned or pledged as security for cash credits or overdrafts granted by provincial co-operative banks to approved marketing or warehouse societies. Very few co-operative banks may be able to offer these forms of securities. Demand promissory notes are much more common than usance bills. In practice demand promissory notes are considered more safe, for a demand for repayment of a loan can be made as soon as the debtor's financial position shows signs of deterioration without waiting for the fixed maturity. The procedure of issuing negotiable warehouse certificates has not yet been adopted in the province of Madras, and marketing societies obtain their finances from central banks much in the same way as crop loan and sale societies, that is to say, by executing promissory notes in favour of central banks either for loans or cash credit accommodation. It will take time to introduce usance bills and warehouse receipts in co-operative societies. So long as the Reserve Bank are not prepared to advance to provincial banks loans on the security of promissory notes of central banks backed by primary societies' pronotes, fixing a time limit, if necessary, for the currency of such loans. the promised financial accommodation amounts to very little.

Advances on the security of debentures of land mortgage banks are hedged by a difficult condition that they should be "readily marketable." What test the Reserve Bank will apply to satisfy whether the condition is fulfilled is not clear. These debentures are rarely quoted on the stock exchanges and large investors like insurance companies treat them as fixed investments for their currency.

(3) Conditions to be satisfied for obtaining financial accommodation from the Reserve Bank.—The Reserve Bank lay down certain conditions to be observed by the co-operative banks in order to obtain financial accommodation. These conditions are: (a) deposit of certain balances with the Reserve Bank; (b) submission of periodical statements; (c) preparation and furnishing of balance sheets in prescribed form; and (d) inspection of co-operative banks by the Reserve Bank.

(a) *Deposit of certain balances with the Reserve Bank.*—The Provincial Banks are asked to maintain with the Reserve Bank balances equal to 2½ per cent of their demand liabilities and 1 per cent of their time liabilities. These percentages are exactly half the standards prescribed for scheduled banks under section 42 (1) of the Reserve Bank of India Act. It may be conceded that it is legally permissible for the Reserve Bank to ask for such deposits, as there is nothing in the Act to prevent the Reserve Bank from prescribing this as a condition of financing; but it must be said that it involves a distinct departure from the policy underlying the Act. The non-mention of the Provincial co-operative banks in section 42 (1) may be taken to be an indication that the intention of the Act is to exempt them from the provisions of the section. A reference to the proceedings of the Select Committee, which shaped the Reserve Bank Bill, will bear out this contention.[5] The Madras Provincial Co-operative Bank, however, feels no difficulty in maintaining such balances and will agree to do so, for so far as this bank is concerned, even higher balances are now voluntarily maintained. This, however, should not be taken as a statement representing the views of other provincial banks in India, for conditions vary from province to province.

(b) *Submission of periodical statements.*—Section 44 of the Reserve Bank of India Act lays down that the Reserve Bank may require any provincial co-operative bank, with which it has any transactions under section 17, to furnish returns referred to in sub-section (2) of section 42 and if it does so, the provisions of sub-sections (4) and (5) of section 42 shall apply so far as may be to such co-operative bank as if it were a scheduled bank.[6] The provincial banks are now submitting

5. *Vide* Report of the Joint Select Committee, dated November 16, 1933 on Clause 43-B: "We considered whether provincial co-operative banks should be included in the schedule but came to the conclusion that though there may be considerable advantages in such a course, the time is not yet ripe for it."

6. Sub-sections (2), (4) and (5) of Section 42 of the Reserve Bank of India Act are reproduced below:

(2) Every scheduled bank shall send to the Governor-General in Council and to the Bank a return signed by two responsible officers of such bank showing—

(a) the amounts of its demand and time liabilities, respectively, in India,

(b) the total amount held in India in currency notes of the Government of India and bank notes,

(c) the amounts held in India in rupee coin and subsidiary coin, respectively,

(d) the amounts of advances made and of bills discounted in India, respectively, and

all the returns required under sub-section (2) of section 42 referred to above, and in my opinion, it is not necessary for the Reserve Bank to call for any other statement.

(c) *Preparation and furnishing of balance sheets in the prescribed form.*—The standard form of balance sheet suggested by the Reserve Bank is substantially the same as that hitherto submitted by the co-operative banks to the Registrar of Co-operative Societies in the province of Madras. Separate figures for deposits of primary societies and central banks are required to be shown. Similarly, under loans separate figures are required to be shown for overdues and bad and doubtful debts. The balance sheets of the Madras Provincial Co-operative Bank for the years 1937-38 and 1938-39 have been prepared in accordance with the requirements laid down by the Reserve Bank.

(d) *Inspection of co-operative banks by the Reserve Bank.*—There is no provision in the Reserve Bank of India Act for inspection of co-operative banks by the Reserve Bank. The Registrar of Co-operative Societies exercises general supervision and is also the auditor under the Co-operative Societies Act, and through him certain periodical statements such as quarterly financial statements are being submitted to the Provincial Governments. In view of the above, it is unnecessary, in my opinion, for the Reserve Bank to undertake inspection through their

(e) the balance held at the Bank,

at the close of business on each Friday, or if Friday is a public holiday under the Negotiable Instruments Act, 1881, at the close of business on the preceding working day; and such return shall be sent not later than two working days after the date to which it relates:

Provided that where the Bank is satisfied that the furnishing of weekly return under this sub-section is impracticable in the case of any scheduled bank by reason of the geographical position of the bank and its branches, the Bank may require such bank to furnish in lieu of a weekly return a monthly return to be despatched not later than fourteen days after the end of the month to which it relates giving the details specified in this sub-section in respect of such bank at the close of business for the month.

(4) Any scheduled bank failing to comply with the provisions of sub-section (2) shall be liable to pay to the Governor-General in Council or to the Bank, as the case may be, or to each, a penalty of one hundred rupees for each day during which the failure continues.

(5) The penalties imposed by sub-sections (3) and (4) shall be payable on demand made by the Bank, and in the event of a refusal by the defaulting bank to pay on such demand, may be levied by a direction of the principal Civil Court having jurisdiction in the area where an office of the defaulting bank is situated, such direction to be made only upon application made in this behalf to the Court by the Governor-General in Council in the case of a failure to make a return under sub-section (2) to the Governor-General in Council, or by the Bank with the previous sanction of the Governor-General in Council in other cases.

own staff. If, however, such inspection is desired by the Reserve Bank in order to be in touch with the work of the Provincial Banks and to give them helpful advice and guidance, the inspection must be done only by officers of the superior rank, preferably by the Officer-in-charge of the Agricultural Credit Department.

(4) **Remittance transfer facilities.**—In connection with the maintaining of cash balances with the Reserve Bank, the Bank have made the following provision: Where the headquarters of a provincial co-operative bank or of a land mortgage bank are not situated at the place where the Reserve Bank have their branches in the banking department, free remittance facilities will be provided for the maintenance of this account (deposit balance). In regard to other remittance facilities to co-operative banks, the circular dated the 14th May 1938 says that the question is being separately considered. The Madras Provincial Co-operative Bank, (and I have no doubt other provincial banks too) urged on the Reserve Bank that they should not withdraw the facilities which have so far been enjoyed by the provincial and central banks, and which the Imperial Bank of India had extended to them until the establishment of the Reserve Bank. But it was explained by the authorities of the Reserve Bank that the position had considerably changed since the establishment of Provincial Autonomy, as the financial arrangements between the Central and Provincial Governments were now different. It was therefore suggested that any concessions to co-operative banks should only come from the Provincial Governments by way of subsidy or otherwise. It is however said that co-operative banks would be charged the same rates as are now charged to scheduled banks, and if the latter were given any other facilities such facilities would also be extended to co-operative banks. It is understood that scheduled banks are permitted to remit funds once a week in multiples of Rs. 5,000 free of charge and this facility is being utilised by several scheduled banks in carrying on remittance business by transfer of balances to the Reserve Bank, and subsequently all transfers of such balances to the other local joint stock banks for operation by drafts. If this is so, there is no reason why this facility should not be given to the provincial co-operative banks, who are now required to maintain free balances with the Reserve Bank. As the Reserve Bank say in their circular that the whole question is under consideration, it is unnecessary to pursue the matter further here.

I hope that a special meeting of the Standing Committee of the Indian Provincial Co-operative Banks' Association will be convened to consider the circulars issued by the Agricultural Credit Department of the Reserve Bank of India and to communicate to that Department the considered opinion of the provincial banks thereon.

Analysis of owned and borrowed capital and revenue position of Central Banks in the Madras Presidency based on the figures of 30th June 1938.

Name of Central Bank	Working Capital.	Owned Capital.	Borrowed Capital.	3·7% of W. Capital.	3% of Borrowed Capital.	Margin available for Management Expenses.	Establishment and Contingencies.	Contribution to Supervision Fund.	Other Items of Expenditure.	Total Expenditure.	Dividend at 4% on S. Capital.
Aska Central Bank. ..	7,30,434	2,41,672	4,88,762	27,026	14,662	12,364	5,990	4,804	1,065	11,859	4,775
Berhampore Central Bank ..	6,47,877	1,01,592	5,46,285	23,971	16,388	7,583	6,737	2,205	2,193	11,135	2,153
Chicacole C. C. Bank ..	4,92,245	1,14,527	3,77,718	18,213	11,332	6,881	6,152	3,914	167	10,233	2,875
Vizianagram C. C. Bank ..	26,03,730	3,73,631	22,30,099	96,338	66,903	29,435	16,089	13,330	3,561	32,980	7,786
Cocanada Dt. Bank ..	6,21,120	1,88,534	4,32,586	22,981	12,978	10,003	10,004	2,556	448	13,008	3,400
Ramachandrapuram C. Bk.	9,83,507	2,70,466	7,13,041	36,390	21,391	14,999	6,335	1,647	491	8,473	4,132
Amalapuram C. C. Bank ..	14,45,342	2,94,036	11,51,306	53,478	34,539	18,939	10,931	2,362	367	13,660	6,442
Rajahmundry C. C. Bank ..	3,04,993	59,721	2,45,272	11,285	7,358	3,927	4,096	605	85	4,786	1,012
W. Godavari Dt. Bank ..	20,55,160	4,39,955	16,15,205	76,041	48,456	27,585	14,744	6,776	466	21,986	10,063
Krishna Co-op. Bank ..	26,63,481	4,75,986	21,87,495	98,549	65,625	32,924	20,201	5,250	3,799	29,250	7,568
Vizlavada Co-op. Bank ..	12,59,544	1,71,010	10,88,534	46,603	32,656	13,947	11,131	2,287	161	13,579	3,705
Guntur Dt. Bank ..	16,58,702	5,38,581	11,20,121	61,372	33,603	27,769	20,878	8,080	570	29,528	6,970
Nellore Dt. Bank ..	26,28,539	3,76,628	22,51,911	97,256	67,557	29,699	38,021	3,446	255	41,722	5,776
Chittoor Dt. Bank ..	9,84,836	2,32,817	7,52,019	36,439	22,561	13,878	17,995	3,208	359	21,562	6,018
Cuddapah Dt. Bank ..	10,17,649	1,39,115	8,78,534	37,652	26,356	11,296	8,912	1,845	350	11,107	2,909

Name of Central Bank.	Working Capital.	Owned Capital.	Borrowed Capital.	3·7 % of W. Capital.	3% of Borrowed Capital.	Margin available for Management Expenses.	Establishment and Contingencies.	Contribution to Super-vision Fund.	Other Items of Expenditure.	Total Expenditure.	Dividend at 4% on S. Capital.
Hospet C. C. Bank ..	9,83,162	2,66,058	7,17,104	36,376	21,513	14,863	9,285	2,334	86	11,705	5,747
Anantapur Dt. Bank ..	16,97,978	3,82,804	13,15,174	62,825	39,455	23,370	18,495	3,668	195	22,358	8,109
Kurnool Dt. Bank ..	8,57,508	2,45,574	6,11,934	31,728	18,358	13,370	8,852	7,684	722	17,258	4,172
Madras Dt. Bank ..	8,08,770	1,02,381	7,06,389	29,924	21,191	8,733	6,938	...	1,465	8,403	3,588
Conjeevaram C. C. Bank ..	27,13,123	7,79,846	19,33,277	1,00,385	57,998	42,387	39,623	5,233	1,185	46,041	14,628
Vellore C. C. Bank ..	28,45,454	7,33,413	21,12,041	1,05,282	63,361	41,921	17.801	8,703	562	27,066	11,206
Salem Dt. Bank ..	30,26,477	6,12,606	24,13,871	1,11,980	72,416	39,564	36,594	5,061	1,304	42,959	7,209
Coimbatore Dt. Bank ..	53,28,751	6,60,521	46,68,230	1,97,164	1,40,047	57,117	32,014	32,184	1,011	65,209	10,220
Malabar Dt. Bank ..	12,98,105	2,12,373	10,85,732	48,030	32,572	15,458	10,316	3,418	641	14,375	4,136
S. Canara C. C. Bank ..	11,37,267	2,39,238	8,98,029	42,079	26,940	15,139	6,406	2,558	2,200	11,164	5,080
S. Arcot C. C. Bank ..	19,11,503	5,77,926	13,33,577	70,726	40,007	30,719	19,128	14,819	520	34,467	12,359
Kumbakonam C. C. Bank ..	17,60,359	3,19,832	14,40,527	65,133	43,216	21,917	18,901	2,873	1,642	23,416	5,014
Tanjore C. C. Bank ..	13,04,745	2,79,003	10,25,742	48,276	30,772	17,504	14,348	3,900	804	19,052	5,493
Trichinopoly Dt. Bank ..	36,93,361	8,94,748	27,98,613	1,36,654	83,958	52,696	32,270	5,474	1,016	38,760	7,690
Madura Dt. Bank ..	33,22,481	6,93,706	26,28,775	1,22,932	78,863	44,069	24,837	6,913	298	32,048	11,627
Tinnevelly Dt. Bank ..	16,27,619	4,30,832	11,96,787	60,222	35,904	24,318	19,817	2,566	260	22,643	7,397
Srivilliputur Bkg. Union ..	5,74,501	1,63,353	4,11,148	21,257	12,334	8,923	3,804	1,389	914	6,107	3,555

MULTI-PURPOSE CO-OPERATIVE SOCIETIES

A SCHEME FOR LOCAL SELF-GOVERNMENT IN RURAL AREAS

By

THE HON. DR. KAILASH NATH KATJU, M.A., LL.D.
Minister for Justice and Development, United Provinces.

Public attention has been widely drawn to the urgent necessity o effecting large improvements in the countryside. It is now realisec that villages have been neglected and the conditions prevailing there ar wretched and miserable. District Boards have not penetrated th village. Their activities have mainly been confined to communication in the district, advancement of education and public health and sucl other activities dealing with the district as a whole. The interior of th village, it would seem, has almost been of no concern of the Distric Board. It has, furthermore, done little or nothing towards the ameliora tion of the economic condition of the villager. Here and there a Distric Board may have established a seed store ; otherwise it has not attempt ed to deal in the slightest degree with the vital problems of productior and marketing or with the encouragement and development of cottag industries in the rural areas.

The need for rural development and rural reconstruction has beer recognised, and practically in all the provinces schemes, ambitious o modest, have been formulated for achieving progress in this direction. With the same object in view it is considered desirable to establish loca self-governing institutions in the villages. It is felt that these institution springing as they would in the village itself, will evoke both local res ponse and local co-operation and also give scope to local initiative, anc will therefore prove an efficient instrument for the political educatior of the villager in the art of self-government as well as for the improve ment of his environment ; and it is generally held that this object will be attained by the establishment of Panchayats on a very extensive scale. It is also thought that inasmuch as the Panchayat is an ancient institu tion suited to the genius of the people, it will appeal to the villager and will be an effective agency for the execution of progressive schemes. One accordingly reads reports in newspapers that legislation for the establishment of these Panchayats in the rural areas has been enacted or is being undertaken in many provinces and also in several Indian States. I am not very familiar with the lines on which these Panchayats are proposed to be constituted, but it seems to me that the method most commonly favoured is that of election. The Panchayats, speaking broadly, are to be modelled on our existing municipal institutions. The franchise may undoubtedly be wider; the Panches may be elected by a process of adult suffrage, but in substance the machinery will be the same. The Panches will be elected for a term of years and the Panchayat so constituted will be a body of persons having both executive and taxing authority. It will have obligatory as well as discretionary powers. It will have funds of its own, and it may add to these funds by a little local taxation.

I do not propose to dwell at any length on the merits or demerits of this system of local self-government. Nor do I wish to emphasise that elections may, in conceivable circumstances, lead to friction and to rivalry and instead of promoting peace and harmony in the village may end in discord and corruption.

I wish, however, to emphasise strongly two aspects of this problem. One is that representative government is a device which need only be adopted where it may not be possible, owing to the largeness of the number of people living in a particular area, to entrust the conduct of the administration of local affairs to the people themselves, individually and collectively. Where by reason of the smallness of their number it may be feasible for the village community to administer its own affairs directly and efficiently, every one will, I think, admit that that would be the best possible method of local self-government. One of the banes of representative institutions is the danger of lack of contact between the electors and their representatives. Everybody recognises the necessity of the individual citizen or resident of a local area taking a keen and continuous interest in local affairs so that there may be constant play of healthy public opinion to guide and influence the action and policies of the elected representatives of the community. But everywhere it is found that the ideal is never attained; and so far as India is concerned, if past experience is to be of any value, one must admit that much is left to be desired. The electors leave the administration of local affairs very much to their representatives and only seem to wake up at the time of periodical elections.

The second point which to my mind is of vital importance is the fundamental difference in the needs of a village community as compared to the needs of the residents of an urban area. Local self-governing institutions of urban areas, be they large or small, be they municipal boards or notified area committees, are largely concerned with providing well-recognised amenities for the benefit of the residents—a good drainage system, supply of pure drinking water, good roads; efficient system of

lighting; markets; slaughter houses; parks and recreation grounds. Added to all that is the duty of providing for elementary education to the children living within the limits of the municipality. With the economic condition of the residents municipal boards, as such, have no direct concern; and indeed the occupations of the residents in urban areas are so diverse that it is impossible for any municipal board to make any special endeavour for their betterment. On the other hand, the village community in a rural area, in spite of its seeming disintegration, possesses real unity. The members are engaged only in one particular pursuit, viz., agriculture and its allied industries. Their needs in so far as amenities in the *abadi* itself are concerned, are few indeed. Unless a village is hopelessly congested there is plenty of fresh air and facilities for supply of pure water for drinking purposes either exist or can be easily arranged. Improvement and development of a village, as we understand them in the sense of an urban area depend largely on considerations of improvement of the economic condition of the villagers, and moreover do not need any similar continuous attention. If rural development only means widening of village lanes, sinking of a few wells and the opening of ventilators in houses, the whole task can be performed, if some funds are available, within a few months. But as I visualise it, rural development consists in a sensible and indeed considerable increase of the wealth of the individual villager by effecting improvement in methods of production and of marketing and by the development of cottage industries. If the wealth of the village community increases I have no doubt that living conditions will also become better and amenities will follow in the wake of prosperity.

Then there is another essential consideration. For effecting improvements in the *abadi* of a village the machinery of a panchayat periodically elected may prove effective, because for making such improvements the continuous interest and co-operation of individual villagers is not a desideratum, but if you wish to effect considerable improvement in agriculture, if you wish to induce the villager to adopt methods for better farming so that his production may increase, and if you want him to take to organised and rational methods of marketing so that he may get proper prices for his produce, that is not definitely in my judgment a task which can be performed by a panchayat consisting of a few individuals; it will require the ready and willing and continuous personal co-operation of each single villager. You have to convince every cultivator that what is proposed is for his good, that the methods which he follows are antiquated and should be abandoned in favour of other methods; he will have to be persuaded; his assent, and intelligent assent, will have to be won by personal appeal to him either individually or through an organisation of which he himself is a member. If we consider the problem of the village from this point of view it will, I am sure, be apparent that we should explore other methods of establishing local self-governing institutions in the rural areas, and I suggest that an efficient and practical and useful method would be the co-operative method. It is a matter of profound regret that up till now the activities of the Co-operative Department have become synonymous with the application of the co-operative principle to one particular form of activity, viz., provision of cheap credit for the villager. Further even this limited activity has been carried on under the aegis of an official department. It is small wonder that co-operation has not appealed strongly during all these years to non-official workers. But things have now changed. With the advent of provincial autonomy there can be no difficulty about expanding the activities of the department on absolutely national lines and to organise the whole of the countryside by the pursuit of co-operative methods.

I may sum up in a few words what I have suggested above as the essential requisites of a self-governing organisation in the rural area; firstly, it should be an organisation of which practically every villager is a member and in which he himself takes an intelligent interest; and secondly, that organisation should look after the life of the village community as a whole and should not confine itself to the mere requirements of the *abadi*; *i.e.*, it should try to serve all their needs. As I said elsewhere, it should undertake to look after the villager, the resident of the village, from his cradle down to the end of his days.

I suggest that the above two essential requirements will be completely met by the organisation of multi-purpose co-operative societies in villages with a population not exceeding 12 to 15 hundred souls each. I do not impose any minimum limit; but a maximum limit is necessary because the society must be so constituted as not to become unwieldy and impractical by the mere size of the number of its members.

The constitution of this multi-purpose society should be based on each family in the village as a unit. In my opinion, the family even now is broadly considered to be a unit in the life of a village community. The villager goes by houses. If you ask him as to the population of a village, more often than not he will not give you the number of people residing in the village; he will say, "We have so many houses—100 or 150," in other words they have so many families in the village. For the constitution of our society we should therefore treat each house or family as a unit, and each house should send one representative, or at least two if the family is a very large one, to the society. This representative will normally be the head of the family, but in rare cases where the father of the family, has become too old, he may be the younger brother or a son. Anyway, the family itself will be associated directly with the society.

With a maximum limit of about 200 or 250 houses or families in a village, we may have a society (by 'society' I always mean a multi-purpose co-operative society) consisting of about an equal number of members; and I think there should be no difficulty in such a body being quite business-like in its methods. We know that each *biradari* has a panchayat of its own. The *biradari* meets in full strength and then deliberates and comes to conclusions and decisions. Therefore, I feel no difficulty in thinking that a village society consisting of 200 or 250 members would be able to deliberate upon matters of common interest to the villagers in every aspect of their life—economic, cultural or even political. Once such a society is formed, then the conduct of its affairs should present no difficulty. Each society will have its own rules and bye-laws and these will provide for the conduct of its affairs, the procedure at the meetings of the society, the power of the society to enforce its rules and bye-laws by expulsion or by inflicting punishment through fines and other methods.

This society should carry on all kinds of useful activities in the village. It would have separate sections, each section looking after one particular kind of work. One section would look after better farming, another after marketing, a third after village industries, a fourth after village sanitation, a fifth after the education of boys and girls, a sixth after culture and village amusements, and so on. The society would meet once a month or at longer or shorter intervals as may be decided upon, and all questions of policy would be decided by the society itself. Each villager will in this way have an opportunity of having his say in all that concerns the improvement of the abadi of the village and about methods of agricultural production, farming and marketing and also the development of village industries.

The officials of the various nation-building departments, Agriculture, Industries, Co-operative, Excise and Irrigation, will have an opportunity of coming into contact with the village community as a whole at the meetings of the society and of explaining either the policy of the Government or the better and improved methods which will lead to the improvement of the village in any particular direction. This is in itself important because it is common experience that these officials find it exceedingly difficult to meet the village as a whole and they seldom get an opportunity to explain to or advise the villagers as to what they should do for bettering their economic condition.

The constitution of the society in this way would do away with all questions about method of election, direct or indirect, joint or separate, and there would be no canvassing also in any shape or form. The family will choose its own representative and a meeting of the society will present an opportunity for all the villagers to come together and should, I think promote peace and harmony in the village.

For carrying out and executing its decisions the society should have a working committee. This working committee may be called a panchayat and should be elected every year. It should not be too large in numbers; at the same time it should be sufficiently large to allow every caste, creed and calling to be represented on it. As a matter of fact, to my knowledge, in numerous villages in the United Provinces such societies have been established and it has been very pleasing to find that the members of the societies of their own accord voluntarily and without any outside persuasion have elected as their working committee members of all communities, Hindus, Mussalmans and Harijans and the panches have worked together in a cordial manner. The panchayat so elected will be answerable to the society for its conduct. At practically every meeting of the society it will report upon the work done since the previous meeting and how the decisions of the society have been carried out. The panchayat will have no funds of its own and will not lay down policies; nor will it take decision on large questions, and I should therefore think that the objectionable features which one sometimes finds in notified area committees or even in larger bodies, would be absent from the working of these panchayats.

The society will have funds of its own raised according to its rules and bye-laws. This is a matter of detail to be adjusted in accordance with local needs in different parts of the province, but I would broadly suggest a minimum subscription for membership payable by each member, no matter whether he is a zamindar or a tenant or a landless labourer, residing in the village. The minimum may therefore be within the means of the humblest resident of the village; or the minimum may be of two kinds—eight annas or one rupee per annum for a particular class and four annas per annum for the members of the Harijan community. But along with this minimum I would also recommend a provision in the rules and bye-laws of the society prescribing payment of an extra sum by way of subscription graduated according to the means of every member. If the member is a Zamindar, he might pay a percentage of his rent-roll of the village plus the profits of his "Sir" and "Khudkasht". It may be one or two per cent or more as the local situation may demand. Similarly in the case of a tenant, there should be a percentage of his assumed profits from cultivation. I have noticed that some recommendations have been made on the basis of the rent payable by a tenant. This would work very harshly. The burden caused thereby will be the severest on the poorest classes of the tenantry. For instance, take the case of fixed-rate tenants or occupancy tenants of old standing. The rent they pay is very low, but their economic condition, comparatively speaking is much better than that of other tenants. Highest rents are paid by sub-tenants or statutory tenants and their economic condition is correspondingly bad and

any contribution based on a percentage of rents will bear very harshly on these very poor people. I think, therefore, that the contribution by the cultivator should be either on the basis of his assumed profits from the cultivated land or on the number of ploughs or bullocks he has or something which has direct relation to his economic condition.

In addition to these voluntary contributions I would also expect that Government and or strict Boards would make definite grants to each society in the manner which I shall discuss later. In addition to these fixed voluntary contributions from members to which I have referred above the society's bye-laws can easily provide for the imposition of fines on members if they do not observe the rules and bye-laws of the society and these fines will augment the funds of the society. Similarly there will be fines imposed by judicial panchayats to which I shall refer later.

I may also add, that from the experience that we have gained in the U.P. during the last two years of the working of these societies on a large scale, I find that the villagers have shown a perfect readiness—which has been, I must confess an agreeable surprise to me—to contribute by special subscriptions for works of village utility. The impression that I have formed is that if you impose a tax on a villager and tell him that the proceeds of the tax will be spent in the making of canals or in building hospitals or any other large-scale project far removed from his view or the view of the village, then he becomes suspicious and is a very unwilling paymaster; but if you tell him that the money shall be at his disposal, shall be spent by him and may be devoted to objects from which he himself will benefit in his daily life, such as village wells for drawing water for drinking purposes or for irrigation purposes, widening of village lanes, construction of by-paths and lanes connecting the village with pucca roads or construction of Panchayat-Ghars, then, in spite of poverty the villager will be prepared to contribute his mite and not only his mite but to contribute generously. Therefore, I feel certain that if we have a well-organised society functioning properly and honestly it will never feel the want of funds for any object calculated to promote the welfare and prosperity of the village.

We have formed many such societies, and particularly we have formed a very large number of better living societies as a basis for multi-purpose co-operative societies throughout all the districts of the U.P. We have also said that for organised community life of the village it is essential that a society should have a habitation of its own where all the villagers can meet every evening and discuss matters of interest, celebrate local festivals, have public entertainments and amusements, such as music and folk dance, village sports and such other things; and have a place for holding their meetings, for the distribution of free medicines and accommodation for a Kanya Pathshala and such other objects. The response in regard to the erection of these Panchayat-Ghars has been splendid, and I should think that when these societies, to which I am referring in this note, are largely formed it will be found that each will soon have its own Panchayat-Ghar. But wherever there may be a school house existing in the village it may be convenient for the society to acquire the school house from the Education Department or the District Board for use as Panchayat-Ghar. The terms can easily be agreed upon, and rooms may be added to the school-house by the society to provide for all village necessities.

I need not emphasise once again that one of the primary and essential functions of the society will be to promote better farming and better marketing. With this object in view it will arrange for the supply of improved seeds, better agricultural implements and fertilisers and, if need be, will establish a seed store of its own in the village. It will also look after better marketing of the agricultural produce of its members and also for the development of industries allied to agriculture such as dairy-farming, gur and Khandsar making, and oil pressing. In addition, there will be other cottage industries such as spinning and weaving, wood work, tanning etc. In short the function of the society will be to look after the interests and welfare of the village community as a whole and not in sections. It will of course require credit for the due discharge of many of its responsibilities. The primary object of the society on its credit section will be to raise funds to enable the society to carry on its functions for the promotion of better farming and better marketing. It may keep a village seed store as well as a store of improved agricultural implement and fertilisers and even some pairs of bullocks for the use of its members and the money which may be required for this purpose it shall raise from the solvent residents of the village as well as from outside co-operative agencies such as the district and central co-operative banks. It is not necessary to dwell at greater length on this aspect of the matter.

I indeed contemplate that so long as the present zamindari system prevails the society may very well enter into some arrangement to pay the rents of its members to the zamindar in a lump sum or in instalments on receipt of a rebate from the zamindar for relieving him of all his worries and expenses in realising them from each individual tenant.

It will now easily be realised that this society, if it functions well, should prove an efficient and perfectly practical form of a local self-governing body and it will have the greater merit of carrying with it the help and co-operation of every resident in the village.

The question may arise: how are these societies to be formed and when should they begin to function? It may be said that if we wait for all the families in the village to become members of such a society on a voluntary basis we may have to wait either too long or such societies may in many cases never materialise, and we cannot afford to wait for an indefinite period. I think this difficulty can be solved by a simple and easy method. There is nothing to prevent any number of villagers forming themselves into a society of this kind. They may be a minority of the village community, but if we find that representatives of a majority of the families resident in a village have formed themselves into such a society, then we may have legislation to ensure that the decisions of such society will be binding on non-members also. What this majority should be is a mater of detail; it may be two-thirds of all the families residing in the village or even 60 per cent. Discretion should be given to the Registrar of Co-operative Societies to ascertain before he declares that that enactment should come into force that the society consists of the requisite majority of residents and that it is properly organised and that it may be trusted to look after the affairs of the village in a business-like and impartial manner in the interest of the village as a whole. Not only should the decisions be binding on members and non-members alike, but any contribution which the society levies on its members should also become payable by non-members also. Non-members may, if they still persist in their attitude of non-co-operation with the society, be left to their own devices, but I dare say that when they find that they will be called upon to pay they would readily join the organisation so that they may have a voice in its deliberations and before any decisions are taken. Moreover I am convinced in my own mind that in this matter example will prove infectious, and once societies are formed in the neighbourhood and when the villagers find that by forming themselves into a society they can get grants from the Government and district boards and they would acquire self-governing powers, then there will be great readiness on their part to form themselves also into a society so that they may also be the recipients of grants from the Government and district boards. Our experience in many districts in the U. P. has been that several villagers have applied to the District Rural Development Associations that their villages should also be taken into rural development zones so that the beneficent activities of the rural development associations may also be commenced in their villages.

I think there should be a district-wise organisation of these societies, taking the village society as a basis. There should be a union of 25-30 societies as may be decided upon after consideration of all the circumstances. Each society should contribute to its union a fixed monthly sum which may be Re. 1 or Rs. 2 a month as the case may be. Each society should send one representative to the union, and the union would thus consist of representatives of all societies. There should be a supervisor who would be the secretary of such a Union. We have already got Supervisors in the Co-operative Department in charge of 25-30 co-operative societies. The duty of these Supervisors will be to supervise the working of each society in the Union, such supervision being mainly to see that the society's accounts are properly kept, that it is observing the rules and bye-laws and to keep a general eye on the management of affairs by the society concerned. If he finds any irregularity his duty will be to report that to the union. All the unions in a district should be formed into a district co-operative federation, each union sending a representative to the federation. Both the union and the federation will deliberate upon matters of common interest either to the union or to the federation; they shall consider questions rela ·g to better farming, better marketing, development or cottage industries, of common inter-union or inter-society interest and so on. Government already provides a staff of Inspectors and Auditors for the supervision of existing co-operative societies. I think Government should undertake the responsibility of appointing inspectors and auditors in requisite numbers for looking after these societies as they grow in numbers. That should be a burden upon the Government, while the cost on account of the salaries of the supervisors should be borne by the societies themselves or by the societies and district co-operative banks in such shares as may be decided upon.

Government grants—and District Board grants—may be made directly to a union, either earmarked for each society or to be distributed by the union among the societies or to several societies for inter-society purposes. In this way Government will take an active share, and the villagers will feel that the Government is doing something for the welfare of each village.

Before I leave the aspect of organisation I may add that I contemplate that each village of any reasonable size should have its own society but there may be very small villages, no better than large hamlets, where it may be desirable to have a society for a group of two or three villages with a total population of 50 to 100 houses.

Each village society should have a secretary. This person should be selected for his outstanding zeal and spirit of service to his village community. He should be secretary both of the society and of its working committee. I feel no doubt that as time passes a man possessing the requisite ability and the requisite spirit of service would be found in every village to serve as a secretary. He may either work in an honorary capacity or, if necessary he may be paid a small salary to enable him to find his food and clothing. I have spoken in many villages throughout the U.P. about this matter. I have told the people that we find in each village a lot of *Sadhus*, *Pirs*, etc., who are cheerfully supported by the villagers and if they find that if there is a man devoted to them, and who sincerely seeks to serve them but if he is poor there should be no difficulty and that they should readily feed him and clothe him for his labours. The response that I have received to such a view has been encouraging indeed.

In passing I may also note that it should be the duty of the secretary or the working committee to keep a register of all the families in the village. As a matter of fact, in one village in the Fyzabad district I found that the Secretary of the society had gone to the length of keeping a register of all the inmates of the village with full particulars as to their names, sex, age, caste and creed. A register like this kept on a province-wide scale would be of invaluable assistance in census operations.

The society, as many have done already, should enrol scouts and volunteers for purposes of social service in the village. Many villages, I have noticed, have made arrangements for the guarding of their crops and for keeping watch and ward in the village itself. For purposes of better farming and organised profitable marketing the services of the patwari should also be utilised, and I think executive instructions can issue directing the Patwaris to work as assistant or joint secretaries of these societies in so far as agricultural activities are concerned. The Patwari can also render suitable assistance in other directions.

Prevention of litigation in the village should be one of the primary functions of these societies. In many villages I have heard the boast that for years no case has gone to any court, civil, revenue or criminal. The societies can encourage recourse to arbitration, but it is at the same time desirable that we should encourage the formation of small village courts where petty litigation not amenable to arbitration should be decided without any expense. The establishment of a judicial Panchayat for each village would be unnecessary. A single village is not to be expected to provide a sufficient volume of litigation for a judicial panchayat. I think for this purpose a group of villages should be considered to be a unit and a judicial or adalati Panchayat should be formed for such a unit. Each society of the village forming part of the unit should nominate two or three of its members to be part of this judicial panchayat. As far as possible, members of the working committee should not be nominated for this purpose; but there should be no rigid bar. If there is a man in whom the villagers have complete confidence, then he may be nominated even though he may be a member of the working committee. Supposing five societies form a unit; then there would be ten persons as members of the judicial panchayat. The rule should be that any dispute arising in any village should be referred by the Sirpanch of the judicial panchayat to a bench of three panches, preferably residing outside the village to which the disputants belong. This would ensure complete impartiality on the part of the members of the bench in deciding that particular dispute. Judicial panchayats should exercise both civil and criminal powers. Petty criminal cases should be referred to it for trial and civil cases of a simple description of a small cause court nature should also be tried by them. The procedure should be very simple and there should be power of revision in the case of criminal cases by the Sub Divisional Officer and in the case of civil cases by the munsif.

This is, in bare outline, the scheme by which a co-operative society can function as an almost perfect local self-governing institution in the village and bring about its uplift and improvement in all possible directions. This note is not intended to be exhaustive. Many points of detail have to be thought out carefully; many gaps have to be fulfilled, and I am conscious that there is considerable room for improvement in the scheme itself; but the pivot of the whole plan is the attempt to induce the villager to take an intelligent and continuous interest in the working out of his own salvation and that of his co-villagers.

RAIFFEISENISM AT HOME AND ABROAD

BY

K. C. RAMAKRISHNAN, M.A.,
University of Madras.

Institutions which thrive in one country do not take root in another whose economic, political and social conditions are different. Great ideas, however, are said to be missionary. The Rochdale model, Dr. C. R. Fay says in his new book, suited many (though not all) countries virtually without change. But 'the co-operative credit of Germany was more relative to time and place.' He quotes Prof. Lavington of Cambridge who wanted the economist to stress the industrial *morale* of a nation more than its industrial *organisation* and illustrated it thus. "The cartels of Germany, of which we talk so much are trivial in importance compared with the tradition of sobriety, industry, thrift and good faith, which would make any nation prosperous, whatever, or almost whatever, its form of industrial organisation." Dr. Fay goes on to point out that in the latter half of the 19th century, the highest common factor between German and English co-operators was their "resolute attachment to self-help. It was this which in Germany made the unlimited liability of the credit bank a rock of strength and not a dangerous sham".[1]

The early history of the Raiffeisen movement has been told by many a writer on co-operation, but it is difficult to get in English one connected account of the later stages up-to-date. An attempt is made below to trace the fortunes of Raiffeisen societies in different countries from a number of sources, each one dealing with a certain stage and not all from the same point of view. Perhaps many of our co-operators are not familiar with any but propagandist literature and therefore they may be mildly shocked at the critical estimates made by the writers cited below.

Characteristics of a Raiffeisen Society.—Let us first of all have an authoritative statement of the main characteristics of a Raiffeisen society. J. R. Cahill who made the most elaborate enquiry into agricultural credit and co-operation in Germany for the Board of Agricul-

1. Co-operation At Home and Abroad, Vol. II, p. 16.

ture in Great Britain, just before the great War, sums up the main features as follows :—[2]

1. Limitation of Area so as to secure mutual personal knowledge on the part of members.
2. Low shares (Raiffeisen would not have any share capital but the law of 1889 insisted on some).
3. Permanent indivisible Reserve Fund.
4. Unlimited Liability of the members.
5. Loans only for productive or provident purposes.
6. Loans only to members.
7. Credit for relatively long periods with facilities for repayment by instalments.
8. Determination every year by the members of the Maximum Credit to individual members as well as of the total deposits and loans that may be taken up by the Society.
9. Absence of profit-seeking; the rate of dividend not to exceed the rate of interest charged on loans.
10. Office-holders, with the exception of the Secretary, not to be paid for services.
11. Promotion of the moral as well as material interest of members; in particular the purchase of agricultural requisites for sale to members and the procuring of agricultural machines and implements for letting on hire to members.

To this we should add

12. The voluntary character of the co-operative society and freedom from State aid or State control, which did not perhaps need emphasis in the pre-war days when Cahill reported. For every one took it for granted that the whole co-operative movement, producers' as well as consumers', was dominated from the beginning by the spirit of self-help and mutual trust and discipline among members. But departure from this voluntary principle, has become all too common, after the war and especially after the economic depression, for us to pass over this early outlook of Raiffeisen societies. It is with a view to maintain this independence that local deposits from members and non-members was so much sought after. More often than not, State intervention began with State financial aid that was sought. The State rarely took any initiative in organising any type of society in the 19th century.

2. Report on Agricultural Credit and Co-operation in Germany, (1913) p. xv.

In Pre-War Germany.—Just before the War in 1914, all types of credit societies in Germany had enrolled 25 per cent of the peasant proprietors. The power of the usurer was curtailed; he was no longer considered a *necessary* evil. But, says a great historian, Clapham, referring to the pre-war period, "it would be a mistake to use vague ambitious phrases about the peasant living in an atmosphere of co-operation or about co-operation having revolutionised the conditions of peasant life........ Capitalist commerce and industry hastened to offer him terms and wares, nearly, if not quite, so good as those which co-operation could secure. This was from one point of view a co-operative triumph; from another an indefinite postponement of a co-operative victory".[3] A German report on 'Want of Success in Co-operative Credit and the Lessons to be learnt therefrom' ascribed a number of failures to "the overgrowth and complex nature of the societies themselves. They had tended to become organisations for the transaction of every conceivable undertaking connected with land and with money, and their commitments were too wide flung.... The splendid Raiffeisen scheme of village mutual benefit society was not only outrun, but in danger of breaking up. Its very success had led to its extension into realms of trading and finance, where safeguards were less easy to provide and vigilance too often demanded".[4] There was a call for closer inspection and supervision of societies. Here is a lesson for our multi-purpose enthusiasts too.

Post-War Developments.—At the close of the War not half of the holders of 45 acres and less had come into the movement. But there was considerable expansion during the decade after the war. In 1928 there were in all 40,000 societies of which 21,000 were credit societies. They had weathered the period of inflation and the still more difficult times of rehabilitation of the German mark. But societies could get little deposits again and had few other resources. The Raiffeisen Bank, the financing agency, looked to the State for financial aid. The corner could be turned only by a number of amalgamations and voluntary liquidations of larger societies.[5]

Dr. Hoernigk, evidently of the Nazi party, has a fling at the co-operatives—'a creation of the liberal economic system'—for their seeking State aid. "Although this much advertised independence was unlimited in theory up to the present time, yet the *history* of the German co-operative movement in the last decades has shown in practice

3. Economic Development of France and Germany, p. 226.
4. J. A. Venn, Foundations of Agricultural Economics, p. 323.
5. *Ibid*, p. 325.

many deviations from this principle. State support and credit became necessary and were forthcoming through the State found Prussian (later German) co-operative bank, which led to a many sided State influence on co-operative development—an outcome which in no way corresponded to the ideals and objects of the founders of the movement".[6]

In Nazi State.—When Germany became a Fascist State after the Nazi Revolution in 1933, the agricultural co-operative societies were constituted into a section of the National Corporation of Agricultural Affairs and were entrusted with certain definite functions by the Corporation. Membership has been made compulsory of all producers in certain types of societies, e.g., co-operative dairies. Last year the number of credit societies had declined to 18,000; but that is because of the rationalisation of the co-operative credit system, which meant the dissolution and amalgamation of societies. But Dr. Hoernigk assures us that efficiency has increased of the surviving societies. Many of them have taken up trading activities with renewed energy. Deposits are said to be pouring in to such an extent that societies feel the lack of suitable outlets for investment. This is partly due to the limitations imposed by the National Corporation on the objects for which loans can be granted. Loans were until recently permitted only for the increase of agricultural output. Now that there is a plethora of funds, societies have been permitted to pay off prior debts, especially with merchants, so as to reduce if not abolish multiple indebtedness. We are told "The (Nazi) State recognises unhesitatingly the need for co-operative work. But the fundamental principle of voluntaryism in the co-operative constitution has been maintained; for it has been recognised that otherwise no organisation based on self-help and personal responsibility can continue to exist."[7] The serious limitations, however on the financial and organisational independence of co-operatives are pointed out by Dr. Fay; (1) The State appoints the Directors of the National and the Auditing Unions. (2) The State is represented on all Boards and Committees. (3) Co-operatives are assigned particular branches of business and instructed to carry them out in a particular manner. Any failure may be punished by liquidation. The auditing services are expected to look into not only the financial soundness of the societies, but their faithful execution of the policy of the State.[8] Surely, this is a travesty of voluntaryism.

6. Horace Plunkett Year Book of Agricultural Co-operation, 1936, p. 336.
7. Horace Plunkett Year Book, 1939, pp. 256-64.
8. Co-operation at Home and Abroad, Vol. II, p. 505.

In Fascist Italy.—In Italy, another Fascist State, the rural credit societies founded by Wollemborg and modelled on Raiffeisen have been fulfilling an important role in agriculture for over 50 years. The popular banks of Luzzatti, though more akin to Schulze Delitsch type were helping the agriculturists with credit. The Fascist regime directed all the co-operative societies but credit to get themselves affiliated through their federations to the Fascist National Institute of Co-operation. But the co-operative popular banks and rural credit societies were to be affiliated to national federations which were to be united with the federations of commercial banks also, while they were divorced from other agricultural co-operative societies. The rural societies were about 1,300 in 1937; they had declined in number on account of the weeding out of weak societies. But they had 800 millions of liras as deposits (in addition to capital and reserves) while their loans amounted only to 500 million liras (=£560 millions). In fact they are said to suffer from the competition of loans granted by the State itself, and by the supply and marketing societies. Some radical changes have been introduced in the rural banks—partly as a result of a Royal decree in 1937. The rural banks are now known as 'rural and artisan banks' and they are to provide credit for artisans as well as farmers. They may be formed with unlimited liability or limited liability; in the latter case, members are liable to be called upon to repay the debts of the society up to 10 times the value of the shares they hold. What is more surprising in a credit co-operative society is that these banks are to regard it as their function to supply credit to farmers and artisans, even if some of them are non-members. Precedence, of course, is to be given to members; and non-members cannot be granted more than 40 per cent of the total amount of loans. The banks have been authorised to supply to members agricultural machinery and other requisites and to act as representatives of societies or institutions for the insurance of the live or dead stock or the products of farms. A National Institute of Rural Banks has been established for purposes of education, propaganda and supervision.[9]

Ireland.—In Ireland, more noted for agricultural co-operation than Great Britain, credit societies were organised on strict Raiffeisen principles with unlimited liability. Sir Horace Plunkett and others thought that the emancipated peasants of Ireland would receive the greatest benefits from them. But this type of society failed more than any other type (supply, store or creamery) even before the war. The Commission on Agricultural Credit (1912-14) recommended its revival and

9. Horace Plunkett Year Book, 1939, p. 271.

improvement, but pointed out 'the difficulty in attracting the better-off' farmers to a credit society with unlimited liability' and so proposed that societies should also be formed with limited liability. The Commission was definitely against the assumption of trading functions by the credit society.[10] Among the causes of failure cited, the following are the most important: Lack of local ability to manage and lead (the priests and school-masters played little part unlike in Europe), failure to develop a central bank, and utilise the deposits which were at one time available; the development of supply societies selling on credit and the grant of loans from creameries for purchase of cows (repayable after several months, usually at the flush season) and even for purchase of domestic requirements in anticipation of the monthly milk cheque.[11] There were by the end of 1937 only credit societies, with but 9,000 members and outstanding loans of only £46,000.

Great Britain, with her substantial farmers, has not taken kindly to credit societies, nor for the matter of that, to any but supply co-operative societies. France has an extensive system of credit societies, but generally based on limited liability with little local independence, no local deposits and serving more as branches of Regional Banks, which have to sanction loans. There has been also ample state-aid from the beginning. The system, therefore, is far rmoved from Raiffeisen's. Denmark has had little development of short-term credit; perhaps her prosperous dairy and bacon industries obviated the need for it. She has developed long term credit on the German Landschaften model. Farmers are said to be the principal investors, as well as recipients of loans from those mortgage banks.

Holland.—Holland has organised credit on the Raiffeisen system and has suffered no reverses from the War or inflation or any political crisis. Her credit structure is perhaps the most solvent and self-supporting in Europe and it has avoided State-aid or control—so much so, Dr. Fay suggests that "Dutch co-operative might almost be looked upon as the ideal expression of Raiffeisenism." Every village has a credit society; deposits from members and non-members exceed loans granted. Dairy farmers are 'persistent depositors', while market-gardeners are 'constant but reliable borrowers'.[12] The change in view on a fundamental question like liability even in such a prosperous country is noted later.

10. Agricultural Co-operation in Ireland, (Horace Plunkett Foundation) 1939, p. 271.
11. *Co-operation* at Home and Abroad, Vol. II, p. 256.
12. *Ibid*, p. 499.

Japan.—Japan adopted in 1900 the Raiffeisen ideal in entirety on the advice of her own leaders who had studied the movement in Germany. In fact, it used to be said "the Japanese co-operative system is nothing but a reproduction of the German." Legally, it was so; but the law has been amended half a dozen times, and no law can assimilate foreign institutions. Credit societies preponderate; more than that, other types of societies also give credit while credit societies themselves are permitted to undertake other business. In spite of such encouragement, trading activities are not a fourth as important as credit. There have been violent changes in the system of liability. Unlimited liability was at one time replaced by limited liability so largely that 90 per cent. of societies were on that basis. But the percentage dropped to 30 when the law was changed again in 1932, which compelled limited liability societies to become unlimited or adopt guaranteed liability, by which each member is liable up to a fixed sum beyond the value of the shares he holds. The favourite form now is guaranteed liability adopted by 64 per cent of societies, while unlimited liability is retained only by 6 per cent of societies. The combination of functions which persists is criticised by observers like Mr. Strickland. The movement has always been vigorously controlled by the Government through its local administrative officers, many of whom have no knowledge of co-operation. State-aid has been given in the shape of purchase of half the shares in the Central Bank, a loan of 100 million yen through the bank at low rate of interest and guarantee of debentures issued by the Central Bank.[13]

Early Development in India.—In India the Central Government and the Provincial Governments and successive Committees and Commissions of Enquiry have whole-heartedly supported the Raiffeisen system of co-operative credit, though in respect of an item or two, like the advance of loans not only for production but for 'necessary' purposes, a cautious departure was recommended. Not being sure of local enthusiasm or capacity for organisation and administration of societies nor of the flow of deposits from the public and the members, the Governments were prepared to render initial financial and other aid, but in return had to subject the societies to closer inspection and strict Government audit. State aid in finance was, except in societies for backward classes, rendered unnecessary, thanks to the enthusiasm and the confidence of the enlightened investing public in urban areas though in rural areas very little of deposits could be tapped from members or non-members.

13. People's Five-Year Plan by Tadao Wikawa, pp. 2 & 6.
Report of the Central Union of Co-operative Societies in Japan, 1937, p. 12.

Recent views.—During the last ten years, however, societies after societies have failed—as the Punjab Registrar says, 'it is only the difficulties of liquidation which prevent us cancelling a greater number every year'—partly due to the unprecedented fall in prices of produce but largely due to mismanagement or no management. There has been a searching of hearts on the part of leaders, who have begun to doubt whether Raiffeisen system could be still adhered to or should be modified considerably. The Governments too have been responsible for deviating from some of the principles in their anxiety to set right the affairs of societies and maintain their position as sponsors of the movement. Some of the Provincial Governments have suggested or approved of alterations in by-laws which are a definite departure from the Raiffeisen tradition.

The Support of the Reserve Bank.—The staunchest supporter of most of the Raiffeisen principles at present is the Agricultural Credit Department of the Reserve Bank of India, which has reiterated them in a number of Bulletins. Recently in the evidence given at Coimbatore before the Madras Committee on Co-operation, the Special Officer of the Bank in charge of the Agricultural Credit Department did not feel obliged to withdraw from the position taken up already, even though he knew that the Committee had by a great majority resolved to accept some fundamental alterations in the Raiffeisen societies, notably a wider area than a village for each society, the adoption of limited liability as a general rule and the employment of paid staff. There were minor differences of opinion in respect of the advice tendered on the duration and purpose of loans—on which the Committee was more Raiffeisen than the Reserve Bank. The Committee was at one with the Reserve Bank in desiring an extension of the non-credit activities of societies, but was anxious to limit them to the economic sphere and to prevent them from competing with loan and sale societies as well as land mortgage banks in the area.

It is worthwhile discussing each of the above points of difference and also one or two points of agreement from which others might differ. One phenomenon, however, must be noted at the outset—an abiding faith on the part of all Provincial Governments and leaders in the potentialities of the co-operative movement as the best agency to tackle not only the problem of agricultural credit but also of all round rural uplift, and this in spite of all the defects revealed in most Provinces and the practical collapse of the movement in some. Co-operative credit has become an absolute necessity, and its proper administration a responsibility on the Governments, in Provinces where debt relief measures have been enacted or contemplated. Agriculturists feel acutely the shrinkage in private money-lending or its novel abuses to evade the new law. But while seeking to expand the movement by all possible means, many of the leaders, if not also Governments, feel that it is not possible or wise to do so without an orientation or modification of the orthodox principles of Raiffeisen, which, there is no use mincing, have failed to work in this country. If the old system has not been successful after years of trial it is not good to scrap it altogether but to try a modified form of it, even as other countries have been obliged to do as we noted.

One village one society.—This was the practice as well as the ideal of Raiffeisen and his followers. It is a necessary condition for unlimited liability as this implies mutual knowledge and control which would be difficult, if not impossible, to obtain over a wider area than a village. The Reserve Bank authorities are perfectly logical in sticking to this combination of ideals—we cannot say ideal combination in our country. But the Madras Committee in its anxiety to cover the whole Province with societies, to give every one of the 50,000 villages the benefit of co-operation, would recommend, except in the case of bigger villages, a wider area for each society. Transactions would, even from the start, be ample enough to permit the employment of a paid staff, especially if trading functions are tacked on to credit. There would be greater scope for the choice of competent panchayatdars and the one man show to be put an end to. A negative advantage would be the limited scope for the play of factions in each village, which has so often ruined the credit society confined to it.

The Reserve Bank Officer could not appreciate the idea of covering the province at once with co-operatives. Past experience would not warrant the acceleration of speed; nor was it wise to give up old ideas and associations. We can understand this point of view and grant that a hasty and promiscuous creation of societies in, or for, all villages might have its repercussions on quality—though we believe that other modifications suggested by the Committee in Madras would act as a check on evil tendencies, and non-credit activities would have a greater chance of success in a group society. This is perhaps the reason why in Bombay one multipurpose society for a group of villages is recommended, though we do not see how unlimited liability can work over a wider area. While the Reserve Bank would insist on a careful selection of villages for organising multipurpose societies, it does not seem to lay as much emphasis on a careful selection of members in each village society. It is a fine ideal to find in the society 'a place for everybody in the village' and 'to raise the lowest to the level of the most efficient.'[14] But is this

14. Bulletin 2, Co-operative Village Banks, p. 31.

practical politics? We are not sure whether apart from the fear of unlimited liability (which does scare away the intelligent rich and the more provident villagers) the need for a careful selection of members will not be more imperative than ever, because of the reduced security of borrowers now—thanks to the spate of debt and other agrarian legislation in the Provinces. Mr. F. B. Wace, the Registrar of the Punjab, a province often been held up as model for the rest of India, utters a warning in the latest Horace Plunkett Year Book: "The selection of new members and the starting of new societies has to be undertaken with the greatest caution and under all possible safeguards. If the history of co-operation in the Province has taught us anything in the last thirty years, it should be that only a comparatively small proportion of the rural population is as yet really fitted, by character and education, to be trusted with a co-operative credit organisation. The ideal of 'a co-operative society in every village' is a fine one, but it is, alas! utopian and dangerous."[15]

Amalgamation or extension of existing societies in villages which are contiguous and among which there are no differences is encouraged even now by the Department of Co-operation in Madras. There are, however, difficulties due to the opposition of panchayatdars who would not like to lose power and to the existence of friction between neighbouring villages with conflicting interests in irrigation or other matters or with rival clans. Even where these difficulties do not exist, amalgamation of societies with different records in working would not be easy, especially with unlimited liability.

Multipurpose.—Thanks to the lead given by the Reserve Bank co-operators all over India seem to be moving on, in the words of Dr. Fay from 'village reconstruction to multipurpose co-operation as to another craze.' Indeed some of them have assigned to multipurpose society the role of rural reconstruction extending far beyond the economic sphere and involving functions which are best left to statutory local bodies like village panchayats, with coercive powers of taxation and regulation. Raiffeisen no doubt desired that 'the village bank, directly or indirectly, should be the centre of village life.' But he did not assign to it extra-economic functions. He only wanted it 'to prepare the ground for moral and religious activity.' Credit societies were exhorted to take up the joint supply of agricultural and domestic requirements and the marketing of produce and even processing (as in creameries). Experience again and again showed that the supply of

15. Horace Plunkett Year Book, 1939, p. 450.

agricultural requirements was the most, and in many cases the only, successful adjunct to credit, while separate societies with wider jurisdiction had to be organised for other activities.

Raiffeisen societies in India have in their by-laws ample provision for undertaking supply and sale and kindred business, though only on agency basis. The actual achievements, however, were very negligible. It would be absurd to deny the value of these lines of work; but the question is whether a credit society confind to a village and based on unlimited liability is fitted to discharge such duties. The Reserve Bank itself though advocating the taking up of sale of food crops, if only to facilitate recovery of dues in kind, doubted the wisdom of the 'village bank embarking on speculative activities' involved in the sale of commercial crops like cotton—in which case it was recommended to get itself affiliated to the nearest sale s ocieties serving a wider afea.[16] According to the Statutory Report issued by the Bank in 1937, the primary societies were to be induced to take up joint marketing and assisted to build up inexpensive godowns for the collection and disposal of produce or transfer to central sale societies. Such a local development was considered an essential preliminary to the development of the bigger sale societies.[17]

In Madras though the credit societies have done mighty little by themselves, they have helped the loan and sale societies to some extent by diverting thither the members' produce—especially commercial crops. This is indeed part of the scheme of 'controlled credit' by which the member of a primary society is expected not only to discharge his dues to the credit society, but also to the other organs of the co-operative movement—the sale society and the land mortgage bank—by dutifully delivering his produce for sale through the society. But 'control at every stage' is not easy to enforce especially in dry tracts, or where commercial crops are not grown and the food crops are not all sold. The difficulties of watching, storing, pooling and selling are formidable as experienced by the heirarchy of societies in Madras. Our loan and sale societies do more of loan than sale; their transactions are by no means confined to members of primaries or even to their own individual members. We believe, however, that they are taking root and will expand truly marketing functions by and by with the co-operation of the reorganised primaries and their members in villages.

The combination of marketing and credit in one and the same society, especially when it is based on unlimited liability, has been

16. Bulletin 2, pp. 45-49.
17. Statutory Report, p. 19.

criticised by several writers, especially in the case of backward countries. In the latest edition of his *Co-operation in India* Mr. C. F. Strickland observes of Japan: "the various functions of co-operation are combined, sometimes confused, in the same society. The combination of functions has probably impeded the growth of marketing, since the wealtheir farmers are reluctant to enter a credit plus marketing society, which lands to the poorer man, even though the liability is limited. Further, the accounts become too complicated for the ordinary member to understand. The more highly educated members (who are not always the best) are elected to the managing committee." He says that the objection is "less serious in literate Japan than it would be in China or in India. Nevertheless this objection cannot be ignored; literacy does not mean expert accountancy, and the more complicated the business of any co-operative society anywhere, the less democratic is its manner of working." A foot note is added: "This point should be noted as having particular application to India"![18]

Stronger views have been expressed of the dangers of multipurpose societies when they launch on a number of activities. Readers of the *Indian Co-operative Review* would have read with interest the observations of Mr. W. M. Stevens, on the defects of what are called 'integrated' societies of China.[19] In a more recent publication, Mr. W. K. H. Campbell (formerly Registrar in Ceylon and latterly League of Nations Adviser on Co-operation to the Chinese Government) has a scathing indictment of societies in China undertaking to perform a 'bewildering variety of functions'. While he has 'no objection to allowing a credit society to do a little supply work, provided it is of a simple nature' he does not spare the more complex type. 'It offends practically against every canon of co-operation." He cites the case of, perhaps an extreme example, a society with a staggering list of 35 objects, half of which are attempted to be carried out. It would have 'collapsed in indescribable confusion' but for the full time services of a benefactor who has organised the society and is doing his best for it. His colleagues on the Committee simply do not understand its working and its complicated accounts. This, as he says, is no co-operation.[20]

In connection with multi-purpose society, it is the fashion to quote the Templecrone Society in Ireland, made doubly famous by A.E.'s pen, which in a barren tract has taken up function after function and is discharging all with success. It is essentially a village store; it has half-a

18. Third Edition, (1938), p. 42.
19. Vol. IV. No. 4, pp. 459-66.
20. Co-operation for Economically Undeveloped Countries, pp. 71-75.

dozen branches in surrounding hamlets, has acquired a number of shops and buildings from out of profits. It runs its own bakery. It has a large business in eggs, which it collects and tests, grades and packs them to the English market. It has developed knitting as a cottage industry and sends the products to England and the United States. It has erected a small hydro-electric plant, which supplies power not only to the knitting mill but to the whole village. But it is not a credit society based on unlimited liability. It had a transaction of £93,000 in 1937. After all, there is only one society which makes a success of such multifarious activities. Others which imitate are usually confined to the supply of agricultural requirements and a few other articles. There were 92 of them in 1937, and all-told they had a trade of £614,000. Even of the Templecrone Society, the writer of this article has heard some of the highest co-operative authorities in Ireland doubt if progress would be maintained after the disappearance from the scene of its fairy god-father, Patrick Gallagher, to whose enthusiasm and energy the village owes so much. There is no use going into ecstasies of possibilities in India on the basis of a singular instance in Ireland. And even Templecrone Society has not catered to all the economic wants of the villagers. Credit societies, formed on Raiffeisen principles have almost all failed.

Unlimited Liability.—The most vital difference in the points of view of the Reserve Bank and the majority of co-operators in Madras is on the subject of liability. The Committee, as has been stated, resolved to recommend limited liability as the general rule for agricultural credit or multi-purpose societies, but to permit unlimited liability where local opinion is strongly in favour of its retention. The Reserve Bank and some leaders in Madras and outside feel that its removal would be a great blow to co-operative credit.

This subject was dealt with at some length by the writer in a previous issue of the *Indian Co-operative Review*.[21] The position may be summed up here and any new evidence may be incorporated. It is necessary to remove misconceptions as to the universality or popularity of the working of unlimited liability. It is true that it was an article of faith with Raiffeisen and his followers; but even in parts of Germany like Pomerania and Saxony limited liability was in vogue and it was fixed in proportion to the means of members and the services secured by them from the society. In Nazi Germany, we are told, the tendency is more and more in the direction of limited liability.[22] Unlimited liability could not be thought of either in Great Britain or in the United

21. Vol. IV, No. 2, pp. 222-233.
22. Horace Plunkett Year Book, 1936. p. 340.

States, where farmers were substantial. In poorer Ireland it was adopted, but it was not a success. The French peasant proprietor has not liked it, and credit societies in France are generally based on limited liability. In Italy the Wollemborg societies were based on Raiffeisen model with unlimited liability, while Luzzatti societies which had some agricultural clientele too adopted limited liability. A decree of 1937, as we noted above, permits limited (multiple) liability for rural banks.

In co-operatively advanced Denmark and Holland, unlimited liability is no doubt universal not only among credit but also in non-credit societies, in all of which or most of which peasants are members, and even in central institutions covering a whole province or country. This is unsound in theory and is, rightly, not permitted in India. But such a promiscuous prevalence of unlimited liability should be a matter of indifference in countries where the need for its enforcement is extremely rare. However there appears to be a change of view on the question of joint liability even in Denmark. Here is a note by the recent American Committee on Co-operation that visited Denmark and other European countries in 1937: "This principle (joint liability) has been called 'ideal', since it compels members actively to participate in the affairs of these societies. Some leaders to-day, however, maintain that 'experience refutes this view' and that joint and several liability should be done away with".[23] The feeling in Holland also, given expression to by Dr. C. Weststrate of the Raiffeisen Central Bank must be noted: "To make use of unlimited liability is like taking a foundation stone away to repair the top of the building; it looks allright again; but its solidity has suffered. Use of this liability naturally impairs the support of the members and the necessary feeling that co-operation is valuable to them. We have learnt, or rather we have realised, that a sound economic purpose, good organisation and good management of the co-operative societies are much more essential to the well-being of co-operation than the most compelete liability of members."[24]

The Reserve Bank contends that unlimited liability does not scare away substantial and provident villagers, but it is bad management that does. The view of a large number of co-operators in Madras is that bad management is itself due to the abstention or withdrawal of credit-worthy people who are frightened by the prospect or reality of the enforcement of that liability. Financing banks that write off the dues instead of enforcing unlimited liability, which has become difficult after the amendment of the Act in 1932, apparently act on the policy that "too

23. Report of Enquiry on Co-operative Enterprise in Europe, (1937) p. 185.
24. Horace Plunkett Year Book, 1938, p.

much austerity in the enforcement of the principle may prevent growth, and so a certain degree of compromise is desirable."[25] The compromise becomes a camouflage when—thanks to the advice of the Maclagan Committee—no restraint is imposed on alienation of the assets by members without the knowledge of the society or its creditors, which has become a common practice all over India. This is in the Raiffeisen style, which left so much to the conscience of the borrower and the vigilance of other members. But it has cost the creditors dear and now the Reserve Bank wants every member to give an undertaking not to dispose of the property without the permission of the society. Instead of promising mutual vigilance and control in the village, which is really difficult as everyone knows the others but is restrained by tradition or ties from betraying or harassing the weak or the suffering, it has only fostered a weak compassion for fellow members and indifference to the interests of an institution, which they have not yet learned to regard as their own.

A mere lending institution, to which rarely or never deposits flow from members themselves, cannot attract more respect or zeal than the alien or even the local moneylender. Thrift has not been easy to promote among members most of whom are on the margin of subsistence or below. Even in the more fortunate Punjab, in the 'thrift and credit societies'—as they love to call themselves, the Registrar says that 'it is a lamentable fact that thrift is a sleeping partner.'[26] As Dr. Fay remarks in his recent book: "Since India took over from Germany the role of unlimited liability without the more fundamental attribute of deposits, derived from the same social stratum as that to which credits are issued, co-operative credit tended to become a channel for the loan of money by substantial to indigent persons—a subdued form of moneylending".[27]

As for the attitude of the financing banks, even a decade back the Townsend Committee gave out as one of the reasons for overdues "an exaggerated sense of security in the minds of financing institutions, which is based on a wrong impression of the implications of unlimited liability—and failure to realise the seriousness of the results of enforcing that liability".[28] As for investors in Central Banks, it is difficult to say how far the nature of liability is a factor influencing them. Among the investors local bodies and primary societies are the most important. The latter have little option. The former are

25. John Matthai, Agricultural Co-operation in India, p. 38.
26. Horace Plunkett Year Book, 1939, p. 446.
27. Co-operation at Home and Abroad, Vol, II, p. 28.
28. Report of the Committee on Co-operation in Madras, p. 29.

governed by the rates of interest, the manner in which the banks are generally administered and the control that is exercised or expected to be exercised by the Government—much more than by unlimited liability. It is not denied that the latter has had some propaganda value in attracting deposits, especially from individuals. It is unfortunate that this general trust should have been misused by primaries and their members, and not well-protected by the financing banks.

The banks which are more cautious seem to do lip-service to the idea of unlimited liability, judging by the frequency, if not ubiquity of mortgage securities. The Editor of this Review drew pointed attention to this in the *Madras Journal of Co-operation* not long ago: "In areas in this province where unlimited liability societies are said to be working well, mortgage securities even for loans for short and intermediate terms are a common feature. It is difficult to equate this material caution with the moral transaction based on mutual trust and mutual knowledge, which are said to be at the bottom of personal credit." He goes on to say "Again, in order to mitigate the rigours of unlimited liability, many curious devices are adopted by way of safeguards. Members are allowed to withdraw their other capital and leave the societies if they are not willing to shoulder the consequences of unlimited liability. But in order to protect the interests of the remaining members, the liability of a past member is kept alive for two years after he withdraws his membership and enforced against his personal assets........ It is hardly a sensible way of doing serious business. The adoption of an inconvenient expedient has led to indefensible anamolies." He refers to 'the distressing tales' of the way in which contribution orders have been made, but even such levies do not seem to bring in enough to pay off the liabilities. An analysis of the answers to the Questionnaire issued by the Madras Committee has been made, which reveals that limited liability is favoured by 58 while only 25 favour the retention of unlimited liability.[29]

Whatever the Reserve Bank Officer might say with his experience of other provinces, experience in Madras is, on the whole, unfavourable to the continuance of unlimited liability; for the conditions necessary for its proper working are rarely found though for long fondly hoped for. There is more faction than co-operative life in many villages. Information of almost everybody could no doubt be had, as the Reserve Bank Officer says; but whether it is always full or truthful is open to doubt. The most flagrant lack of co-operation has been repeatedly found out in the preparation and maintenance of the statement of assets and liabilities of members. Not only the members concerned, but even the village officials either do not reveal the real worth of persons or give misleading accounts. No deterrent penalty is or could be imposed for wrong information. Honorary service is often a cloak for slovenly work and questionable practices of the Panchayat.

29. May 1937, pp. 642-3.

After all, the movement in Madras has, on the whole, a better record than in most other provinces. The feeling on this subject in other provinces is worthwhile ascertaining. A veteran co-operator, Mr. K. V. Brahma, of the Central Provinces and Berar has come to feel that unlimited liability stands in the way of progress. "Our experience of working during the last 25 years, and especially after the depression, shows that this unlimited liability principle....... is unsuited to Indian conditions and that the same should be replaced by some other principle...... A member seldom acts as a check on another and the members help each other in getting advances and the society becomes a combination of individuals for getting loans on easy terms. When the question of enforcing this liability arises, the inequity of setting out a man for another man's debt becomes apparent and all sorts of methods and arguments are used to avoid this calamity." He referred to the advice to get into the society and the Panchayat men free from debt. But 'experience in my province tells me that this is very difficult if not impossible'. He naturally suggested the trial of other ways of protecting the society from imprudent advances—such as the imposition of multiple liability.[30]

Mortgage Security.—If unlimited liability is to be replaced by limited liability, mortgage security of members' lands may have to be insisted on in every case of loan beyond a definitely short period or exceeding a minimum amount. In the latter case, apart from personal security, pledge of produce harvested or a charge on the standing crops might be required. Mere personal security is not likely to inspire confidence among investors any longer. But mortgage security is the pet aversion of orthodox co-operators. To them it indicates a lack of faith in the character or the repaying capacity of the member borrowing and his surety; in which case the member does not deserve to be granted a loan, or even admitted into the society. It has a tendency to stifle close enquiry and create a sense of false security. The argument of the Reserve Bank, in particular; is that land security is no security for a bank as it has no liquidity. The difficulty of valuation, title etc., has to be taken into account. But all these difficulties are

30. *The Indian Co-operative Review.* Vol. V. No. 1, p. 172.

contingent even in unlimited societies; where lands of all members virtually stand pledged to creditors and it has been repeatedly found difficult to enforce the claims. Mortgage security seems to be a safer and more straight forward method of assuring creditors. A system of continuing mortgage on the basis of which an overdraft account may be opened for the member seems to us to be the best substitute for unlimited liability.

At any rate in Madras mortgage security has been in vogue for a pretty long time and perhaps accounts for the comparative success of the movement in certain parts of the Province. The Registrar in 1915, the late Mr. L. D. Swamikannu Pillai put up a strong defence of the custom as follows: "To what extent the co-operative staff should push personal security and discourage mortgage security is a question upon which........ different views may prevail in different circumstances. The (Maclagan) Committee on Co-operation........ admit that the practice is not in essence unco-operative and is in fact growing more common in Germany...... it is justified in cases where land has been reclaimed with the money advanced...... and also in case of large or long term loans. "The main object of taking a formal mortgage is to prevent the alienation of property to outside parties or mortgage it to them up to the hilt. Where these risks do not exist, societies prefer personal security in order to expedite recovery and avoid tedious enquiries as to title, encumbrance, etc.' Madras Presidency in its ryotwari system over two-thirds of the area affords an excellent basis for small mortgages".[31] After all, in the unlimited liability system, the ultimate security is the lands of all; it amounts to an averaging of risks as is done by the moneylender—which is not superior to pinning each one to one's own land.

The Duration and Purpose of Loans.—The Reserve Bank is keen on limiting the loans for current cultivation expenses—ordinarily repayable in nine months. It is but right that loans should be self-liquidating and the crops financed should pay their costs of production. There are, however, crops like sugarcane and plantains which cannot be raised and cut so quickly, much less disposed of within nine months. We suppose there will be no undue rigidity in the extension of period.

Intermediate term loans for the purchase of bullocks, implements, etc., and for necessary, though not strictly productive, purposes are to be granted for a period of two or three years at the most and to be made repayable from out of the income derived in that period. This looks

31. Administration Report, 1914-15, p. 33.

a little too rigid in the case of these productive loans, though we do not mind over-strictness in respect of 'necessary' loans. It is in the sphere of agricultural improvements which do not pay their way in two or three years, that a lot of work remains to be done. It would be wholly in keeping with the tradition of Raiffeisen to extend the period further, say up to five years at first, to facilitate the carrying out of a variety of improvements. It is not difficult to raise fixed deposits for such periods.

Honorary Services.—Raiffeisen was keen on developing such a high sense of duty among the members themselves that practically no services would have to be paid for in running the society. The Secretary who would have to write up the accounts might alone be paid a little. Very often that duty was discharged by the village school master. Societies in Madras and elsewhere in India were expected to do the same. Our honorary workers, however, have cared more for honour than for work. It is only in exceptional cases books have been written up properly, collections are made duly or other services rendered. Exercise of patronage in granting loans exhausts their spirit; practically little else is done in several societies. Only some are able to discharge their duties, but few are willing. Nonetheless the provision for the payment of honorarium has been subjected to ingenious abuses. The authorities of the Central Banks which finance the societies, as well as the officials of the Co-operative Department, are annoyed at such slackness and abuse of power; there is therefore a chorus of approval from them of the suggestion that paid staff, if not one for each society, but one clerk for a group of societies in the neighbourhood, may be employed. This the Reserve Bank Officer strongly opposes because of his experience of group clerks elsewhere. He is anxious to develop local management as far as possible by proper training, though in the meanwhile something may be paid to the scribe. It is a pity that in this country the village school master has not chosen to, rather been chosen to, play the part that was expected of him. We believe, however, that if a society, with dual (credit and supply) rather than multi-purposes, is organised for a group of villages with limited liability which would attract all grades of agriculturists, there would surely be need for a good full-time paid clerk. No honorary worker can ordinarily be expected to work effectively from day to day in such a wider area and in connection with both supply and credit. If transactions increase, as they are bound to in such a society, it would not be difficult to pay one man, and perhaps more in time to come.

Conclusion.—The changes that are suggested in the course of thi perhaps tediously long article—in the area, liability and the purpose of village societies—are not expected to bring about the co-operativ millenium. Any amount of constitutional changes cannot metamor phose the economic and social milieu in which societies have to worked. We have only pleaded for a less severe standard than tha prescribed for more vigorous and educated farmers, who were neve so abjectly poor as our peasants are and who were blessed with mor fortunate leaders—especially in the clergy. More might be achieve after, and not before, the educational and moral tone of the co-opera tors is improved. Dr. Fay says: "It does not seem very helpful t tell a country that 'what is really required is a change in the entir psychology of the people, their modes of thought and manner of living. This requires the impossible. It is better to take the psychology o the people, attempt tasks which are within the limit of tha psychology...... ".[32]

32. Co-operation at Home and Abroad, Vol. II, p. 392.

PROGRESS IN NEW DIRECTIONS IN THE UNITED PROVINCES

BY

J. P. MISRA, M.A.,

Publicity Officer, Co-operative Department, U.P.

The Co-operative Movement in this province in an organised form dates only from 1904 when the Co-operative Credit Societies Act was passed and as a consequence a new Department was established with the necessary staff. It is now over thirty years old and has over 9,000 societies with a membership of about 4 lakhs and a working capital of over Rs. 3 crores to its credit. This is no small achievement, when it is realised that it has been working in the midst of general illiteracy and poverty and among people who have for centuries been accustomed to fatalism, disruption and disunity. "The illiterate person is an outsider to all progressive thought, for without literacy there can be little progress towards conscious organised effort to achieve common economic ends."

Rural Credit.—Of 9,000 societies of all types, there are above 7,000 agricultural credit societies and their membership and working capital are about 1,60,000 and Rs. 1,12,00,000 respectively. The credit societies do not only provide loans for productive purposes to their members, but they also undertake such important activities as the supply of improved type of manures, seeds and implements, sale of agricultural produce, wherever possible, establishment of night schools and the distribution of medicines etc. The element of thrift is never lost sight of and it is clearly laid down in their rules of business that the object of the society is as much to encourage the habits of saving and providence among members as to grant them loans. Inculcation of the habits of thrift has produced among members results no less remarkable than those following the obtaining of credit at reasonable rates. About 50 per cent of the working capital of these societies represents their owned capital; in other words it means the savings of the members in the forms of shares and deposits. But for the existence of co-operative societies, so much money would either have been frittered away or gone into the pockets of the moneylenders. There are now many societies which are running on their own capital and there are yet many members whose normal requirements do not exceed the amount of their shares and deposits. People sometimes remark that these 7000 societies with over Rs. 1 crore as their working capital touch only the fringe of the problem of village organisation and rural indebtedness, which stands at Rs. 186 crores in 1,05,640 villages. That is undoubtedly true. The problem is indeed vast but the achievements are by no means insignificant. The movement, if it is to be of any use, must grow from within and must not be superimposed. That has been the motto of working so far. The consequence was smaller number of societies, which will now provide the nucleus for expansion and development.

Cane Supply Societies.—In spheres other than credit, the movement has of late been making unexpected strides. About 1700 non-credit societies have already been formed with a membership of over 1 lac and a working capital of about Rs. 12,50,000. They cover a vast field of activity from the supply of cane to factories down to the production of milk and ghee in the villages. In 1936-37 there were 514 cane supply societies of which 15 were central. The total quantity of cane supplied through these societies was over one crore 25 lakhs of maunds and the commission earned was about Rs. 2½ lacs.

Co-operative Production of Milk.—The dairy and milk societies, which taken together number over 30, are tackling the problem of milk supply in urban areas on an organised basis which has waited long for solution. The advantages of these societies are two-fold. The members of milk societies, namely, the poor agriculturists get better prices for their milk and are economically free from the bondage and dictates of the town *Halwaiys* and *Dudhwalas*, while the townsmen are assured of a regular and unadulterated supply of milk at rates lower than those of the private *Ghosis*. The Lucknow Co-operative Milk Supply Union has thus a sale of over 18 maunds of milk per day and has established a name for purity and punctuality. It received a subsidy of Rs. 20,000 from the Government last year. The success achieved by the Co-operative Milk Union in Lucknow has encouraged the Department to make similar experiments in Cawnpore, Benares, Allahabad, Meerut and Unao, and it is hoped it will not be long when co-operative dairies will be organised in other towns as well.

Ghee Unions.—Next come the Ghee societies. Their objects are to eliminate the middle-man's profit, to supply unadulterated ghee to the consumers at reasonable rates, to improve the quality of ghee by the application of modern scientific methods, to improve the breed of the milch-animal and to secure better prices for the producers in the villages. Their number is about 400 and their membership is over 5000. They are federated into five unions which are situated in the districts

of Agra, Etawah, Bulandshahr, Meerut and Mainpuri. The ghee dealers used to pay to the producers for their ghee from 30 to 40 per cent less than the market rates; but with the advent of the Ghee Unions these rates have been brought down to 15 to 20 per cent and this has resulted in substantial gain both to members and non-members. The ghee societies have also introduced standard weights and measures, and they have thereby saved their members from fraudulent malpractices to which they were formerly subjected by ghee dealers. Taking the figures of only the Chaube-ka-pura Union, it will be found that during the year 1937-38, the Union handled 1,754 maunds of ghee of the total value of Rs. 67,090 and made a profit of Rs. 8,496 after paying Rs. 8,496 as interest on the loans and meeting a recurring expenditure of Rs. 5,351. The Provincial Marketing Board is intending to set up a grading and testing station at Shikohabad in conjunction with the Co-operative Department. The certified ghee should find a ready market for sale in big cities.

Consolidation of Holdings.—By far the most important and interesting activity of the Department is the consolidation of holdings through co-operation. For years past this problem has baffled the Government and the public until a beginning was made by the Department a few years back on the results of the successful experiments made in the Punjab. The number of societies is over 95 and nearly 40,000 plots have so far been consolidated into about one tenth of the number. The Local Government have given a grant of Rs. 12,500 and one Inspector and 17 Supervisors are employed solely for this activity. The whole work from beginning to end is done by persuasion and propaganda and hence the progress cannot be rapid.

Cottage Industries and Co-operation.—The importance of cottage industries as a spare-time occupation to the agriculturists, and as the only means of subsistence to other people such as artisans and weavers etc., cannot be over-emphasised and anything that can effect an improvement in their condition is the aim and concern of the co-operative movement. The Co-operative Department has been alive to this aspect of the problem from the very beginning, but much progress could not be made for want of funds and facilities. There are, however, such industrial societies as the Mason Industrial Federation, Barabanki, the Sandila Industrialists Stores, the Agra and Tanda Industrial Stores and the Najibabad Blanket Spinning and Weaving Society etc. It is expected that with the establishment of the U. P. Industrial Financing Corporation Ltd., the co-operative development of cottage industries will be greatly accelerated.

Rural Reconstruction.—The Co-operative Department has been the pioneer in the field of rural reconstruction in this province. About a decade ago, rural reconstruction work was started in Benares, Fyzabad and Partabgarh districts on an intensive scale. Besides this, there are about 600 Better Living Societies, whose operations embrace the most varied activities from the reduction of wasteful expenditure on social ceremonies and customs to measures of agricultural improvement, adult education, health and sanitation etc. Co-operation is recognised as the foundation of rural development and the agency of Co-operative Better Living Societies has been utilised by the Rural Development Department for the furtherance of its activities.

A New Orientation.—It has invariably been said that co-operative credit cannot be effective unless it is linked with marketing. The Co-operative Department has repeatedly emphasised this need in its various reports and has had the support of the various Committees and Commissions on the point. But for a few scattered efforts, nothing could so far be done for want of adequate financial assistance from Government. With the approval of the present Government, a great marketing drive on co-operative basis is now proposed to be launched on a sufficiently comprehensive scale, in accordance with a five-year scheme of development. The scheme, it is expected will have the financial support from Government and at the end of a period of ten years, 35,000 villages of the province out of the total number of 1,05,640 will be humming with co-operative activity.

Future.—During the past few years, there have been passed a series of Debt Acts to protect the cultivators from debt, usury or the rapacity of the Mahajan. The cumulative effect will be the drying up of some of the sources of rural credit since debt relief legislation will aggravate the antagonism of the Mahajans. Thus there will be a great demand for co-operative credit. A vast field exists and a great opportunity awaits the Co-operative Department to make the most of. Will it be that the cup reaches the lip before it is too late ?

CO-OPERATIVE LEADERSHIP IN VILLAGES

BY

W. MACKENZIE STEVENS, PH.D., C.P.A.

Formerly Principal Organisation Expert, Federal Farm Board (U.S.A.), Adviser on Co-operation to the Natural Government of the Republic of China

A Co-operative must generate leadership able to manage it.—In the development of co-operative projects in a community it is unwise to place many different responsibilities upon a single individual for two reasons: (1) in order that as many local men may be trained and experienced in leadership as possible, and (2) in order that the death, illness, disloyalty, dishonesty, or other failures of a single individual may not set back the entire co-operative movement in that community.

Several integrated societies visited in Central and North China are almost entirely managed by single individuals. In most of these cases the buying, selling, savings, credit, and other activities are more than the farmers or villagers can grasp or manage, and the individual who runs each of these societies is a man hired by some outside educational, governmental, or philanthrophical organisation for the purpose. Theoretically the farmers are being trained to run their own societies, but in practice the societies can exist only so long as the individual on the pay roll of the outside organization continues to operate it. Such an organization has none of the strength of a co-operative. It is paternalistic and will last only until the outside support is withdrawn. Though the organization may be elaborately divided up into departments, the managerial activities involved are too complex to be understood or handled by ordinary members and the societies must consequently collapse as soon as outside support is withdrawn.

If separate societies are set up for each of the principal projects, the work of each leader is simple enough that leadership can be obtained among the farmers themselves, and the experience gained by a number of men leading separate organisations supplies trained leadership to take over the work of any organization that may lose its own leader. The strength of a co-operative lies in its democratic organization. Unless local self-supporting leadership is able to handle the affairs of a given association, it is not truly co-operative; it is merely a paternalistic organization that exists only so long as the outside group is interested.

Scarcity of leaders assumption.—Co-operative organizers in China frequently give as an excuse for throwing all of the co-operative work in a given area into a single integrated society the statement that this is necessary because of the scarcity of leaders in China, particularly in rural China. This assumption is believed to be fallacious for five reasons:

(1) Capable leaders are potentially present if co-operative development takes place in such a way that they can be discovered.

(2) If leaders are scarce who can handle simply organized co-operatives, the number of men who can handle the tremendously more complicated integrated societies must be a great deal more scarce.

(3) If leadership is so scarce that there are not even enough to furnish an executive for more than one co-operative, the possibility of establishing co-operative enterprises in a community *prima facie* is practically nil, since co-operation depends upon democratic management and control instead of management by an individual.

(4) Several leaders are not required for each small village as integrated society organizers seem to assume for not all co-operatives should be organized with village community units. Efficient marketing co-operatives usually need larger areas for primary societies and the areas of other kinds of co-operatives depend also upon the type of organization necessary to do the specific job.

(5) Complex integrated societies which can be managed only by one or two persons in a community tend to fall into the hands of a few literate members who tend to operate the society for their own personal benefit instead of for the benefit of the whole membership because the rest of the members cannot understand the transactions and cannot take over when a leader retires or fails.

Visits to rural communities throughout China by foreign observers lead to the opinion that co-operative leaders have too poor an opinion of the ability of villagers and farmers to furnish their own leadership. Certainly the level of intelligence and common sense seems to be quite as high in Chinese rural communities as in western communities of the same size. The poor opinion some rural organizers in China have as to the ability of farmers and villagers to manage co-operatives has probably arisen because: (a) the co-operatives organised among these people thus far have usually been unduly complex, and (b) the present organization of village societies is such that potential leadership is not brought out.

How to develop potential leaders.—In every community there are a number of men who can be trained for leadership if first given an opportunity to practise leadership in a small way. At present each community has its vested leaders so that others do not have an opportunity to demonstrate what they can do. If given an opportunity with simple organizations, a great deal of latent leadership ability can be developed in Chinese communities just as in communities in other parts of the world. There is no reason to believe that Chinese intelligence or shrewdness is less among the same class of people than it is in other races. Yet assumed inferiority of this sort is the premises upon which Chinese organizers are acting when they claim that Chinese rural communities are so deficient in intelligence that they cannot furnish co-operative leadership for more than one society.

Other fallacies involved.—For the reasons previously indicated, the integrated society is much more difficult to manage than a simple society performing only one function or closely related functions. The fallacy of the "scarcity of leaders" argument becomes evident when it is noted that if leaders are too scarce to manage simple societies, then how much more scarce they must be with the ability sufficient to manage complex integrated societies where all sorts of complexities arise!

The "scarcity of leaders" argument overlooks also the fact that if it really is true that the potential leadership of Chinese rural communities is so inferior that only one or two men can be found in a community with any capacity for leadership, then co-operative enterprise in China is doomed. There cannot be a co-operative movement in China unless the people themselves have the ability to manage in a democratic manner their own societies. Obviously this argument proves too much. Movement must be based on democratic organization and control.

The desire to form integrated societies may arise in some cases from a lack of knowledge of other forms of co-operative enterprise than personal credit of the Raiffeisen type. While it is perfectly true that personal credit societies of the Raiffeisen type require village units for effective operation, it is not true that all types of co-operative enterprise require village units. A cotton marketing co-operative for example must have as its primary unit a sufficient area to make possible effective utilization of ginning and packing equipment, an area which ordinarily is much larger than village associations. To attempt to handle such an organization on the village basis causes unnecessary "red tape," unnecessary motions, and unnecessary expense. Primary societies of several other types, e.g., insurance for example, need primary societies of other types than the village unit. Structural organization for various purposes will be discussed in greater detail subsequently. At this point it is desirable to point out that a given small village is not expected to furnish leadership for several different types of co-operatives. Ordinarily the small villages will have only one type of co-operative, though it might happen that a small village would be so placed that it was the logical centre for another co-operative covering a considerably wider area. In that case, however, the leadership may be drawn from the correspondingly wider area for the second co-operative. For this reason several different leaders for different co-operative in practice do not have to be drawn from small communities; consequently this excuse for forming integrated societies does not exist.

One of the most dangerous effects of the integrated society is to force the entire management and control of the society into the hands of one or two men who may be the only ones with a sufficient knowledge of the details involved to operate the society. Human nature being as it is, it is likely to be only a question of time until these individuals use the society primarily for their own purposes. This is a natural tendency of complex societies; whereas several simple societies divide the power, divide the responsibility, and make each society simple enough that any member can understand the transactions that take place.

MUNICIPALISATION AND CO-OPERATION

BY

MISS EMMY FREUNDLICH,

President, International Co-operative Women's Guild

The Bill designed to give wider powers to municipalities which was before the Parliament in England last session deals with a question that may affect the whole future evolution of national economy under a democracy. It could have dangerous consequences because it affects the provision for the daily needs of the population. Ordinary people will not perhaps be greatly concerned as to whether the organisation of a factory is good or bad; this is primarily a matter for the workers employed there or for those who deal with the distribution of the particular goods produced. But if there is faulty organisation in supplying the necessaries of life there will certainly be general resentment and discontent, the Government will find itself in difficulties and this may lead to a breakdown of the democratic regime, which is obviously the kinds of regime we co-operators envisage when we plan for the future.

This problem has always come to the fore whenever and wherever the question of nationalisation has been discussed, and opinions among co-operators have been very divided because many services now undertaken by the co-operative movement would then be reserved for municipalities. Many people would like to see all enterprises come under State control and a complete nationalisation of industries and supplies that would put an end to the work of all other trading bodies. They overlook the fact that through all the centuries of economic evolution there has never been a time when production and distribution have been organised on similar lines in all countries. For a long time after capitalism started, the work of craftsmen, artisans and small farmers went on side by side with the new mechanised industries and even now, home industries still flourish in many countries. No system is universally applicable and while there are certain fields where nationalisation and municipalisation are essential, there are others where a different type of organisation is needed. The satisfaction of daily needs is undoubtedly one of these.

During the War a particular type of State administration was set up to feed the people and everyone remembers—what the history of the C. W. S. shows so clearly—how difficult it was to get over bureaucratic methods of handling the supply of provisions and daily necessaries. It was natural that people who were for the most part trained in lawyers' offices and mainly concerned with laws and their administration had little knowledge of how merchants in all countries succeed in obtaining goods from every part of the world in order to feed their own people. But the greatest difficulty is not how to ensure that the right man is in the right place. There will be certain dangers for the municipalities themselves. Some people think that co-operators are not very keen on municipalisation because they are afraid of competition, but this is not correct. The menace for the municipalities will be greater than for the Movement. Some countries see this danger particularly clearly because of their experiences during the War. In the old Austrian Empire, the organisation of the distribution of foodstuffs, for instance, was more difficult than in other countries because of the difference in the requirements of the various national groups and the fact that some of these did not adopt a very helpful attitude. Agriculture, for instance, was most advanced and prosperous in Hungary and the great grain fields in different parts of that country could quite well have fed the whole population. But the growing antagonisms between the different nationalities resulted in Hungary being unwilling to share its rich resources with the people in the more industrialised areas of the Empire. Local administration moreover was not very satisfactory because some of the national groups were culturally backward and it was very difficult to get the thousands of small municipalities to understand the situation and carry out their new duties with wisdom and care. Food was scarce in the Austrian towns and the workers in the big factories for munitions and war materials started to strike and make as many difficulties as they could. About this time the General Secretary of the Metalworkers' Union in an interview with the Minister for War was told quite frankly: "If you can find means of quieting the unrest among the workers and settling the food problems, we will help you all we can; if not then we will militarise the factories and there will not be one free worker left in the whole country." This was a terrible threat to the Trade Unions and the workers because such militarisation meant the loss of all liberty, even the restricted liberty which every country had to put up with in war-time!

What could the Trade Unions do? They got in touch with the Co-operative leaders and asked their advice. The Austrian Wholesale said it was perfectly willing to try and organise distribution so that the people would get food, but could not take the risk alone. This must be shared by all organisations and individuals who were interested in the workers being well-fed during war-time. In order that the funds of the Wholesale

should not have to bear the whole burden the employers and their organisations were willing to finance the new body and the State promised to ensure that it would receive a large proportion of the total foodstuffs available for the Austrian people. In order that some kind of supervision could be exercised there was always a representative of the Co-operative Movement among the Directors of the Food Ministry, who could see that stocks were at the disposal of the Minister and what proportion went to the new organisation. Although the actual quantity available could not be increased it was possible to give every worker his fair share of the goods already in the country or imported from outside.

Our opponents may say: "That is all very well, but at that time the administration in the small municipalities was hopelessly backward." Once, however, the municipalities are empowered to organise distribution, this right must be given to advanced and backward ones alike and there will be the same difficulties as those in Austria during the War. If the organisation of supply by the Wholesale proved more satisfactory at a time when the distribution of goods to 485 factories had to be organised very speedily it was primarily because the administrators were better educated and more used to dealing with such matters. Moreover in most cases the municipalities had handed distribution over to private traders and everyone was not receiving the same amount. Good customers got more and poor people less. The law could of course provide that the municipalities must themselves organise distribution and not have recourse to private traders, but it does seem likely that such a provision would get a majority in the present Parliament.

But further conclusions can be drawn from the experience of Austria. When the masses were getting less and less to eat, the State administration did not dare to let prices rise and so it started a system under which the State paid the difference between the actual cost of goods and the price at which they could be sold to customers. Its contribution had to be continually raised as devaluation set in and in a short time the Treasury was unable to bear the burden any longer. It was extremely difficult to change this very dangerous situation and only very complicated measures could remedy the precarious position in which the State found itself. Every worker and official received in addition to his wages or salary an allowance for his wife and children, which varied month by month according to current prices. The State was also obliged to arrange for loans, as for instance when the value of the flour bought by the Wholesale every month rose from 35,000 Kronen to several hundred thousand Kronen. The smaller merchants could not find the necessary ready money and the State was forced to grant credit through the various bodies set up to control the import and distribution of foodstuffs.

Again, those who are keen on municipalisation may say that all these difficulties were the result of war conditions. True, but let us consider the whole question very carefully. If, for instance, there was a sharp rise in the world market prices of grain, would it be possible for a municipal bakery to put up its prices in proportion? It is not very likely that the voters would oppose such a measure on the ground that it is the duty of a municipality to protect its citizens by keeping prices down. Almost certainly the opposition would launch a campaign against the Council and this latter would soon find itself in financial difficulties with regard to the production and distribution of bread. Most countries must import some grain and prices must therefore depend on the world market.

Why is the situation quite different for co-operative societies? They are financed by their members whereas the municipalities depend upon taxes paid by the whole community. So the mass of the people feel that only a part of what the municipality spends comes out of their own pockets. The rest, they think, is contributed by people who can probably afford to lose it and they do not bother very much. Taxes are different from invested capital because they constitute income that can be spent as collected, but nevertheless they bring their own difficulties. They cannot be raised without bringing discontent and if a municipality tried to keep prices down by increasing taxation the people would soon cry for a new Council which would get the money from some other class but not from theirs! Under these circumstances a municipality could get so many difficulties that the party would lose its majority on the Council.

No one can deny that the Socialist municipality of Vienna concerned itself with economic issues. But the leaders have never tried to enter the commercial field and undertake production and distribution of daily necessities. They certainly ran a bakery but only to supply their own hospitals, children's homes and those in receipt of relief. Housing is both a productive and distributive service and here municipal enterprise has been successful in all parts of the world. Indeed in countries where money is dear, it has often been impossible to obtain good houses unless they were built by the municipalities. Transport and its necessary supplies, gas, electricity; the upkeep of the streets, the control of traffic should all be the province of the municipalities, which must also control the water supply and be responsible for the collection of refuse and litter and similar services. They have such a wide sphere of

activity that they have no need to enter the field of distribution. And there is another way in which they can further a better and more equitable satisfaction of the people's daily needs—they can give all possible help to the co-operative societies. Every housing colony or block of new houses in Vienna has a co-operative store and every one of these was built according to the plans and suggestions of the great Vienna Co-operative Society. So the network of co-operative distribution was widened and all these new stores contributed a great deal towards the expansion of the last ten years.

In Russia, also, things evolved in a very interesting way. When Lenin started his new economic policy "NEP" he asked many of the co-operative societies previously dissolved to reorganise and take charge of distribution throughout the country, and he only did this because the municipalities and State trusts had not been successful in feeding the people. Why should the whole economic life of a democracy be run on certain hard and fast lines? Let the people organise themselves voluntarily in co-operative societies and so learn the meaning of free will, democratic administration, and the voluntary fulfilment of duties. Let the municipalities stick to their own work. Co-operation will not attempt to build electric railways or organise a bus service. Neither should the municipality interfere in the production and distribution of daily necessaries. Administration by different bodies will ensure that the work is better done because each one can be built up in a particular way according to the purpose it has to fulfil and the commodities it has to deal with.

Co-operation by the people for the people has proved itself the best method of organising the satisfaction of daily needs and we should recognise this, and not embark on new schemes not tested by a century's experience.

REVIEWS

THE PEOPLE'S YEAR BOOK, 1939 (C. W. S. Ltd., Manchester, 2s. 6d.)

This is a comprehensive annual survey of the British Co-operative Movement, which is essentially a consumers' movement, though industrial producers' movement is not negligible. We get in this attractively got-up volume not only statistics on the manysided activities of the consumers' societies and their Wholesales in England and Scotland, but also facts and figures concerning the economic position of the working classes, who constitute 90 per cent of membership of consumers' societies. A number of splendid photographs, some of them depicting the war-mad Europe and the distress caused by war and the fear of war, and others showing the beautiful building extensions of societies and the Wholesales add to the attractions of the book which endeavours to cater not merely for actual but to potential co-operators.

Wider economic problems are treated in a number of special contributions by eminent authorities who adopt a popular style to suit a very wide circle of readers. Mr. G. D. H. Cole analyses the present position and the trends in trade and industry and forecasts a probable recession in 1940 from the purely economic point of view while the political situation makes it more unpromising. But he thinks it will not be so severe as in 1929-30 so far as Great Britain is concerned. Mr. Colin Clarke explains lucidly what is happening to purchasing power by examining one factor after another affecting the level of real wages and concludes that on the whole the labourer *in work* is better off in the depression. Mr. Henry Durant discusses the problem of leisure, arising from the progress made in mechanisation of industry and decline of old communal life and handicrafts. He exposes the amazing waste of money, much of which is by the working classes in the pernicious films and in gambling—whose bill is four times that of milk! It is the duty of co-operators to organise healthy alternative reactions, physical and mental.

There are three contributions, rather unusual in a consumers' Year Book, on matters agricultural. One is on the position of the Agricultural Producer in Britain by Mr. G. Walworth. This is written as much from a consumer's as from a producer's angle. He does not mind the shrinkage in arable land and in the number of labourers employed, as neither has reduced the output so much. He deplores the unbalanced farming that has resulted from State subsidies, the total of which could have helped to nationalise the bulk of arable

land. The middleman has profited more than the consumer or even producer. He advocates centralisation of marketing on the basis of compulsory contracts as in overseas Dominions, which would reduce unhealthy competition and offer an incentive to efficient production. Miss Margaret Digby explains the working of the Horace Plunkett Foundation—that excellent clearing house of information on agricultural co-operation all over the world. Prof. Ashby of the University of Wales emphasises the importance of Agricultural Co-operation and the rapid strides it has taken in the twentieth century in several countries. It has captured more of the trade in its own sphere than consumers' movement has done in its own. He exhorts the consumers' champions to establish inter-trade relations with the agricultural co-operatives and ensure for both interests greater prosperity which is now intercepted by private interests.

Prof. P. Sargant Florence makes a very effective contribution on the Universities and the Co-operative Movement bringing out the amazing similarity in the constitution and outlook of both bodies and the need for a closer contact between the two in place of sullen prejudice which has characterised the attitude of co-operators, especially consumers.

The section that may interest even more readers in our country is that on Co-operative Organisations Abroad containing brief notes, on Co-operation, principally consumers' co-operation, in about 50 countries all over the world. India as usual figures in the list. We are sorry to find the repetition of the very same mistakes year after year concerning consumers' co-operatives here—particularly of the Triplicane Urban Co-operative Society, its origin and its working. It did not, we repeat again, begin as a credit society with store as a side line. The reverse is true and even that was due to the then state of co-operative law. It does not distribute milk. It is the Madras Milk Supply Union that does it. Other errors pointed out are there. We hope they will not recur hereafter and that other consumers' societies, particularly in Mysore, will receive attention.

YEAR-BOOK OF AGRICULTURAL CO-OPERATION, 1939. (Edited by the Horace Plunkett Foundation. (P. S. King & Sons, London. 15sh. net).

Students and workers in the field of agricultural co-operation all over the world should be eagerly looking forward to this Year-Book of Horace Plunkett Foundation if they wish to be posted with the latest developments in the movement. The greatest event in the year 1938, so far as agricultural co-operation is concerned, was the conference at Glasgow attended by delegates from all parts of the British Commonwealth, including India, and some visitors from other countries. A brief account is given of the proceedings, and three thought-provoking addresses delivered at the Conference are reprinted in the year-book. Dr. C. R. Fay's inaugural address is a masterly survey of certain recent trends in co-operative thought and activity all over the world. He pleads, at the close, for more and more study and research, of which he himself is not tired. He referred to the scores of students doing their doctor's thesis on one or more problems of co-operation in the universities of Germany, Denmark and the United States. "There is no movement that has such a fascinating combination of hard intellectual problems and stimulating moral ideas." The address of Prof. Ashby of the University of Wales dwells on the relation between Co-operation and the State, on which hazy or dogmatic views have most often been held. The complex relationship is skilfully analysed and its many aspects are presented with a coolness and clarity associated with the scientific economist rather than the enthusiastic co-operator. The limitations and inhibitions of the State are not ignored, but the need and scope for its aid and its initiative among comparatively less educated peoples, and at critical times even among the more advanced nations, are emphasized. The address is worth a very close study by all of us. The third address is on the Phosphate Co-operative Company of Australia by Mr. A. Wolskel, its General Manager. This co-operative enterprise, of whose origin and working a fascinating account is given is the triumphant challenge of the agricultural community of Victoria to the combine of manufacturers who were exploiting the need for this fertilizer.

We have this time an inspiring biographical account of Sir Horace Plunkett by Mr. H. F. Norman, himself a veteran co-operator and a close associate of Sir Horace in his co-operative activities and still an active worker in the I.A.O.S. There are certain personal touches of the great founder, which reveal his natural mind and his utter unselfishness. Plunkett had no 'private life'!—a pithy and pregnant reflection on his public life. His interest in India started very early, though not known to the public here. His memorandum of evidence submitted to the Royal Commission on Agriculture in India, at the age of 74, was very much valued, containing as it did the results of his ripe experience and his high sense of duty in spite of age and failing health. He emphasised "the responsibility resting on all co-operative publicists to consider the claims upon their thoughts of millions of depressed and dissatisfied fellow beings." What co-operation can do to promote rural

hygeine forms the subject of a chapter by Mr. H. A. Izant. He begins with an account of the Anti-malarial societies of Bengal which should claim the distinction of organising the first health co-operative societies in the world. The Japanese Health Co-operative Societies which began a decade back now own 200 hospitals in rural districts; they have reduced medical expenses of farmers from 28 to 9 per cent of their income. The Yugo-Slavian Health Societies have reached a higher degree of efficiency, because of their existence of health communes already and the great progress made in co-operation by the Yugo-Slav-peasant. The whole subject is of topical interest in Madras.

Apart from these special articles, there are the usual contributions, of varying length, on co-operative progress in about 40 different countries. We would like to draw the attention of the readers in India to the following accounts in particular:—The drastic changes made in the constitution and functions of the rural credit and other societies in Fascist Germany and Italy, which involve a serious departure from the Raiffeisen tradition; the radical reorganisation of credit societies in Turkey and Ceylon where the difficulties experienced are more or less akin to ours; co-operation of the collectivist type recently introduced in Mexico, after the Agrarian Revolution of 1910-20. State intervention has increased almost everywhere particularly in economically backward countries where not merely production and marketing are controlled but inroads are made on the autonomy of societies, of course in the interests of members. The following is typical of the attitude taken up by the innovators: "The country is not yet ripe for the formation of a free co-operative movement. Insufficient attention had been paid to the social conditions of the country...... The alternative is not between free co-operation and State-directed cooperation, but between State-directed co-operation, and no co-operation at all." It is contended that the advantages of co-operation could not be reaped by the peasant without the limitation of the freedom of management, i.e. 'management under tutelege.' By and by the bridle will be relaxed and the classic co-operative principles may have a fairer chance of working."

Marketing, not credit, is the burning problem of the co-operatives in the United States, Australia, Canada etc. of which clear analytical accounts are given. How far we are behind in these spheres and how credit problems still dominate in India may be seen from a short sketch of the movement in the Punjab by the Registrar, Mr. F. W. Wace—which is the only contribution on India in this year book and will be read with great interest by all. It is full of warnings against lurking dangers in the movement, though Mr. Wace is optimistic on the whole. For instance, the concessions shown to those willing to clear off overdues have had "the effect of improving payments by the well disposed, without greatly reducing the volume of bad and doubtful debts." The psychological effect of concessions is to create an appetite for more, even for a remission of the whole debt. Debt Relief measures have well nigh driven out the money lender from the village. The demand for co-operative credit is greater than ever. But material security of the members has been greatly reduced by land alienation and debt relief measures. Greater caution is necessary in extending credit activities, whatever might be the enthusiasm of politician ministers. With reduced security, more loyalty, honesty and goodwill are required. In the Punjab most of the co-operative commission shops for sale of produce have failed because of the lack of loyalty of members. But the recent Grain Payment Scheme under which the central bank's brokers collect the dues of societies in kind and market the same at reduced charges is expected to educate the members on the value of collective sale. Mr. Wace points with legitimate pride to the solid work achieved in the consolidation of holdings by co-operative means and its psychological effect on the standard of living and general efficiency. Better Living Societies have ampler opportunities in such reconstituted villages and efforts are made to seize the opportunities thus offered. We wish that every year the Horace Plunkett Foundation invited authorities—official or non-official—to contribute such a succinct account of the special activities of every Province in India, which is far too big and diversified in a country to be dealt with at one stretch by a single contributor.

We would also suggest that in addition to the very useful summary of Legislation of the year and the brief Reviews of Books and Reports, a statistical summary of the transactions of agricultural societies of different types in all countries be prepared and published in the Year Book.

K.C.R.

THE STATE AND ECONOMIC LIFE. By Dr. Anwar Iqbal Qureshi, (New Book Co., Bombay, Rs. 5 or 7s. 6d.)

This is a contribution on economic planning by one who strongly believes that the community would lose more and gain less by killing private *initiative*. The descriptive account of the various forms of State interference, particularly in Germany and America, is intended to strengthen the author's case.

The approach to the problem is not realistic. The author is disposed to favour the self-regulating economic system, as it functioned in the pre-war world. But can that system be restored again? Has not the economic organisation become less flexible? There is, for example, the increasing rigidity of wage-rates and there is also a growing restriction of competition. Even if the State had continued the old non-intervention policy, the price mechanism would not have functioned smoothly. Now that competition does not regulate production, distribution and exchange, the State is entitled to regulate the working of the economic system to secure certain social and economic ends deemed to be desirable by the community. To admit the need for economic planning, however, does not imply an approval of every form of State interference in economic life.

As an ardent worshipper at the shrine of *Laissez Faire*, the author is not in favour of the policy of protection in force in India. The sacrifice borne by the community of consumers in order to protect domestic industries may be heavy. If that policy should be carried out without discrimination, the sacrifice may even be excessive. At the same time, the policy of protection may be necessary for a given country under given conditions. Dr. Qureshi believes that the Indian farmer would be affected adversely, if the policy of protection should be continued in the future. He points out that protective policy would first diminish imports and after some time exports of agricultural products. There is some force in this argument. But cannot the Indian mill-owner be persuaded to buy Indian cotton? Cannot the urban population employed in protected industries provide a market for agricultural specialities? Similarly the author's examination of the effect of protective tariffs on customs revenue and Public Finance is also open to criticism. It is true that customs revenue would fall off. But the loss to the exchequer may be made good at least partially by a greater yield of income-tax levied on the profits of industries and of excise duties.

The author, however, does real service to the cause of protection by emphasising the unfavourable consequences that may follow an indiscriminate use of protection.

L. N. G.

ECONOMIC PLANNING IN CORPORATIVE PORTUGAL. By Freppel Cotta (P. S. King & Son, London, 1937, 8s. 6d.).

This is an able attempt to describe the elements of an interesting experiment in economic and political organisation, viz., the Corporative State, and as such it deserves to be widely read. Corporativism is one of the several attempts of the post-war world in the creation of a just social order. In contrast with communism, it recognises the right to private property as a rational imposition of human nature and an essential base of social progress; but it subjects it to restrictions in public interest. It further demands that both elements in production, workers and employers, must be organised into associations that are approved by the State; through these associations their participation in national production is regulated and controlled.

Mr. Cotta describes the structure of the State lucidly and gives necessary details of the various organs of corporative organisation, and sums up the results so far achieved. Years of deficit budgets and party-strife had brought Portugal to political confusion and to the verge of economic ruin. The new plan has achieved commendable results—the State intervening where necessary to control and to co-ordinate what is to be produced, what prices have to be paid for commodities and what remuneration is to be paid for labour. That the book is based on authentic sources of information is evident from the careful bibliography appended at the close of the book.

The Portugese Corporative State is still in the course of formation and its structure is still incomplete. We hope with Professor Marcells Caetans of Lisbon (who contributes a short Preface) that this conscientious study will soon have a revised edition, in which some account will be given of the progress made in the evolution of this great experiment in social reconstruction. Co-operators in India may have their own apprehensions of such an authoritarian regime; but in so far as Co-operative Democracy in India has revealed many defects in working, our co-operative workers and leaders may have something to learn from the working of a different system of control of industry.

A. A.

CO-OPERATIVE SOCIETIES AT WORK IN INDIA

UNITED PROVINCES

Extracts from the Report of the Registrar of Co-operative Societies, Mr. Vishnu Sahay, I.C.S., for the year ending 30—6—1938.

General Progress. A statement showing the numerical progress is appended (next page).

The number of central societies remained at 72. Their working capital shows a further increase of 2.63 lakhs over last year's figure and the owned capital is nearly one-third. The increase of 632 in membership is exclusively due to ordinary members, *viz.*, primary societies.

The number of non-credit central societies recorded a fresh rise from 54 to 77 and the progress being in full swing will be even more marked in the figures for the next year. The working capital and membership have risen by Rs. 5.20 lakhs and 19,659 respectively; the noticeable feature is that about half the capital is owned.

The policy of steady development of agricultural primaries consistent with our resources for supervision and audit was maintained and their number rose from 7,788 to 8,439. Cane supply societies increased to 663; the average number of members per society has risen considerably.

Credit Societies—Central. The number of central credit societies, inclusive of banking unions, was 72 as last year. The working capital of central banks increased from Rs. 92.24 to Rs. 94.87 lakhs. Deposits from individuals rose from Rs. 42.35 to Rs. 43.15 lakhs; those from societies and banks from Rs 7.65 to Rs. 8.27 and 3.08 to Rs. 3.50 lakhs respectively. With four or five exceptions, the banks had the confidence of the public and found no difficulty in raising the deposits they needed. The usual rate of interest on one-year deposits was 3.5 per cent. Five banks made little or no advances and have been functioning merely as debt-clearing institutions for some time and a progressive decline in their collections is inevitable. Recovery of the existing societies in these areas is impossible, and work has to be begun afresh.

Borrowing and lending operations between central banks revolved more or less round last year's figure. The Department does not, as a rule, intervene in those operations and banks are required to negotiate with each other direct. In the past, with a comparatively stationary movement and credits curtailed owing to the slump, these adhoc arrangements worked well enough. But now with the development of marketing societies needing advances for varying periods, a more automatic machinery for balancing and raising funds is necessary. The establishment of a provincial bank has been approved and Government have allotted Rs. 75,000 for setting it up.

Advances to primaries rose from Rs. 37.44 to Rs. 39.25 lakhs but recoveries fell from Rs. 37.56 to Rs. 33.93 lakhs. Overdues rose from Rs. 16.60 to Rs. 16.72 lakhs. There was a small set back in recoveries from societies during the year, though the position is still better than in the previous year. The difference between the work of Union-controlled supervisors and those outside the Union is as marked as ever.

In pursuance of the scheme of repayments in kind, the Moradabad Bank developed its scale of operations and purchased wheat worth Rs. 1,05,424 as against

Type.	Number of Societies. on 30-6-37.	on 30-6-38.	Number of Members. on 30-6-37.	on 30-6-38.	Working Capital. on 30-6-37.	on 30-6-38.	Owned Capital. on 30-6-37.	on 30-6-38.
Central Societies—								
Credit ..	72	72	5,960	5,886	92,24,838	94,87,365	39,10,619	39,82,013
			6,820	7,526				
			12,780	13,412				
Non-Credit ..	54	77	16,336	35,489	20,71,651	25,91,412	10,30,413	12,65,943
			1,378	1,884				
			17,714	37,373				
Primary Societies—								
Agricultural ..	7,788	8,439	2,08,738	2,71,520	110,62,125	119,14,461	64,00,644	66,56,327
Non-Agricultural ..	474	547	52,170	59,949	54,05,633	62,99,720	26,16,516	30,34,070
Total ..	8,388	9,135	2,91,402	3,82,254	277,64,247	302,92,958	139,58,192	149,38,353

Rs. 77,004 in the previous year. There was a small loss of Rs. 657 on the transaction but collections were nearly cent per cent and their genuineness cannot of course be questioned. Repayments in kind unquestionably strengthen the credit side of our societies but the purchase and sale of grain is a business with vagaries and the sound thing is not to stock for too long in the hope for a rise. Better collections will offset a small loss caused by quick sale while the loss possible in holding on may well cripple a bank. The question of thrift and credit societies undertaking the sale of the members' produce is receiving earnest attention and arrangements are being made to take up this work in about 1,500 societies.

Land Mortgage Societies. The land mortgage societies continued their small scale operations. Membership rose from 456 to 556, advances by about Rs. 15,000 to Rs. 42,000, profits from Rs. 3,086 to Rs. 4,993 and overdues fell. The usual rate of interest on borrowings and lendings was 4½ per cent and 7½ per cent. As usual almost all the advances were for redemption of previous debts. The societies have been advised to be particularly stringent in the matter of security, as the value of zamindari has fallen and the projected tenancy legislation makes the future value uncertain.

Agricultural Societies—Unlimited Liability. New registrations were 372 against 513 in the previous year. After allowing for societies cancelled during the year, the total was 6,923. Membership rose from 1,41,927 to 1,60,069. Thrift deposits from members have been gradually increasing. They amounted to Rs. 2.78 lakhs against Rs. 2.45 lakhs in 1936-37 and Rs. 2.07 and Rs. 1.89 lakhs in the preceding years. We are still, however, very far from the ideal of societies raising their capital from the deposits of members. There are real difficulties, those who become members do not usually have surpluses to deposit; those who have the money do not have the banking habit and are afraid of locking up their money.

The working capital rose from Rs. 105.4 to Rs. 110.04 lakhs, the owned capital alone being responsible for Rs. 1.97 lakhs. Advances during the year rose from Rs. 32.24 to Rs. 36.89 lakhs. Repayments increased from Rs. 30.0 to Rs. 32.28 lakhs. Collections were credited to principal in a number of cases and overdues in interest rose from Rs. 17.17 to Rs. 17.70 lakhs. The general position is as summarized in previous years—stagnation and even deterioration in recoveries in the four or five 'black spots' of the movement, and a slight improvement elsewhere.

Out of 6,923 societies, 4,179 have worked for over ten years. The number of societies which distributed dividends rose from 1844 to 2053. Those which worked at a loss at the other end rose from 569 to 660. This is partly due to the stoppage of interest by societies in a number of cases.

Non-agricultural societies—Limited Liability. The number of these societies rose from 128 to 162; membership from 41,000 to 46,171. The working capital incre d from 47.87 to 55.23 lakhs and owned capital from Rs. 22.98 to Rs. 26.06 lakhs. Deposits of members increased from Rs. 19.23 to 21.20 lakhs which means that thrift has not carried the wide appeal which it should have. It is curious indeed that people burdened with the responsibilities of maintaining a family have not so far realised the importance of laying by something against the rainy day.

Of the 162 societies, 145 belong to salary earners. Financially these societies are usually a success; collections are good as the instalments are collected from the salary and the members do get credit cheaper than they would from other sources. But the thrift aspect of this work is still not appreciated and loans tend to be allowed mechanically.

Non-Agricultural Societies—Unlimited Liability. Societies of this type are manned largely by weavers, leather workers and petty traders forming a total of 140 out of 224. Membership went up from 5,101 to 6,326, giving an average of 28 against 25 per society. The working capital rose by Rs. 11,000 to Rs. 3.11 lakhs of which no less than Rs. 1.74 lakhs is owned.

The weavers who predominate do not possess any great reputation for credit worthiness and owing to the further absence of security, the problem of recoveries presents special difficulties, and yet it is societies of this kind which present the largest scope for development of the oldest industry after agriculture. It is proposed to start industrial stores at suitable centres which will arrange not only for the bulk supply of raw material to societies but also for bulk sale of their finished products. The scheme also provides facilities for improving the finish of cloth and for introducing better designs.

Seed Stores. Partabgarh has 12 stores (central and primary) and distributed 5,000 maunds. Half of these are unregistered yet. In three circles, the cultivators have started growing improved wheat in compact blocks. Next comes Bareilly which distributed 1,647 maunds through its four stores, two of which are central. The central stores worked at a small loss of Rs. 290 while the primary stores made about the same profit.

Industrial Stores. In addition to the Mason Industrial Federation there are four central stores for weavers at Agra, Etawah, Tanda (Fyzabad) and Cawnpore. The Mason Federation which I had almost given up as bankrupt, has taken new life—thanks to the efforts of the Assistant Registrar. The old losses amounting to about Rs. 6,000 have been written off and there was a net profit of Rs. 1,490 at the end of the year. Goods worth about Rs. 30,000 were sold mostly through the United Provinces Government Handloom Emporium. The Federation manufactures furnishing cloths, Kanauj pattern *saries*, cotton and mercerized *sabudana* cloth, shirting and coating. Attempts are being made to increase the sale of *lungies* in the Bengal and Assam markets. Orders for the supply of 25,000 dhoties for chaukidars have been secured through the stores Purchase Department. The supervising staff is paid out of the Government of India grant for the promotion of handloom weaving.

The other four stores are also making some progress. The Cawnpore Knitting and Weaving Society purchased ten knitting machines, four of which were put on work during the year. The Sandila Industrialists' Co-operative Stores functions as a nucleus for marketing the produce of such weavers as are also members of the Sandila Weaving and Sale Society. This Store has specialized in furnishing cloth, shirtings, sarees, bedsheets, bed-covers, napkins, runners and table covers. The Tanda Weavers Store manufactures *kela* silk for which there is good market. The local bank advanced Rs. 1,30,000 on the pledge of goods, of which Rs. 1,20,000 has been repaid. The Agra Industrialists' Store stagnated and once again worked at a loss. The reason given is that there is little market for *durries* of superior quality which the societies produce. The Etawah Store which worked under the auspices of the Industries Department until March 1938 was registered during the year. The Store appears to have good prospects of development. Its shirting and coating cloth has found a good market through the Government Handloom Emporium.

Milk Supply Societies. There are two milk supply unions (at Lucknow and Cawnpore), two dairies (at Benares and Allahabad) and eight primary milk supply societies. The most important is the Lucknow Milk Supply Union. It handled 1,41,440 lbs. of milk against 70,000 last year. The producing societies are in villages at a distance of about 15 miles from the city and overhead charges on transport

and wastage due to souring are heavy. The Government have given a grant of Rs. 20,000 for the purchase of apparatus for keeping the milk fresh and safe and out of this machinery worth Rs. 8,000 has been purchased since the close of the year. From an average supply of 5 maunds per day the figure has already gone up to 17 maunds a day and with the installation of a cooling plant the Union expects to handle 25 maunds of milk a day. In the 17 villages where the milk societies are working, the price of milk obtainable by the producer has already risen from 16 seers per rupee to 13 seers. These societies arranged for the purchase of good cattle worth Rs. 7,500 by their members. Work is now being expanded on another side of Lucknow and the Union has also opened a centre for the sale of *Khowa*. This Union shows every sign of development. The other societies are tiny affairs and do not require separate mention.

Cane Supply Societies. There are two kinds of cane marketing co-operative Societies: (1) those formed in the gate areas of certain factories as a part of the Cane Development Scheme and (2) the others organised by the Co-operative Department for whole districts or sub-division. Theoretically their objects and organisation have also been similar. But in practice, the former have been paying attention both to agricultural improvement and marketing while the latter, till recently, confined themselves principally to marketing though now they are paying increasing attention to development also. One distinction between them, that still remains, is that while the former deal with small compact areas, the latter have extensive areas of operation.

The Cane Development Scheme was initiated towards the end of 1935. The Government offered to develop the cane in the gate areas of such factories as were willing to pay an annual contribution of Rs. 3,000 a year to the Government and to purchase cane through a co-operative society paying commission on supplies. To start with 22 factories joined the scheme, five more came in later and three of them secured double zones. Under the scheme each zone had a staff of one Assistant Cane Development Officer, three supervisors and nine kamdars, who are expected to 'develop' an area yielding 2,000—2,400 acres of cane annually. Besides the 30 contributory zones, 56 new non-contributory zones were organised in 1938.

In the first year in every zone a small area, usually 200 acres, is put under new varieties of cane and effort is made to cultivate it with improved methods. The full area, 2000 acres of developed cane, will be brought about in the third year of working. When the work is completed in all the 86 zones, about 2,00,000 acres will be directly under the control and guidance of the cane development staff. An area of about 1,00,000 acres has already been brought under control. The societies under the scheme supplied 1.34 crore maunds of cane during 1937-38 and there were no losses. The other societies marketed 1.42 crores, earned 2.12 lakhs in commission and in the total had profits of Rs. 26,356.

Ghee Societies. After cane supply societies, the most important development of the movement has been in ghee societies. The number of these societies rose from 153 to 277; membership rose from 3,153 to 5,791. The amount of ghee jointly marketed rose from 1,981 maunds to 4,305 maunds. The profits of the societies were about Rs. 20,000. The quality of the ghee sold by these societies is tested twice, firstly by the panches and secondly by the Ghee Union. A tribute to the strength of these societies comes from the middlemen whom they have ousted.

Consolidation of Holdings. The number of societies has risen from 93 to 118, the bulk being in Saharanpur and Bijnor. The work in Agra, Bulandshar and

Budaun is in its initial stages. During the year, 8,800 bighas were consolidated, 11,992 plots having been reduced to 1290. The total area consolidated so far is 56,000 bighas, the number of plots having been reduced from 56,706 to 5,434. Twenty-one supervisors are maintained for this purpose.

Conclusion. Four years ago the departmental report announced a policy of expansion of marketing and better living societies and of cautious expansion of thrift and credit societies. Since then the number of the latter type of society has made steady progress through slow, and liquidation has been avoided. Overdues are considerably diminished and the financial position of banks and societies has improved as a whole. A very considerable development of co-operative marketing in the shape of cane sale and ghee sale societies has taken place. With these societies is being linked credit, and it appears that as far as areas which supply cane to factories are concerned, the problem of making credit safe has been largely solved. Collections in these societies have been nearly cent per cent for several years. The time now appears to be ripe for a further expansion of the movement along the lines of marketing-cum-credit societies, and there appears to be no reason to apprehend failure, provided the lessons of the past, namely, the dangers of imperfect supervision or of imperfect training are fully kept in view and avoided.

COORG

Review by the Chief Commissioner of the Report of the Registrar of Co-operative Societies for 1937-38.

The co-operative movement showed signs of progress during the year despite unfavourable conditions. Seven new societies were started and there was some increase in the share capital, deposits, reserve fund and working capital. Loans issued amounted to Rs. 4,47,025 against Rs. 4,13,487 in the previous year. The percentage of collection fell to 57·34 and improvement is required. Net profits earned fell from Rs. 31,090 to Rs. 29,752.

The Central Co-operative Bank though affected by the closing of the Travancore National and Quilon Bank maintained the confidence of the public. There was an increase in the deposits, reserve fund, working capital and the net profits. It is desirable that the Bank should give effect to Resolution No. 11 of the All-India Registrars' Twelfth Conference. The percentage of collection fell slightly and improvement is required. There is also a large balance outstanding in the demand under the Supervision Fund. The value of the debts compounded by the Debt Conciliation Board increased and the Board did useful work.

Two new agricultural societies were registered and the number of grain banks increased by five. The rate of interest charged by grain banks, except newly registered banks, is between 12 and 20 per cent.

One Students' Store Society and one Co-operative Crop Loan, Sale and Supply Society were registered during the year. The conversion of the Central Co-operative Stores into a marketing society will be considered after the receipt of the report from the Special Officer, conducting the Agricultural Enquiry. Most of the cloth and provision stores were worked at a loss on account of competition by private merchants and some lack of loyalty among the members.

The work of the Honey and Wax Producers' Co-operative Society and the Milk Supply and Hides and Skin Society is progressing. The Milk Supply and Hides and Skin Society should undertake the purchase of hides and skins without further delay.

The work of lantana eradication and anti-malarial societies was unsatisfactory on the whole, but the two Better Living Societies are making considerable headway. It is hoped that the number of such societies will be greatly increased.

A regrettable feature of the movement is the growing amount of litigation. 978 cases were filed during the year as against 811 in the previous year. 269 cases remained pending at the end of the year as against 43 in the previous year. There was however some decrease in the acreage of lands (privileged and unprivileged) sold for arrears of co-operative debt.

GWALIOR

Government Review of the Report of the Registrar of Co-operative societies for the year 1937-38.

The annual Report of the Co-operative Banks and Societies in Gwalior, for 1937-38, deals with the position of the co-operative movement. It is stated that the bulk of the working capital of the banks continues to be locked up in old debts. This has resulted in a severe contraction of credit and a general deterioration of societies in some tracts. The immediate causes are the economic depression and the sequence of bad years which have affected with minor variations almost all the districts of the State.

The Report mentions broad general conclusions of Prof. Kale's examination. The deterioration of the movement was due to the capitalistic legislation which made co-operation more official and technical; much of the confusion and stagnation is due to faulty legislation, to the inefficiency of the staff, to the defects of the system and the policy.

Prof. Kale's proposals when brought into effect would involve among other things the organisation of co-operative education and training, the repeal of the Gwalior Banks Act, the establishment of the Apex Bank, provision for long term loans through land mortgage Banks, the development of the urban co-operation, strengthening the audit staff.

The Banks during the year under report have again had to face a difficult year. While the increases under working capital, reserves and deposits have been nominal, profits have gone down steadly and there has again been some rise under overdue arrears. The profits earned by all banks fell from Rs. 31,821 in 1936-37 to Rs. 17,109.

There was a fall in the number of societies and their membership during the year, which is directly due to the continued policy of the Department to cancel unhealthy and defunct societies. In all 78 societies were cancelled during the year under report.

The attitude of the public towards the movement shows signs of improvement. Active interest is gradually taking the place of apathy with many and among agriculturists the need of co-operation is generally accepted.

The Rural re-construction movement in this State owes its inception to His Highness and it was under Durbar's personal supervision and direction that the work in Purani Chaoni centre was originally started in October 1936.

The central principle which has been followed throughout has been to surround the villager with the means of self-help and to educate voluntary workers in the principles of rural improvement. The settlement of disputes, the spread of education, the prevention of extravagance and harmful customs and usages, the organisation of lectures, exhibition and propaganda tours in the surrounding villages and the establishment of the 'Moondha-making' classes were among the main activities of the centre. The centre, which has always been regarded as an example rather than as an isolated effort at rural re-construction, has all the time been quietly preparing the way for uplift work in its neighbourhood.

PUDUKOTTAI

Government Review of the Report of the Registrar of Co-operative Societies for Fasli 1347 (1937-38).

The Dewan Peishkar continued to be the ex-officio Registrar of Co-operative Societies. He was assisted by a Deputy Registrar who has been invested with all the powers of a Registrar under the Co-operative Societies Regulation.

Number of Societies. The fasli opened with 122 societies. The registration of four societies was cancelled and one new society was registered in the fasli. Thus there were 119 societies at the end of the fasli.

Classification of Co-operative Societies. One was a Central Bank, 96 were Agricultural Credit Societies, 15 were Non-agricultural Societies, four local Supervising Unions, one was a Co-operative Central Institute, one was a Building Society and one was a Labour Union. Of the 15 Non-agricultural Societies, six were Credit Societies, two were Weavers' Unions, three were Stores Societies, one was a Co-operative Press, two were Societies for the supply of books and stationery to the students and one was a Medical Store.

Membership. The total number of members in all the societies excluding the Central Bank and the Supervising Institutions was 11,931 against 11,480 in the preceding fasli. 2,261 were Brahmins against 2,184 in the previous fasli, 7,516 non-brahmin Hindus against 7,213 in the preceding fasli, 570 Christians against 537 in the preceding fasli, 697 Mohammedans against 696 in the previous fasli, and 849 adi-dravidas against 807 in the last fasli while other castes and societies accounted for the remaining 38. The Darbar are glad to note that the number of Adi-dravida members rose from 807 to 849.

The Central Bank. The number of members decreased from 113 to 111 in the fasli under review. The paid-up share capital decreased from Rs. 57,392 to Rs. 57,172. Deposits fell from Rs. 2,39,593 to Rs. 2,34,351 and working capital from Rs. 3,17,217 to Rs. 3,12,505. Net profit also fell from Rs. 3,000 to Rs. 2,619. The Reserve fund rose from Rs. 20,982 to Rs. 21,636. A sum of Rs. 1,32,941 was due to the Central Bank from the primary societies, out of which the bank realised Rs. 12,793 leaving a balance of Rs. 1,20,148 or 90.38 per cent. The collection under 'Interest' was again poor. The Darbar observe that the working of the Central Bank leaves room for improvement and hope that it will show better progress hereafter now that it has taken up the consolidation and rectification of rural societies.

Agricultural Societies. At the beginning of the fasli there were 99 Agricultural societies. During the fasli the registration of three Societies was cancelled; thus the total was 96 at the end of the fasli. The total number of members was 6,881 at the end of the fasli against 6,755 at the end of fasli 1346. The share capital rose from Rs. 56,840 to Rs. 57,051. The Reserve fund increased from Rs. 1,28,681 to Rs. 1,32,836. The net profit of all the societies was Rs. 7,923 against Rs. 8,577 in the previous fasli. A sum of Rs. 3,29,337 was due to the societies, out of which they realised Rs. 97,613, leaving a balance of Rs. 2,31,724 or 70·36 per cent. The collection under interest was slightly better than in the previous fasli. There is still room for improvement in the realisation of dues.

Non-agricultural Credit Societies. The total number of societies under this head was 6. They worked satisfactorily. The number of members increased from 3,876 to 4,663 and the share capital from Rs. 33,751 to Rs. 35,468. Members' deposits fell from Rs. 4,28,653 to Rs. 2,78,500. Non-members' deposits rose from Rs. 8,55,705 to Rs. 9,48,783. The percentage of balance to demand decreased slightly from 41.54 to 41.06. The Darbar hope that these societies will show better progress in collection of dues hereafter.

The Town Bank Ltd., is the largest of these societies. The net profit of the Bank for the fasli was Rs. 22,168 against Rs. 15,560 in the previous fasli. The management of the Bank are to be congratulated on another year of useful and successful work. The Darbar hope that effective steps will be taken to reduce 'overdues.'

The other societies falling under this category are the Brahadambal Co-operative Society, the Non-Gazetted Officers' Association Co-operative Society and the Town Teachers' Society. They continued to work satisfactorily. The Police Officers' Society confined its work to the collection of outstandings. The Cheri Co-operative Society was registered in the fasli. The Co-operative Medical Union advanced loans to its members in addition to buying and selling medicines.

Weavers' Societies. The Karambakkudi Panchama Weavers' Union and the Tiruvappur Weavers' Union come under this category. The former continued to be dormant while the latter worked satisfactorily and earned a net profit of Rs. 262. The Government continue to meet the pay of the clerk of the Sales Depot. They are glad to note the substantial improvement in the sales in the Depot.

Stores Societies. The three Societies under this head are those at Ambalpuram, Alangudi and Viralimalai as in the previous fasli. The first two societies worked at a profit. The Viralimalai Stores Society again incurred a loss.

The Co-operative Press. The Society worked satisfactorily and earned a net profit of Rs. 2,000 against Rs. 1,400 in the previous fasli.

Societies for supply of books and Stationery to students. The Teachers' Benevolent Co-operative Credit Society, Ltd., earned a profit of Rs. 622 against Rs. 1,194 in the previous fasli and the College Society earned a net profit of Rs. 604 against Rs. 498 in the previous fasli. On the whole the working of these societies was satisfactory.

Supervising Unions. The four local Supervising Unions continued to be dormant. After the close of the fasli under review, the registration of these Unions was cancelled and the supervision work permanently transferred to the Central Bank.

The State Co-operative Institute. This institution did no work worth mentioning in the fasli. The question of abolishing it and transferring its work to the Central Bank is under consideration.

Buildings Societies. Of the two Societies under this head, No. 149, the Pudukottai Co-operative Building Society, Ltd., was liquidated in the fasli while No. 150, Government Servants' Co-operative Building Society Ltd., worked well and earned a net profit of Rs. 579 against Rs. 348 in the previous fasli. Up to the end of the fasli it had issued 92 loans amounting to Rs. 41,580 including Rs. 12,850 lent in the fasli.

General. It is regrettable that non-credit societies have not made better progress and that non-official interest in the Co-operative movement appears to be waning. The Co-operative movement is one of the channels into which members of the Legislative Council and other persons of influence might divert their spare energies to the practical benefit of their fellow citizens. With a few creditable exceptions they do not appear to have done so.

CO-OPERATIVE CONFERENCES AND MEETINGS

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

JUBBULPORE, 8TH AND 9TH APRIL 1939.

A joint session of the Standing Committees of the Indian Provincial Co-operative Banks' Association and the All-India Co-operative Institutes' Association was held at Jubbulpore on Saturday the 8th April, 1939, at 11-30 A.M., under the presidency of the Hon'ble Mr. V. Ramadas Pantulu, President of both the Associations. The session was attended by members from many of the Provinces and some of the Indian States. Mr. C. C. Desai, I.C.S., Director of Industries and Registrar of Co-operative Societies, C.P. & Berar, Rao Saheb N. R. Chandorkar, Senior Deputy Registrar of Co-operative Societies, C.P. & Berar, Mr. Wazir Ferozchand, Registrar of Co-operative Societies, Jammu and Kashmir, Mr. D. P. Avadhut, Registrar of Co-operative Societies, Indore, Mr. Md. Asghar Ansari, Registrar of Co-operative Societies, Bhopal, Mr. R. N. Roy, Deputy Registrar of Co-operative Societies, Bengal, and the local co-operators of Jubbulpore as well as of the Central Provinces and Berar were also present.

The Registrar of Co-operative Societies, C.P. & Berar, in opening the proceedings, delivered the message from the Hon'ble Pandit Dwarka Prasad Misra, Minister in charge of Co-operation, C.P. & Berar and welcomed the delegates. He said:—

I consider it a privilege to be in the happy position of welcoming so many distinguished and veteran co-operators who have assembled here this morning from all over the country and to convey to the conference the cordial message of welcome which the Hon'ble Mr. Dwarka Prasad Misra, Minister in charge of Co-operation in C.P. and Berar, has been pleased to send. I shall first read out his message.

MESSAGE

"I am very grateful to you for your kind invitation to attend the joint meeting of the Standing Committees of the All-India Co-operative Institutes' Association and the Indian Provincial Co-operative Banks' Association and to deliver the inaugural address. I would have most willingly and gladly accepted the request, were it not for the fact that I have already a previous pressing engagement which requires my presence elsewhere. I would have particularly liked to attend the conference, as it is being held in my own town, but I regret very much that it is not possible for me at this stage to change my programme. I, however, offer you all a very cordial welcome to the second city of the Province and the capital of Mahakoshal, rich alike in historical traditions and worthy memories."

"As you are all aware, the co-operative movement in this Province, and if I may say so in the country, is passing through a crisis. Although co-operation has not everywhere yielded the results expected of it by its authors and votaries, nevertheless, if conducted on the right lines, it is probably the only effective agency for the betterment of rural economy in an essentially agricultural country like ours.

I have no doubt that the problem with which the movement is confronted will receive your closest attention, and your deliberations will prove of great value to the co-operators of this and other provinces in solving those problems. I shall await the results of your deliberations with great interest."

"Gentlemen, I do not desire to detain you. I wish your Conference every success and I hope that you will carry away pleasant and enjoyable memories of this Province and this town."

Continuing, the Registrar of Co-operative Societies, C.P. & Berar, said:—

Gentlemen, before I resume my seat I may be permitted to say a few words on the situation facing the co-operative movement to-day. You are meeting at a time which coincides with the most critical period in the history of co-operation in this province, and if I may say so, in the country. Co-operation may have fallen short, perhaps considerably short of our expectations; yet it is agreed on all hands that there is nothing to replace it, especially in a vast, poverty stricken, agricultural country like ours. The more apparent the failure becomes, the deeper is our faith in co-operation as the solvent of economic ills and the more grim will our fight have to be to reach the desired goal. Problems which have baffled the best brains in the country have come to the forefront and are urgently crying for a solution which, while not affecting the fabric of society as represented by State finances, will rehabilitate this great movement, founded as it is, on the high and noble principle of 'All for each and each for all.' Some of the fundamental problems are common to all provinces. I will not take much of your time in enumerating all these matters of moment to the co-operative movement, but would, taking advantage of this occasion, like to bring the most important ones to your notice in the hope that you will deliberate on them and throw some light for the guidance of workers and governments alike.

Many banks, especially in Berar, a land which at one time, not long ago, was famous for the free flow of milk and honey, have, in the course of coercive proceedings, been compelled to acquire lands, the management and disposal of which is a problem, on the solution of which depends mainly the future well-being of the co-operative structure in that part of the province. Should lands be acquired; how should they be managed so as to be remunerative and how should the lands be disposed off in the face of dwindling prices and declining competition? Then, how should financial accommodation be provided to banks in need of it? To what extent is this the function of the Provincial Bank and of the State, i.e. the general taxpayer? How are the recoveries to be improved and the mass of heavy frozen overdues to be liquified? Whether and how should debts of members of societies be conciliated so as to be well within their paying capacity and how and between whom should the deficit in the assets arising from this debt conciliation be distributed and provided for? Whether and to what extent and with what effect should depositors and other creditors of the movement be called upon to contribute their share to the sacrifice so necessary to put the house of co-operation into order? How should the new societies be organised and what steps should be taken for the proper training and education of the members, lack of which is the basic cause of the failure of the movement? Gentlemen, these are all questions of vital importance to the co-operative movement to-day. I have no doubt that these and many others will duly come under your searchlight and review. Your deliberations and decisions will serve as a great guide to us in the solution of our difficulties, and I have no doubt that they will be awaited with equal interest and expectancy by others similarly situated as myself.

Another big problem before us is to co-ordinate co-operation with other nation-building activities so as to evolve a comprehensive plan of rural uplift. Ours is a land of villages and the problem of the village is the problem of the country, a point which is apt to be lost sight of in our present overweighted urban economy and influence.

Sir, one word more and I shall have done. Once more, as Registrar of Co-operative Societies in this province, I welcome you to this province and hope and pray that your deliberations will proceed on practical lines and may show us the way, which we all so ardently desire, to rehabilitate this great movement in the province and link it up with the scheme of rural reconstruction so as to secure a richer and fuller life to our fellow villagers. Before concluding I must ask for your indulgence not to judge the arrangements made here for the boarding and lodging of the delegates too harshly. I would particularly mention the name of Mr. Dwarkaprasad Bhargava, who has spared no pains to make complete arrangements and to see to the comforts of one and all who have come here for this conference. I thank you, Sir, for giving me an opportunity to say a few words at the commencement of the conference.

The President, Hon. Mr. V. Ramadas Pantulu, then spoke as follows:—As you are all aware this is not a formal gathering of co-operators but a joint meeting of the Standing Committees of the Indian Provincial Banks' Association and the All-India Co-operative Institutes' Association. At this joint meeting both these Associations have met together to transact some fixed business. You will therefore pardon me for not being prepared for a formal address. Besides my health at present is not such as to enable me to deliver any address at length.

I have no doubt you will all agree that it is our primary duty as co-operators to convey our grateful thanks to the various Provincial Governments for the interest they are taking in rehabilitating the co-operative movement in their respective provinces; not only in Congress provinces but also in other provinces Provincial Governments are taking active interest in the co-operative movement. As the Registrar of C.P. & Berar has just now said, one of our problems is to co-ordinate co-operation with other nation-building activities. Therefore, we can judge the work of Provincial Governments in relation to co-operation along with their other activities of a nation-building character, but unfortunately, to my knowledge, no Government has fully realised the potentialities of the movement in the economic uplift of the masses. There is no economic plan or scheme in which co-operation has been given an integral place. What I mean is that no Provincial Government has yet drawn up a scheme to use co-operation as a means for the rehabilitation of the masses. Co-operation is mainly looked upon as an isolated movement. The fault, perhaps, I think, is not of the Governments. Co-operators in the provinces should take active interest in placing before their Governments programmes and see that the movement is utilised for nation-building in each province.

There is a great deal of co-operative *literacy* in both the Provincial and Central Governments. You are perhaps aware that amongst the laws enacted by the Central Leegislature recently the Insurance Act, the Motor Vehicles Act and the Indian Income-tax (Amendment) Act are some of the most important Acts which have been passed, and each of these very vitally touches the interest of the co-operative movement in India. I have said something in the current issue of the *Indian Co-operative Review** about the Motor Vehicles Act and the Insurance Act and propose to say something about the Income-tax Act in the next issue.† The

*October-December, 1938. †January-March, 1939.

Co-operative Societies under the Indian Income-tax Act are not classified under any particular head of assessees. Therefore the curious result is that co-operative banks not belonging to any classification are classified as "Associations of Individuals" for purpose of income-tax and super-tax. The Madras Provincial Bank in 2 years had to pay Rs. 60,000 more than what it would have paid had it been classified in the same group as a commercial bank and not as an "Association of Individuals." When I brought forward this matter before the Council of State, the Finance Member said that he did not know anything about it and nobody drew his attention to the fact that co-operative banks are paying more income and super-tax than joint-stock banks. The Government of India have since promised definitely to bring forward before the legislature the question of further amending the Income-tax Act, so that co-operative banks may not have to pay more tax than they would have to if they were joint-stock banks. There is a general impression that co-operative banks are escaping incometax and supertax and are enjoying complete exemption from both. This is, as you all know, an erroneous view. Profits of co-operative banks from purely co-operative business are alone exempted from incometax. But all co-operative banks have to pay tax on the income from interest on Government and Trustee Securitics and various other sources of income, which are not considered to be the legitimate business of co-operative banks, in accordance with the whims of income-tax authorities. So we have got to take a little more interest in both the Provincial and Central Legislatures and there is hardly any legislation which does not affect us whether it be passed by the Central or Provincial Legislature. We should take a greater interest in the shaping of the opinion of the Provincial and Central Legislatures regarding the co-operative movement. In the matter of Incometax Act the Indian Provincial Banks' Association has submitted a Memorandum to the Government and agreed to furnish any other information which may be required.

With regard to the numerous problems which are confronting us to-day I do not think I posses the necessary energy to deal with them. However, one of the difficult problems which is confronting us is the question of overdues and its reaction on the future of the movement. Both in Bihar and Bengal the problem is very acute. In Bihar the movement has come to a stand-still. I should say it has practically collapsed. Central banks and societies are not functioning and the Provincial Bank also is not functioning. The Provincial Government of Bihar is faced with a task which no other Government is faced with till now. Recently I had been to Bihar and I had the opportunity of studying the report of the Rehabilitation Committee submitted to the Bihar Government, and its recommendations are pending consideration. Bihar is taking unduly long time for the consideration of the report. I trust and hope that when matters are bad Provincial Governments will not take unduly long time to investigate into the reports and take action. If matters are held up for 3 to 4 months more, the Government of Bihar may not be able to do anything in the matter of rehabilitating the movement there. The Government of Bihar, as matters at present stand, will not only have to lend some money to co-operative organisations to provide future finance to members but they will also have to part with a large amount in the shape of a grant by bearing a portion of the loss incurred by the co-operative banks. This is the conclusion I have come to after mature consideration of the problems confronting the co-operative movement in Bihar. I earnestly hope the Government of Bihar will do something quickly if they intend to rehabilitate the movement.

So far as Bengal is concerned, things are not so bad. Arrears have accumulated to a large extent and collections from Central Banks are very meagre somuch so that deposits cannot be repaid on maturity. So the Government of Bengal I am glad to say have come forward with an announcement that the Government will do what they can to rehabilitate the movement. The scheme in its outline has been that funds will be provided by the Government by the issue of debentures to the extent of the good assets of Central Banks for the redemption of their deposits. The debentures will bear the guarantee of Government with regard to both principal and interest and will be floated by the Provincial Bank in Bengal. If possible it is also intended to scale down the debts of the members of societies and recover them in course of time. People who are able to pay the instalments fixed for the past debts will be advanced fresh finance solely for their seasonal agricultural requirements and not for their social ceremonies etc. Whatever amount is found to be irrecoverable after enquiry will have to be met by the central banks concerned out of their own resources or the resources of their creditors. No general rule, however, in this matter can be laid down. The case of each individual bank should be examined separately. The assets and liabilities of each bank will have to be examined. Only in case some portion can be recovered, the Government can advance a loan to the extent of the portion recoverable. I cannot advise any Government to give subsidy of an amount equal to the amount which the co-operative banks are about to lose. But the case of Bihar is different. In Bihar we have found that several lacs of rupees are lost by the Central Banks and unless a subsidy is given by the Government, the movement cannot be revived. I would earnestly request the Bihar Government and the Bengal Government not to delay matters unduly but to hasten with their schemes

The Registrar (of C. P. and Berar) in his speech has touched one more question pertaining to lands held by Central Banks in Berar. In the first place it is a most unnatural phenomenon. It is not the object of co-operative banks and societies to deprive their members of their lands or to purchase such lands for sale subsequently to outsiders. I think the only possible solution of the Berar question is to find some long term money either by the issue of debentures by the Provincial Bank or some other agency with Government guarantee and to let the lands to the original members or some other cultivators on hire purchase system as is adopted in Burma. If neither of these two courses were feasible, it would be advisable to dispose of these lands as quickly as possible and after recovering the dues, to refund the excess, if any, to the members. The Central Banks should return the surplus to the members whose lands have been purchased by them. If there is any scheme for the consolidation of holdings, these lands can be made into colonies where joint cultivation may be tried in large areas. The settlers will raise funds with the backing of their credit as security and will gradually acquire the lands on hire purchase system. The solution of the problem lies, as far as I can see, in either selling off the lands or leasing them or giving them on hire purchase system and in course of time liquidate the obligations.

With regard to the future development of the co-operative movement we are receiving advice from various quarters. The Reserve Bank, through its Bulletins, has been telling us that credit societies alone will not solve the problem. Therefore, there ought to be multi-purpose societies. No body doubts the fact that credit alone will not serve all the economic needs of a cultivator and the village in India requires some machinery to deal with all the aspects of its life. The bye-laws of all primary agricultural societies do provide for several of the functions proposed for the multi-purpose societies. Under the existing bye-laws even the existing societies can provide implements, seeds and manures and organise schemes for the joint sale of the produce of their members. There are many other things which can be done by the existing co-operative societies without changing their bye-laws or without the organisation of multi-purpose societies.

Before I conclude I would touch only one more point. A tendency is noticeable at present in the Provinces and States to provide stricter control over the workers and the movement by several stringent provisions in their new Acts. I am pained to notice this tendency, as the co-operative movement is and must remain a people's movement. The autonomous character of the movement ought not to be destroyed and the present attempt to officialise it is inconsistent with the declared intention of the founders of the movement and is not in the interest of either the movement or the Government.

Before we proceed with the agenda before us, I should like to hear from the representatives present at this meeting the state of the movement in their provinces and the difficulties they are experiencing at present.

Mr. W. Zaman. You are aware that the movement in Bengal has seriously been affected by the economic depression and just at present there has been a deadlock so far as circulation of money in the movement is concerned, and a certain degree of public anxiety has been expressed about the stability of the central banks and about the future of the agricultural seasonal finance. You have already before you the assurance that the Government of Bengal has given to the co-operative movement and this assurance has allayed public anxiety to a great extent. The assurance has also enabled the central banks, backed by financial assistance from the Provincial Bank, to organise societies for the purpose of giving short term loans only and you will be pleased to hear that since the beginning of this month and before the date I left for this place, applications for seasonal loans for over Rs. 3 lakhs have been received and are being considered by the respective central banks. It is expected that the bulk of the loans applied for will be advanced. In organising societies for short term loan purposes only, the mistakes that have been made in the past are being carefully avoided. Loans are given and will be given entirely for *bona fide* crop purposes.

The co-operators of Bengal are also not idle about making arrangement for long term loans. So far there have been only 5 Land Mortgage Banks to cater for long-term needs but the Government has at last agreed to extend the Land Mortgage Banks in the province. It is expected that in a very short time a number of Land Mortgage Banks will be established and that these banks will take over the conciliated debts of the members as far as possible. Instalments will be fixed according to the repaying capacity of each member to facilitate the working of Land Mortgage Banks. All these banks will be vested with special powers of a Debt Settlement Board under the Bengal Agricultural Debtors' Act. The advantage of giving these banks the special powers of a Debt Settlement Board are obvious and need not be dilated upon.

Bengal is also fully aware that the movement should not confine its activities only to the credit side of it and therefore a scheme for marketing the produce of the members has also been inaugurated on limited liability basis, in some districts, and I can tell you that some of these societies though organised only recently have already established themselves and have proved beneficial to the agriculturists. Apart from establishing marketing societies for paddy only which is the main staple crop of the province, arrangements are also being made for marketing jute in the jute-growing districts. Marketing of jute will also be done on lines similar to those of the Paddy Sale Societies. The Paddy Sale Societies have succeeded in paying their members 4 to 6 annas per maund in excess of what they used to pay before.

Recently also Bengal has organised societies amongst fishermen for deep sea fishing and one society in the Chittagong district, which is close to the Bay of Bengal, has been working with marked success. It will be pleasing to hear that this society was started with a loan of Rs. 50,000 from the Provincial Bank and it has succeeded in paying back the bulk of the loan. The society will be in a position to pay back the entire loan in a very short time. This society has demonstrated conclusively that a co-operative society, if properly organised, can give better return to its members.

In Bengal, a scheme for rural reconstruction on co-operative basis has also been launched. The activities of societies under this scheme will fall into 3 broad divisions: (1) Economic, (2) Sanitary and (3) Educational. A feature of these societies is that the programme outlined by them will have to be worked out by means of self-help, determination and thrift, and for this reason the expenditure of the societies will be minimised, having regard to what the cultivators can spare without difficulty out of their small savings. Each member of the rural reconstruction societies will contribute during harvest time crops to the value of at least Re. 1 towards the share capital of the society and in this manner not less than Rs. 50 will be realised from each society towards share capital. Again, there will be arrangement in the societies for the daily collection of the 'Musthi Viksha' and in this manner 4 seers of rice will be collected every month from each member, so that 50 members will contribute 5 maunds i.e. Rs. 20 as subscription every month. In addition to this, advantages will be taken of social and religious functions and festive occasions in order to persuade members to make further contribution at a fixed rate towards the working capital as far as possible.

You will be glad to hear that 474 societies on the lines outlined above have been organised with a membership of 14,577, share capital of Rs. 3,577 and donations and subscription amounting to a little over Rs. 9,000. The rural reconstruction societies have started 1575 night schools and you will be gratified to hear that as many as 3224 members are actually reading in these schools.

In spite of all that has been done by the Co-operative Department without any assistance from Government, you will be surprised to hear that Government has recently started a Rural Reconstruction Department, without even consulting the co-operators who are first in the field in this line. You will agree with me that Government should have joined hands with the Co-operative Movement and furthered the rural reconstruction work instead of starting a fresh branch which is merely a copy of what the Co-operative Department is doing. Let us hope that Government will agree to abolish this department and do the rural reconstruction work through and with the help of the Co-operative Department.

Mr. S. K. Chatterjee (Bengal). I shall explain the action taken by the Government and the co-operators in Bengal for rehabilitating the movement. Most of the members of societies are not able to repay their present loan but want further money for crop requirements. There is a very large amount of overdues, a major portion of which have been found to be good assets but not realisable immediately. Then there are bad debts. Bengal proposes to save good assets by floating debentures with the Government guarantee of principal and interest. Depositors will either get these debentures in lieu of their deposits or the debentures will be sold in the market and the money utilised for payment of the deposits. The debentures will be floated by the Provincial Bank and guaranteed by the Government. These will be redeemable after 30 years with interest and principal guaranteed by the State and will therefore be successfully issued at a low rate of interest. So far as old depositors are concerned, they were thinking that they would not get anything out of their deposits, but now the position has changed after the announcement made by the Government. There is a balance of Rs. 68 lakhs of bad debts which is not covered by the owned assets of co-operative banks. I do not know on whom this burden will fall. In the last meeting of our Association in Calcutta in which the Premier of Bengal was present, we approached him for assistance. The principle has been accepted by the Government. If therefore the Government give us a subvention, so much the better for the depositors.

As regards the normal credit requirements of members we propose to advance fresh loans to persons who are *bonafide* cultivators. In giving evidence before the Land Revenue Commissioner who was collecting information, I said that in 86,000 villages of Bengal, 86,000 societies should be started to bring all cultivators within the movement. Societies with limited liability should be started in various parts, so that both the solvent and insolvent members may be able to avail themselves of the benefits of a society. We propose to give crop loans through central banks and societies to members, when funds are made available through the Provincial Bank as proposed by the Government.

Five Land Mortgage Banks have also been started in Bengal. Government have taken up this only as an experimental measure. This is the only agency in Bengal for wiping out old debts and giving long term loans.

As regards recoveries, in the new Co-operative Societies' Act, provision has been made for speedy and effective recovery by certificate procedure. The effect of the Bengal Agricultural Debtors' Act on the Co-operative Movement is sought to be met by our Minister agreeing to create special Debt Settlement Boards for debtors of co-operative societies on which the Central Bank and the Department will have adequate representation to safeguard the interests of the movement.

As regards education we have got a Training Institute which at present trains co-operative officers and village supervisors. We have got a complete system of co-operative education for such staff.

Khan Bahadur Malik Noor Mohd. Khan (Punjab). The economic depression is universal and has affected the movement in the Punjab, as it has done in other provinces, although not to the same extent as in some of the very bad provinces. I therefore do not propose to speak on this matter at length. I shall, however, mention two striking things in the Punjab at present that require to be brought to the notice of this meeting.

The first point is that in regard to income-tax the local authorities do not make any allowance to the Provincial Bank for the depreciation in the value of securities while any appreciation in their value is charged to the tax. Besides our co-operative banks have to pay income-tax on income derived from investments in Government and Trustee Securities but no allowance is made for the interest we have to pay on the money we have borrowed for investment in Government and Trustee Securities. The position is extremely undesirable and needs to be reviewed at an early date.

The second point is that between the officials and non-officials in the Punjab Co-operative Union there is disagreement. We non-officials are supposed to have the power in the management of the Union but due to constant interference from the officials, non-official workers have been reduced to the position of sub-ordinates in the institution. The officials are trying to usurp all the powers with the consequence that we have to oppose them. There are many other minor difficulties but so far as these are concerned we are able to solve them ourselves. We appreciate the remark of our President that rural uplift in all Provinces and States should be done through the co-operative movement. Personally I think there can be no better agency than co-operative banks to take up the work of rural uplift.

The Hon. Mr. V. Ramadas Pantulu (President). So far as the appreciation in the value of Government Securities is concerned, in Madras we do not pay any tax. We have a separate depreciation fund out of which depreciation in the value of Government Securities is written off. With regard to interest on the amount borrowed for investment in Government and Trustee Securities, the local Income-tax authorities in Madras have made an allowance as they have done in several other provinces also.

Rai Bahadur Brij Nandan Lal, (U. P.). Co-operation may be roughly divided into 3 sections : producers' co-operation, consumers' co-operation and credit co-operation. My province started an experiment in the direction of producers' co-operation in the form of Biswan Co-operative Sugar Factory Producers. Co-operation has not succeed in many parts of the world and it did not succeed in the United Provinces. As regards consumers' co-operation either, our Province has not been doing very well. With regard to credit co-operation, the present difficulties are known to all of you. The idea that has been suggested by the President that an attempt should be made to spread the movement in every village in all Provinces and States cannot be carried out without a large army of co-operative workers. With a view to have a large army and impart them necessary training every province ought to have a co-operative college. We have got training classes which do not touch all the aspects of co-operation. They teach only elementary co-operation which is not enough. Non-official co-operators have to devote their whole life for the good of the movement, but all of them cannot do so without some honorarium. If you approach rich people for endowments, suitable honorarium can be paid to them. A well-founded training college and a large number of workers are necessary. There is need for a central fund in each province for the development of the movement. It should be created out of contributions from the Central Banks, the Government and the rich men in each province, if the movement is to be revived.

Mr. S. P. Andrews Dube (U. P.) Our difficulty in U. P. seems to be that the number of non-official co-operators working in the province is not increasing. Now the question is how to bring new blood in the movement. Our Minister in charge of co-operation is very keen about it. We have not come to any definite decision as yet.

As has been said by our friends from the Punjab, there is some friction in the United Provinces too between the officials and non-officials. Good many officials with whom I have talked say that they must have proper control over the non-officials. They also say that the audit of co-operative societies and other co-operative institutions is not the function of co-operative unions under the guidance and management of non-officials but is the statutory function of the Registrar. Although the Government charges the primary societies for audit, that money goes to the Government coffer. When we pay a large part of the cost of audit why should not audit be non-officialised? The audit done by the officials cannot be said to be satisfactory for many reasons. How are we to get over these difficulties and how can we non-officialise the audit of co-operative societies. When the Deputy Registrar or the Registrar of Co-operative Societies is interested in the good working of societies, the auditors will be interested in concealing the faults.

Hon. Mr. V. Ramadas Pantulu, (President). We have recently devoted a whole issue of the *Indian Co-operative Review* to the question of co-operative audit and much information on the subject can be gathered by a perusal of that issue. When the Deputy Registrar and Registrar of Co-operative Societies are interested in the good working of societies, the auditors will be interested in concealing their defects Therefore, the audit staff should be independent of the Registrar of Co-operative Societies. The Registrar may be the controlling authority but the auditor should not be an officer of the Department.

Sir M. G. Deshpande, (C.P.) I thank the President for allowing members of all the provinces to express their views on the co-operative movement in their Province or State. In the Central Provinces the movement is not bad, but it is not flourishing. In Berar, however, it is worse. So long as the Provincial Bank was helping the movement by advancing loans to Central Banks in Berar, there was no complaint from any bank but now the Provincial Bank refuses to advance loans to Central Banks for the repayment of their deposits. The Central Banks of Berar therefore approached the Government and explained their position and said that the Provincial Bank was not advancing loans to them. So the Provincial Bank, at a meeting of their Managing Committee, framed a resolution that the Government should appoint a Committee to enquire into the financial position of the Central Banks in Berar. Accordingly, the Government has appointed a Committee which has made certain recommendations which are pending with the Government but on which no order has yet been passed. Since the Gole Committee has been set up, the doors of all the Central Banks in Berar have been closed and no business is done. Deposits are not repaid on maturity.

Another difficulty in Berar is about the management of lands purchased by the central banks from the members of the societies. They have got 57,000 acres of land most of which remain uncultivated. The banks are not getting an amount equal even to the land revenue payable on the lands. So, I think this meeting should advise the members how to poceed in this matter. If even the land revenue which the Central Banks have to pay remains unpaid, the Government will sell all the lands by auction for the recovery of their dues. If these very lands are mortgaged in favour of the Provincial Bank, the Provincial Bank may have to pay nearly a lac of rupees as revenue for the lands for one year without getting any return from the investment.

As regards the hire purchase system we have tried to settle the lands of members since 1936. So long as the Gole Committee's report is not out we cannot definitely say ; but a solution for this problem of land is likely to be provided in the recommendations of the Gole Committee. A solution has been suggested on this question by the Committee which is that the lands should be sold by lottery. We are now going to scale down the loans of society members by taking into consideration their repaying capacity. We are following the same scheme as in Bengal and Bihar.

As regards the societies we have decided to advance crop loans to them in C. P. Maximum loans of Rs. 50 or Rs. 100 per member will be advanced. At present some of the members are of opinion that these societies should be affiliated to the Provincial Bank so that they may not be in difficulty. The number of societies in C. P. and Berar is decreasing every year, due to the compulsory liquidation of societies in havey arrears for several years past.

Land Mortgage Banks are doing very nicely. We have no difficulty for the present and we are proceeding very cautiously. We have 19 Land Mortgage Banks with a working capital of about Rs. 7 lacs. I have asked my friends of the Land Mortgage Banks also to proceed very cautiously.

Registrar of Co-operative Societies, C.P. It would be excellent if this conference passes a resolution approving of the proposal for the sale of Berar lands of Co-operative Banks by lottery. If the resolution is supported by various persons drawn from all parts of the country, it will be of great advantage. The very word, 'lottery' creates an impression that it is something peculiar but when all the circumstances of the peculiar case of Berar have been examined, the whole body of co-operators from different parts will say that it is the only way of saving the movement and reviving it.

The Hon. Mr. V. Ramadas Pantulu (President). Disposal of the land by lottery or some other manner does not come under the purview of a gathering of the representatives of the co-operative movement like the present. Arrangements for the lottery are to be made when a sufficiently large number of people purchase the tickets. All these are details which can be locally settled. To me it appears very much going out of our province in going in for the lottery. The man who wins the lottery gets the land and he will not cultivate it himself but try to sell it at any price he can get. Till this is done the land must lie fallow. Besides, before adopting this scheme the Government could have advanced money to the extent of the value of lands and give back the lands to the members to be cultivated on hire-purchase system as in Burma. A lottery of the lands is not a question which can be usefully considered by our meeting. as it is very much outside our province.

Rai Bahadur Brij Nandan Lal, (U.P.). If the co-operative banks in Berar are not able to dispose of their lands, these lands will be sold for arrears of land revenue for nominal amounts, if the large amounts due are not paid punctually. If the Central Banks get money by means of lottery, they will be able to save themselves from ruin. There appears to me to be nothing unco-operative in character in this scheme.

Mr. A. G. Sherlekar, (Indore). We are not able to give expert opinion in this matter of lottery as proposed for the disposal of lands in Berar. I think the original members should be given a chance to purchase these lands back by hire purchase or by some such other means. I do not think there will be any difficulty with regard to the successful introduction of the system of hire purchase as prevalent in Burma. I do not think, as co-operators, we should sell these lands by lottery to outsiders.

Khan Bahadur Malik Noor Mohd. Khan, (Punjab). May I know whether those people are unwilling to pay or have no means to pay ? If we take away their lands and ruin so many families, what is the difference between us and the money-lenders ? They should be given back their lands which they will cultivate, earn something and give something to us by instalments, spread over several years.

Mr. S. G. Deodhar, (Bombay). There may be some difficulty in the fixation of the terms of the lease. In Bombay we had 4,000 acres of lands held in the possession of societies. We had to give them to the members at a low value, less than even the cess payable on the land to the Government ; but when the people knew that we had not the desire to evict them from their lands and were prepared to give them over at any reasonable amount as agreed to, three-fourth of the holdings have been leased out. We are getting 2% on the investments and if conditions improve, in the course of 5 to 10 years, we shall be able to get our principal amount back. I would therefore suggest that we should not mind the temporary loss in leasing out the lands to the old members again.

Mr. W. B. Lakhe, (Berar). May I explain the real position of the agriculturists in Berar? Due to changing conditions of climate; crops have invariably failed all these 8 years. What little the cultivators get is not sufficient even to cover the cost of cultivation. If such a condition continues for 7 or 8 years more you can imagine their plight . They have no means to improve the land. The co-operative movement has no means whereby we can give away money to them because the Banks are dependent on local deposits on which they have to pay interest, and the principal amount has also to be returned back on maturity, unless renewed Central Banks should not incur loss by lending out the money of their depositors and getting no return on it. If this condition continues there is no hope for the Central Banks. There are only 10 per cent of cultivators in Berar who can make both ends meet. The rest do not get even what they spend on the land in cultivation. They are living on debts. They have no heart at present for cultivation. Under the circumstances the peasants whose lands have come to the Central Banks are now mostly labourers. If you arrange that the lands should be given to them on nominal value, how are you to meet your obligations? How are the Central Banks to carry on work? For the last 6 years I have been telling the Provincial Bank that it is not the business of the Provincial Bank to lend money for refund of deposits out of deposits. We can advance money for productive purposes. This has been long lost sight of. If we had taken time by the forelock, the present condition would not have come to pass. We have no reserve fund enough to meet the liabilities. Unless you maintain your own credit, you cannot run the institution on the deposits of the people. The Government must give sufficient subsidy to wipe off all the bad debts and start life anew. If this is not possible, we should consider what action we should take. We can increase the income of the members by providing subsidiary occupation; giving them better seeds etc., but we cannot supply to them money for all their requirements. So in the present circumstances, I request you not to look at the question from the ethical point of view but to see how we are going to meet this pressing difficulty and rehabilitate the movement.

Mr. A. G. Sherlekar (Indore). I think this problem not only relates to Berar but to the whole of the Central Provinces. The evil started from the fact that land was not a paying concern to the cultivators. So long as the societies were in a position to help them they helped, but now they are not in a position to do so. You should explain your position to the Government and they will certainly help you; otherwise people will again be in a very bad position Societies cannot do anything now. They have advanced money to members who are unable to repay. Therefore the only remedy lies in approaching the Government. Peasants must be saved as the movement is for the peasants. We must have some scheme of saving them and should not ruin deserving cultivators. I do not think the Government can shake its head and say that it is not responsible to rehabilitate the movement. In any way on a rational basis, or business-like basis, you will have to give time and extend the instalments of the existing loans for some time. The best course is to investigate into the position of each member and to find out what can be done to save him. No Government should shirk this responsibility.

Rai Saheb Udai Singh Bisen, (C.P.) My position as Governor of the C. P. and Berar Co-operative Federation compels me to be reticent. I should not like to enter into the merits of the report of the Gole Committee because the report is not yet out. I may say that Government had appointed this Committee some time back and most of the members in the Committee belong to Berar and other co-operators know nothing about it. Perhaps the non-official opinion of the province would like to express itself on the Gole Committee's report when it is published. There might be discussion on the report in the Provincial Legislative Assembly also. I believe the Directors of the Provincial Bank would also like to discuss the Gole Committee's report. The Federation also might say something in this matter. This is a Provincial question. I would say that the lottery system should not be a part of the co-operative system and this august body of All-India co-operators should not pass any resolution on this matter at the present stage.

Mr. Apte, (Indore). From the instance stated before, it is not clear whether cultivators cannot make lands profitable in Berar. Under the present circumstances it is not possible to realise the money invested in societies, and the co-operative banks will have therefore to cut down their debts. The issue of lottery will add misery to others. Investments will in any case have to be cut down so that they may be realised within a few years. The present debts will have to be divided into recoverable and irrecoverable. The recoveries out of realisable debts will have to be made by instalments and this will be a possible way of recovering the money.

The Hon'ble Mr. V. Ramadas Pantulu, (President). We had sufficient discussion on this subject. The whole position seems to be very difficult. The total extent of the lands involved in Berar appears to be 60,000 acres, and how many members are involved we do not know. In Madras it would not be less than 10,000 members or 50,000 persons if the families of the members are included. No genuine attempt has been made to find out who can be helped and who cannot. Central Banks are apparently in a bad condition in Berar. Non-official co-operators in Berar appear to be more anxious to get money to pay the depositors. On my part I do not think Government will pass any resolution on the Gole Committee's report without consulting the Registrar of Co-operative Societies. I do not think before August or September, when we except to meet again, the Government of C. P. will carry through any legislation. If the Registrar favours the scheme the Government is likely to implement it, but if the Congress Party is against it, it will not be passed. We shall therefore await the result of the discussion in the legislature of this proposal of disposing of all lands in Berar by lottery.

Registar of Co-operative Societies, Kashmir. The movement in Kashmir is not so bad. I think it is going on fairly well. Zamindars take full advantage of the co-operative movement there. We have also to face trouble about recoveries but not so severely as here.

Registrar of Co-operative Societies, Bhopal. In Bhopal the Co-operative Movement is mainly restricted to credit operations. There the problem of overdues is as serious as anywhere else. However, the societies are scaling down the debts of the members and the remaining dues are proposed to be recovered in easy instalments. The frozen assets of the societies thus liquidated will again be advanced to members for meeting their day to day requirements and thus it is hoped the movement, which during these days of economic depression is faced with serious difficulties, will slowly regain strength and stability. The credit societies are a stepping stone to other activities; and if properly guided and controlled, they by themselves can do a lot to rehabilitate the condition of the masses.

The Hon'ble Mr. V. Ramadas Pantulu, (President). As it is already late and we require to adjourn for tea, it will be better if I am permitted by the members to draft resolutions on the agenda submitted to us by the Secretaries of the two Associations for your consideration at to-morrow's session.

The proposal of the President was agreed to; and the meeting adjourned and met again on the 9th April 1939 at 11 a.m.

The Hon'ble Mr. V. Ramadas Pantulu, (President). As desired by you I have drafted some resolutions for your consideration to-day. We shall, without further discussion, proceed with the consideration of the resolutions to-day. One of the Secretaries will read out each resolution and formally place it before the meeting and then the members will have full discussion on each resolution so placed. In drafting these resolutions I have taken into consideration the little time at our disposal and have chosen only those subjects which I believe are of immediate importance. There are many subjects suggested by the two Associations, all of which have been circulated previously. I have, however, not been able to include all of them, not because they were not important enough but because we have very little time at our disposal. I have therefore drafted resolutions only on those subjects which were of immediate importance. Now I call upon Mr. Thakore, Secretary of the Indian Provincial Banks' Association, to read out the resolutions one by one.

Draft Resolution No. 1 (a).—This meeting of the Standing Committees after acquainting itself fully with the propsals now pending before the Provincial Governments of Bihar and Bengal for rehabilitating the co-operative movement in those provinces and the announcement made on behalf of the Governments of their intention to stand by the movement and give it the necessary financial and other help, desires to express its sense of satisfaction at the action so far taken and requests them to give effect to the rehabilitation schemes without any further delay.

1(b).—This meeting requests the Governments of other Provinces and States also to take necessary steps without delay to rehabilitate the movement.

The President said that he had received another draft resolution from the Registrar of Co-operative Societies, Central Provinces and Berar, thanking the Bengal Ministry for the announcement they have already made. I therefore suggest the resolution be amended as follows:—

Resolution No. 1(a).—This Committee has read with interest the announcement made by the Bengal Minister for Co-operation on the 15th March, 1939, in the Bengal Legislative Assembly and particularly welcomes the assurance and commends it to other Governments that "the Government fully intended to support the co-operative movement in this province and will not allow it to fall into any serious danger."

(b) This meeting of the Standing Committee after acquainting itself fully with the proposals now pending before the Provincial Governments of Bihar and Bengal for rehabilitating the co-operative movement in those provinces and the announcement made on behalf of the Governments of their intention to stand by the movement and give it the necessary financial and other help, desires to express its sense of satisfaction at the action so far taken and requests the Governments of Bihar and Bengal to give effect to the rehabilitation scheme without any further delay.

(c) "This meeting requests the Governments of other Provinces and States also to take necessary steps without delay to rehabilitate the movement."

The resolution as amended by the President was passed unanimously.

Draft Resolution No. 2.—This meeting after studying the way in which rural development schemes are being worked in several provinces and States finds that instead of using the co-operative department largely in the pursuit of the schemes, even co-operative organisations are being handed over to other departments and that there is not the necessary co-ordination between the various rural development departments.

This meeting therefore requests the Provincial Governments to take all possible steps to co-ordinate the activities of the various nation-building departments and where local conditions permit to place the Registrar of Co-operative Societies in charge of rural development work also. In places where it is not possible the meeting considers that the appointment of a Rural Development Commissioner to co-ordinate the activities of the several departments or other measures equally effective should be taken.

Sir M. G. Deshpande. With several separate departments for rural reconstruction, expenditure has been increasing rapidly. In order to have retrenchment in expenditure in Bombay at least a similar scheme has been suggested. In the Central Cotton Committee it has been suggested that the Director of Agriculture should be in charge of the agricultural development but in this resolution we say that the Registrar of Co-operative Societies should be in charge of rural development. Similarly all departmental conferences when they assemble put forth similar propositions. If the irrigation department were to meet in a conference, they will come forward and say that all rural departments should be placed under the irrigation officer. I therefore suggest that there should be a Development Board with non-official members and a Development Commissioner as the Secretary of the Board. That will, I think, fulfil the object we have in view when we suggest the co-ordination of all the rural departments into one. For rural development there are two organisations at present the Union Board and the Co-operative Society. In C. P. we have got certain Unions in villages, districts and sub-divisions which do rural development work. I think rural development should be done by similar unions. The Union Board has got separate fund and has power to tax the people and with the assistance they thus get will be able to do other useful development work in the villages. Co-operative banks or rural co-operative societies, without any funds whatsoever or any power to tax the people, cannot hope to achieve much in the development of rural areas. Societies have no power to tax and unless co-operators voluntarily contribute they have no other means of income for doing development work. I therefore suggest a resolution as follows in place of the one just now read out:—

This meeting considers that there should be a rural development department in each province with a rural development commissioner. The department should be assisted and advised by the Rural Development Board consisting of the Ministers in charge of the various departments concerned in rural development and non-officials having experience of and interest in rural welfare work in its various aspects, with the Chief Minister as Chairman and the Development Commissioner as Secretary.

Mr. S. P. Andrews Dube. The Congress Government in the United Provinces is very keen on its rural development programme. The programme has been initiated, and the Minister in charge is very keen on its success. It is, however, a temporary programme and the rural reconstruction is a temporary department but the co-operative bank is a permanent institution. I therefore hold the opinion that the resolution as originally placed before us, which makes the Registrar of Co-operative Societies responsible for all reconstruction work, should be adopted.

Mr. S. K. Chatterjee. I am of opinion and I believe my friends are with me when I say that rural development and co-operative societies should go together. I am therefore in favour of the resolution as moved.

Mr. A. G. Sherlekar. I think the work that lies before the co-operative movement is the work of rural reconstruction as it includes all questions relating to rural development. All subjects relating to the welfare of the village and its inhabitants are allied subjects and co-ordination between them is very necessary. I therefore think that the amendment moved by Sir M. G. Deshpande would be a better solution as it will not be practicable to have one head for all these various departments connected with rural reconstruction. From the administrative point of view also, the amendment suggested by Sir M. G. Deshpande would be more suitable as while co-ordinating the activities of the various allied departments, it would at the same time ensure their being placed in efficient and qualified hands.

Mr. S. G. Deodhar. Co-ordination in my view is not required at the top but at the villages. There is so far no co-ordination amongst the people either at the bottom or at the top. It has been found that the Agricultural Propaganda Officer goes to a village, the Union Supervisor as well as the Bank Inspector also go to the village and inspect the technical side and do propaganda work which is overlapping. I am in favour of the technical side being looked after by the heads of the various departments. For instance the Director of Agriculture should be in charge of a reserve section relating to agricultural development but propaganda and rural reconstruction work should be entrusted to field men common to all departments doing rural development work. There should be two officers in each group of villages and they should be entrusted with the work of agriculture propaganda and co-operative education. This co-ordination should therefore in my view begin in the lowest rung of the ladder.

The Hon'ble Mr. Ramadas Pantulu, (President). This is a very difficult question. My knowledge of the working of the various rural development departments is confined to Madras and the way in which things are being conducted in Madras has convinced me of the necessity of co-ordination between the various departments doing the same kind of work. To frame resolutions suitable to all provinces is very difficult, as in some provinces the portfolio of co-operation is in charge of one Minister and agriculture in charge of another. I would also agree that it is difficult to say whether in every province the Registrar of Co-operative Societies or the Director of Agriculture should be in charge of the development department. A general rule for all the provinces is a difficult one. However, I amend the resolution moved as follows and I hope it will suit the requirements of all the provinces.

Resolution No. 2.—This meeting after studying the ways in which rural development schemes are being worked in several provinces and Indian States finds that instead of using the co-operative department largely in the pursuit of the schemes, even co-operative organisations are being handed over to other departments and that there is not the necessary co-ordination between the various rural development departments.

This meeting therefore requests the Provincial Governments not only to make the fullest use of the co-operative movement to promote their village development and rural reconstruction schemes but also to take all possible steps to co-ordinate the activities of the various nation-building departments.

The Provincial Institutes are requested to place before their respective Provincial Governments schemes for such co-ordination.

The resolution as amended was carried unanimously.

Draft Resolution No. 3.—This meeting considers that the position of the co-operative movement under the Income-Tax Act is extremely unsatisfactory and places the co-operative banks in a worse position than the Joint-Stock Banks and adopts the draft memorandum prepared for submission to the Finance Department of the Government of India and authorises the President to present the same and take necessary action to get the law amended.

The Hon'ble Mr. V. Ramadas Pantulu. (President). Under the old Incometax Act, Section 60 empowered the Government of India to give exemption to various people and institutions where thought necessary. The Government of India has given exemption to co-operative societies under this section, but the notification containing this exemption was so badly worded that the Commissioners of Income-tax of various provinces differently interpreted the notification and it ceased to be useful in practice. When the new Incometax Act was under consideration several attempts were made by me to get a clear enunciation of the policy to be followed by the Government in the matter of Incometax to be levied on co-operative societies. I wanted clear exemption being given to societies from tax as in the case of pay and pension of officers who are drawing large amounts in England. Sir James Grigg, the Finance Member, was ready to consider our case favourably and give us some exemption. I propose to place our case clearly before the Government authority shortly and shall try to get as much exemption as we can legitimately claim in the new Act.

The Registrar of Co-operative Societies, Central Provinces, has suggested an amendment to this resolution and desires the Provincial Governments to support the memorial. I think we should adopt the resolution including the amendment as suggested by the Registrar. The resolution will therefore be as follows:—

Resolution No. 3.—This meeting considers that the position of the co-operative movement under the Income-tax Act is extremely unsatisfactory and places the co-operative banks in a worse position than the joint-stock banks.

This meeting adopts the draft memorial prepared for submission to the Finance Department of the Government of India and authorises the President to present the same and take necessary action to get the law amended.

This meeting also urges upon the Provincial Governments to support the memorial and to impress upon the Central Government to revise the Act in the manner therein suggested. A copy of the memorial shall be sent by the President to each Provincial Government in the country.

The resolution as amended was unanimously passed.

Draft Resolution No. 4.—This meeting reiterates the opinion expressed by it on other occasions that the co-operative movement being essentially a people's movement, the attempt to progressively officialise it is inconsistent with the declared intentions of the *Governments* and is not in the best interest of the movement. It therefore requests the Governments of Provinces and Indian States in which revision of the Co-operative Societies Act is under contemplation to preserve the autonomous and popular character of the movement unaffected by new legislation.

The President. As we have discussed the matter at many of our previous meetings, I do not think any explanation of this resolution is necessary.

Sir M. G. Deshpande. I think it will not be proper for this meeting to pass a resolution which may affect all provinces, specially when conditions differ from province to province. I therefore suggest the following addition to this resolution.

Save where tighter control is rendered absolutely necessary either by the dearth of suitable honorary workers or by the assumption by Government of special legislative or financial responsibility to pull the movement out of its present difficulties.

The President. The addition suggested by my friend, Sir M. G. Deshpande, will nullify the resolution. I do not think therefore we can accept the addition. If any Government after undertaking financial responsibility for pulling the movement assumes any extraordinary powers with regard to the management of the movement, I presume this meeting will have no objection to such powers being enjoyed by that Government, but so long as no assistance is given mere interference, when the ultimate responsibility rests with non-official workers, is not desirable. The following resolution (as originally moved) was adopted unanimously.

Resolution No. 4.—This meeting reiterates the opinion expressed by it on other occasions that the co-operative movement being essentially a people's movement, the attempt to increasingly officialise it is inconsistent with the declared intentions of the Government and is not in the best interest of the movement. It therefore requests the Governments of Provinces and Indian States in which revision of the Co-operative Societies Act is under contemplation to preserve the autonomous and popular character of the movement unaffected by new legislation.

Draft Resolution No. 5.—This meeting resolves to affiliate the Indian Provincial Banks' Association to the International Confederation of Agriculture (Co-operative Section), if the affiliation fee does not exceed Rs. 150 per annum.

Mr. A. G. Sherlekar, (Indore). If we want any connection with the co-operative movement outside India in the agricultural sphere, we should be a member of the International Confederation in Europe. When I was recently in Europe, I saw various improvements and developments in both the manner and method of working co-operative institutions and if we wish to have a correct knowledge of the progress of the movement in all parts of the world, we should be a member of the Confederatoin, so that we may obtain all the information we require through the literature we receive from the Confederation and by attending their meetings. I therefore suggest that one of our Associations should be a member of the International Confederation. It would be better for the Indian Provincial Banks' Association to be a member as it can afford the expenditure of paying the fees of the Confederation. When I had gone to Europe last year to attend the meeting of the International Co-operative Congress, I had a discussion on this subject and was assured that the Indian Provincial Banks' Association, if it applied for membership, would be admitted at a lower fee. I therefore think that the Provincial Banks' Association should become a member if the annual fee is fixed at Rs. 150.

The President. It would be better if Mr. Sherlekar who has recently been in touch with the office bearers of the International Confederation writes and obtains the consent of the Confederation to enlist our Association as a member at an annual fee of Rs. 150, before the Association finally applies.

The resolution was therefore dropped on Mr. A. G. Sherlekar undertaking to do as requested by the President.

Draft Resolution No. 6.—This meeting is of opinion that while legislation for the relief of indebtedness and for conciliation of debts has been beneficial to a certain degree, it has also resulted in drastically curtailing credit to the agriculturists and therefore urges upon the Provincial Governments the necessity to follow up such legislation by a rapid expansion of the co-operative movement and take other suitable measures for the creation of agencies to provide necessary rural credit.

The resolution was unanimously passed as resolution No. 5 of the meeting.

Draft Resolution No. 7.—This meeting is of opinion that future credit for the occupational needs of agriculturists should not be cut off by reason only of the general accumulation of overdues in societies and that suitable schemes should be adopted by the Provincial Governments to disentangle past debts from future finance by providing necessary machinery for the discharge of prior debts after being scaled down and for credit being provided for seasonal requirements in future.

As the question related not only to the provinces, but also to the Indian States the proposition was amended as under and adopted unanimously.

Resolution No. 6.—This meeting is of opinion that future credit for the occupational needs of agriculturists should not be cut off by reason only of the general accumulation of overdues in societies and that suitable schemes should be adopted by Provincial Governments and Indian States to disentangle past debts from future finance by providing necessary machinery for the discharge of prior debts after being scaled down and for credit being provided for seasonal requirements in future.

Draft Resolution No. 8.—This meeting is of opinion that where unlimited liability is proving a handicap to the development of the movement, it should be replaced, as far as possible, by limited liability in future organisation and reconstruction of existing societies.

The President. As we are all aware unlimited liability is proving a great handicap to the further development of the rural credit societies. Good members are not joining the societies, because most of the original members were not good pay masters.

Besides in reconstructing societies it is necessary that new members must be admitted in order that not only the management should improve but also the credit of the societies should be reestablished. This is not possible as long as agricultural societies in India are of unlimited liability type. In future, moreover, we wish to have whole village organisations which are not possible as long as unlimited liability continues. I therefore believe that the time has come for discarding unlimited liability and replacing it by limited liability in the primary agricultural societies in India.

Mr. A. G. Sherlekar. I am afraid I do not see eye to eye with the mover of the resolution. I do not think we should change the very fundamental principle on which the co-operative credit movement is based in India. I realise that owing to our bad management and the economic depression we are facing a crisis, but I think if the movement is run on sound lines and credit given also on sound principles of finance, there will be no necessity for discarding unlimited liability. If, however, it is thought that unlimited liability should be discarded and replaced by limited liability, I think it would be advisable to make the experiment in a few centres before it is tried all over the country. As far as possible serious attempts should be made to realise the money due from the persons who owe money.

Mr. S. K. Lahiri. I support the motion. Co-operative societies must include all classes of agriculturists if possible. We must include not only ordinary cultivators but also solvent cultivators in the movement, if it has to thrive and prosper in future. If we get solvent cultivators as members the principle of 'one for all and all for one' will be administerably proved, but before this can be done unlimited liability should be replaced by limited liability as it will attract a better class of cultivators as members.

Dr. P. Gurumurti. I am afraid people have never understood the implications of unlimited liability. As we all know old members who repaid their loans are anxious to leave their societies, and many members who do not owe money in the societies wish to resign their membership thinking that they may have to pay their contribution for the liabilities of the societies. If we want to expand the co-operative movement, if we want that every body should join the co-operative societies, they must necessarily be of limited liability type, as otherwise solvent members will never join the co-operative societies.

Khan Bahadur Malik Noor Mohammad Khan. I do not think time is yet ripe for such a fundamental change in the principle on which co-operative credit is based. I therefore suggest that primary agricultural societies should continue to be of the unlimited liability type as at present. I would earnestly request you not to suggest any fundamental change in the principle of co-operative credit.

The President. There appears to be as strong an opinion in favour of limited liability as against it in the various provinces, as I could gather from the discussion which has taken place to-day. I should personally not have dealt with this question at all but for one reason. Pressure is being brought on the co-operative movement for the spread of its activities so as to include all the residents of a village. In fact the clamour at present is for the increase of multi-purpose societies. I have found considerable difficulty in understanding this clamour specially when the bye-laws of existing societies provide for most of the activities suggested for the multi-purpose societies. I do not personally think it is possible to develop any other activities in a village society, unless it embraces the whole village. If the movement is to be extended by forming whole village societies unlimited liability will not work at all. It would therefore be advisable to replace unlimited liability by limited liability.

Khan Mohd. Bashir Ahmed Khan. This question is no doubt very difficult. According to the Indian Co-operative Societies Act, it is not permissible for an agricultural credit society to be formed on a limited liability basis. According to the provincial Acts which have been enacted, I am told that in the Bihar and Orissa Act, unlimited liability for agricultural societies is provided as in the old Act. In Madras limited liability may be introduced in agricultural societies with the permission of the Registrar. I am not sure about the Bombay Act. This question has come into prominence due to the issue of the bulletins of the Reserve Bank of India regarding the formation of multi-purpose societies. As has been explained we have so far been working on unlimited liability basis in agricultural societies and it would not be advisable to change all of them on limited liability basis.

Some time ago Dr. Kaghawa of Japan was here. He said that in Japan agricultural credit societies were originally working on limited liability basis. But their experience after working for 20 years showed that if they had to make the co-operative movement successful the societies must be on unlimited liability basis. They have therefore discarded their limited liability societies after 20 years of experience of their working and replaced them by unlimited liability societies.

The President. I regret I do not agree with the view expressed by Mr. Bashir Ahmed. I do not think that in Japan by a single Act the limited liability of agricultural societies could be converted into unlimited liability. Besides an article has appeared recently in the *Indian Co-operative Review* explaining the position of co-operative societies in Japan, in which it is mentioned that societies there are working on limited liability basis.

This matter, however, has been sufficiently discussed. There are difficulties in both limited and unlimited liability societies, but I had expected that the meeting would give a lead to the co-operators in all provinces in this matter. If our meeting is not in a position to give any definite lead with regard to the future of agricultural credit, the question of liability may be dropped for the present. Each Province can put its own case before the Provincial Government and pass necessary legislation providing for limited liability in agricultural societies. From the discussions, I am convinced that a resolution of this nature cannot be carried in an All-India Association like ours. I do not think it is advisable to have the resolution carried by a majority. I therefore think it should be dropped. My own opinion is that what we accept and adopt should be with the general consent of all the members present, if we are to give a lead in any important matter to the provinces and States. If a resolution is passed by majority and even if one provnice does not agree, it will not be advisable in my view to adopt it as it will lose all its force.

The proposition was accordingly dropped.

Draft Resolution No. 9.—This meeting is of opinion that steps should be taken to organise societies in convenient groups of villages within a radius of 2 to 3 miles according to local conditions so as to cover the entire province or State with societies and to bring every village in a province or State within the ambit of operation of co-operative societies.

This meeting also considers it necessary that as far as possible all families residing in a village should be represented in the society by at least one member.

The resolution was passed unanimously as Resolution No. 7 of the meeting.

Draft Resolution No. 10.—This meeting is of opinion that in addition to dispensing credit other useful functions like the supply of improved implements, seeds, purchase of necessities on indent system, and organisation of irrigational facilities for the members, supply of cheap electric power and the like should be undertaken by village societies for the economic benefit of the members. The society should also act as an agent for the members for the sale of their produce.

This resolution was passed as Resolution No. 8 of the meeting.

Draft Resolution No. 11.—This meeting considers that the time has come to organise, train and maintain a band of co-operative workers for the better propagation of the ideals of the movement and for its development on sound lines.

Sir M. G. Deshpande. I would request you to add the following to this resolution:—

and calls upon its two Associations to initiate the scheme as soon as possible.

The following resolution (with the amendment of Sir Deshpande) was passed unanimously.

Resolution No. 9.—This meeting considers that the time has come to organise, train and maintain a band of co-operative live workers for the better propagation of the ideals of the movement and for its development on sound lines, and calls upon its two Associations to initiate the scheme as soon as possible.

Draft Resolution No. 12.—This meeting requests the President to visit the Provinces and States in which schemes of rural development and reconstruction of co-operative movement are being undertaken and to collect materials for the use of the Associations.

The resolution was unanimously passed as Resolution No. 10 of the meeting.

The following resolution was then adopted :—

Resolution No. 11(a).—The accounts of the Indian Provincial Banks' Association for the year 1938 are passed and it is resolved that the thanks of the Association be conveyed to Mr. Ram Narayan Gupta, Manager of the Traders' Co-operative Bank, Patna, for auditing the accounts free of charge.

(b) Further resolved that a sum of Rs. 1,000 be contributed for the upkeep of the "Indian Co-operative Review" from the funds of the Indian Provincial Banks' Association, for 1939.

The President. We have now completed the agenda before us. I have now to request the delegates from the United Provinces, whom I have unfortunately missed in the last 2 or 3 meetings, to be so good as to send me the names and addresses of a few more subscribers from the United Provinces to the *Indian Co-operative Review.*

The Annual General Meetings of the Associations should be held sometime in Easter next year at Kashmir as suggested by the Registrar of Co-operative

Societies, Kashmir, and one joint session of the Standing Committees previous to the General Meeting should be held at Madras in October next.

I offer my thanks to the Registrar of Co-operative Societies of Central Provinces, Mr. D. P. Bhargava and the Reception Committee for helping our Associations to hold their meetings here as well as making all necessary arrangements for the meeting and the stay of the delegates.

Regarding the meetings of the two Associations, the following resolution was adopdted :—

Resolution No. 12.—Resolved that the Annual General Meeting of the Indian Provincial Banks' and the All-India Co-operative Institutes' Associations be held next year in Easter holidays, and before the Annual Meeting a joint meeting of the Standing Committees be held at a convenient centre.

Mr. A. G. Sherlekar. Before we close the proceedings I would suggest the following three resolutions for the consideration of the meeting.

(i) The meeting resolves that the Government of India, Provincial and States Governments, be requested to take concerted action in adopting suitable measures immediately regulating prices of commodities (especially wheat and rice) so as to ensure a reasonable margin of profit to the ultimate producer.

(ii) With a view to facilitate exchange of views and adoption of suitable measures thereon, this meeting requests the Provincial Co-operative Unions and Banks to supply notes on the measures or schemes so far contemplated or adopted to rehabilitate co-operative credit organisations and reconstruction of crop agricultural co-operative societies with special reference to (i) advancing of fresh short term loans, (ii) organising of sale of produce and supply of farming and domestic requirements, ensuring thrift, (iii) insurance, (iv) any state aid, monetary or otherwise, contemplated or offered for the above mentioned measures.

(iii) The Provincial Banks and Institutes are further requested to send in their suggestions for prevention of interference from co-operative officials and for progressive democratisation of the movement with a view to ensure complete autonomy of the movement in the coming fifteen years.

The resolutions are clear and need no comment from me.

The President. All these resolutions, I think, should be circulated to the members for their sympathetic consideration. I think Mr. Sherlekar will have no objection to the resolutions being circulated amongst the members for their information.

Khan Mohd. Bashir Ahmed Khan. I believe my duty has already been discharged by our President. I take this opportunity once more, on behalf of you all, to thank the Hon'ble Minister in charge of Co-operation of the Central Provinces and Berar for sending us a very valuable message which has been a source of inspiration to all of us. It is very kind of the co-operators of this place to arrange for this meeting. We are particularly thankful to Mr. Bhargava for attending to all our convenience and making good arrangements and for showing us all the places which are worth seeing in Jubbulpore. We also take this opportunity to thank the Registrar of Co-operative Societies, C. P. and Berar and his staff who have very kindly co-operated with us and helped us in our deliberations. We are also thankful to the Registrars of Kashmir, Bhopal and Indore and the Deputy Registrar of

Bengal who have taken the trouble of attending this meeting at great inconvenience and from such a long distance. We fully appreciate this co-operation and wish that officials and non-officials work hand in hand for the advancement of the movement. We thank also the co-operators and volunteers of this place for the courtesy shown to us.

Mr. A. G. Sherlekar. I must, on behalf of the members of the Standing Committees, convey to the President our thanks for the excellent way in which he has guided our deliberations. We are passing through very difficult times. Subjects that have come before us are also very controversial and the President has guided our deliberations very tactfully, while allowing all of us to express our views. We extend our cordial thanks to him.

Rai Saheb Udai Singh Bisen. I take this opportnity of thanking you all for coming to this province and giving us the benefit of your useful advice. We hope you will kindly excuse us for the inconvenience you may have had here during your stay. Mr. Bhargava deserves the thanks for all that he has done from us as well as from you. We are grateful to him for the trouble he has taken for making this meeting a success.

THE BOMBAY PROVINCE CO-OPERATIVE BANKS' CONFERENCE (SPECIAL SESSION) BOMBAY 15TH APRIL 1939.

DISCUSSION OF AGRICULTURAL DEBT RELIEF BILL

A Special Conference of representatives of the Central and Provincial Banks was held under the auspices of the Bombay Provincial Co-operative Bank on Sunday, 16th April 1939, at 2-30 p.m. at the Sir Vithaldas D. Thackersey Building, with the object of defining the attitude of the Central Financing Agencies towards the Agricultural Debtors' Relief Bill introduced by the Government of Bombay in the Bombay Legislative Assembly. On the motion of Prof. V. G. Kale, Mr. R. G. Saraiya, the Chairman of the Bombay Provincial Co-operative Bank was voted to the chair.

The following are extracts from the Presidential Address of Mr. R. G. Saraiya:—

It is not my purpose at this stage to anticipate the conclusions of our deliberations but I think it my duty to draw your attention to some of the more important aspects of the Bombay Agricultural Debtor's 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 scope 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 contended, happy and prosperous, local Governments must regard the co-operative movement as deserving all the encouragement which it 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 try to ensure, that the debtor so relieved of his debt. does not incur further debts beyond his capacity to repay, by 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 alienate or encumbers the standing crop of 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 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 is to be guided in giving remission. It is conceivable that a 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 extravagant remissions of debt are allowed by the primary societies, there is danger to the stability of the structure of co-operative finance. When this legislation was under consideration, the Hon'ble the Finance Minister 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 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 term! But there may still be cases where remission of debt may be in the best interest 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 or current or saving 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 even stand up to a certain amount of strain. But if a policy of 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 agriculturists. 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 financing 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 Government assistance, I shall deal briefly 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 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 demands on the 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. 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 will be felt very keenly by the financing agencies, and when the advantages of the rural development scheme are still remote and not realized, 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 has also made recommendations in case the borrower defaults to pay regularly the annual instalments to primary societies. "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 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 intial 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 assistance would have to be threefold as explained above. First, 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 the 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 the 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 by the Banking Enquiry Committee. 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 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. 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 up to $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.

In England, which believes in minimum Government interference, the resources of the Agricultural Mortgage Corporation Ltd., consist of the share capital, the guarantee fund, and the debentures issued by the Corporation. The guarantee fund is provided under Section 1(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.

In Bulgaria, where there is a centralised system of co-operative credit financing under State control, the Government has intervened to take over 80 percent 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.

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 assistance has also been envisaged in the speech of the Hon'ble the Finance Minister by creating a more uniform and economical organisation 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 *avalkarkuns* 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 reorganization 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, proportion 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 agriculturist 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 whole-hearted 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 created and the problem of rural indebtedness 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 requires 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 the Finance Minister was able to secure larger amounts of money for this purpose, and that the public was more interested in these really constructive far-sighted proposals. First time since medieval times has any Provincial Government in India aimed so high in the sphere of rural uplift. The broad outlook with which 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.

* * * *

After the Presidential speech, the Chairman requested the Registrar of Co-operative Societies to initiate the discussion on item No. 4 by giving an exposition of the provisions contained in Section 43, which, the Chairman said, was silent as to how debt remissions would be effected.

The Registrar:—The Chairman has given us very suggestive ideas which, I trust the members here will follow. I expect most of them have gone through the provisions of the Bill to provide for the relief of agricultural debtors in the province of Bombay. As you know the Bill has passed the first reading and is now before a Select Committee. The first five items of this agenda deal with the implications of the Bill which may arise for the consideration of the financial agencies; and I have submitted a number of notes on all these items which have been circulated to the members present. In these notes, I have attempted to deal with some of the problems arising out of the Bill and how we can seek a solution for the same. The wording of the Section 43(4) is:

> "The Collector and the co-operative society shall intimate to the Board the amount of remission which the Provincial Government or the co-operative society as the case may be, is willing to give in respect of the debt."

Continuing, the Registrar referred to his Note with reference to Section 43(4) wherein, he said, he had enunciated the general principles which deserved to be followed by all financing agencies in advising societies to scale down debts.

"We have to remember," he said, "that the members of all credit societies are members of resource societies and as such under the provisions of the Bill, they will be entitled to apply for relief of their debts; and the very fact that some or at least one member of the society applies for such relief makes it practically obligatory on the part of the society itself as the creditor of the debtor members to apply for debt composition. I do not think that the Conference need have any fear that the remission which is to be given by societies will be left for determination by the societies concerned themselves. It would be under the general control and guidance of both the financing agency and the Registrar. Now, I would invite the attention of members to the other remarks made with reference to item No. 4, and with these words, I would leave it for the consideration of the members."

Item (4) was then taken up for discussion by the House.

Mr. K. M. Thakore:—Will the application of a surety for conciliation of his debts include the debts of his principal? His liability includes the debts of his principal. Since his liabilities are joint and several, as soon as he applies, are the others also involved? Again, can he separately apply for debt composition?

The Registrar:—When one member of a society moves for consideration it will be practically necessary for the society to move for the solution of most of its debts.

Mr. Parekh wanted to know what machinery will deal with the payment of debts in full, once they are adjusted.

The Registrar:—There is no question of paying the debt in full, for the payment is by instalments, spread over a period of 20 years. What is being done is that the debts are scaled down to within the repaying capacity of the individual, and he is given relief by enabling him to pay in small instalments over a period of 20 years If, for a certain number of years, the instalments cannot be paid for certain reasons there are further provisions by which such agriculturists are declared insolvents.

Mr. D. D. Chitale:—When the debtor is declared an insolvent, his property is not sold and cannot be recovered in any way. In that case, the society would stand to lose. I would like to have some idea of the procedure that will be followed when a debtor is declared an insolvent.

The Registrar observed that there was no room for any such apprehension in the matter of recovery. "The Bill", he said, "prevents the produce from going into the hands of the Sowcar by enacting that if the produce is sold through any other agency, both the seller and the buyer would be guilty."

Continuing, the Registrar said, "What is really going to happen is that the societies effecting the sale of the produce will, before handing over the balance arrange to renew its crop finance and to pay the equated instalments. As far as the creditor himself is concerned, he will get the benefit of the decree which enable him to get certain recoveries when made; and it may also be worth his while to g in for some further debt solution and enter into some arrangement with the lan mortgage bank for that purpose. The creditor's position, however, stands on a entirely different footing. The Bill in question is meant mainly to give relief t the debtors."

In reply to a further query, the Registrar said: "The problem is one for the consideration of the central financing agency. It is very important. I would like the central financing agency to consider some other aspects of the problem at the same time. There are some banks, a very large amount of whose funds are locked up in primary societies; we have also to consider how much of that amount already consists of frozen debts, etc. It is partly with that object that we have been holding enquiries into what are the frozen and doubtful debts; and you have to consider to what extent recovery can be made in a number of such cases. These are matters for the Conference to consider."

Prof. V. G. Kale:—Does it not follow that the proposal is a leap in the dark? These are difficulties for the central banks to consider. I feel that we are asked to assist first, and enquire afterwards into the necessity or justification for such help. I personally think that Government have committed a blunder in including the co-operative movement within the purview of the Bill. In Madras, they have deliberately kept the co-operative movement outside the scope of such legislation. They are now advancing Rs. 50 lakhs for the purpose of providing crop finance for the societies. I think it would have been better to follow the lead given by the Madras Government. We do not know what is likely to be the amount of the losses the societies will have to bear on account of this debt solution. We do not know to what extent the financial agencies will be called upon to bear the burden. Of course, I can assure the Registrar that the financing agencies and the co-operative movement will go as far as they can, in order to make this legislation a success. The Bombay Government propose to utilise the co-operative agency for the purpose of rural relief, and in doing so, they have honoured us. My submission is that if this agency is to work efficiently and satisfactorily, we must see that that agency's credit is in no way shaken. I believe very few central banks to-day are in a position to see what their position exactly would be. Yet, we are asked to say 'yes' or 'no' to the general principle. I will accept the general principle provided there is going to be no loss to the societies or the financing agencies. It will be open to every financing agency and society to keep wide open before the Registrar their accounts and if for no fault of theirs, they are called upon to bear serious losses, I want the Government to make it clear that they will be prepared to extend their help to the movement.

Governments in all countries have gone to the help of the Co-operative Movement, and this has been referred to in the speech of the Chairman, and I am glad to note that the Government of Bombay propose to contribute to the share capital to the tune of Rs. 20 lakhs, but I am not sure that this will at all be sufficient to gain the confidence of the depositors which is likely to be seriously shaken if the Bill passes into law. It is, therefore, necessary that proper enquiry and investigation should be made into the whole question before we should be asked to say 'yes' or 'no' in this important matter. I would, however, suggest that if the Government can give an assurance that where the working of the Bill has been found to result in a definite loss to the financing agencies, they will come to the assistance of such agencies, the scheme of rural reconstruction can be given effect to. It should not be supposed that we are seeking for more profits; we only wish to be enabled to carry on the work that we have been doing for the last so many years.

Mr. K. M. Thakore wanted to know what would happen supposing all the depositors wanted to withdraw their deposits.

The Chairman:—That is why Government must come to the rescue of the banks by promising to supply long-term capital in order to cover the equated instalments.

Mr. Chitale expressed his opinion that the confidence of depositors should not be shaken. He was not sanguine that just because Government proposed to give Rs. 20 lakhs, the public would give more in the shape of deposits. We must know definitely what will be the maximum loss we will have to bear. When the people know that our resources by way of reserve fund, etc., are being wiped off by debt composition, the public would become very much afraid and unless Government comes to our assistance, a very difficult situation will have been created. Till now, we did not want Government assistance. We would like to know what would be our fate in the eventuality described above.

Mr. K. M. Thakore:—I have no doubt that the Bill would be to the benefit of the co-operative societies as well as the agriculturists, and I congratulate the Government on introducing this Bill in the Legislative Assembly. But what I am anxious about is what would be the state of the central financing agencies. The only assurance given by the Finance Minister was that the Government would be investing about Rs. 20 lakhs of share-capital in the movement. The first question is whether under the present circumstances such a help is at all necessary.

Mr. Thakore then quoted facts and figures to show that the financial help proposed to be given by the Government would not be of any material assistance to the movement. "We have," he said, "a margin of about Rs. 5 crores with us, and really speaking, therefore, we would not be suffering for want of funds. What we really apprehend is what will be the fate of central financing agencies if depositors ask for their money. Will Government come to our help if we come to grief?" Mr. Thakore also expressed his fear that Government would ask for some form of control once they contribute towards the share capital.

Mr. D. V. Potdar said that the central financing agencies, with their present share capital and reserves, were not in a position to write off any losses, nor to bear the burden of any debt solution.

Mr. Gordhandas G. Morarjee:—We are putting the cart before the horse. While we are thinking of item 4, we are thinking of giving assistance, without any resources at our disposal. Our resources to-day are jeopardised by the blow that has been given to the credit of the societies. Mr. Thakore has pointed out, by quoting the figures for 1936, that we have got enough funds at our disposal. He forgets one thing. 1936 did not face the jeopardization of credit as to-day when credit is shaken by various causes. I should, therefore, strongly point out to this Conference that before we are called upon to decide this question, we must be assured by Government that our credit is not going to be jeopardised by any legislation, and if it is jeopardised, we must know what would be the sources on which we can fall back.

Mr. V. L. Mehta:—At this stage of the proceedings, it may be desirable to formulate our considered opinions. So far as I can see, items 4 and 7 are closely connected However, for the present, we are dealing with item 4. What I suggest is this, that instead of asking the Registrar any number of questions, which he is presumably not in a position to answer, it will be desirable for us to clarify our minds and put the issues before Government in a simple and definite form so that the Government can consider what exactly is the point of view adopted by the Co-operative Movement on the subject of debt relief legislation and Government may decide before long what is the attitude they themselves will take in this matter. I believe we are all agreed in holding that this legislation is to be welcomed. The expression of opinion of this Conference will start, therefore, with an expression of welcome of this legislation. But we shall point out the special difficulties which the co-

operative societies will have to face. We may not be able to point out in this resolution, but we may do so in our memorandum, that these difficulties are such that they may overwhelm us and therefore upset the very aim Government have in view, namely, that we should be the approved financing agencies or credit agencies of the future. From this point of view, it is absolutely eessential that the net losses, if any, that we may have to meet will be borne by some agency besides ourselves. I would, therefore, put three or four conditions, or formulate three or four terms on which alone we feel it will be possible for us to come into the picture. It is just possible that Government may think our demands rather extravagant; but if they do so, the responsibility will not be ours, because we shall have made our position perfectly clear from the very start. Therefore, my resolution will be something like this.

This Conference, while welcoming the intention of Government to provide for the relief of agricultural debtors, is of opinion that in order that co-operative societies and their central financing agencies may be able to meet the situation that is likely to be created by the proposed application of the provisions of the Bombay Agricultural Debtors' Relief Bill to members of co-operative societies, it is necessary to provide that—

(1) the adjustment of the debts of co-operative societies should be with the concurrence of central financing agencies to which the societies concerned are indebted;

(2) that a guarantee fund is created out of which the net losses, if any, accruing to the co-operative societies may be met after the examination of such losses by the Registrar of Co-operative Societies or such other authority as the Government may choose to nominate;

(3) that adequate loanable capital on a long-term basis is placed at the disposal of central financing agencies in order to enable them to meet the demands of their short-term creditors in view of the spreading over of their outstanding loans for repayment by instalments.

The resolution was seconded by Prof. V. G. Kale and was then discussed by the House and passed unanimously, with some minor alterations. The resolution as amended and adopted was as follows:—

This Conference, while welcoming the intention of Government to provide for the relief of agricultural debtors, is of opinion that in order that co-operative societies and their central financing agencies may be able to meet the situation that is likely to be created by the proposed application of the provisions of the Bombay Agricultural Debtors' Relief Bill to members of co-operative societies, it is necessary to provide that—

(1) the adjustment of the debts of co-operative societies should be with the concurrence of central financing agencies to which the societies concerned are indebted;

(2) a guarantee fund should be created by Government out of which the net losses, if any, accruing to co-operative societies and central financing agencies by the adjustment of debts may be met after examination of such losses by the Registrar of Co-operative Societies;

(3) adequate loanable capital on long term basis should be placed at the disposal of central financing agencies to enable them to meet the demands of their short-term creditors, in view of the spreading over of their outstanding loans for repayment by instalments.

The Chairman. We shall now take up item No. 7, part of which has been covered by Mr. V. L. Mehta in his resolution. In my speech, I have referred to the various ways in which Government assistance can be given. The situation, however, may be different for different institutions. We might pass a general resolution pointing out to Government the forms in which assistance can be given. Then, each central bank may decide what help it wants. Some may want share capital; others may not require share capital at all; so, we might discuss item No. 7.

Mr. B. V. Jadhav. A large amount of capital and finance would be necessary and this would be available only if the confidence of the public is secured. So the help of the Government should be in the form of creating greater confidence in the minds of the public in the central financing agencies, and not in any direct financial assistance.

Mr. V. L. Mehta. I would not like to rule out any form of Government help. There are various directions in which Government assistance can be made available. We have already mentioned two in the resolution just passed. But apart from these two, there would be several other ways in which Government assistance can be made available, and one of these is by subscription by Government to the share capital. The reason for favouring Government assistance in this form is this: when debt relief legislation comes into operation, there will be a large increase in the number of members, of societies, etc.; and additional finance in the shape of more share capital would be required for various purposes; and when that capital is required, the market in which we can raise such additional capital may not be as favourable as it is to-day. To-day if we went to the market and asked for new capital, we might get it, but it may be that after six months or a year when this debt legislation is in operation, we cannot get shares subscribed. So, I think we should not rule out this question of Government contributing to the share capital. The second point is, in addition to the longterm loanable capital that we want and in addition to the Guarantee Fund, we may want some short-term credit. It may be extremely difficulty to get short-term credit from the Reserve Bank and it may be necessary for us to keep at our disposal, either deposits of Government balances in the central financing agencies or in some other shape, and this will be another form in which we would ask for help from the Government.

The Registrar. Mr. V. L. Mehta has put before you some of the reasons I had in mind when a suggestion was made by me to Government that one of the ways in which Government could help the financing agencies was by making contributions towards the share-capital of the financing agency. Mr. Thakore had doubt as to what actual control Government would demand in the working of the financing agencies as a result of Government's subscribing to share capital. When the central financing agencies are well-managed, it is not the wish of the Government to exercise control in any way, and if they are not so managed, I think a conference of this nature which is considering such problems should welcome proper control from the Government to put matters on a sound footing. So, this is one of the ways in which Government could help.

Mr. V. L. Mehta then moved the following resolution on the subject:—

This Conference recommends that, in addition to the methods of assistance to central financing agencies proposed in Resolution I, Government be pleased to extend assistance to these agencies in the following forms:—

(1) Recognizing central financing agencies as Bankers to Government for keeping Government balances in deposit with them;

(2) subscribing to their share capital on terms and conditions to be mutually agreed upon;

(3) placing short-term funds at the disposal of central financing agencies at specially reduced rates of interest.

This resolution was then put to vote and carried unanimously.

FINANCE TO NOMINAL MEMBERS.

The Chairman. We will now discuss items (1) and (2) together, dealing with the subject of finance to nominal members.

The Registrar. At present, our main agencies for financing the agriculturists are the agricultural credit societies. As a result of the remarks made in the Joint Report, and the Government Resolution passed thereon, we have been encouraging the formation of multi-purpose societies. The Agricultural Credit Department of the Reserve Bank of India has also issued bulletins advocating the formation of multi-purpose societies which would restrict their financing to cultivation needs only; these are likely to be very important agencies in the future, confining their finance to cultivation needs, giving advances against produce, marketing the produce, and supplying if possible, other needs in kinds. Now, as we know, agricultural credit societies catering to the needs of agriculturists are about 5000 in number and the population whose needs are actually catered to is about 3 per cent. The Agricultural Debtors' Relief Bill provides that before consideration of an application for debt composition, the person who wishes to get his debts composed must be a member of a resource society; and naturally, when the Bill comes into operation, a very large number of persons will have to be provided for. In other words, the membership of co-operative societies will increase very considerably. I presume it is not our intention to encourage a large number of mushroom societies. We have seen what happened when the co-operative movement was inaugurated, when a large number of societies were started without adequate education or training. Consideration has, therefore, been given to the question as to how finance should be given and what should be the agency for giving the same. In some cases, it may be necessary for us to provide for nominal membership. As you know, there will be a very large number of people who are neither members, nor can be members, of agricultural credit societies, because there is no credit society at the place where they reside or there is no multi-purpose society in or about their place. In that case, the central financing agency which has branches in various places might have nominal members and supply credit to them for crop finance. You will see that in such cases the central financing agencies should not supply such finance at lower rate of interest than the multi-purpose society; the central financing agency should try and restrict its finances strictly to cultivation needs through multi-purpose and resource societies, and if the latter want to supply other kinds of finance to their members, they must do so out of their own funds. Now, after the debts are solved, we must realise that there are other needs to be satisfied. Therefore, we must consider and attempt to have savings for satisfying such requirements. You have already discussed that so far as the outside creditors are concerned, they will not be willing to come forward to lend to the agriculturists except perhaps at usurious rates of interest. Therefore, we shall have to face the problem of supplying such finance. Again, when such finance is supplied, it will be necessary that it is given in time. Our present methods must necessarily prove dilatory. In future, it would be necessary to devise methods of prompt action. Similarly recovery might be prompt also, as you know that the produce will be sold through the agency of the co-operative societies. I have raised these issues in connection with items 1 and 2, and it is for this Conference to consider and arrive at some conclusions.

Mr. K. M. Thakore. The rule of multi-purpose societies may be so modified as to include loans for agricultural purposes and not for anything else. Further, there should be some check in regard to the admission of members who are desperadoes.

Mr. Rajadnya wanted loan and sales societies to be formed where there were market centres.

Mr. Chitale. It is necessary that nominal membership of central banks should be discouraged.

The Registrar incidentally announced to the members that Government have under consideration the question of training 2000 workers for village panchayats and multi-purpose societies.

Mr. D. V. Potdar. I support Mr. Chitale's recommendation that nominal membership should be discouraged. Advances made to individuals may not be as secure as advances to societies. We may, after some experience, of say a year, introduce nominal membership.

Mr. Parekh suggested that in areas where there are no societies at all, people should be admitted as nominal members. He was also of opinion that finance should not be restricted to agriculture alone and that some provision should be made to provide finance also for purposes other than agriculture.

Mr. B. V. Jadhav. There is some difficulty about nominal membership that I would like to point out. The Registrar has told us that finance would be supplied to individual borrowers at the same rate of interest as charged for primary societies; but the central banks would make a better profit over these loans than they are expected to make by lending to primary societies, and, therefore, as it is more profitable to deal with individuals, they will try to keep such people as nominal members and they will not take any trouble to form them into societies. This is one difficulty. Then as regards the point raised by Mr. Parekh that provision should be made for finance for other than cultivation purposes, this opens up an important question and I am afraid, if it were allowed, the whole object of the Debt Relief Bill would be frustrated. I think debts should be confined to strictly agricultural requirements. As a matter of fact, the agricultural expenses per acre of a particular crop are generally the same for the whole of a village, and in that way, it will not be difficult for the financing agency to see how much is really needed by the cultivators and what crops are to be expected. I think we must proceed to work the scheme, and in the course of working, other difficulties may crop up which we never expected, but we may also realise that some of our fears have been unjustified.

Mr. V. L. Mehta. I wish to make a few remarks regarding the points under consideration. I am in agreement with the views of Mr. Chitale about the danger which the system of nominal membership entails. I believe it will be dangerous and I do not know whether there will be many financing agencies prepared to take the risk, as it will be hazardous, as previous experience tells us, for a central financing agency operating at the district headquarters to give loans on the security of crops

to a very large number of people from whom it has meagre means of recovery. From that point of view, I do not know whether this Conference might not express disapproval of the idea; but I think we need not discard the idea altogether, and I would merely say that the system of nominal membership of central financing agency should be discouraged unless the central financing agency serves a very small area, in which case, nominal membership may be permitted—a very selective nominal membership—if the financing agency is in a position to keep in touch with the nominal members. This is one point of view which, I may say, is not altogether mine, since it was one of the recommendations made by Mr. Bhansali last year. The second point of view I wish to place before you is the advisability or otherwise of starting loan and sale societies—the view put forward by Mr. Rajadnya, and these loan and sale societies could be much more easily organized and brought into existence than the multi-purpose societies if we are ready to follow the Madras example. Another suggestion is that of starting multi-purpose societies on a limited liability basis; I do not know if that suggestion is necessary, but the suggestion to organise agricultural credit in areas slightly wider than that of multi-purpose societies may be considered and put before the Government. An alternative to nominal membership is compulsory membership; if we rule out both these a very large number of people will be denied the benefit of the Debt Relief Legislation. Soms means will have to be found out by which all people would be enabled to benefit themselves by the Bill. To meet the needs of such persons, I suggest that those who cannot be admitted to the membership of primary societies might be considered eligible for the grant of loans by Government either direct or through credit societies where they are in existence. The agency may not, however, assume any financial responsibility. I would also suggest that the objects for which credit should be available should be such as will enable the advances made to be recovered at the next harvest.

The Chairman requested Mr. V. L. Mehta to present his views in the form of a resolution.

Mr. Chitale suggested that where there is no society a person should be financed by the central financing agency merely as agents of the Government, by admitting that person as a nominal member; but the Registrar could not see how such a suggestion would be practicable.

Mr. V. L. Mehta then moved the following resolution on the subject embodying the points which were found to be in general agreement among the members :—

This Conference is in general agreement with the views expressed by the Registrar in his notes on item Nos. 1 and 2 of the Agenda regarding the lines on which financing agencies may encourage persons to become members of primary or multi-purpose societies or nominal members and the purposes for which finance should be made available, subject to the following conditions:—

(1) The system of nominal membership in central financing agencies can be approved of, only in the absence of local resource societies and provided satisfactory arrangements are devised by Government for making the lien over crops under Section 75 of the Bill effective.

(2) Nominal membership can only be on a purely voluntary basis; but if Government wish to see that crop finance is granted by co-operative societies and banks even to persons who are refused admission to the membership of local resource societies, it will be agreed to only if Government undertake to bear the losses, if any, on the transactions.

(3) The organisation of loan and sale societies for selected areas should be encouraged.

(4) The object of the credit provided should be such as will enable the advances to be recovered at harvest."

Mr. D. V. Potdar said they were already saddled with a good many burdens and as such, nominal membership should be discouraged because once the nominal members got in, it would be difficult to make them go out.

After some discussion, the resolution moved by Mr. V. L. Mehta was adopted unanimously.

MARKETING OF AGRICULTURAL PRODUCE

The Chairman then took up for consideration the problem of **marketing of agricultural produce.** He said that the public had not fully realised the seriousness of the implications of this Section. It meant that every agriculturist whose debt had been scaled down,—and this would mean, for practical purposes, every farmer—could not alienate or sell or encumber the produce of his land without the permission of his co-operative resource society. At present, co-operative societies served only 5 per cent of the agriculturists; so long as co-operative marketing organizations were not able to look after and sell the entire produce of the agriculturists in the Presidency, the application of this clause would handicap the entire marketing of agricultural produce in the Presidency, as the buyer upcountry of the cotton or seeds or wheat, as the case might be, would not know whether the seller before him was an agriculturist debtor or not. It would be physically impossible for him to ascertain in every case whether Section 75 of the Act applied and the result would be a disorganization of marketing arrangements up-country. The Chairman, therefore, urged that the application of this Section should be postponed till co-operative agencies were set up for the whole province for the purpose of marketing of produce. The Chairman then requsted Mr. Joshi, Deputy Director of Rural Development, to give his views in the matter.

Mr. Joshi.—I have given considerable thought to the question of marketing, i.e., how to organise the sales of the produce of our members. Since we are supplying finance for cultivation, the produce that comes out of this should be, of course, sold through the medium of the society itself. It is not necessary in the beginning that the secretary of a society should have all the produce in his possession. The Bill provides that if the debtor sells any of his produce through anybody else, he becomes liable to punishment. So, all the produce of the area for which he is given credit is to be sold through the society and the latter will be selling the produce through certain commission agents who will charge the lowest commission. Out of the sale proceeds, the society will keep for itself the instalments due to it from the debtor and the balance will be paid to him. This is to be our method of selling the produce of the various debtors of the society. I do not think this is going to be such a difficult problem as many people are inclined to think.

Dewan Bahadur C. M. Gandhi said that this method would prove difficult in certain cases. "Our experience," he said, "is that, even with the section of the Co-operative Societies Act which gives co-operative institutions the first charge on the crop produce, the farmer is not found honest enough to act in accordance with it. Unless and until we are able to make it penal, there is no chance of our being able to realise our money, and the needs of the agriculturist are so many that he will be tempted to borrow on uneconomic grounds also."

Mr. Joshi.—The secretary must know every transaction that takes place and a member should not do it independently.

Prof. V. G. Kale said that marketing would prove to be a tremendous responsibility on the co-operative societies and it would be difficult to handle this problem.

Mr. Chitale.—We must have first lien on the produce.

The Registrar incidentally made an announcement that Government, in order to tackle the difficult problem of marketing efficiently, are making provision for the appointment of a Chief Marketing Officer and a Marketing Officer for each Assistant Registrar to help the latter and to advise the societies on the lines of making arrangements for marketing.

Explaining the necessity for suitable arrangements for marketing the produce through the agency of the societies, he said that the agriculturist would not be found willing to carry his produce over a large distance to effect sales there, but if definite machinery was provided there was no reason why the agriculturist would not extend his co-operation in the matter. The penalty could be enforced if he failed to do so.

Prof. V. G. Kale said that one of the many difficulties that the movement would have to face was the absence of trained secretaries who could organize the marketing of agricultural produce. "The secretary of to-day," he said, "will not be able to carry out efficiently his new duties, when this Bill comes into force."

Prof. Kale voiced the general opinion of the members when he said that the clause under discussion should not be put into operation for the present, and unless effective initiative and co-operation were forthcoming from Government, he was afraid nothing worthwhile could be done in the matter.

The Chairman expressed himself in agreement with these sentiments and suggested that a resolution be passed indicating the desirability of slow action in the matter.

Mr. Clarke (Surat) moved that the penal clause and Section 75(2) of the Bill should not be put into operation unless marketing arrangements are made by the Government at their own expense.

Prof. Kale.—Not only the penal clause, but the whole clause.

Mr. Clarke.—But I wish to lay stress on the point that Government should meet the cost of the marketing organization. It is absolutely necessary that all the talukas should be equipped with depots where goods could be brought and stocked conveniently from all parts of the country.

Mr. Clarke moved a resolution on the subject, reading as under:—

This Conference holds that Clause No. 75(2) of the Bill should not be brought into operation unless in any local area arrangements are made by Government at their own expense for the organisation of arrangements for the marketing of agricultural produce.

The resolution was then put to vote and passed unanimously.

* * * *

Item No. 6 on the agenda was then taken up for consideration. **The Chairman** read the Government Resolution on the matter and said: "The question is to what extent we can co-operate and co-ordinate the work of supervision and control."

As the scheduled time was over and looking to the trend of the discussions which was far from being decisive, the Chairman suggested that the matter be referred to a Sub-Committee.

Mr. V. L. Mehta.—There is the Standing Committee of the Conference.

It was decided by a unanimous vote to refer the matter to the Standing Committee

* * * *

The Chairman then read item No. 3 of the agenda.

Mr. Clarke said that it was not possible to have a uniform rate.

The Registrar.—When you go to a sowkar, he charges 12 per cent or 20 per cent just as he likes. But in your co-operative societies, you do not give to one member at 10 per cent and to another member at 20 per cent. The co-operative societies fix the rate. The whole object of forming the co-operative society is to enable a certain group of members to have uniform credit. Now, you give credit to a certain class of persons, whose produce cannot be sold except through a certain machinery which is the agency of the resource society. The agriculturist is at least entitled to ask of you something in return. You ought to make credit available to him at a reasonable rate of interest. I think the problem requires some mature consideration on the part of the Conference.

Mr. Gordhandas Morarjee.—I suggest that this matter be referred to the Standing Committee.

The Chairman concurred with this view; and the matter was accordingly referred to the Standing Committee.

Prof. Kale did not favour the idea of fixing a uniform rate.

As items 3, 5 & 6 were very important and as it was felt that they could not arrive at an agreed conclusion without careful and mature consideration, it was decided to request the central banks to communicate their views on the said items to the Standing Committee of the Conference as soon as possible.

The Conference then concluded with a vote of thanks to the Chairman and to the Registrar and the Assistant Registrar who were present.

LEAGUE CONFERENCE ON RURAL LIFE

"In the last analysis, man will always be the subject of all our endeavours; whether the purpose be cultural or material, the action we undertake always has as its fundamental object the improvement of the condition of mankind and the protection, raising and enrichment of human existence."

This is the faith and creed of the little group of health and medical experts who are now preparing for the Conference on Rural Life which the League has called for next October.

Scientific experiment has approached every aspect of human living, and medical knowledge in particular has made great strides during the past decades; but, in every country, medical practitioners and social workers find serious gaps between scientific progress and practical achievement. We are still far from applying the knowledge we possess in ordering everyday living.

First concern. The first concern in any action for the improvement of the condition of mankind is health. And the League experts consider that the health and well-being of people living in rural districts is a question of special urgency. The country districts of any country still help to people the towns, since the birth-rate has remained relatively high in rural areas. But, all too often, these immigrants come from districts where living conditions are less healthful than in towns, and so bring poor physiques to the stress of city life. In spite of living in close contact with nature, where they should be able to enjoy smokeless air, sunshine and produce fresh from the soil, rural dwellers in many countries suffer a higher mortality rate than townspeople; they are subject to disease such as tuberculosis and typhoid; and they have not learned to organise their planting and reaping, their building and digging, so as to ensure to their children an adequate nutrition and healthful surroundings. There is thus a common need in every country for an examination of the health problems of agricultural communities and a search for practical remedies. These remedies, if they are to be effective, must take account of the whole social economy of rural life—its economic resources and the way of life and habits of country dwellers.

Growing ever wider in scope. The League's experience has been that a study of health and welfare in rural communities grows ever wider in scope. Its first approach to the problem was made at the European Conference on Rural Hygiene, which met at Geneva in June and July 1931. That Conference was followed by the Inter-Governmental Conference of Far-Eastern Countries on Rural Hygiene, held at Bandoeng, Java, in August 1937. These two Conferences laid down the principles, methods and means of action of a policy for improving health in rural districts. The recommendations of the European Conference were unanimously accepted by the delegates of the twenty-three nations represented there, and at Bandoeng the thirteen Far-Eastern countries represented adopted the scheme which the meeting proposed.

These recommendations have influenced the development of rural hygiene policies in European and Far-Eastern countries. Meanwhile, the Health Committee of the League has continued its study of various factors of rural well-being, and, as this study has gone on, it has become increasingly clear that considerations of public health and welfare call for a survey of the demographic, economic and social factors of rural living. The Assembly of the League recognised this fact when it decided to transform the second Conference on Rural Hygiene into a European Conference on Rural Life. This is the Conference which is to be held in Geneva in the autumn of this year. Its Preparatory Commission is directing preparation of documentary material to be issued as a basis of discussion. It will be drawn from the studies, not only of the Health Organisation, but also the Economic and Financial Organisation of the League, the International Labour Office, the International Institute of Intellectual Co-operation and the International Institute of Agriculture.

Effort to Recognise differences. The object of the European Conference on Rural Life will be to describe the factors of rural living in different situations and circumstances and to suggest methods of dealing with typical problems. Wide variations will be found between the different countries and even between different districts in the same country. The Conference will attempt to recognise these differences and to lay down not an absolute formula for good health and well-being, but an indication of general lines of progress which national and local authorities may follow in terms of their own requirements and experience.

From now until next October, the Preparatory Commission for the Conference on Rural Life will be issuing a series of documents designed to form a basis of discussion. A very useful one has just been issued: "The General Survey of Medico-Social Policy in Rural Areas." This document, which has been prepared under the auspices of the Health Committee of the League, describes the part which medico-social policy should play in a rational plan for the improvement of health and well-being in country districts. The problem of organising curative medicine and the task of encouraging preventive measures, both with regard to individuals and to the services forming the responsibility of the public authorities, are dealt with at some length. The chapter on preventive medicine describes a model organisation of central and district administration; it deals with the important problem of maternity and child welfare (agricultural countries, it is stated, generally have a higher infant mortality) and with the prevention of diseases which offer special problems to the country doctor.

Improving Mental Fitness. The basis of modern public health work—not merely the prevention of disease, but also the improvement of the standard of physical and mental fitness—is dealt with in the chapters on *nutrition*, physical training and planning of rural dwellings and sanitation. The essays on the education of rural populations in health matters and the training of doctors and auxiliary personal in preventive and social action show how health and well-being rest finally upon public education. Medical teaching itself is placing an increased importance upon prevention rather than cure, and the gradual improvement in standards of community living—the popular appeal of sports, widening interest in domestic economy and hygiene and, in general, the broadening and enriching of social living—is creating a demand for the organisation of health in the countryside.

THE RESERVE BANK OF INDIA

(Agricultural Credit Department)

PARAGRAPHS 37 AND 38 OF THE STATUTORY REPORT

Principles on which Reserve Bank can make advances to co-operative banks.— The Co-operative Banks like the commercial banks must stand on their own legs and obtain their normal finance from deposits, and cannot expect the Reserve Bank to supply it or to act as the apex bank of the movement. Sound co-operative banks have in fact such a plethora of funds at present that they are forced to invest large sums outside the movement. The Reserve Bank can come into the picture only when the ordinary pool of commercial credit appears inadequate to meet the reasonable business requirements of the country. In such conditions also the Reserve Bank must follow the same basic principles in making advances to co-operative banks as those for other forms of credit. The terms on which the Reserve Bank is authorised to lend to provincial co-operative banks are already laid down in sub-sections (2) (b), 4(a), 4(c) and 4(d) of section 17 of the Act. As, however, their implications do not seem to be properly understood in all quarters it is necessary to explain here that the financial accommodation which the Reserve Bank is authorised to give covers the following cases:—

(a) Loans or advances against Government paper for ninety days to Provincial co-operative banks and central land mortgage banks declared to be provincial co-operative banks and through them to co-operative central banks and primary land mortgage banks, sec. 17(4) (a).

(b) Similar loans and advances to provincial co-operative banks and central land mortgage banks declared to be provincial co-operative banks and through them to co-operative central banks and primary land mortgage banks against approved debentures of recognised land mortgage banks, which are declared trustee securities and which are readily marketable.

(c) Advances to provincial co-operative banks for ninety days against promissory notes of central co-operative banks and drawn for financing seasonal agricultural operations sec. 17 (4) (c) or rediscount of such promisory notes maturing within nine months, Sec. 17 (2) (b).

(d) Loans and advances not exceeding ninety days to provincial co-operative banks against promissory notes of approved co-operative marketing or ware-housing societies endorsed by provincial co-operative banks and drawn for the marketing of crops—section 17 (4) (c) or rediscount of such promissory notes maturing within nine months—section 17 (2) (b); or loans and advances on the promissory notes of provincial co-operative banks supported by warehouse receipts or pledge of goods against which a cash credit or overdraft has been granted by the provincial co-operative bank to marketing or warehousing societies—section 17 (4) (d).

Conditions for grant of advances.—It may further be explained that the Reserve Bank though it will be prepared to deal with provincial co-operative banks on the above lines must retain the discretion to judge for itself the advisability and expediency of granting accommodation according to the circumstances of the time, and cannot make large permanent promises of advance. It will also have to insist on provincial banks which are approved for financial assistance maintaining financial statements in certain forms and submitting them periodically. It must also have the right to inspect such banks. Any accommodation granted will be on the credit of the provincial co-operative bank and it will be necessary for such provincial banks to maintain with us some minimum balance which will have to be prescribed by us from time to time to ensure that they are maintaining sufficient fluid resources. Above all it must be clearly understood that all that the Reserve Bank can do is to help the provincial co-operative bank to tide over a temporary shortage of funds and as the funds advanced must be repaid within the time limit allowed by the Act the co-operaive banks cannot make use of them for the purpose of continuing finance. These conditions may seem stringent but as we have already pointed out the Reserve Bank has to work within the limitations imposed on it by the essential conditions of sound central banking and expressed in its constitution. We propose from time to time to issue instructions and circular letters indicating what are in our opinion the criteria of sound banking which would justify our making advances and also laying down the procedure for obtaining loans and advances when these conditions are fulfilled. We shall always be glad to give co-operative banks advice to enable them to organise their business on sound lines. A healthy competition among the provincial banks to conduct their business in such a manner that they will be in a position to obtain financial accommodation from the Reserve Bank when necessary will in our opinion be all to the good and we hope that they in their turn will influence the central banks to observe the same strictness so that the whole movement may be toned up.

RESERVE BANK'S CIRCULAR DATED 14TH MAY 1939 TO ALL PROVINCIAL CO-OPERATIVE BANKS AND CENTRAL LAND MORTGAGE BANKS

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 herewtih 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.

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.

Procedure

and through them with eligible Co-operative Central Banks of the A and B classes.

1. The Reserve Bank will deal with approved Provincial Co-operative Banks

2. Provincial Co-operative Banks which desire 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 byelaws. If it is desired to rediscount, or obtain advances against, the 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 resource 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 2½% of the demand liabilities and 1% 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 floatation 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.

THE ——————— PROVINCIAL CO-OPERATIVE BANK LTD. BALANCE SHEET AS ON ———————

LIABILITIES

I. Capital :—		
Authorised Capital : shares of Rs. each	Rs.	
Subscribed Capital : shares of Rs. each	Rs.	
Amount called and paid up at Rs. per share ..	Rs.	
(of which shares subscribed by the debtors of the bank may be shown in a footnote) (Uncalled Capital) ..	Rs.	Rs.
II. Reserves :		
(a) Statutory Reserves ..	Rs.	
(b) Bad and doubtful debt reserve ..	Rs.	
(c) Reserve for overdue interest ..	Rs.	
(d) Other reserves and funds (particulars of reserves and funds for special purposes to be given.) ..	Rs.	Rs.
III. Deposits :		
(i) Current (a) Individuals ..	Rs.	
(b) Primary Societies ..	Rs.	
(c) Central Banks and Unions	Rs.	
(ii) Savings (a) Individuals ..	Rs.	
(b) Primary Societies ..	Rs.	
(c) Central Banks and Unions	Rs.	
(iii) Fixed (a) Individuals ..	Rs.	
(b) Primary Societies ..	Rs.	
(c) Central Banks and Unions	Rs.	
(iv) Provident Fund deposits ..	Rs.	
(v) Other deposits ..	Rs.	Rs.
IV. Loans, Cash Credits and Overdrafts.		
(1) Loans from Government ..	Rs.	
(2) Loans from Banks (Rs. against security of) ..	Rs.	Rs.
V. Capital raised by debentures (stipulate the nature of security.)		Rs.
VI. Bills for collection (per contra) ..		Rs.
VII. Unclaimed dividends ..		Rs.
VIII. Interest Payable ..		Rs.
IX. Branch adjustments		Rs.
X. Sundries or other liabilities ..		Rs.
XI. Profit and Loss account :		
(a) Balances brought forward ..	Rs.	
(b) Net Profit since last balance sheet	Rs.	Rs.
		Rs.
Contingent liabilities ..	Rs.	

ASSETS

I. (a) Cash at Head Office and Branches .	Rs.	
(b) Balance at Bankers on current accounts ..	Rs.	
(c) Deposits with approved banks ..	Rs.	Rs.
II. (a) Investments in Government securities face value ..	Rs.	
of which are on account of reserve		
(b) Investments in share, debentures or bonds of Jt. Stock Cos. ..	Rs.	Rs.
(to be calculated on purchase or market value whichever is lower.)		
III. Sinking Fund Investments :		Rs.
IV. Loans, cash credits and overdrafts to Co-operative Societies, Central Banks and Mortgage Banks excluding liquidated societies ..	Rs.	Rs.
(a) Loans to Primary Societies of which overdue Bad and doubtful		
(b) Loans to Central Banks of which overdue Bad and doubtful ..		
(c) Long term loans to Land Mortage Banks of which overdue Bad and doubtful ..		
V. Dues from societies in liquidation ..		Rs.
VI. Loans to individuals :		
(1) Against fixed deposits ..	Rs.	
(2) „ Govt. securities ..	Rs.	
(3) „ Produce ..	Rs.	
(4) Others ..	Rs.	Rs.
VII. (a) Interest receivable on Government Securities and deposits with banks	Rs.	
(b) Interest recoverable on loans and advances ..	Rs.	Rs.
(i) of which overdue Rs.		
(ii) of which bad & doubtful Rs.		
VIII. Land and other fixed assets taken over in satisfaction of claims (at Government or other authenticated valuation)	Rs.	Rs.
IX. Dead Stock		
(a) Premises } Less Depreciation	Rs.	
(b) Furniture } Less Depreciation	Rs.	
(c) Others } Less Depreciation	Rs.	Rs.
X. Bills Receivable (per contra)		Rs.
XI. Branch adjustments		Rs.
XII. Sundry assets to be specified		Rs.
		Rs.

RESERVE BANK'S CIRCULAR DATED 12TH JUNE 1939 TO ALL PROVINCIAL AND CENTRAL CO-OPERATIVE BANKS

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.

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 recognize that the particular circumstances of a bank and the environment in which it operates have to be taken into account. Neverthеless 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.

It is sometimes alleged that the principles of co-operative banking are fundamenatlly different from those of commercial banking. This is incorrect. In al essential respects the nature of the business of co-operative banks is the same a that of commercial banks. Both types of institutions accept deposits and ar therefore responsible for investing their funds in such a way as to safeguard th interest of their depositors. The same considerations of safety and liquidity i the employment of funds are essential for the stability of both. The principa 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 nc primarily concerned with making profits for their shareholders does not make an essential difference in the fundamental principles which both types of institutior have to observe as banking concerns. As a matter of fact, the type of busine: the co-operative banks are called upon to undertake makes it all the more neces sary for them to observe strict business principles.

In particular it is desirable that co-operative banks should distribute the assets in the same manner as commercial banks. In this connection we migl describe the practices followed by commercial banks in Great Britain and in Ind in the employment of their funds. Commercial banks have to maintain the assets in such a form that a large portion can always be readily realizable in ca of necessity. For this purpose they keep the greater portion of their funds the form of cash and other liquid assets such as balances with other banks, c: money, bills and gilt-edged securities. In Great Britain joint stock banks genera ly keep an amount equal to about 10 per cent of their deposits in the form of ca on hand and balances with the Bank of England. In India the cash holdings of t banks show large seasonal variations but as at 31st December 1937 the percenta

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	..	50	30
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.

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 ratio 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.

Cash. The proportion of cash to deposit 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 deposit 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 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.

Though for the purpose of indicating these ratios broadly we have put cash and balances 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% of their demand and 1½% 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.

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 2½ per cent of their demand liabilities and 1% 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.

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 them 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% 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.

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.

In our first circular we suggested that long term loans should be separted 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.

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 demand 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.

It seems necessary here to refer to the practice of fictitious repayment 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 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 moneylender 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 moneylender'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 moneylender'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 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 repayment 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 time 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.

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% of the debts due from societies under liquidation, 50% 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 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.

Th 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.

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 8-10 times the paid up share capital and reserve. We find that the proportion of owned to 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 futher 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.

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 onefourth of their net profit 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 immoveable 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.

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.

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.

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.

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.

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.

HEALTH SOCIETIES FOR VILLAGES

MADRAS GOVERNMENT'S DRAFT SCHEME

The following is the draft of the scheme published by the Government of Madras for running health co-operative societies in villages :—

It is said "Health is Wealth." This is certainly true. Good health enables the villager to devote more time to his agricultural operations so as to increase production and augment his income. Bad health does the reverse. If a ryot and his people at home are in good health, they will be happy, they will also manage their agricultural operations more efficiently and this will result in economic gain. Consequently in so far as the health of the agricultural population tends to increase the efficiency of labour, all activities directed towards keeping up the efficiency of labour will constitute economic activities and will come under the scope of the Co-operative Societies Act.

People's Responsibility. Generally, no qualified doctor thinks of setting up practice in a village, with the result that the villagers have to depend on quaks for treatment of diseases. Sanitation and hygiene are generally poor in villages and when epidemics come, the misery and squalor in villages are appalling. In 40,000 villages in the Presidency, there are no village panchayats and the people in these villages have to suffer for want of proper medical aid. It is no doubt the duty of the State and the local bodies to provide facilities for medical help, but it is not possible for them to do so in all the villages. So the people themselves should come to the aid of the State. They should not look to the State to do everything for them. They should be ready to bear a portion of the burden themselves. Moreover, schemes run by the State cannot continue unless the people themselves associate themselves in their work. Generally they continue to function until the Government finances them but when the finance is withdrawn, they collapse and Government cannot be financing them for ever. It is necessary, therefore, that the people should shoulder the work and finances of rural medical aid to some extent. The best agency for it is, therefore, a Health Co-operative Society.

Objects of Health Societies. Like all co-operative societies, the health societies are associations of persons, directly interested in the undertaking and sharing in its management with equal rights and obligations. Their by-laws, laying down the duties and responsibilities of the managing committee, General body, etc., are similar to those of other co-operative societies. The main objects of these societies are :—

1. The organisation of a medical establishment with a qualified medical officer, compounder, and dispensary ; each member paying an annual subscription in cash or in kind of equivalent value towards the expenses ;

2. To carry out sanitation and preventive work with the help of organised squads of the young men of the village—such as the filling up of stagnant pools, laying down approach roads, sinking of tube wells, providing bored hole latrines, etc.

The funds required to run such societies will be derived from annual subscriptions from members, grants from Government and District Boards, contributions from out of the Common Good Funds of Central Banks and Societies and fees collected from members for doctor's visit to houses.

It is proposed to start eight societies in the Presidency, as an experimental measure, four in the North and four in the South, in the Districts of East and West Godavari, Trichinopoly, Tanjore and Ramnad. One society will be formed for a group of villages; a tentative list showing the places where it is proposed to start health societies is enclosed. Each of the groups chosen comprises about 1,000 to 2,000 families and it may reasonably be expected that at least 500 persons representing 500 families will join the society. Each member will have to pay an annual subscription of Re. 1-8-0 (0-2-0 per month) payable in cash or in kind or in labour. The subscriptions may be increased after societies have functioned for some time. Members will be given medicine at cost prices. Members will receive medical advice at the dispensary free of charge. They should however, pay a small fee, say, annas four (0-4-0) per call for the services of the doctor at houses. The income from this source will be credited to the funds of the society.

Question of Finance. The approximate cost—capital and recurring—of a health co-operative society will be as follows:—

Capital expenditure. 1. Cost of the dispensary building, Rs. 250; 2. Cost of quarters for the Doctor and compounder, Rs. 400; 3. Furniture, Rs. 60; 4. One Cycle, Rs. 40; 5. Office equipment, Rs. 50; 6. Initial stock of medicine and surgical instruments, Rs. 200; Total Rs. 1,000.

Recurring expenditure. 1. Doctor's salary at Rs. 50 per month, Rs. 600; 2. Compounder's salary at Rs. 15 per month, Rs. 180; 3. Servant and sweeper at Rs. 5 per month, Rs. 60; 4. Contingencies at Rs. 5 per month, Rs. 60; Total Rs. 900.

Income. 1. Annual subscription (at 2 annas per month), Rs. 750; 2. Income from call fees, injection fees, etc. the average per month being taken to be 15 calls and 15 injections (15 x 4 as. plus 15 x 8 as.), Rs. 150; Total Rs. 900.

It may be observed from the above statement that the initial capital expenditure comes to about Rs. 1,000 and unless this sum is found, it is not possible to start a health society. The help of an outside agency, (Government or District Board or co-operative banks which can contribute from out of the Common Good Fund) is necessary to meet these non-recurring items as the society should not be left to depend for financial help on private benefactions alone. The Madras Provincial Co-operative Bank, several central banks, urban banks and co-operative societies have large amounts to the credit of their Common Good Fund and they may be induced to contribute substantial sums to meet the capital expenditure. If, however, the response from the co-operative institutions is not adequate, the help of Government or District Board may be necessary. Out of 15 lakhs allotted to the Madras Government 12.25 lakhs have been given to Collectors for rural reconstruction and a sum of Rs. 2.75 lakhs is available with the Local Government as a Reserve (G. O. No. 1352 Development, dated 26th May 1938). Rural sanitation is one of the purposes for which the Government of India grant for rural development might be spent and as this is the primary object of health societies, they are eligible for subsidies out of rural grant. In the early stages the income of the society may not be sufficient to meet the recurring expenditure and in such cases the local bodies which are spending large sums for running subsidised rural dispensaries, may come forward to meet the deficit, if any. Health societies are institutions run by the people for the benefit of the people and the cost is evenly distributed among the actual beneficiaries. There is vast scope for the successful working of such societies.

Formation of Unions. After a number of societies are started in an area, a central organisation called a "Health Union" will be necessary to co-ordinate the activities of health societies. Every such union will maintain a better qualified medical officer, one Sub-Assistant Surgeon for relieving the doctors in different centres in case of absence on leave, a small hospital with a nurse; a clinic with a laboratory technician, one clerk for keeping accounts and if possible, one organiser and propaganda officer. Its main functions will include: 1. Co-ordination of the activities of health co-operatives; 2. Purchasing of drugs and materials required for dispensaries in bulk at the cheapest price; and 3. Promotion of new societies.

The income of such a Health Union will be derived from out of contributions made by Health Co-operatives affiliated to it and subsidies from Government, Local Bodies and others. The budget of a Health Union will be roughly as follows:—

Expenditure:—1. Chief Medical Officer 100 x 12 Rs. 1,200; 2. One Sub-Assistant Surgeon at Rs. 50, Rs. 600; 3. Office (club, etc.), Rs. 200; 4. Clinical Laboratory Rs. 200; 5. Hospital, Rs. 400; 6. Travelling allowance, Rs. 200; Total Rs. 2,800.

Income:—1. Contribution from 12 Health Co-operatives at Rs. 150, Rs. 1,800; 2. Income from Clinical Laboratory, Rs. 200; 3. Subsidies from Government, Local bodies and others, Rs. 800; Total Rs. 2,800.

As stated above, the question of starting a health union will arise only after a number of primary societies begin to function in an area. There may not be the need to start Health Unions largely, as there are Local Board dispensaries at almost all Taluk Headquarters.

SCHEME FOR THE MARKETING OF AGRICULTURAL PRODUCE IN THE UNITED PROVINCES

1. ORGANISATION

The organisation will be as follows:—(a) Better farming and sale societies with limited liability for multiple purposes in villages; (b) A seed store at the headquarter of the supervisor; and (c) A Union or Board at a central marketing place.

(a) **Better Farming and Sale Society.** The object of such a society will be:—(i) To make cash advances to members against their crops and produce upto a fraction of the estimated value of the crops and produce, for cultivation expenses and in special circumstances, for rent and maintenance; (ii) To advance grain for seed or consumption purposes in the months when they borrow from the village bania; (iii) To arrange for the purchase or hire of agricultural implements, machines and supply of manure, seed and other requirements; and (iv) To organize better living societies.

(i) *Supervision.*—The supervisor will control 10 to 20 societies according to the quantity of produce handled by him. It is expected that he will handle about five thousand maunds initially and the total quantity of the agricultural produce which he will handle eventually may be put at fifty thousand maunds. During the harvest time he will be paying visits to villages to get the produce properly cleaned, graded, bagged and stored (if necessary) in the presence of the growers. The village functionaries will be paid according to the local practices either by the selling member or the purchasing Union or Board as may be arranged.

(ii) *System of purchase.*— The produce will be purchased out-right at the village rate. The system to be followed will be the "Pucca Arhat" system. As things stand at present the growers can hardly be expected to wait for the price till the produce is finally sold.

(iii) *Sale.*—The scheme of marketing the produce on commission basis (Kuchcha Arhat) does not seem to have good prospects of success, at least for the present. The risk of fall in prices before the final sale will have to be taken by the Union or the Board. The Union or the Board will not indulge in speculation. It will arrange for the sale as soon as it can do so advantageously howsoever small the profit may be.

(iv) *Transportation and storing.*—As soon as the processing of grain in the village is finished, the supervisor will arrange on behalf of the Union or the Board for the transport of the produce to the closest Mandi and stock it in the Arhatia's godown or at a central place whichever is feasible. In case the above agency is not available at the centre the produce will be stored in the village till a market is found and necessary rent of godown will be paid from profits.

(v) *Levy.*—A village society may charge from its members a certain percentage on sale which should be less than the market dues ordinarily paid by the sellers in the Mandis.

(vi) *Subsidy.*—To encourage co-operative sale the growers will be given a small subsidy by the financing agency which may be counted as charges for the collection of dues.

(b) Seed Store. The seed store will stock seed required by the growers and will make purchases as far as possible from the village organisation. It may also stock good grains for consumption and lend them on the sawai system to the members when required. The agricultural implements and manures may also be kept in stock for the benefit of the members. The seed store will be a *separate registered body* and will recruit shareholders from the group of villages controlled by one supervisor. The supervisor incharge of the circle will supervise and control the seed store and may be assisted by a field man or a kamdar. The accounts of the seed store will be kept by him.

(c) Better Farming and Sale Union. This Union will be organised to push systematically the programme of better farming in villages and arrange for the sale of the produce for various circles. It will employ a business manager having experience of grain marketing. He will closely watch the markets and advise the management to sell the produce at the proper time. He will not be solely guided by the Arhatias at different centres but will independently study the markets so that maximum prices may be obtained for the produce stocked by the Union. The Union will further consolidate other requirements of seeds, manures and implements and arrange for the stock being kept in the Seed Store which will be affiliated to the Union. The Union will serve as a collecting agency for the funds given by the financing agency. As given above the financing agency will give a certain subsidy to encourage the growers to deal with the co-operative organisation. The Union may have a storing centre in the nearest Mandi or in a central place. It will be for the Union to decide whether to have one reliable selling agent for all the storing centres or different Arhatias for various groups.

2. COST OF MANAGEMENT FOR ONE CIRCLE

The cost for each circle to be met by the sellers, purchasers, the financing agency and the Government grant will be as below:—

On every 10 to 20 societies according to circumstances there will be:—

	Rs.	A.	P.
(a) One supervisor at (Pay 25 travelling allowance Rs. 12 contingencies Re. 1, Porter's pay Rs. 7) 45 by 12 ..	540	0	0
(b) During the purchasing season an extra man may be needed for bagging, despatching and other purposes. It is suggested that one of the members may be employed temporarily or paid an honorarium according to the quantity of commodity handled. He may work as a member kamdar and may also help in seed distribution. He may cost about Rs. 25 to Rs. 30 for the season			
(c) An Assistant to supervisor, if needed, may be given on Rs. 15 per mensem ..	180	0	0
(d) Subsidy in the form of higher rate to be given by village organisations may be made by the central banks at the rate of 2 to 3 per cent as collection charges for the amount so realised. ..			
(e) Other incidental expenses may be met from the levy charged from the members for the purpose of marketing and also from the profit of the societies if the rates of purchases are fixed lower than the selling rate according to the local circumstances ..			
(f) On every 100 societies there will be a Marketing Inspector who will act as secretary of the Union or the Board. He may be assisted, if necessary, by the Manager of the Union who may get a salary with a share in profit. Such an Inspector must be selected from among persons having experience of trade. He may be paid at Rs. 80 a month. The cost will be as follows:			
Pay Rs. 80 p.m. ..Rs. 960. ..			
T. A. Rs. 25 p. m. ..Rs. 300 ..			
Peon's pay Rs. 10-8-0 Rs. 126 ..	1,386	0	0
	2,106	0	0

3. GUARANTEE

Government may guarantee losses in the first five years to the extent of 2% of urchase value. In the meantime the Board will gradually build up a fund from its kings to insure against losses due to fluctuation in prices.

4. SUMMARY OF EXPENSES PER CIRCLE

	Rs.	A.	P.
(i) 5 supervisors on 100 societies .. (Pay Rs. 25, Travelling Allowance Rs. 12, contingencies Re. 1, Porter's pay Rs. 7) equal Rs. 45 by 12 by 5 equal 2,700.	2,700	0	0
(ii) One assistant to each supervisor—(Pay Rs. 15 p.m.) Rs. 15 by 12 by 5 equal Rs. 900 ..	900	0	0
(iii) One Inspector at Rs. 80 p.m. as pay ..	960	0	0
(iv) T.A. to Inspector at Rs. 25 p.m. ..	300	0	0
(v) One peon to the Inspector at Rs. 10-8-0 p.m. ..	126	0	0
(vi) Guarantee to cover loss at 2% ..	3,000	0	0
Total ..	7,986	0	0

Subsidy in the ordinary course if the rate of wheat is Rs. 3 a maund will be about 2% which will be met by the bank as collection charges.

Under the present scheme the societies will be multi-purposes societies doing credit work in addition to non-credit activities. Those of existing credit societies, therefore, which are in a position to give effect to the present scheme, will be converted into multi-purposes societies, where credit will be linked up with marketing and sale. This will, however, not be possible in each and every case to start with. While our final aim will be to link up credit with non-credit activities all over the province, in the beginning there will remain a considerable number of societies which will be doing only credit work and similarly quite a number of those which will be doing marketing work alone.

Government have given a grant of Rs. 25,000 for marketing this year. Six months of the year are practically over now. If the marketing is taken up and staff is engaged from the 15th September next, it will be possible to extend the scheme to at least 8 centres within the limit of this year's grant.

FIVE-YEAR SCHEME OF DEVELOPMENT IN UNITED PROVINCES

Under the Rural Development scheme the United Provinces Government is starting Village Uplift work in about a thousand centres this year. The Rural Development movement is intended to be the precursor of the co-operative organisation in a village. If that is to be, beginning should now be made with the co-operative work in some of the Rural Development centres, preferably those where seed stores are being organised. It is proposed to take in hand credit, marketing and village uplift work in such centres through co-operative organisation. In broad outlines the scheme will be as follows:—

One co-operative organiser will be posted to each unit preferably a Rural Development Unit where we are having a seed store. The Organiser will organise better farming and sale societies with limited liability for multiple purposes in each of the villages of the unit. These primary societies will undertake better living activities, make advances to members in cash or kind against crop, arrange for the supply of improved implements, etc.

A seed store at the headquarters of the unit and a union for sale at a central marketing place will be organised. The seed store will arrange for the supply of the seed, implements, etc., while the sale union will arrange for the marketing of the produce.

The scheme in its execution can be divided up into two parts: (*i*) A five-year programme of expansion through 1000 Rural Development centres consisting of 35 villages each. (*ii*) The recruitment and supply of the organisation staff for the scheme. It is proposed to start with 200 organisers and add 200 per year for 5 years to come. Fresh recruitment will then cease. Each of these batches of 200 workers should be able to organise 7000 villages in the course of five years in the following manner:—

In the first year inspite of some spade work done by the Rural Development organisers, the pace will be slow and the co-operative organiser will not be able to organise more than 15 villages. The total number of villages tackled in the first year will, therefore, be 3,000. In the second, third, fourth and fifth years the same batch will be able to take one thousand more villages per year that is an addition of 4000 villages in all. Thus each organiser will be able to organise 35 societies in 5 years or the batch recruited in any one particular year will organise 7000 villages in 5 years during which the Government contributed towards their costs. Thus the batches recruited in 5 years will be able to take in hand all the present 1,000 Rural Development centres and carry the message of co-operation to 35,000 villages, i.e., to one third of the total number of villages in the province.

It may be mentioned that the work of the co-operative organiser will be of a very responsible nature. He will be dealing not only with the monies of the financing agencies but also with the produce of the members. He will be dealing with goods worth thousands of rupees every year. The position that he will occupy will be of great trust and responsibility and the success of the entire scheme will depend on the right choice of these men. It will further be necessary to have the emoluments of the post sufficient not only to attract honest men but sufficient to allow men to reasonably live under conditions that will foster integrity. It is, therefore, proposed that these organisers should be paid on the same scale as are the supervisors of the credit societies. Their emoluments should in no case be less.

It is further proposed that in the first two years the Government should bear the whole cost of organisation as new societies cannot be in a position to bear the expenses on the organising and supervising staff. In the third and fourth year the Government should bear only half the cost, the other half being borne by the societies or the bank. In the fifth year the Government will pay only ¼ of the cost and the rest will be borne by the movement itself. It is expected that after the fifth year the business activities of the societies will be sufficient in volume to yield a margin of profit to enable the societies to become self-supporting as far as organisers are concerned. On the above basis the cost to Government will be as given in the subjoined statement. Besides the cost of organisers the Government will also have to maintain a staff of inspectors and auditors for the supervision and audit of societies. It is expected that with the area of working being made compact an inspector will be able to supervise 250 societies and an auditor to audit 150 societies per year.

The scale of pay proposed for the inspectors under this scheme is the same as the scale prevalent for the credit work in the department. What has been said about the work of the organisers applies with greater force to the inspector's case. These inspectors will be occupying the key position in the whole organisation. On their supervision and interest will depend the efficiency of the scheme, and unless we are able to secure the right type for the job, the scheme will have no future.

Financing institutions have been very reluctant to advance loans to non-credit societies mainly for the fear that the money may not be recovered and be lost on account of market fluctuations and other losses. Agricultural prices particularly of wheat and oil seeds are subject to uncertain fluctuations. In exceptional years prices at the harvest time have been higher than the prices later on. This uncertainty in the periodicity of the fluctuation is the principal cause of the above mentioned attitude of the banks of these provinces.

The chances of a net loss are no doubt meagre yet they exist. In order to give more courage to the financing agencies, it is necessary that Government should come forward with a guarantee against losses which may be calculated, if necessary, on the working of three years. I (The Registrar) propose a guarantee to the maximum of Rs. 500 or 0-8-0 per maund of the produce handled, whichever is less to every marketing unit, i.e., an organiser's circle.

Scheme for the development of co-operative societies in Rural Development areas through 200 supervisors recruited every year for 5 years.

Year.	Total No. of Supervisors.	Paid by Government.	Cost to Government at 550 per Organiser.	Total No. of villages tackled.
			Rs.	
1st	200	200	1,10,000	3,000
2nd	400	400	2,20,000	7,000
3rd	600	500	2,75,000	12,000
4th	800	600	3,30,000	18,000
5th	1000	650	3,57,500	25,000
6th	1000	450	2,47,500	29,000
7th	1000	250	1,37,500	32,000
8th	1000	150	82,500	34,000
9th	1000	50	27,500	35,000
10th	1000	..	..	35,000

Copy of the G. O. No. 7907-C|XIIB-135, dated Lucknow, October 31, 1938 from P. M. Kharegat Esqr. C.I.E., I.C.S., Secretary to Government, United Provinces to the Registrar Co-operative Societies U. P.

With reference to your un-official note No. 2051, dated August 25th|26th 1938, with which you forwarded a scheme for special marketing societies, I am directed to say that multiple purpose societies should be started in rural development units and that one Co-operative Supervisor should be appointed for each selected Rural Development unit where there is a seed store. The Supervisor should organise these societies in as many of the villages of the unit as possible. They should undertake not only better living activities but also credit and marketing. He should also organise the Unit Union which will after a year or two take over the seed store. To start with, 80 supervisors should be appointed forthwith, if available, at an annual cost of Rs. 43,000. For subsequent years a suitable scheme should be framed for the appointment of more such supervisors every year so that these activities may be established in all the Rural Development units in the course of the next few years. The plan may provide that Government should meet the whole cost of the supervisors in the first year, half of the cost in the second year and one-fourth in the third year and there after the Union and the Bank between them should meet the cost from their own funds. I am to convey the sanction of the Governor to the payment during the current financial year of a grant of Rs. 17,000 to the U.P. Co-operative Union for the maintenance of 80 supervisors in the rural development units for organising better living, credit and marketing societies and a Union in each of the 80 units.

2. Sanction is also accorded to an expenditure of Rs. 1,500 during the current financial year for grants, not exceeding Rs. 300 in each case, to the existing co-operative seed Unions.

3. Sanction of the Governor is further accorded to the creation, with effect from the date of entertainment and till March 31, 1939 of ten temporary posts of Inspectors in the Co-operative Department on Rs. 80, per mensem each in the scale of Rs. 80-150-10-220. The pay and scale are provisional and liable to reduction with the introduction of further revised scales by Government. Each Inspector should supervise the work of eight supervisors and help and guide them.

4. An expenditure of Rs. 4,500 is also sanctioned fof the starting and running of training classes, three for organisers and one for Inspectors as proposed in your letter No. 3481 of October 6, 1938.

5. The cost will be met from the lump provision under the head "40-Agriculture-K-2-Extra allotment for rural development including communications, Water Supply Cottage Industries' in the budget for the current financial year.

THE CO-OPERATIVE ORGANISATIONS AND THE INTERVENTION OF PUBLIC AUTHORITIES IN THE ECONOMIC FIELD

Faced with the new problems which the more and more frequent interventions of the public authorities in the economic field impose upon the Co-operative Movement, the International Committee for Inter-co-operative Relations drew up, as a result of the enquiry which it had carried out, and for the use of the agricultural and consumers' co-operative organisations, certain conclusions and recommendations which are reproduced below:

Influence on Public Opinion.—In a perhaps decisive period, at a time when the co-operative movement must adapt itself, either by advancing or by retreating, to a new economic structure, its chances of success or failure seem to depend largely on the volume of comprehension and sympathy which it can win among the public in general as well as among the administrative and legislative bodies which prepare, discuss and vote the regulations. It is desirable, therefore, that the co-operative organisations should increase their efforts to spread knowledge, not only of their achievements but also, and above all, of their principles and methods; and that this knowledge should be extended far beyond the limits of co-operative membership.

With the above object it is suggested, for instance:

(a) that, in countries where this is not already done, the co-operative organisations should do more to spread a knowledge of works on co-operation, not only in their own publications but especially outside these;

(b) that they should attempt to have public teaching on the co-operative movement introduced at the three stages of education—primary, secondary, university—in the countries where it does not yet exist, and to have such teaching extended and improved where it does exist.

(c) That they strive to arouse and encourage the interest of young people by organising, for instance, conferences to which representatives of youth organisations, the teaching profession, industrial and rural workers' education centres, etc., are specially invited.

Self-Improvement.—Necessary though all this action directed towards outside agents may be, it cannot alone suffice. The co-operative movement, obliged to defend itself on one side and to assume new duties on another, must strive continually to improve its organisation and methods, more completely to co-ordinate its different activities, and to increase the human values which it embodies and which it may contribute to economic life.

Adaptation.—Without in the least sacrificing its principles or its independence, the movement must begin at once to collect the financial, technical and educational resources needed for expansion in all directions where such an expansion is possible or required; and when its power to expand is restricted, it must develop intensively instead, by continually increasing and improving the services it offers to its members.

Inter-Co-operative Relations.—The movement must realise more clearly than ever that in the economic sector that is dominated by co-operation the direct exchange of goods and services between co-operative institutions is an important factor in the rational organisation of distribution and of production, particularly when this exchange is based on long-term contracts; for when it is so based, production can be adjusted to consumption, not—as at present—by the uncertain and roundabout action of prices, but by direct agreement between producers, processors, and consumers.

As regards inter-co-operative relations, national or international, the Committee would refer to its previous recommendations; and in the field of international inter-co-operative relations, it hopes in particular that the recent establishment of the International Co-operative Agency may give effect, perhaps in a new form, to an agreement previously concluded between the International Co-operative Wholesale Society and the International Confederation of Agriculture.

Education.—With a view to this effort of adjustment and to the development of inter-co-operative relations, and in general so as to be able to face growing responsibilities or temporarily heightened difficulties, co-operative organisations should seek new strength within themselves:

(a) They should first of all eliminate any cause of internal weaknss by supervising their administration with ever-increasing thoroughness and efficiency;

(b) They should strive by means of courses, scholarships, exchange of employees, etc., to perfect the technical and the co-operative training of the men (directors, managers, secretaries, etc.) who bear the largest share of responsibility for the success or failure of co-operative institutions;

(c) They should conduct among their members—who constitute alone a considerable proportion of the public—a systematic educational campaign (classes, correspondence courses, study groups, etc.) such as will enable co-operators to grasp with increasing clarity and vigour the intellectual and organisational movement to which they belong and the part they have to play in it. This campaign should in particular aim at having each co-operator know and understand not only the form of co-operation in which he is engaged, but all other forms as well—in fact, to have him realise the whole diversity and at the same time essential unity of the co-operative movement.[1]

In order that in every country the organisations may work out the system of co-operative education best suited to their needs and possibilities, they would be well advised to provide for an international exchange of information or to collect for examination all the available data on the methods used by each and the results obtained.—*Co-operative Information*, I. L. O. Geneva, June 1939.

1. Extract from "Co-operative Organisations and the Intervention of Public Authorities in the Economic Field." Conclusions of an Enquiry Undertaken by the Internationil Committee for Inter-Co-operative Relations, and published by the International Labour Office.

CO-OPERATIVE NEWS AND NOTES

We congratulate Rai Ratan A. G. Sherlekar on his appointment as the Registrar of Co-operative Societies, Indore. Mr. Sherlekar was Manager of the Indore Premier Co-operative Bank and represented that Bank on the Standing Committee of the Indian Provincial Co-operative Banks' Association. He had the honour to represent the Indian Co-operative Movement at XV International Co-operative Congress held in Paris in September, 1937, along with Mr. K. C. Ramakrishnan of the Economics Department of the University of Madras. We wish him all success.

* * * * *

We are glad to learn that Dr. John Thomas, M.A., PH.D., Resident Tutor for Oxford University in North Straffordshire, has been appointed Director of Education, by the Co-operative Union in the place of the late Professor Fred. Hall. The new Director has had wide experience with the working class social organisations and he has spent his life in the working class educational movement.

* * * * *

The Government of the Punjab appointed Mr. F. B. Wace, I.C.S., Registrar of that Province (since retired) to conduct an enquiry into and report on the working of the Co-operative Movement. Mr. Wace has submitted his report, which it is hoped, will be shortly made available to the public.

* * * * *

The Government of Bombay have sanctioned the establishment of a Provincial Board of Rural Development consisting of officials and non-officials for a period of two years. The function of the Board and its Committees will be to advise on general principles and policy regarding rural development activities. The Board will meet every quarter, but the Committees will meet as often as may be necessary.

* * * * *

The National Planning Committee set up by the Indian National Congress has formed many Sub-Committees to deal with the various aspects of national economy. The main heads under which Sub-Committees have been set up are: (1) Agriculture; (2) Industries; (3) Demographic relations; (4) Commerce and Finance; (5) Transport and Communications; (6) Public Welfare and (7) Education. Several sub-committees will deal with each of these heads. The Hon'ble Mr. V. Ramadas Pantulu has been appointed Chairman of the Rural Marketing and Finance Sub-Committee under the main head of 'Agriculture'.

* * * * *

An important bill providing for the relief to agricultural debtors has been recently introduced into the Cochin Legislative Council. The bill, among other measures, seeks to wipe out all arrears of interest up to 1st *Chingam* 1107 M.E. (August 1931) and to reduce the rate thereafter to six per cent in the case of creditors who are public companies, and nine per cent in the case of others. The bill does not propose to touch the principal amount of the debt.

* * * * *

The introduction of legislation for relieving industrial labourers from indebtedness is contemplated by the Government of Madras. The Government have invited the views of the District Collectors on the subject.

With regard to affording relief to agricultural labourers from indebtedness, the Government consider that on account of the peculiar conditions in which agricultural labourers are placed, they cannot be brought within the ambit of the legislation for industrial workers. The Board of Revenue has been requested to report, in consultation with the Collectors, whether legislation is necessary and if so, to indicate the lines on which such legislation can be undertaken.

* * * * *

The Orissa Moneylenders' Bill has been assented to by the Governor-General. The main features of the Bill are that it seeks to wipe out debts, if twice the original amount had already been paid by the debtor by way of interest. Secondly, the measure removes all limitations regarding transactions in the matter of calculation of interest. The bill applies to all transactions under decree on 1st April 1936.

* * * * *

The Bihar Provincial Co-operative Bank is to come under the control of the Provincial Government, it is understood, under a scheme of rehabilitation which is being considered by them. It will thus become the first State Co-operative Bank in the country. All the losses of the Bank, it is further understood, will be borne by the Local Government which, as a preliminary, will advance another Rs. 10 lakhs to the Bank in addition to the 14 lakhs already loaned out.

* * * * *

A scheme has been formulated by the C. P. and Berar Government, in consultation with the Reserve Bank of India for the reorganisation of the Co-operative Movement in Berar in view of its present difficult position. The scheme contemplates the valuation of assets and liabilities of debtors as well as co-operative societies. It is understood that the Government will guarantee a part of the sum which the banks will require to meet the liabilities of debtors and their repaying capacity will be taken into consideration to determine the period for the repayment of the debts.

SELECT CONTENTS OF CURRENT PERIODICALS

Review of International Co-operation, London.

April 1939: Natural Law in the Economic World by J. P. Warbasse.

Consumers' Co-operation (U.S.A.), New York.

April 1939: The Consumer Consumed or Pure Apple Sauce by Josephine Johnson.

May 1939: Co-operatives and the Law by E. R. Bowen.

Monthly Bulletin of Agricultural Economics & Sociology, Rome.

April 1939: World Agriculture in Recovery and Recession (1936-37 & 1937-38).

The Madras Journal of Co-operation, Royapettah, Madras.

May 1939: Reconstruction of Rural Credit Societies and Unlimited Liability by Hon'ble V. Ramadas Pantulu. Dutch Co-operative Auction by K. C. Ramakrishnan.

June 1939: Pooling the Reserves of the Movement for Common Benefit by the Hon'ble V. Ramadas Pantulu.

The Bombay Co-operative Quarterly, Bombay.

June 1939: The Bombay Agricultural Debtors' Relief Bill.

The U.P. Co-operative Journal, Lucknow.

April 1939: Urban Development by J. M. Lobo Prabhu.

The Mysore Co-operative Journal, Bangalore.

May 1939: Co-operation in Mysore—Reconstruction of Indebted Societies.

The Mysore Economic Journal, Bangalore.

June 1939: Economic Planning for India by V. L. D'Souza.

The Nagpur Agricultural College Magazine, Nagpur.

May 1939: Non-Credit Co-operative Societies for Agriculture by J. L. Sen.

ACKNOWLEDGMENTS

Journal of the Ministry of Agriculture, London.
Scientific Agriculture, Ottawa.
Consumers' Co-operation, U.S.A.
Monthly Bulletin of Agricultural Economics and Sociology, Inter national Institute of Agriculture, Rome.
Agricultural Economics Literature, Washington, D.C.
The Co-operative Review, Manchester.
The Countrywoman, London.
The Co-operative News, Manchester.
Journal of the Colonial Institute of Amsterdam.
The Westralian Farmers' Gazette.
The Nagpur Agricultural College Magazine.
The United Provinces Co-operative Journal.
The B. and O. Co-operative Journal.
Journal of the Annamalai University.
Journal of the Madras Geographical Association.
Indian Journal of Economics.
The Bombay Co-operative Quarterly.
The Bengal Co-operative Journal.
The Madras Journal of Co-operation.

---

1. *Co-operation for Economically Undeveloped Countries* by W. K. H. Campbell (International Labour Office, Geneva).
2. *Survey of National Nutrition Policies* (International Labour Office, Geneva).
3. *Industrial Labour in India* (International Labour Office, Geneva).
4. "*Kootturavu*" (in Tamil) by A. Muthiah.
5. *State Banks for India* by Dr. A. I. Qureshi (Macmillan).
6. *Principles and Problems of Indian Labour Legislation* by Rajani Kanta Das (Calcutta University).
7. *Bulletin No. 4.*
8. *Bulletin No. 5.*

(of the Agricultural Credit Department, Reserve Bank of India).